

DATE OF CLASS : 30/04/2021
 TIME 10 am to 11 am
 SUBJECT MB-104. AFA /UNIT-4
 TOPIC : STANDARD PRICE METHOD

—By Dr. N. Ahmad.

Standard Price is the predetermined price and both the receipts and issues will be valued at this price, therefore, this price is neither the cost price nor the market price. Today, I am discussing earlier we already give clear conception of the cost price and market price, we already discussed the several method of valuation viz FIFO LIFO & Allied method average price, weighted average under COST PRICE method and also discuss the market price in which we give a conceptual knowledge of replacement value, Replacement price. Now a new dimension of valuation; i.e., standard price method is most important method to evaluate the issued material. This method is used by concerns which follow standard costing. The difference between the actual purchase price and standard price is charged as to an account known as "Purchase Price, Variance Account".

STANDARD PRICE METHOD

This is that method in which many industries STD prices are fixed for the material in advance. This is done for a definite period which seldom extends beyond a year. This price is established after a careful investigation. An investigation of contracts for the purchase of materials, price lists and market conditions is made in advance of the accounting period, and a standard price is established for each class of material. Such prices are frequently used in standard cost system.

When this method of pricing is used, material inventory is charged for the STD value of the materials on an invoice received.

For the setting up standard price : number of factors influencing given below

- * quality & quantity of material & quality discount
- * the possibility of a rise in prices due to increase in wage rate
- * The possibility of rise or fall in prices of material due to market conditions
- * the charging of freight & warehousing expenses to the material and also containers to the material

(2)

(3)

There may be loss or profit due to the difference between the actual and std price fixed. The difference may be adjusted either in the overhead rate or may be transferred to the costing Profit & Loss A/c or may be transferred to Price Variance Account. If the discrepancies go beyond the prescribed limit; the standard price must be carefully revised for next period. It is easy to operate, because all items of issue are calculated at the same standard price. The efficiency of the purchase of materials may be checked by seeing whether or not the actual price exceeds standard. The efficiency of buying of materials can be judged in the following formula -

$$\text{Actual Receipt} \times \text{Std price} - \text{Actual price}$$

Advantage 10) This method is suitable in cases where large quantities of sample materials are consumed and where it is the common practice to make purchase commitments in advance for minimum and maximum quantities respectively.

- 20> This method is suitable for STD goods.
- 3> Really, it is a very simple in use and maintain easily.
- 4> In this the purchase organization can be determined easily and with efficiency.

Disadvantage :

1. Price is arbitrary and not derived from actual cost.
2. In fluctuation, it difficult to set up the STD price.