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Cost and management account

Chapter - 2

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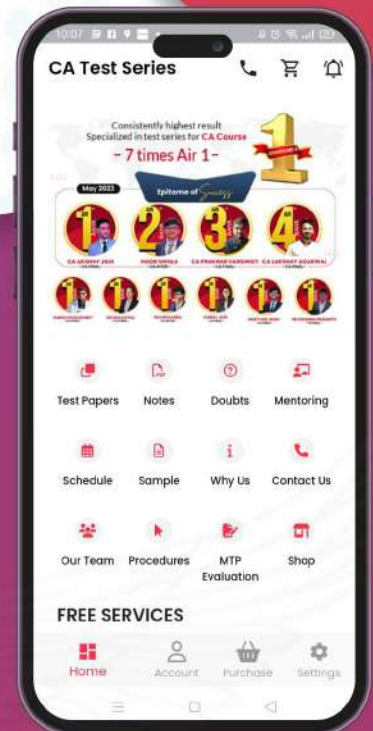


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CHAPTER 2

MATERIAL COST

Multiple Choice Questions (MCQs)

1. Direct material can be classified as

- (a) Fixed cost
- (b) Variable cost
- (c) Semi-variable cost.
- (d) Prime Cost

Ans. (b)

2. In most of the industries, the most important element of cost is

- (a) Material
- (b) Labour
- (c) Overheads
- (d) Administration Cost

Ans. (a)

3. Which of the following is considered to be the normal loss of materials?

- (a) Loss due to accidents

- (b) Pilferage
- (c) Loss due to breaking the bulk
- (d) Loss due to careless handling of materials.

Ans. (c)

4. In which of following methods of pricing, costs lag behind the current economic values?

- (a) Last-in-first out price
- (b) First-in-first out price
- (c) Replacement price
- (d) Weighted average price

Ans. (b)

5. Continuous stock taking is a part of

- (a) Annual stock taking
- (b) Perpetual inventory
- (c) ABC analysis.
- (d) Bin Cards

Ans. (b)

6. In which of the following methods, issues of materials are priced at pre-determined rate?

- (a) Inflated price method
- (b) Standard price method
- (c) Replacement price method
- (d) Market price method.

Ans. (b)

7. When material prices fluctuate widely, the method of pricing that gives absurd results is

- (a) Simple average price
- (b) Weighted average price
- (c) Moving average price
- (d) Inflated price.

Ans. (a)

8. When prices fluctuate widely, the method that will smooth out the effect of fluctuations is

- (a) Simple average
- (b) Weighted average
- (c) FIFO
- (d) LIFO

Ans. (b)

9. Under the FSN system of inventory control, inventory is classified on the basis of:

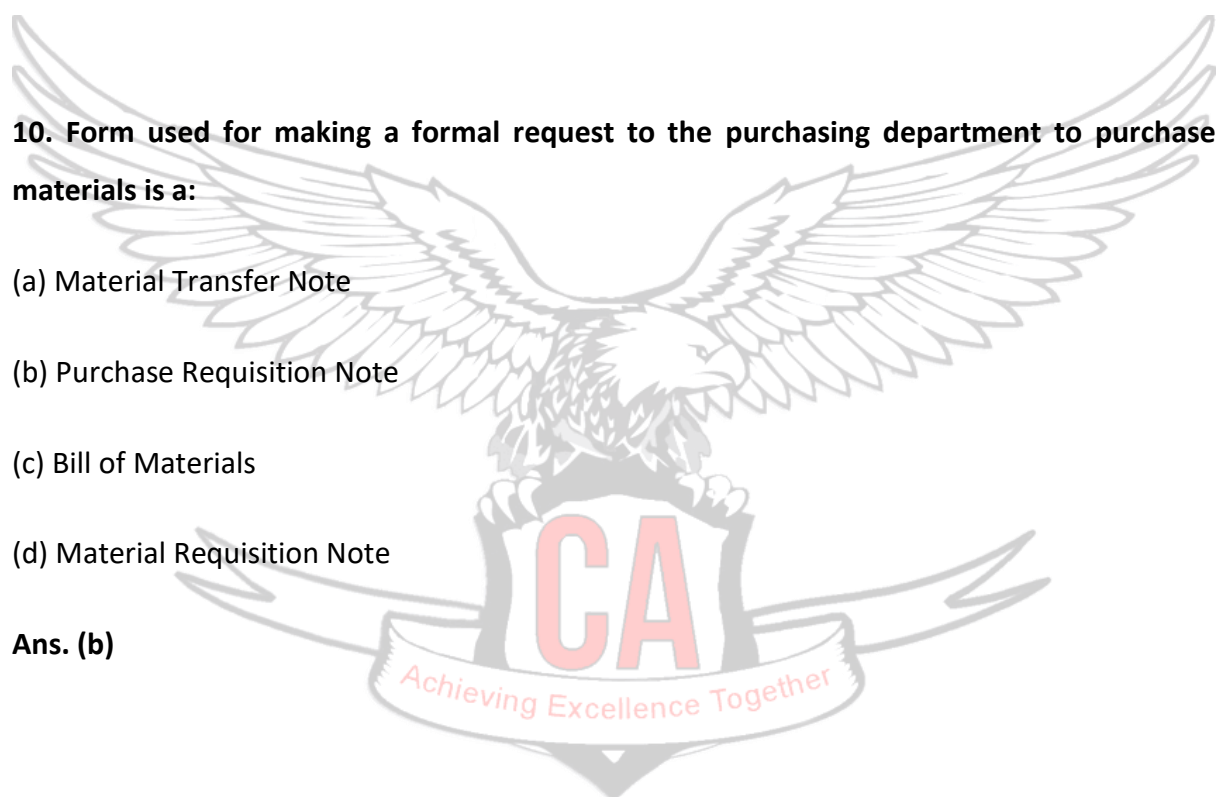
- (a) Volume of material consumption
- (d) Frequency of usage of items of inventory
- (c) Criticality of the item of inventory for production
- (d) Value of items of inventory

Ans. (b)

10. Form used for making a formal request to the purchasing department to purchase materials is a:

- (a) Material Transfer Note
- (b) Purchase Requisition Note
- (c) Bill of Materials
- (d) Material Requisition Note

Ans. (b)



Theoretical Questions

Q 1. STATE how normal and abnormal loss of material arising during storage are treated in Cost Accounts?

Ans. TREATMENT OF NORMAL AND ABNORMAL LOSS OF MATERIALS

Loss of materials during handling, storage, process may occur any of the following forms:

(i) Waste: The portion of raw material which is lost during storage or production and discarded. The waste may or may not have any value.

Treatment of Waste

Normal- Cost of normal waste is absorbed by good production units.

Abnormal- The cost of abnormal loss is transferred to Costing Profit and loss account.

(ii) Scrap: The materials which are discarded and disposed-off without further treatment. Generally, scrap has either no value or insignificant value. Sometimes, it may be reintroduced into the process as raw material.

Treatment of Scrap

Normal- The cost of scrap is borne by good units and income arises on account of realisable value is deducted from the cost. Abnormal- The scrap account should be charged with full cost. The credit is given to the job or process concerned. The profit or loss in the scrap account, on realisation, will be transferred to the Costing Profit and Loss Account.

(iii) Spoilage: It is the term used for materials which are badly damaged in manufacturing operations, and they cannot be rectified economically and hence taken out of the process to be disposed of in some manner without further processing.

Treatment of Spoilage

Normal- Normal spoilage (i.e., which is inherent in the operation) costs are included in costs, either by charging the loss due to spoilage to the production order or by charging it to the production overhead so that it is spread over all the products.

Any value realised from spoilage is credited to production order or production overhead account, as the case may be.

Abnormal- The cost of abnormal spoilage (i.e., arising out of causes not inherent in manufacturing process) is charged to the Costing Profit and Loss Account. When spoiled work is the result of rigid specification, the cost of spoiled work is absorbed by good production while the cost of disposal is charged to production overhead.

(iv) Defectives: It signifies those units or portions of production which do not meet the quality standards. Defectives arise due to sub-standard materials, bad-supervision, bad-

planning, poor workmanship, inadequate-equipment and careless inspection. The defectives which can be re-made as per the quality standard by using additional materials are known as reworks. Reworks include repairs, reconditioning and refurbishing.

Defectives which cannot be brought up to the quality standards are known as rejects. The rejects may either be disposed-off or re-cycled for production process. Treatment of Defectives:

Normal- An amount equal to the cost less realisable value on sale of defectives are charged to material cost of good production.

Abnormal- Material cost of abnormal defectives are not included in material cost but treated as loss after giving credit to the realisable value of such defectives. The material cost of abnormal loss is transferred to costing profit and loss account.

Q 2. DISTINGUISH clearly between Bin cards and Stores Ledger.

Ans. Difference between Bin Card & Stores Ledger

Bin Card	Stores Ledger
It is maintained by the storekeeper in the store.	It is maintained in cost accounting department.
It contains only quantitative details of material received, issued and returned to stores.	It contains information both in quantity and value.
Entries are made when transaction takes place.	It is always posted after the transaction.
Each transaction is individually posted.	Transactions may be summarized and then posted.
Inter-department Transfers do not appear in Bin Card.	Material Transfers from one job to another job are recorded for costing purposes.

Q 3. DISCUSS the accounting treatment of defectives in Cost Accounts.

Ans. Treatment of Defectives:

Normal- An amount equal to the cost less realisable value on sale of defectives are charged to material cost of good production.

Abnormal- Material cost of abnormal defectives are not included in material cost but treated as loss after giving credit to the realisable value of such defectives. The material cost of abnormal loss is Transferred to costing profit and loss account.

Q 4. EXPLAIN the concept of "ABC Analysis" as a technique of inventory control.

Ans. ABC Analysis: This system exercises discriminating control over different items of inventory on the basis of the investment involved. Usually the items are classified into three categories according to their relative importance, namely, their value and frequency of replenishment during a period.

Advantages of ABC analysis: The advantages of ABC analysis are the following:

(i) Continuity in production: It ensures that, without there being any danger of interruption of production for want of materials or stores, minimum investment will be made in inventories of stocks of materials or stocks to be carried.

(ii) Lower cost: The cost of placing orders, receiving goods and maintaining stocks is minimised specially if the system is coupled with the determination of proper economic order quantities.

(iii) Less attention required: Management time is saved since attention need to be paid only to some of the items rather than all the items, as would be the case if the ABC system was not in operation.

(iv) Systematic working: With the introduction of the ABC system, much of the work connected with purchases can be systematized on a routine basis, to be handled by subordinate staff.

Q 6. EXPLAIN how slow moving is and non-moving item of stores detected and what steps are necessary to reduce such stocks?

Ans. Some of the reasons for slow moving and non-moving inventories are stated below:

- (i) Failure of production management to communicate the updated requirement to the stores management.
- (ii) Technological up gradation in terms of new machine requiring new kind of material or existing material becoming obsolete.
- (iii) Lack of periodic review of inventories.

By careful observation, timely identification and adoption of inventory management techniques such as maintenance of minimum level or just in time approach, one can manage slow moving and non-moving inventories. We may calculate inventory turnover ratio and present the reports of comparison of actual and standards with variations, if any to the management.

Q 7. WRITE short notes on any three of the following:

- (i) **Danger Level**
- (ii) **Just in Time Inventory Management**
- (iii) **Maximum stock level and Minimum Stock level**
- (iv) **Obsolescence**

Ans. (i) Danger level: It is the level at which normal issues of the raw material inventory are stopped and emergency issues are only made.

It can be calculated as below:

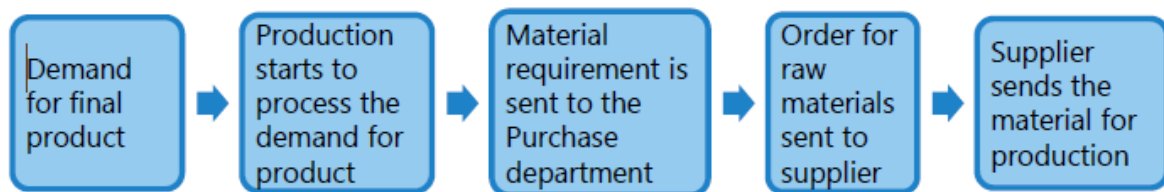
$$\text{Danger Level} = \text{Average Consumption} \times \text{Lead time for emergency purchase}$$

*Some time minimum consumption is also used.

(ii) Just in Time (JIT) Inventory Management: JIT is a system of inventory management with an approach to have zero inventories in stores. According to this approach material should only be purchased when it is actually required for production. JIT is based on two principles

(i) Produce goods only when it is required and

(ii) the products should be delivered to customers at the time only when they want. It is also known as Demand pull or Pull through System of production. In this system, production process actually starts after the order for the products is received. Based on the demand, production process starts and the requirement for raw materials is sent to the purchase department for purchase. This can be understood with the help of the following diagram:



(iii) Maximum Stock Level: It is the highest level of quantity for any material which can be held in stock at any time. Any quantity beyond this level cause extra amount of expenditure due to engagement of fund, cost of storage, obsolescence etc. It can be calculated as below:

Maximum Stock Level = Re-order Level + Re-order Quantity - (Minimum Consumption Rate × Minimum Re-order Period)

Here, Re-order Quantity may be EOQ

Minimum Stock Level: It is lowest level of material stock, which must be maintained in hand at all times, so that there is no stoppage of production due to non-availability of inventory.

It is calculated as below:

Minimum Stock Level = Re-order Stock Level - (Average Consumption Rate × Average Re-order Period)

(iv) Obsolescence: Obsolescence is defined as “the loss in the intrinsic value of an asset due to its supersession”. In simple words, obsolescence refers to the loss in the value of an asset due to technological advancements.

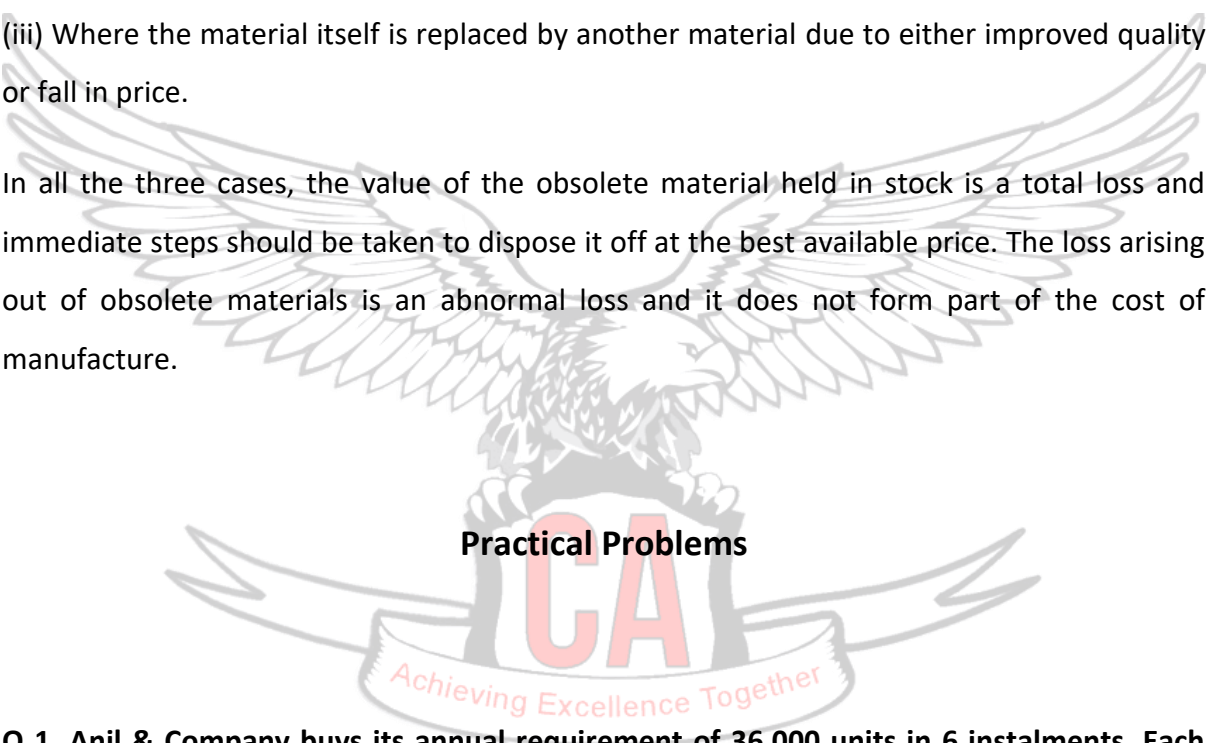
Treatment: Materials may become obsolete under any of the following circumstances:

(i) Where it is a spare part or a component of a machinery that is used in manufacturing and is now obsolete;

(ii) Where it is used in the manufacturing of a product which has now become obsolete;

(iii) Where the material itself is replaced by another material due to either improved quality or fall in price.

In all the three cases, the value of the obsolete material held in stock is a total loss and immediate steps should be taken to dispose it off at the best available price. The loss arising out of obsolete materials is an abnormal loss and it does not form part of the cost of manufacture.



Practical Problems

Q 1. Anil & Company buys its annual requirement of 36,000 units in 6 instalments. Each unit costs Rs. 1 and the ordering cost is Rs.25. The inventory carrying cost is estimated at 20% of unit value. FIND the total annual cost of the existing inventory policy. CALCULATE, how much money can be saved by Economic Order Quantity?

Ans. 1. (a)Total Annual Cost in Existing Inventory Policy

	(Rs)
Ordering cost (6 orders @ Rs. 25)	150
Carrying cost of average inventory $(36,000 \div 6) = 6,000$ units per order	

Average inventory = 3,000 units	
Carrying cost = 20% of Rs. 1 × 3,000 = 3,000 × 0.20	600
Total cost A	750

(b) Total Annual Cost in E.O.Q

$$EOQ = \frac{2 \times 36,000 \times 25}{Rs1 \times 20\%} = 3000 \text{ units}$$

	(Rs)
No. of orders = 36,000 ÷ 3,000 units = 12 orders	
Ordering cost (12 × Rs. 25) =	300
Carrying cost of average inventory (3,000 × 0.20) ÷ 2 =	300
Total Cost B	600
Savings due to E.O.Q Rs. (750 – 600) (A – B)	150

Note: As the units purchase cost of Rs. 1 does not change in both the computation, the same has not been considered to arrive at total cost of inventory for the purpose of savings.

Q 2. A Company manufactures a special product which requires a component 'Alpha'. The following particulars are collected for the year 2022-23:

(i) Annual demand of Alpha 8,000 units

(ii) Cost of placing an order Rs. 200 per order

(iii) Cost per unit of Alpha Rs. 400

(iv) Carrying cost p.a. 20%

The company has been offered a quantity discount of 4 % on the purchase of 'Alpha' provided the order size is 4,000 components at a time.

Required:

(i) COMPUTE the economic order quantity

(ii) STATE whether the quantity discount offer can be accepted.

Ans 2. (i) Calculation of Economic Order Quantity

$$EOQ = \sqrt{\frac{2AO}{C}} = \sqrt{\frac{2 \times 8,000 \text{ units} \times \text{Rs}200}{\text{Rs}400 \times 20/100}} = 200 \text{ units}$$

(ii) Evaluation of Profitability of Different Options of Order Quantity

(a) When EOQ is ordered

		(Rs)
Purchase Cost	(8,000 units × Rs. 400)	32,00,000
Ordering Cost	[(8,000 units/200 units) × Rs. 200]	8,000
Carrying Cost	(200 units × Rs.400 × ½ × 20/100)	8,000
Total Cost		32,16,000

*Unit Cost Rs.400

Less Quantity Discount @ 4% = 16 Purchase
Cost = 400- 16 = Rs.384

Advise – The total cost of inventory is lower if EOQ is adopted. Hence, the company is advised not to accept the quantity discount.

Q 3. The complete Gardener is deciding on the economic order quantity for two brands of lawn fertilizer - Super Grow and Nature's Own. The following information is collected:

	FERTILIZER	
	Super Grow	Nature's Own
Annual demand	2,000 bags	1,280 bags
Relevant ordering cost per purchaseorder	Rs 1,200	Rs 1,400
Annual relevant carrying cost per bag	Rs 480	Rs 560

Ans.3. EOQ = $\sqrt{\frac{2AO}{C}}$

Where,

A = Annual Demand

O = Ordering cost per order

C = Inventory carrying cost per unit per annum

(i) Calculation of EOQ

Super Grow	Nature's Own
$EOQ = \sqrt{\frac{2 \times 2,000 \times 1200}{480}}$	$EOQ = \sqrt{\frac{2 \times 1280 \times 1400}{560}}$
$= \sqrt{1000}$ or 100 bags	$= \sqrt{6400}$ or 80 bags

(ii) Total annual relevant cost = Total annual relevant ordering costs + Total annual relevant carrying cost

	Super Grow	Nature's Own
Number of Orders= Annual Requirement ÷ EOQ	2,000/100 = 20 orders	1,280/80 = 16 orders
Ordering Cost	20 × 1200 = Rs 24000	16 × 1400 = Rs 22,400
Carrying Cost	$\frac{1}{2} \times 100 \times 480 = \text{Rs } 24,000$	$\frac{1}{2} \times 80 \times 560 = \text{Rs } 22,400$
Total of Ordering and Carrying Cost	Total of Ordering and Carrying Cost	Rs 22,400 + Rs 22,400 = Rs 44,800

(ii) Number of deliveries for Super Grow and Nature's own fertilizer per year

$$= \frac{\text{Annual demand for fertilizer bags}}{EOQ}$$

Super Grow	Nature's Own
$\frac{2000 \text{ bags}}{100 \text{ bags}} = 20 \text{ orders}$	$\frac{1280 \text{ bags}}{80 \text{ bags}} = 16 \text{ orders.}$

Q 4. A Company uses three raw materials A, B and C for a particular product for which the following data apply:

Raw Material	Usage per unit of Product (Kgs.)	Re-order quantity (Kgs.)	Price per Kg.	Delivery period (in weeks)			Re-order level (Kgs)	Minimum level (Kgs.)
				Minimum	Average	Maximum		
A	10	10,000	10	1	2	3	8,000	?
B	4	5,000	30	3	4	5	4,750	?
C	6	10,000	15	2	3	4	?	2,000

Weekly production varies from 175 to 225 units, averaging 200 units of the said product.
COMPUTE the following quantities:

(i) Minimum stock of A,

(ii) Maximum stock of B,

(iii) Re-order level of C,

(iv) Average stock level of A.

Ans .4. (i) Minimum stock of A

Re-order level – (Average rate of consumption × Average time required to obtain fresh delivery)

$$= 8,000 - (200 \times 10 \times 2) = 4,000 \text{ kgs.}$$

(ii) Maximum stock of B

Re-order level + Re-order quantity – (Minimum consumption × Minimum delivery period)

$$= 4,750 + 5,000 - (175 \times 4 \times 3)$$

$$= 9,750 - 2,100 = 7,650 \text{ kgs.}$$

(iii) Re-order level of C

Maximum delivery period × Maximum usage

$$= 4 \times 225 \times 6 = 5,400 \text{ kgs.}$$

OR

Re-order level of C

= Minimum level of C + [Average rate of consumption × Average time required to obtain fresh delivery]

$$= 2,000 + [(200 \times 6) \times 3] \text{ kgs} = \mathbf{5,600 \text{ kgs.}}$$

(iv) Average stock level of A

= Minimum stock level of A + $\frac{1}{2}$ Re-order quantity of A

$$= 4,000 + \frac{1}{2} \times 10,000 = 4,000 + 5,000 = \mathbf{9,000 \text{ kgs}}$$

OR

Average Stock level of A

$$= \frac{\text{Minimum stock level of A} + \text{maximum stock level of A}}{2}$$

(Refer to working note)

$$= \frac{4,000 + 16,250}{2} = 10,125 \text{ kgs}$$

Working note:

Maximum stock of A = ROL+ ROQ – (Minimum consumption × Minimum re-order period)

$$= 8,000 + 10,000 - [(175 \times 10) \times 1] = 16,250 \text{ kgs}$$

Q 5. EXE Limited has received an offer of quantity discounts on its order of materials as under:

Price per ton (Rs.)	Ton (Nos.)
1,200	Less than 500
1,180	500 and less than 1,000
1,160	1,000 and less than 2,000
1,140	2,000 and less than 3,000
1,120	3,000 and above.

The annual requirement for the material is 5,000 tons. The ordering cost per order is Rs. 1,200 and the stock holding cost is estimated at 20% of material cost per annum. You are required to COMPUTE the most economical purchase level.

(b)WHAT will be your Answer to the above question if there are no discounts offered and the price per ton is Rs. 1,500?

Ans.5. (a)

Total annual requirement (A)	Order size (Tonne) (q)	No. of orders A/q	Cost of inventory A × Per tonne cost (Rs)	Ordering cost A/q × Rs 1200 (Rs)	Carrying cost p.t. p.a 1/2× q × 20% of cost p.t. (Rs)	Total Cost (4+5+6) (Rs)
1	2	3	4	5	6	7
5,000	400	12.5 (13)*	60,00,000	15,600	48,000	60,63,600
Ton			(5,000×Rs1200)		(200 × Rs 240)	
	500	10	59,00,000	12,000	59,000	59,71000

			(5,000 × Rs 1180)		(250 × Rs 236)	
	1,000	5	58,00,000	6,000	1,16,000	59,22,000
			(5,000× Rs 1160)		(500 × Rs 232)	
	2,000	2.5 (3)*	57,00,000	3,600	2,28,000	59,31,600
			(5,000×Rs 1140)		(1,000×Rs228)	
	3,000	1.666 (2)*	56,00,000	2,400	3,36,000	
			(5,000×Rs 1120)		(1,500×Rs224)	59,38,400

* Since number of orders cannot be in decimals, thus 12.5 orders are taken as 13 orders, 2.5 are taken as 3 order and 1.66 orders are taken as 2 orders.

The above table shows that the total cost of 5,000 units including ordering and carrying cost is minimum (Rs. 59, 22,000) when the order size is 1,000 units. Hence the most economical purchase level is 1,000 units.

(a) If there will be no discount offer then the purchase quantity should be equal to EOQ.

The EOQ is as follows:

$$EOQ = \sqrt{\frac{2AO}{C}}$$

Where A = annual inventory requirement,

O = ordering cost per order and

C= carrying cost per unit per annum.

$$= \sqrt{\frac{2 \times 5,000 \text{ units} \times 1,200}{20\% \times 1,500}} = 200 \text{ units}$$

Q 6. From the details given below, CALCULATE:

(i) Re-ordering level

(ii) Maximum level

(iii) Minimum level

(iv) Danger level.

Re-ordering quantity is to be calculated on the basis of following information:

Cost of placing a purchase order is Rs. 4,000 Number of units to be purchased during the year is 5,00,000 Purchase price per unit, inclusive of transportation cost is Rs. 50 Annual cost of storage per unit is Rs. 10. Details of lead time: Average - 10 days, Maximum - 15 days Minimum- 5 days, for emergency purchases- 4 days. Rate of consumption: Average: 1,500 units per day,

Maximum: 2,000 units per day.

Ans. Basic Data:

A (Number of units to be purchased annually) = 5,00,000 units

O (Ordering cost per order) = Rs. 4,000

C (Annual cost of storage per unit) = Rs. 10

Purchase price per unit inclusive of transportation cost = Rs. 50

Computations:

(i) Re-ordering level = Maximum usage per period × Maximum

(ROL) lead time

(ii) Maximum level

= 2,000 units per day × 15 days

= 30,000 units

ROL + ROQ – [Min. rate of consumption × Min. lead time] (Refer to working notes 1 and 2)

= 30,000 units + 20,000 units – [1,000 units per day × 5 days]

= 45,000 units

(iii) Minimum level = ROL – Average rate of consumption × Average re-order-period

= 30,000 units – (1,500 units per day × 10 days)

= 15,000 units

(iv) Danger level

= Average consumption × Lead time for emergency purchases

1,500 units per day × 4 days

= 6,000 units

Working Notes:

1. Minimum rate of consumption per day

Av. rate of consumption = $\frac{\text{Minimum rate of consumption} + \text{Maximum rate of consumption}}{2}$

1,500 units per day = $\frac{X \text{ units per day} + 2,000 \text{ units per day}}{2}$ or X

= 1,000 units per day.

2. Re-order Quantity (ROQ) = $\sqrt{\frac{2 \times 5,00,000 \text{ units} \times \text{Rs}4000}{10}}$ = 20,000 units

Q 7. G. Ltd. produces a product which has a monthly demand of 4,000 units. The product requires a component X which is purchased at Rs.20. For every finished product, one unit of component is required. The ordering cost is Rs.120 per order and the holding cost is 10% p.a.

You are required to CALCULATE:

(i) Economic order quantity.

(ii) If the minimum lot size to be supplied is 4,000 units, what is the extra cost, the company has to incur?

(iii) What is the minimum carrying cost, the company has to incur?

Ans. (a) (i) Economic order quantity:

C (Purchase cost p.u.) = Rs. 20 O (Ordering cost per order) = Rs. 120

C_i (Holding cost) = 10% per annum

$$E.O.Q. = \sqrt{\frac{2AO}{C_i}} = \sqrt{\frac{2 \times 48,000 \text{ units} \times Rs120}{10\% \text{ of Rs20}}} = 2,400 \text{ units}$$

(ii) Extra cost incurred by the company:

A. Total cost when order size is equal 4,000 units:

Total cost = Total ordering cost + Total carrying cost

$$= \frac{A}{Q} \times O + \frac{1}{2} Q (C_i)$$

$$= \left(\frac{48,000 \text{ units}}{4,000 \text{ units}} \times Rs120 \right) + \left(\frac{1}{2} \times 4,000 \times 10\% \times Rs20 \right)$$

$$= Rs 1,440 + Rs 4,000 = Rs 5,440$$

B. Total cost when order size is equal EOQ i.e. 2,400 units:

$$\text{Total cost} = \left(\frac{48,000 \text{ units}}{2,400 \text{ units}} \times Rs120 \right) + \left(\frac{1}{2} \times 2,400 \times 10\% \times Rs20 \right)$$

$$= Rs 2,400 + Rs 2,400 = Rs 4,800$$

Extra cost that the company has to incur = (A) – (B)

$$= Rs 5,440 - Rs 4,800$$

$$= Rs 640$$

(iii) Minimum carrying cost: Carrying cost depends upon the size of the order. It will be minimum on the least order size. (In this part of the question the two order sizes are 2,400 units and 4,000 units. Here 2,400 units is the least of the two order sizes. At this order size carrying cost will be minimum.)

The minimum carrying cost in this case can be computed as under:

$$\text{Minimum carrying cost} = \frac{1}{2} \times 2,400 \text{ units} \times 10\% \times \text{Rs}20 = \text{Rs}2,400.$$

Q 8 'AT' Ltd. furnishes the following store transactions for September, 2022:

1-9-22	Opening balance	25 units value Rs 162.50
4-9- 22	Issues Req. No. 85	8 units
6-9- 22	Receipts from B & Co. GRN No. 26	50 units @ Rs 5.75 per unit
7-9- 22	Issues Req. No. 97	12 units
10-9- 22	Return to B & Co.	10 units
12-9- 22	Issues Req. No. 108	15 units
13-9- 22	Issues Req. No. 110	20 units
15-9- 22	Receipts from M & Co. GRN. No. 33	25 units @ Rs 6.10 per unit
17-9- 22	Issues Req. No. 121	10 units
19-9- 22	Received replacement from B & Co. GRN No. 38	10 units
20-9- 22	Returned from department, material of M & Co. MRR No. 4	5 units
22-9- 22	Transfer from Job 182 to Job 187 in the dept. MTR 6	5 units
26-9- 22	Issues Req. No. 146	10 units
29-9- 22	Transfer from Dept. "A" to Dept. "B" MTR 10	5 units
30-9- 22	Shortage in stock taking	2 units

Ans. 8. Working Notes:

1. The material received as replacement from vendor is treated as fresh supply.
2. In the absence of any information, the price of the material returned from a user department on 20-9-22 has been taken at the price of the latest issue made on 17-9-22. In FIFO method, physical flow of the material is irrelevant, and issue price is based on first in first out.
3. The issue of material on 26-9-22 is made out of the material received from a user department on 20-9-22.
4. The entries for Transfer of materials from one job and department to another on 22-9-22 and 29-9-22 respectively, do not affect the store ledger. However, adjustment entries to calculation of cost of respective jobs and departments are made in cost accounts.
5. The material found short as a result of stock taking has been written off at relevant issue price.

Stores Ledger of AT Ltd. for the month of September, 2022 (FIFO Method)

	RECEIPT				ISSUE				BALANCE		
Date	GRN No MRR No.	Qty. Units	Rate (Rs)	Amount (Rs)	Requisition No	Qty. Units	Rate (Rs)	Amount (Rs)	Qty. Units	Rate (Rs)	Amount (Rs)
1	2	3	4	5	6	7	8	9	10	11	12
1-9-22	—	—	—	—	—	—	—	—	25	6.50	162.50
4-9-22	—	—	—	—	85	8	6.50	52	17	6.50	110.50
6-9-22	26	50	5.75	287.50	—	—	—	—	17	6.50	398.00
									50	5.75	
7-9-22	—	—	—	—	97	12	6.50	78	5	6.50	320.00
									50	5.75	

10-9-22	—	—	—	—	Return	10	5.75	57.50		6.50	262.50
									40	5.75	
12-9-22	—	—	—	—	108	5	6.50	90	30	5.75	172.50
13-9-22	—	—	—	—	110	10	5.75	115	10	5.75	57.50
15-9-22	33	25	6.10	152.50	—	—	—	—	10	5.75	210.00
									25	6.10	

17-9-22	—	—	—	—	121	10	5.75	57.50	25	6.10	152.50
19-9-22	38	10	5.75	57.50	—	—	—	—	25	6.10	210.00
									10	5.75	
20-9-22	4	5	5.75	28.75	—	—	—	—	5	5.75	238.75
									25	6.10	
									10	5.75	
26-9-22	—	—	—	—	146	5	5.75	59.25	20	6.10	179.50
						5	6.10		10	5.75	
30-9-22	—	—	—	—	Shortage	2	6.10	12.20	18	6.10	167.30
									10	5.75	

Q 9. The following information is extracted from the Stores Ledger:

Material X

Opening Stock Nil

Purchases:

Jan. 1 100 @Rs.1 per unit

Jan. 20 100 @Rs.2 per unit

Issues:

Jan. 22 60 for Job W 16

Jan. 23 60 for Job W 17

Complete the receipts and issues valuation by adopting the First-In-First-Out, Last-In-First-Out and the Weighted Average Method. TABULATE the values allocated to Job W 16, Job W 17 and the closing stock under the methods aforesaid and discuss from different points of view which method you would prefer.

Ans. From the point of view of cost of material charged to each job, it is minimum under FIFO and maximum under LIFO (Refer to Tables). During the period of rising prices, the use of FIFO give rise to high profits and that of LIFO low profits. In the case of weighted average, there is no significant adverse or favourable effect on the cost of material as well as on profits.

From the point of view of valuation of closing stock, it is apparent from the above statement, that it is maximum under FIFO, moderate under weighted average and minimum under LIFO.

It is clear from the tables that the use of weighted average evens out the fluctuations in the prices. Under this method, the cost of materials issued to the jobs and the cost of material in hands reflects greater uniformity than under FIFO and LIFO. Thus, from different points of view, weighted average method is preferred over LIFO and FIFO.