



Report on Material Costing

Today 30th August 2017, Dr. Nupur Ojha from Manipal University came to take special lecture on the topic **Material costing**.

The term material includes stocks of finished goods, work in progress and raw materials. It also includes the spare parts and loose tools. There are basically 3 methods of inventory valuation that are:

1. Cost price method
2. Average price method
3. Normal price method

The first method she taught us was FIFO in cost price method. FIFO stands for First In First Out. This method assumes that items are sold in chronological order of their acquisition. In case of inflation, there would be more profit for the firm.

The second method she told us was LIFO that is Last In First Out. This method assumes that the newest items are sold first leaving the older units in inventory. This method is mainly used by countries like America, etc. the cost of newest inventory items are charged to COGS when goods are sold. In the case of inflation, the profit margin of the firm is lowered then the actual profit that is earned by the firm.

The third method was Weighted Average Method. Under this method, issue of material is priced at the average cost price of the material in material in hand, a new average is received. This method avoids fluctuation in price. According to AS 2, FIFO and Weighted Average Method is to be followed by the firms in India.

The fourth method was Replacement Price method in which material issued are priced at replacement price on the date of issue is made.

The last method that she taught us was Standard Cost Method under which material are issued at a pre-determined or estimated price. Under this method, assumed standard rate is being set by the firm for all the transactions to be recorded.

At the end, the conclusion is that material costing is necessary for material inventory acquisition and for subsequent valuation of stock.

