Class B.Com. Part III

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Subject - Cost A/c

Topic - Pricing of issue of Material

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(iv) Highest in First out Method (HIFO) - Under this method the materials with highest prices are issued first irrespective of the date upon which they were ~~issued~~ purchased. The basic assumption is that in fluctuating and inflationary market the cost of materials are quickly absorved into product cost to hedge against risk of inflation. This method is used when the material is in short supply and in execution of cost plus contract. This method is not popular and not acceptable under standard accounting practices.

(v) Simple Average Method - Under this method all the materials received are merged into existing stock of materials their identity being lost. The simple average price is calculated without any regard to the quantities involved. The simple average cost is arrived at by adding the different prices paid during the period for the batches purchased by dividing the number of batches. For example, three batches of materials received at Rs 10, Rs 12 and Rs 14 per unit are averaged at Rs 12.

However this method is not so popular because it takes into consideration the prices of different batches but not the quantities. This method is more applicable when price almost remain unfluctuated and the value of stock are not major issue.

• Students I will dicated some other method in next class.