

Blau P - III

Subject - Cost Acc

Topic - Pricing or issue of materials.

Lecture by - Dr. Suresh Sank

① Weighted Average Cost Method

It is a refined system over average method where the issue price is recalculated every time after each receipt taking into consideration both the total quantities and total cost while calculating weighted average price. For example, three batches of material received in price and quantities as follow

1000 units @ Rs 12

800 units @ Rs 15

1200 units @ Rs 10

The weighted average price will be

$$(1000 \times 12) + (800 \times 15) + (1200 \times 10) = 36000$$

$$\text{Weighted average price will be } \frac{36000}{3000} = 12$$

This method tends to smooth out the fluctuating price and reduces the number of calculations to be made as each issue is charged at the same price until a fresh batch of material is received.

This method is easier as compared to FIFO and LIFO as there is no necessity to identify each batch separately. But this method increases the clerical work as calculation of new average price every time a new batch is received. The issue price so calculated rarely represents the actual purchase price.