

Thus these two records provide a good internal check in stores recording.

Recording of receipts and issues of stores, is made on the basis of same documentary evidences, such as Goods Receipts Note and Stores Requisition Slips. These two documents enforce control in the matter of receipt and issue of stores.

Continuous Stock taking is the most important tool of material control. Materials in stores are regularly verified physically by qualified persons with the balance of the Bin Cards and any discrepancy arising from such physical verification is enquired into, the reasons thereof are recorded in the Bin Card. Again, the balance in the BinCard is adjusted to the physical quantity at that point of time.

In the process of Continuous Stock-taking, Bin Card is compared with the Stores Ledger in order to verify the correctness of both the records. If any discrepancy is found, the reasons for such discrepancy should be recorded.

Thus Continuous stock-taking not only exercises physical check on the stores but also provides a moral check on the persons entrusted with stores recording.

Q. 16. Discuss the procedure to be followed in a manufacturing Organisation while receiving the material and issuing the same to the factory. [G.U. 2002 (Marks-12)]

Or, What do you mean by 'Bin Card' and Stores Ledger? How are stores recorded there in? Or, Give a Specimen of (i) Bin card and (ii) Stores Ledger, [G. U.2002 (Marks-12)]

Receipts and issues of materials required for a manufacturing Organisation are recorded in two documents viz, 'Bin Card' and 'Stores Ledger'.

Bin Card.
Meaning :

Various item of materials received by the store-keeper are kept in their respective bins i.e. racks, self, etc. Each item of material is kept in a separate bin and each bin has a separate card attached to it known as 'Bin Card'. A separate record for each type of materials is maintained in the attached Bin Card, written up by the store-keeper.

Contents :

The Bin Card contains a record of receipts, issues and balance of material in terms of quantity. It also provides information about 'goods ordered' and 'goods reserved' for a particular job or order. In addition, the card gives the description of the material, its code number, bin number and stock levels (minimum level, maximum level, reordering level and re-ordering quantity).

ABC Company Limited
BIN CARD

Bin Card No.....
Name of the Article:.....
CodeNo:.....
Stores ledger Folio.....

Bin No.....
Maximum Level:
Minimum Level:
Re-ording Level :
Re-ordering Quantity

Date	Receipts		Issues		Balance Quantity	Checking		Goods on order		
	Goods Received Note No.	Quantity	Stores Requisition Note No.	Quantity		Date of cheking	Remarks	No. and date of order	Quantity	Date of Goods Received

ABC Company Limited
STORES LEDGER

Name of the Article:.....

Code No:.....

Bin Card No:.....

Maximum Level:

Minimum Level:

Re-ordering Level:

Receipts					Issues			Balance				
Date	GR No.	Quantity	Rate	Amount	R.S.No.	Quantity	Rate	Amount	Quantity	Rate	Amount	Remarks

Writing up of Bin Card :

A bin card has three columns viz, Receipts, issues and Balance (as showing in the above specimen) and entries for the receipts and issues should be made in their respective columns on the basis of supporting documents before any materials physically put in the bin or removed from the bin i.e. "Touch the Bin before you touch the item."

In the Bin Card, receipts are entered in the Receipts column on the basis of the 'Goods Receipts Note' and issues are entered in the Issue column on the basis of Stores Requisition Note'. Receipts are debited, and issues are credited in the Bin Card in terms of quantity. The balance is ascertained after each transaction and is entered in the balance column.

Double Bin System:

Some concerns divide the bin in two parts-smaller part of the bin stores the quantity equal to the minimum quantity which is to be held always and the other part stores remaining quantity. Quantity in the smaller part is only used in case of emergency. Normally stores are issued from the larger part and the physical verification is made only for the larger part.

Purpose :

Bin Card shows the physical movement of stores and shows the balance of stores in hand of each item at any point of time.

Stores Ledgers

Stores Ledger is maintained by the costing department and is written up on the basis of documentary evidences such as Goods Received Notes and Stores Requisition Notes. It is identical with die Bin Card except that receipts and issues are shown at money values. Every receipt or issue of materials is entered in the Receipt Column or Issue Column in terms of quantity and their money values and after every transaction balances are ascertained in terms of quantity and money values which are entered in the Balance Column.

In addition to Receipts, Issue and Balance Columns, a Stores Ledger contains the description of the materials its Bin No. and Code No. and the Stock Levels.

Purpose/object :

It contains a continuous record of Stores Receipts. Issues and Balance in hand in terms of quantity and their money values.

It exercises a check on the work of store keeper.

It facilitates the pricing of materials issued to production.

Q. 17. (a) what are the advantages of 'Bin Card and 'Stores Ledger'? (b) Compare 'Bin Card' with Stores Ledger.'

[GU.-2000]

Advantages of Bin Card:

Following are the advantages of Bin Card:

1. Movement of Materials :

It indicates the flow of a material i.e. the receipts and issues of materials.

2. Material in hand at any points of time:

It indicates at a glance the quantity of a material in stock at any point of time.

3. Arrangement for fresh supply can be made :

It contains the ordering level and helps the store-keeper to initiate purchase requisition for fresh supply of material when the stock in hand of that material reaches the ordering level.

4. Useful for physical verification :

It is useful for physical verification of stock.

5. Remedial measures for discrepancy:

When any discrepancy arises between the balance shown by the Bin Card and the balance shown by physical verification and the causes for such discrepancy are known, the management can take remedial measures for controlling such discrepancy.

6. Facilitates continuous stock-taking :

It facilitates continuous stock-taking and helps in maintaining perpetual inventory.

7. Facilitates the preparation of interim final accounts:

It facilitates the preparation of Interim Profit and Loss Account at any time without actual stock taking.

8. Acts as check on the entries in the Stores ledger.

It acts as a check on the accuracy of the entries in the stores ledger.

Advantages of stores ledger.

Following are the advantages of a Stores Ledger.

1. Flow of Materials both in quantity and in money value:

It shows the flow of a material in terms of quantity and in terms of money values.

2. Balance of materials both in quantity and money value :

It shows at a glance, at any point of time the balance of a material in terms of quantity and money value.

3. Assessment of production Cost.

It provides the cost of materials used in the production of a product or a job.

4. Check on the entries of the Bin Card.

It exercises a check on the entries made in the Bin Card.

5. It shows the value of Closing Stock.

It shows the value of closing stock and the amount of capital invested therein.

6. Verification of Actual stock with Stock levels:

It enables the cost accountant to verify whether the stocks are kept within the prescribed level and whether the purchase requisitions are made in time.

7. Facilitates Continuous Stock-Taking :

It facilitates continuous stock-taking and helps in perpetual inventory.

8. Facilitates the Preparation Interim Final Accounts:

It facilitates the preparation of Interim Profit and Loss Account at any point of time without

Differences between Bin Card and Stores Ledger.

Following are the differences between Bin Card and Stores ledger:

Basis	Bin Card	Stores Ledger
1. Contents	It is a quantitative record of a material.	It is a record of both quantity and value of a material.
2. Sequence	It is the first record of stores.	It is the second record of stores.
3. Place of Recording	It is kept in the storeroom.	It is kept in the cost accounts department.
4. Recording person.	It is written up by the store-keeper.	It is recorded by the stores accountant.
5. Type of Recording	It is a memorandum record and not an accounting record.	It is an accounting record kept on double entry principle.
6. Time of Recording	An entry in the Bin Card is normally made just before a transaction takes place.	An entry in the Stores Ledger is always made only after the transaction has taken place.
7. Posting	In a Bin Card, each transaction is individually posted.	In the Stores Ledger, transactions can be summarised and periodically posted in total.
8. Transfers	Inter-Job and Inter-departmental transfers of materials are not recorded here.	Inter-Job and Inter-departmental transfers of materials are recorded here.
9. Role	It is the basis of placing purchase requisitions and purchase orders.	It is the basis for preparation of Profit and Loss Account as it provides inventory value.

Q.18. Explain the FIFO and LIFO methods of valuation of material issue and state under what circumstances these methods are used. [G.U.2003]

State which method is considered the best in case of rising prices?

FIFO Method/First in First out Method:

'First in first out' means that materials are issued to production in the order in which they are purchased i.e. materials are first issued from the first or earliest consignment or lot till it is exhausted then from the second lot till its exhaustion and so on. Following are the principles followed under this method:

(i) Materials are priced at the actual cost,

(ii) Charge to production for material cost is at the oldest prices of materials in stock and

closing stock is valued at the latest price paid.

Circumstances under which it is used:

This method is suitable where:

- * (i) Materials purchased are bulky and heavy and the unit prices of the materials are more;
- * (ii) The purchases are few in number;
- * (iii) Materials to be issued can be easily identified i.e. materials belonging to a particular purchase-lot;
- * (iv) Materials are of slow consumption but of high price;
- (v) The market is competitive and jobs are not done according to customers' specification.
- * (vi) The material prices are steady or falling.

Advantages:**(i) Simple to operate:**

It is simple to understand and operate.

(ii) Materials issued conform to cost price:

Materials are issued at the purchase price and the cost of a job or a work order represents the correct material cost; and actual material price is recovered from sales.

(iii) Closing stock represents market price:

Closing stock represents the market price as it is valued at the recent purchase price of the material.

(iv) Suitable in case of falling prices:

During falling prices material cost charged to production keeps in line with price trend.

Disadvantages:**(i) More clerical work:**

It increases clerical work as different consignments might have different prices which are to be considered at the time of issue.

(ii) Inequitable pricing:

Where material prices fluctuate, comparison between jobs using different consignments is not feasible though they may be completed during the same period because materials of different consignments having different prices are used.

(iii) Multiple prices for one requisition:

For pricing materials under one requisition, more than one price has often to be taken into consideration.

(iv) Under costing in case of rising prices:

During rising prices, the issue price does not reflect the market price and the charge to production becomes low. As a result, the replacement cost of material is not realised from sale and profit becomes an inflated one.

(v) Less competitive quotation price in case of falling prices:

During the period of falling prices, the quotation prices become less competitive as higher prices of materials are charged to the production.

LIFO Method/Last in First out method:

“Last In First Out” means that material issues are to be priced in the reverse order of purchase i.e. the price of the latest available consignment is taken for pricing the issues of materials and the process goes on. It is based on the principle that last purchased materials are issued at current costs to jobs or work orders unless the purchase has been made a long time ago. Following principles are adopted under this method.

- (i) Materials are priced at actual cost;
- (ii) Charge to production for material cost is at the latest prices paid.
- (iii) Closing stock is valued at the oldest prices paid.

Conditions/Circumstances under which it is used :

This method is suitable where:

- * (i) Materials purchased are bulky and unit prices of materials are high;
- * (ii) Purchases are quite few in number;
- * (iii) Materials issued are easily identified to a particular purchased lot;
- (iv) Prices of materials are rising because materials are issued at current market prices i.e. (x)

replacement cost and profits become lower and tax burden is also less.

Advantages:

(i) Simple to operate:

It is simple to operate and is useful where transactions are not many and prices are fairly steady.

(ii) Recovery of cost from production:

It recovers cost from production because actual cost of material is charged to production.

(iii) Charge reproduction becomes the recent cost.

Production is charged with the recent prices of materials because materials issued are priced at the purchase prices of the latest consignments. Thus production cost represents the market price of materials provided they are recently purchased.

(iv) Helpful during the period of rising prices:

In times of rising prices this method is suitable. It is because materials are issued at the current market prices which are high. Thus there is an increased charge to production for material cost during the period of rising prices. Its impact is lower profit and lower tax burden.

Disadvantages:

(i) Heavy Clerical Work and Possibilities of Errors:

It involves a heavy clerical work when there are more purchases during a period. Thus there are chances of clerical errors as every time when an issue is made, he has to go through the records to ascertain the price to be charged.

(ii) Comparison between the cost of jobs becomes difficult:

Comparison between the cost of one job and the cost of another job will become difficult because material cost charged to the jobs or work orders may be different. It is because the materials issued to both the jobs or orders may be taken from different lots of different prices though both the jobs or orders are started within a short difference in time.

(iii) Multiple prices for one requisition :

For pricing a single requisition more than one price may often have to be adopted.

(iv) Closing stocks are valued at oldest material prices :

Closing stock will be valued at the oldest prices paid. Hence it does not reflect the current market price and as such it may be under-stated or over-stated.

Suitability in case Rising Price:

Out of the two prices viz. FIFO and LIFO, LIFO method of pricing materials is better suited because of the following reasons:

(i) Material Cost in Production at Current Market Price :

Under LIFO method, materials issued are priced at the price of the latest consignments or lots. Thus material cost charged to production represents the current market prices which are generally high.

(ii) Recovery of Material Replacement Cost:

As material cost represents the current market price, replacement price of materials is almost recovered from production.

(iii) Lower Profit with Lower Tax:

As high material price is charged to production, the cost of production becomes higher; hence its effect is lower profit with lower burden of income tax.

(iv) Valuation of Closing Stock becomes conservative:

As closing stock is valued at the oldest purchase price, it is understated and consequently the profit becomes further less. It conforms to the principle of conservatism/Prudence.