

Market Price and Standard Price Method of Stock Valuation

Market Price Method:

Under market Price method, the raw material can either be charged on the replacement price or the realizable price. The replacement price is used in case of the items which are held in stock for use in production, while realizable price is used in respect of the items which are kept in stock for sale.

Under this method, materials are issued at a price at which they can be replaced. Therefore, cost of the materials issued is not considered but materials are issued at the market price prevailing on the date of issue. This method is considered to be the best method where quotations have to be sent because quotations sent would reflect the latest competitive conditions so far as materials are concerned.

This method discloses whether the buying is efficient or inefficient. There will be efficiency in buying if the market price is higher than the cost price and inefficiency if reverse is the case. This method does not recover cost price of the materials from production because materials are issued at the market price which may be more or less than the cost price.

It makes Stores Ledger unnecessarily complicated by introducing the element of profit or loss. Costing is concerned with cost and has nothing to do with profits or losses and as such materials should not be issued at the market price. Keeping in view this advantage, the method is rarely used.

Standard Price Method:

Standard price is the predetermined price and both the receipts and issues will be valued at this price. Therefore, this price is neither the cost price nor the market price. This method is used by concerns which follow standard costing technique of accounting. The difference between the actual purchase price and the standard price is charged to an account known as "Purchase Price Variance Account."

The standard price can be of two types, namely (1) Basic Standard Price and (2) Current Standard Price. The basic standard price is the detail standard price fixed for long periods so as to help forward planning whereas the current standard price is the basic standard price which have been adjusted to provide for permanent changes in cost on account of prevailing trends in the market.

Thus, the current standard price helps in keep the costs of the products adjusted to the prevailing trends in the market so far as the cost of the material is concerned and the basic standard helps in ascertaining the trends in manufacturing costs, over a certain number of years. The standard price does not recover the costs of raw materials fully, hence it is not a sound method of stock valuation.