

Both FIFO and average methods have certain advantages and it cannot be said that one method is either simpler or more accurate than the other. The main difference between these two methods is regarding the treatment of the opening stock-in-progress.

In FIFO method, opening stock of work-in-progress is kept as a separate figure. Costs incurred to complete this opening work-in-progress are added to the opening work-in-progress cost and the sum of these two costs is the total cost of completed units of opening work-in-progress at which it is transferred to the next process. The units which are introduced in the process and finished during the same period have their own cost per unit which may be different from the completed cost per unit of opening work-in-progress.

In average cost method, on the other hand, the cost of opening work-in-progress is added to material, labour and overhead costs incurred during the period. The cost per unit is computed by dividing the total of these costs by equivalent units.

How to choose between FIFO and Average Method

Both FIFO and Average methods have advantages and disadvantages. If one were to choose between these methods in an examination question, the following rules may be followed:

1. **Use FIFO** – If the cost of the opening work-in-progress in one lump sum figure and the stage of completion is given. For Example:

Given:	Opening work-in-progress	1,000 units
	Cost	₹18,000
	Stage of completion:	
	Materials	100%
	Labour	60%
	Overheads	60%

2. **Use Average** – If the cost of opening work-in-progress is given in terms of materials, labour and overhead but the stage of completion is not given. For example:

Given:	Opening work-in-progress	1,000 units
	Cost— Materials	₹10,000
	Labour	₹4,000
	Overheads	₹4,000

3. **FIFO or Average—Your Choice** – If the degree of completion and the cost in terms of materials, labour and overheads of the opening work-in-progress are given, then one has a choice between FIFO and Average methods. For example:

Given:	Opening work-in-progress	1,000 units
	Degree of completion and cost:	
	Material (100% Complete)	₹10,000
	Labour (60% Complete)	₹4,000
	Overhead (60% Complete)	₹4,000

4. Where the question specifies a method to be followed, then that method must be followed.