

FIFO and FEFO Method of Inventory Control-

FIFO METHOD-

FIFO = First In First Out

- ▶ FIFO means that products stored first are to be retrieved first.
- ▶ FIFO method is based on the assumption that materials which are purchased first are issued first.
- ▶ In this method you aim to sell the products that arrive first in your store. Slightly older products are placed at the front of the shelf, newer products near the back.
- ▶ You would expect items in front will be the first items out. That's especially true if customers are in a rush and want to grab the first product off the shelf.

Advantages-

2. Materials are issued at actual cost and thus no unrealistic profit or arises from the operation of this method.
3. This method is easy to understand and simple to operate.
4. The value of closing stock will reflect current market.
5. This method is useful when prices are falling.

➤ Disadvantages

- FIFO method is improper if many lots are purchased during the period at different prices.
- The objective of matching current costs with current revenues can not be achieved under FIFO method.
- If the prices of materials are rising rapidly, the current production cost may be understated.
- FIFO method overstates profit especially in inflation.

FEFO Method-

FEFO is "First Expired, First Out"

- FEFO is to ensure that product with the shortest expiry date is placed into the market first.

ADVATAGES-

- This makes it possible to reduce business overheads from wastage and the additional work and cost associated with returns.
- It also helps to ensure that products reaching end users have sufficient remaining shelf life.
- If a company decides to apply the **FEFO method** to their routine, a lot of losses can be avoid.

➤ **Advantage**

- These methods are used to reduce the chances of product not selling before their expiration date and becoming obsolete
- Warehouse cost will be lowered by not storing goods in the warehouse for a long time
- By active stock rotation in a warehouse the chances of customers receiving outdated or poor quality goods decrease and their confidence in the company increases

➤ **Disadvantage**

- Same as FIFO