

Costing method	Description	When to use
FIFO	<p>An item's unit cost is the actual value of any receipt of the item, selected by the FIFO rule.</p> <p>In inventory valuation, it is assumed that the first items placed in inventory are sold first.</p>	<p>In business environments where the product cost is stable.</p> <p>(When prices are rising, the balance sheet shows greater in value. This means that tax liabilities increase, but credit scores and the ability to borrow cash improve.)</p> <p>For items with a limited shelf life, because the oldest goods need to be sold before they pass their sell-by date.</p>
LIFO	<p>An item's unit cost is the actual value of any receipt of the item, selected by the LIFO rule.</p> <p>In inventory valuation, it is assumed that the last items placed in inventory are sold first.</p>	<p>(When prices are rising, the value on the income statement decreases. This means that tax liabilities decrease, but the ability to borrow cash deteriorates.)</p>
Average	<p>An item's unit cost is calculated as the average unit cost at each point in time after a purchase.</p> <p>For inventory valuation, it assumes that all inventories are sold simultaneously.</p>	<p>In business environments where the product cost is unstable.</p> <p>When inventories are piled or mixed and cannot be differentiated, such as chemicals.</p>
Specific	<p>An item's unit cost is the exact cost at which the unit was received.</p>	<p>In production or trade of easily identifiable items with fairly high unit costs.</p> <p>For items with serial numbers.</p>

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<b>Standard</b>	<p>An item's unit cost is preset based on estimated.</p> <p>When the actual cost is realized later, the standard cost must be adjusted to the actual cost through variance values.</p>	<p>Where cost control is critical.</p> <p>In repetitive manufacturing, to value the costs of direct material, direct labor, and manufacturing overhead.</p> <p>Where there is discipline and staff to maintain standards.</p>