

Inventory Control Techniques And Methods Trends In Inventory Management

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Introduction

Every business irrespective of its nature, size, location and its managerial practices has to face competition now a day because of continuous change in economic scenario, and globalization. The objectives of profit maximization, improved efficiency and productivity, maximum use of scarce resources etc. can be achieved only when management and organizational practices are directed to cost effectiveness, cost conscious, cost control and minimizing the losses, wastages and scraps. One of the popular definitions of management is that management is a distinct function of mobilizing, allocating and utilizing resources to achieve pre-determined goals in an organized setting. The key resources or inputs of any business operation are usually known as eight M's as money, materials, manpower, machinery, methods, minutes, message and market. Each of these resources has its own nature, functioning and availability. Some resources are capable of being developed like manpower, methods and materials. The management at various levels must establish input goals, process goals and output goals in respect of deployment of all the available resources to ensure the objectives and strategies for maximization of profit, prosperity, growth and development of business enterprise in future.

The cost accounting is the most important branch of accounting system as it deals with collection, classification, ascertainment of cost and its accounting, planning, co-ordination, controlling and reporting to achieve the objectives of cost control, cost reduction, maximum use of resources and minimizing the losses and wastages. For this purpose, the total cost is analysed by elements of cost as materials, labour and other expenses. Of these elements, material is the first and most important element of cost, which means the physical commodities used for production. It account for about 50 to 60 percent of the total cost of production. Hence, the material control lies in the fact that any saving in the cost of materials will go a long way in reducing the cost of production improving the profitability of a business. Studies by experts on this aspect have concluded and highlighted that effect of 5 percent saving in material cost is as good as increasing the production and sales by about 36 percent. Hence proper control over materials at every stage of purchases, storage, consumptions and inventories is important for effective management of any business enterprise. The term "materials" and "stores" are some-times used interchangeably. However, both the terms differ. The term "inventory" has a wider meaning than the term "material". Inventory includes stock of raw materials, work-in-progress, finished goods and supplies. One of the definitions is that inventory is tangible property held (i) for sale in ordinary course of business, or (ii) in the process of production for such sale or (iii) in the form of maintenance or supplies to be consumed in the production process or rendering services. Hence the inventories may be classified as –

- (i) Productive Inventories like raw materials, spare parts, components etc used in the production process.
- (ii) Non-productive Inventories like office stores, machine spare parts, scrap, lubricants, oil etc.
- (iii) In-process Material like semi-finished goods at different storages of production.
- (iv) Finished Goods.
- (v) Scrap, Wastage, Obsolete Materials.

Inventory control is a critical aspect of successful management. With high carrying costs, businesses can not afford to have money tied up in excess inventories. Both the objective of good customer service and efficient and qualitative production must be achieved at minimum inventory level. The effective inventory management control system decides both the internal effectiveness, that is how efficiently the manufacturing operation can be carried out without any disturbance and production targets are met. Similarly its external effectiveness, that is, how well customers are served by the business. Inventory is the physical stock held at a specific location at a specific time. The reduction in inventories results into decrease in the cost of goods sold and lowers the capital investment and vice-versa. Hence, it is the skill of management to strike a balance between lower and higher inventory depending open the need of business. All the functional heads and personnel of purchasing, storage, production, sales marketing,

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finance, etc are directly involved in inventory management and its control. The poor inventory control result into production breakdowns, order backlogs, lack of adequate storage space, disposal of slow moving stocks, uneven production, decrease in sales volume and number of customers, increase in material losses and damages etc.

I. Inventory Control Techniques and Methods

For an effective system of inventory control, the business should have pre-determined definite plan and policy. Authority and responsibility of each personnel involved in inventory control should be clearly defined. Targets for performance of co-operations or activity as well as cost to be incurred for the purpose should be laid down for each areas like purchasing, storage, consumption, accounting record keeping, reporting etc. the good or bad performance should be timely reported for remedial actions. The various techniques and tools can be used for the efficient inventory control. However, it should be note that each techniques and tool has its own merits and limitations and no single technique is ideal and effective. Hence, these techniques should be simultaneously used to ensure better results. The selection of technique depends on many factors like financial position, volume of materials, nature of industry, size of business, organization efficiency, government restrictions etc. Some of the most commonly used techniques are as follows.

- i) Budgetary Control
- ii) Standard Costing
- iii) Marginal Costing
- iv) Production Planning and Control
- v) Operation Research
- vi) Market Research
- vii) Selection Various Levels of Materials
- viii) Economic Ordering Quality
- ix) ABC Analysis
- x) Just-in-Time
- xi) Review of Slow and Non-moving Items
- xii) Use of Control Ratios
- xiii) Perpetual Inventory System
- xiv) Physical Verification of Inventory
- xv) Enterprise Resource Planning
- xvi) Material Accounting Documentation and Stock Audit
- xvii) Responsibility Accounting
- xviii) Selective Control Methods like VED Analysis (Vital, Essential and Desirable items on the basis of criticality to production process), HML Analysis (High, Medium and Low items on the basis of unit cost), SDE Analysis (Scarce, Difficult, Easily Available items on the basis of criterion of the availability) GOLF Analysis (Government, Ordinary, Local and Foreign items depending on the source of origin), SOS Analysis (Seasonal and Off-seasonal items based on the nature of supplies), etc.

Conclusion:-

To sum up, inventory control is vitally important to every business, whether production or service oriented. It is the most complex and yet crucial and it covers almost every activity and function of the organization. A remarkable truth about inventory control is “If you can not match inputs to the outputs from an inventory, you will never control it, the better you can match inputs to outputs, the less is the need of inventory”.

References

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