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Inventory Control System

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Introduction

A term inventory refers to the stock file of the products a firm is offering for sale and the components that make up the product. In other words, inventory is composed of assets that will be showed in future in the normal course of action. In inventory we include: Raw materials ,Work in progress (Semi Finished goods),Finished goods .The raw material contains item that are purchased by the firm from other and are converted into finished goods through the production process. The work in progress consists of items currently being used in the manufacturing process. They are normally semi-finished goods that are at various stages of production process. A finished goods represent final products which are available for sale .The inventory of such goods consists of items that have been produced but are yet to be sold. Inventory is a treated as current asset, but it isdifferent from other current assets because only financial manager is not involved. Instead of all the relevant areas, finance, marketing, production, and purchasing are involved in inventory management. The views in regard to the appropriate level of inventory would differ among the different relevant areas. The job of the financial manager is to compose the conflicting view points of the various functional areas regarding the maximizing the owners wealth. Thus, we can say that inventory management is a management of other current assets and it should be related to the overall objective of the firm. Inventory is the most important assets of a manufacturing company and also the indolent resource. Inventory is very important to every company. Without inventory no company would run business smoothly. Inventory is the lifeblood of business like finance. Inventory is meant for Protection and for Economy in cost. To maintain the continuity in the operations of business enterprise, a minimum stock of inventory is required. Sufficient stock will help to face lead times elements demand and supply fluctuations and any sudden circumstances in the supply of materials.

Inventory is such thing that will pile up and creep into the area of profits to turn them as losses and can put the company in red. Therefore, it is necessary to have control over inventory to save the company from piling up of inventories and to avoid losses. Inventory control is matter of co-ordination among the various departments concerned. Inventory control is a system which ensures the availability of the right quantity of material, of the right quality, at the right time with the minimum amount of capital by purchasing them at the right price from the right source. The ultimate goal is to determine the optimal level of inventory holding which will ensure smooth running of production and also ensure that excessive capital is not blocked.Inventory control relates to a set of policies and procedures by which a company determines which materials it will hold in stock and the quality of each that it will carry in stock. Thus we can say that inventory control is determining and maintaining optimum investment in inventory given in the significance of benefits and cost association with holding inventory. So that inventory control is also known as stock control. Inventory constitutes the principal item in the working capital of the majority of trading and industrial companies. So that the inventory control is very important to keep required stock of materials so that production and maintenance activities do not suffer as well as to improve input-output ratio of materials. There are two essential things on which inventory control depends. Which are as follows–

1.How much to buy at one time.
2.When to buy this quality.

Many factors govern these essential things. The indivisible factors that deals with these two essential things are –

1.Requirement
2.Quality in stock or on order
3.Lead time
4.Obsolesce

The marrow of inventory control broadly speaking consists of revolving the three factors, which are – Necessity for stocking items, Time for reordering the items and Quality per order to be order.

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Definition –

"The process whereby the investment is materials and parts carried in stock is regulated within predetermined limits set in accordance with inventory policy established by the management."

Objective of the Paper –

1.To understand the Inventory management
2.To study the Inventory Control techniques
3.To study Inventory management System.

Research Methodology-

For the said research data to the above objective was collected by the review of the literature on the subject concerned. The literature was thus collected by visiting libraries and various concern websites. The present research study is based on the secondary data. Such secondary data is collected from various reference books on inventory management and cost accounting.

Inventory management techniques-

Inventory management uses several methodologies to keep the right amount of goods on hand to fulfil customer demand and operate profitably. This task is particularly complex when organizations need to deal with thousands of stock keeping units that can span multiple warehouses. The methodologies include:

Stock review- It is the simplest inventory management methodology and is generally more appealing to smaller businesses. Stock review involves a continuous analysis of stock. It principally uses manual effort, even if there is aautomatic stock review to define a minimum stock level that then enables regular inventory inspections and reordering of supplies to meet the minimum levels. Stock review can provide a measure of control over the inventory management process, but it can be labor-intensive and prone to errors.

Just-in-Time-(JIT) - Just-in-Time methodology, in which materials are obtained just in time for production to provide end product just in time for sale. There are two aspect of JIT: (i) Just-In-Time (jit) Production, and (ii) Just-In-Time (jit) Purchasing. JIT with regard to production means producing only what is needed, when it is needed, in the quantity just needed. A JIT manufacturing system requires making goods or services only when the customer, internal or external, requires it. According to CIMA terminology:

"JIT is a technique for the organization of work flows, to allow rapid, high quality, flexible production whilst minimizing manufacturing waste and stock level". Further, CIMA defines JIT production as "a system which is driven by demand for finished products, whereby each component on a production line is produced only when needed for the next stage."

JIT purchasing requires better coordination with suppliers so that materials arrive immediately prior to their use. Firms using JIT purchasing enter long term contract with them to enable vendors to plan their annual production. Under JIT purchasing, EOQ is much lower as compared to EOQ under conventional purchasing. JIT purchasing provides significant saving in cost.

ABC Analysis – it is a system of inventory control. To exercise proper control on stores, it is essential that the store items should be classified according to values so that the most valuable items may be paid greater and due attention regarding their safety and care as compared to others. Many business firms introduce a system of analyzing stocks by value categories known as "ABC or Pareto Analysis". Under this method, inventory items are ranked according to investments in each item in the inventory. The large value items are grouped together into one class for inventory control purpose. The lowest value items are grouped into another class and those items which are of intermediate value are grouped into a "middle" classification. High value items are labeled "class A", middle value item, "Class B", and low value items, "Class C".

Perpetual Inventory System – The systematic maintenance is usually called as Perpetual Inventory method. This method of stock taking implies a complete, systematic and updated account of each item of stock both on records and physical goods. Under this method stocks are checked regularly throughout the year in a systematic manner. The verification plan and stock taking programmes are so chalked out and the actual work of counting, weighing, measuring and listing of items are so well distributed that the entire stock is accurately checked in routine way without duplication throughout the year. The notice regarding a particular stock to be checked is given to the storekeeper only on the day of checking of that stock, and not earlier. The other factory work goes on normally during the checking period. As the checking is a continuous process, the bulky items of minor value are checked only once in a year, while

items of major importance and sizably good value are checked even twice or thrice a year. **The CIMA defines this method as** "a system of records maintained by the controlling department, which reflects the physical movement of stock and their current balance."

Thus, it is a scientific method of controlling items of stock by maintaining regularly a store records in such a manner that stock balances as on a particular point of time and readily available.

Periodic Inventory Method- Under this method, the complete stock is verified at periodic intervals, usually once a year at the close of the annual accounting period, so as to value the closing stocks for preparation of final accounts. If it is chosen to verify the stocks at two or more periodic intervals, the verification is arranged during the slack season. For periodic verification, the factory work is stopped for the required number of days and the verification has to be done urgently. The closure of the works even for a day is quite a costly affair and so this system is not favoured by the large business houses. Secondly, the risk of loss is not minimized due to long interval between the two checking periods.

Economic Order Quantity- Economic Order Quantity (EOQ) is the purchase order for replenishment that minimizes total inventory costs. The purchase order is stimulated when the inventory level hits the reorder point. The EOQ is calculated in order to minimize a combination of costs such as the purchase cost, the inventory holding cost, the ordering cost and so on. The order quantity optimization is ancillary to the safety stock optimization that concentrateon finding the optimal threshold to trigger the reorder.

a) Ordering Cost- the ordering cost is used in case of raw material includes the entire cost of acquiring raw materials.

b) Carrying Cost- cost incurred for maintaining a level of inventory is called carrying cost.

Conclusion

The goal of the wealth maximization is affected by the efficiency with which inventory ismanaged. Inventories constitute about 65% of current assets of companies in India. Themanufacturing companies hold inventories in the form of raw materials, work in progressand finished goods. Inventories facilitate smooth production and sales operation to guard against the risk of unpredictable changes in usage rate and delivery time (precautionarymotive), & to take advantage of price fluctuations (speculative motive). No single inventory control technique can control the inventory therefore All the techniques collectively use to control the inventory.

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