Course: MCA Part III

Paper: XVII

Topic: Inventory Management

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What is Inventory Management?

Inventory Management is a technique through which stocked goods, inventories, and non-capitalized assets are kept in a proper manner according to their specific shape and placement.

An Inventory can be any item that a business holds to receive the goal of resale or repair.

Inventory Management is a process of ordering, storing, and using inventories. This stock management includes generating the lead on raw materials, components, and finished products, along-side warehousing and processing of such items in your company.

Inventory accounting is grouped into four separate categories:

- **Raw Materials** – The raw material is purchased by any company for its production purpose to transform it into a finished good.
- **Work in progress inventory** – refers to the process of transformation of raw material into a finished product.
- **Finished goods** – these are the complete goods that are now ready to be available for sale.
- **Maintenance, repair, operation (MRO) goods** – items used for support of the production of finished goods as they will be purchased from the distributor of future resale.

What is the principle of inventory management?

The basic principle of inventory management is to hold costs.

For example, the purchase of the hospital is the direct cost of materials with inclusive taxes.

Next is to control the investment amount for which there should be a balance maintained between purchase cost and carrying cost by procuring the products in optimum quantity, also known as economic order quantity.

What are the objectives of the Inventory Management System?

The investment put in inventory is very high, especially for those businesses that deal in manufacturing, wholesale, and retail trade.

The amount of investment might be sometimes more than the amount spent on other assets of the company.

Almost 90% of the working capital of a business is invested in inventories. The management should do proper planning on how to purchase, handle, store, and account with an inventory management system.

The main aim of an inventory management system is to keep the stock in such a way that it is neither overstock nor understock.

The overstock condition will reduce the other production processes and understock will lead to stoppage of work.

The objectives of inventory management are operational and financial. In operational, materials and stock should be available in sufficient amount whereas, in functional, the minimum working capital should be locked in.

The objectives of inventory management are as follows:

1. To ensure a continuous supply of materials and stock so that production should not suffer at the time of customers demand.

2. To avoid both overstocking and under-stocking of inventory.
3. To maintain the availability of materials whenever and wherever required in enough quantity.
4. To maintain minimum working capital as required for operational and sales activities.
5. To optimize various costs indulged with inventories like purchase cost, carrying a cost, storage cost, etc.
6. To keep material cost under control as they contribute to reducing the cost of production.
7. To eliminate duplication in ordering stocks.
8. To minimize loss through deterioration, pilferage, wastages, and damages.
9. To ensure everlasting inventory control so that materials shown in stock ledgers should be physically lying in the warehouse.
10. To ensure the quality of goods at reasonable prices.
11. To facilitate furnishing of data for short and long-term planning with a controlled inventory.
12. To supply the required material continuously.
13. To maintain a systematic record of inventory.
14. To make stability in price.