B.com-III. Management Account(H) / By. Sujeet Kr. Suman R.N.C.

Q. Describe the techniques of inventory control?

Ans.

Inventory control can be defined as the "coordination and supervision of the supply, storage, distribution and recording of materials to maintain quantities adequate for current customer needs without excessive supply or loss.

when it comes to wholesalers and distributors of durable goods, inventory control can be further defined as the process employed to maximize a company use of inventory. The goal of inventory control is to generate the maximum profit from the least amount of inventory investment without hindering customer satisfaction levels or order fill rates.

* Techniques of inventory Control: — There are a number of different techniques employed by wholesale distributors to ensure their inventory control is maximizing efficiency and profitability. Below are six key techniques of inventory control for wholesalers and distributors of durable goods.

(i) Establishing Annual stocking policies: → management must decide maximum and minimum level of stocks and supplies that needs to be kept in the warehouse or across the network of warehouse locations. Managent must also set optimized re-order levels, safety stock levels (below which supply must not be allowed to fall) and an average Inventory level to ensure costs are contained.

(P.T.O.)

(b.) <u>Preparation of inventory Budgets</u>:— many organizations have an actual inventory budget and they are usually prepared well in advance before inventory is procured. Budgets should include the total cost of ownership to keep inventory on hand during that years account period. This included material cost, fixed operational costs, carrying costs, logistic costs, redistribution costs and additional miscellaneous costs that contribute to the total costs of ownership.

(c) <u>Maintaining a perpetual inventory system</u>:— Also known as "the automatic inventory system," this method is designed to keep a constant track of the quantity and value of each stocked them. many wholesale distributors leverage a combination of an Enterprise resource planning or warehouse management system in conjunction with an inventory optimization solution, such as Easy stock to optimize inventory balances.

(d.) <u>Inventory Turnover Ratio</u> → This is a calculation used to determine how quickly inventory is used up or 'turned over' in a given time period. The higher the ratio the shorter the shelf life of the inventory and typically leads to higher sales volume and profitabillity for companies with lower profit margins.

(e.) <u>Establishment of optimized purchasing procedures</u>:— In order to ensure that inventory is under adequate control, management must adopt purchasing procedures that align with actual sales history and demand pattern data. All inventory items that have not had an inventory turnover or have not been sold within an accounting period.

typically 12 months, should be classified as obsolete stocks and should be liquidated from inventory to climate unnecessary carrying costs.

(4.) ABC Analysis and ABC classification → The fastest moving products in your inventory should be located closest to the shipping, staging and receiving area in the lower-right of the diagram below. As the demand for each product introductions that have high demand. Since the majority of your picking activity is performed in a rather small area, your warehouse layout should be optimized to reduce time spent looking for product in the back of the warehouse.

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