19BAE711 – Working Capital Management

Unit III – Inventory Management

2 MARKS

1. **Define inventory.**

The term 'inventory' refers to the stockpile of production a firm is offering for sale and the components that make up the production.

2. **What is inventory management?**

The maintenance of inventory means blocking of funds and so it involves the interest and opportunity cost to the firm. In many countries specially in Japan great emphasis is placed on inventory management. Efforts are made to minimize the stock of inputs and outputs by proper planning and forecasting of demand of various inputs and producing only that much quantity which can be sold in the market.

3. **What are the objectives of inventory management?**

To minimize the possibility of disruption in the production schedule of a firm for want of raw material, stock and spares. To keep down capital investment in inventories. So it is essential to have necessary inventories. Excessive inventory is an idle resource of a concern. The concern should always avoid this situation. The investment in inventories should be just sufficient in the optimum level.

4. **What is Inventory control?**

Inventory control is concerned with the acquisition, storage, handling and use of inventories so as to ensure the availability of inventory whenever needed, providing adequate provision for contingencies, deriving maximum economy and minimizing wastage and losses.

5. **What is VED Analysis?**

It attempts to classify the items used into three broad categories, namely Vital, Essential, and Desirable. Vital: Vital category items are those items without which the production activities or any other activity of the company, would come to a halt, or at least be drastically affected. Essential: Essential items are those items whose stock – out cost is very high for the company. Desirable: Desirable items are those items whose stock-out or shortage causes only a minor disruption for a short duration in the production schedule.

6. **What is FSN Analysis?**

Fast Moving – Items which are frequently issued from inventory which are more than once for a specific time period

Slow Moving – Items which are less frequently issued which might be once in a specific time period

Non Moving – Items which are not issued from the inventory at all in a specific time period

7. **What are the purpose of inventory control?**

Lead time for deliveries.

The rate of consumption.

Requirements of funds.

Keeping qualities, deterioration, evaporation etc.

Storage cost.

Availability of space.

Price fluctuations.

Insurance cost.

Obsolescence price.

Seasonal consideration of price and availability.

EOQ (Economic Order Quantity), and

Government and other statuary restriction

8. **What is reorder Quantity?**

The quantity, which is ordered when the stock of an item falls to the reorder level, is known as the reorder quantity or the EOQ or the economic lot size. Although it is not a stock level as such, the reorder quantity has a direct bearing upon the stock level in as much as it is necessary to consider the maximum and minimum stock level in determining the quantity to be ordered.

The re-order quantity should be such that, when it is added to the minimum quantity, the maximum level is not exceeded.

9. What is EOQ?

The EOQ refers to the order size that will result in the lowest total of order and carrying costs for an item of inventory. If a firm place unnecessary orders it will incur unneeded order costs. If a firm places too few order, it must maintain large stocks of goods and will have excessive carrying cost.

10. What is mean by stock level?

This system keeps track of the goods held by the firm, the insurance of goods, and the arrival of order. It is made up of the records accounting for the goods in stock.

16 MARKS

1. Explain ABC analysis and its advantage?
2. Write short note on Minimum level, maximum level and reorder level?
3. Explain the assumption of EOQ?
4. Explain Factors Influences the Level of each Component of Inventory?
5. What are the Measure of Effectiveness of Inventory Management?
6. What are the effective inventory management?