

Assessment of inventory management flashcard



**ASSIGN
BUSTER**

The inventory control section of a company is responsible for these activities, in order to continue the operation Of the organization through out the year they have to use the rules and principles to handle different kinds of materials. Since it improves inventory handling activities with in the organization, it will help to avoid utilization of resources for UN authorized purpose and also helps to maintain necessary eternal when it is needed for production and selling.

It facilitates the interaction of different departments with in the organization. For instance, the marketing department will continue it selling activities if products are available when they are demanded by the market. Availability of production is also entirely dependent on timely supply of raw material and supplies. In addition appropriate inventory management avoids UN necessary carry cost and shortage of materials by indicating inventory level. It helps to avoid costs incurred when the price of material increases due to shortage of eternal and shortage of transportation.

This study was made to asses weather the Anabases Shoes S. C manages its inventory based on scientific method and to know how proper inventory control maximize quality of product and profitability. The company engages in the production of shoes it used leather, sole as a raw material. The company imports raw materials from abroad and purchase from local market.

The reason why I selected the company for my study is easy to get information. 1. 2 Background of the Company Anabases Shoe S.

C was established in 1939 and started production of shoes at the time when such conveniences were not widely known among the general populace of the country. Its establishment was apparently in response to increased demand for shoes, which must have been triggered by the presence of a sizable Italian occupation army that invaded the country. The main factory premises and administration office are conveniently located in the center of Addis Ababa, Lided Kef Ketene. The factory has one branch production unit known as MAMBO Branch in the Eastern part of Addis Ababa.

Anabases has from time to time made renovation of old equipment and installation of new advanced machinery. This has enabled the factory to increase TTS capacity following the implementation of an expansion project, the designed production capacity of the company has now reached 4500 pairs of shoes per day in an 8-hour shift. The two major markets are the local market and the export market which the company is recently embarking on. It uses its 17 retailing shops which are founded across the country in selected major towns to distribute its products for the local market.

Though the major markets have been dominated by the local market share for the past many years, due to the export-oriented market is taking the helm over the local.

It uses a whole sale for distributing its products to the international market. The main export destination of the company is Italy through which it covers the European market. Anabases has accomplished a lot for the past few years and motivating results have also been achieved since the government of Ethiopia has also made export market its priority. Anabases is getting all

support it needs to export its products. Anabases has designed and put in effect an expansion project with the aim to change its all manufacturing facilities with new machineries and plant facility layout so that it can produce export standard finished shoe using its full capacity. The company has now a newly established factory employing state-of-the-art technology with a product capacity of 3000 pairs of export standard leather footwear and 500 pairs for local market. The company is now producing world-class models using the best technology adapted from Italy.

Anabases is exporting its products to the European market through Italy and is also supplying the same quality products to the local market using its 17 retailing shops (Company Profile).

1.3 Statement of the Problem

Flow control of control of materials requires a proper handling operation and physical distribution in many stages of its production operation and after goods. Inventory is a major cost center, materials management must ensure that materials are physically distributed at the right time with a minimum of handling and maintaining the physical flow of materials in continuous fashion.

An organization is a living system, both socio-economic and socio-technical, a coalition of individuals and groups for the maintenance and improvement of interests. In such a system, the efficiency and economy of transfer and conversion of inputs into outputs are of paramount importance for optimum economic results. In many organizations, cost and materials constitute a large proportion for production; the case is true for Anabas Shoe S.

C. This indicates that the inventory control management should be given the most priority.

The nature of inventory management control in Anabases Shoe S. C is not effective and is not efficient as it regards to be. There is an escalated cost of inventory and poor control system this research was tray to explore and answer the following research Questions. 1.

4 Basic Research Questions 1 . What inventory methods/systems adopted in the company? 2. To what extent does the inventory system help the Organization? L. In minimizing costs? I. In timely availability of raw material for production? II. In timely availability of products t the marketing?

IV.

In protecting materials and products from damage and waste? 3. Problems associated with the company inventory practice? 4. Weakness observed in the control system? 5. How does the company administer obsolete inventories? 6. Is there proper protection of inventories? 7.

Is there Proper procedure for transfer of materials? 8. Does the company give consideration for scrap? 9. What could be done to improve the overall effectiveness of the company inventory practice? 1. 5 Objectives of the Study 1.

5. General Objective The general objective of this study to investigate inventory related management problems. 1. 5. 2 Specific Objectives 1 . To evaluate the internal control of inventory procedure of the company.

4 2. To find out problems in relation to lack of enough stock. 3. To explain factors that is related to the problem 4. Based on these findings some recommendation will be forwarded for future improvement. 5.

To provoke others for further study on inventory control system. 1. 6 Scope of the Study The study was focused on how the company manage and control its inventory.

While the research was conducted mainly focused on storage systems, inventory controlling management and over all inventory management process with in the company. 1.

7 Research Design and Methodology To full fill the research requirement and accomplishment of the study descriptive survey type of research was used.

1. 7. 1 Types of data Both primary and secondary data was collected 1 . 7.

2 Method of Data Collection I. Primary Data - Tools of observation, questionnaire, and interview were used to collect primary data. li.

Secondary Data - such as a company manual, Reference materials (books), and internet media was used. 1. 73 Data analysis Method 5 The data was collected is qualitative and quantitative Frequency count of espouses is undertaken such as percentage, ratio and proportion was used in analyzing the data.

1. 7. 4 Population Populations for this study were from production department cost and budget department property handling and supply department and sales and distribution department. In the above departments the total staff member were 70 employees.

1.7. Sample size 21 employees were selected for questionnaire from the population and interview was conducted to department and division heads from the total population. 1.7.6 Sampling Technique 30% of staff from the total population was selected on the basis of simple and sampling technique.

1.8 Organization of the Study The study is organized in to four chapters. The first chapter of the Study concerned with the Background of the problem cited, Objectives significance of the Study, Scope and limitation of the Study. The second chapter concerned with presenting the literature review in related to the topic.

The third chapter concerned with presentation and Analysis Of the Data. The fourth chapter presents Recommendation.

6 summery of Conclusion and CHAPTER TWO LITERATURE REVIEW 2.1

Introduction about Inventory Inventories consist of goods by a business and a held either for use in the manufacture of products or as a product awaiting sales. We typically think of inventories as raw materials, Work in process, finished goods, or merchandise held by retailer But depending on the company s business, inventory may consists of virtually any tangible goods or materials.

An inventory might consist of component pieces of equipment, bulk commodities such as wheat or milling flour, fuel oil a waiting sale or unshed storage space. Machinery and equipment, for example are considered operational assets by the company that them, but before sale they are part of the inventory of the manufacture who made them.

Even a building during its construction period, is on inventory' item for the builder. (Decent teal, 1 938; 399) 7 2. 2. The need of inventory and its control Inventories of materials are needed by all organization big or small.

But inventories tend to become big with out proper control.

Materials and inventories serve some social purpose in industries which items from some social motives. The two motives are important here. The transaction motives results from the desire to match inflow and out flow of materials under certain controlled condition precautionary motives arises out of the inability o predict future demand precisely and getting the materials ready in time without incurring some extra costs. Thus, there also arises the need to maintain some safety or butter stock in order to maintain the smooth flow of materials with out impairing production.

But, as more and more stock of materials are held, this is not only entails grater investment, but carrying and associated cost increase peril passed. On the other hand it minimum inventory is held, with the increase in frequently of buying the cost of ordering and processing increase. Also the cost of stock out poses economic problem. Thus inventory control is a major material management function, which requires the reduction in material costs with out impairing operational efficiency and there fore, needs careful attention. The analytical approach to inventory control is fundamental based on cost study.

It is balancing of some opposite costs that well enunciated in economic order quantity formulation but further refinements are necessary as the situation dictated. Some times, there are several costs associated with inventors, but <https://assignbuster.com/assessment-of-inventory-management-flashcard/>

there is always one in one direction. The resolution of the problem generally requires two basic questions to be answered. I. How often to order How much and when Determining these two basic question answers precisely requires cost information, and solution lies in balancing opposite costs in order to find on optimal solution.

Not all inventory problems however demand that these questions be answered. Some times, the inventory problem is so complex that it may not be possible to obtain all information necessary. In either case, it may be satisfied with a sub-optimal solution, which seeks to improve the existing condition without concern for the optimal course of action. In practice it might effect larger saving without necessarily going through an optimal course of action. iii. Thus, while inventory control is a major part of materials activity reducing inventory does not always ensure operational efficiency.

Thus is where it must strike a balance (A. K DATA, 2003: 193-194) 2. 3

Classification of Inventory Inventories are classified as: I . Merchandise inventory 2. Manufacturing inventory a. Raw materials b.

Work in process c. Finished goods d. Manufacturing supplies Miscellaneous 3.

Merchandise inventory Represents goods on hand purchased for resale by a retailer or trading company such as an importer for resale.

Generally goods acquired are not haphazardly altered by the purchaser company; the goods are in finished form when they leave the manufacturer's plant.

In some instance, parts are acquired and then further assembled in to finished products. Manufacturing inventory consists of several categories including a) Raw materials inventories 9 Raw material inventories are tangible goods purchased or obtained in other ways leg by mining) and on hand for direct used in the manufacture of goods for resale. B) Work in process inventory Work in process inventory are goods requiring further processing before completion and sale work in process, also called goods in process, inventory includes the cost of direct material, labor, allocated manufacturing over head costs incurred to date.

) Finished goods inventory Finished goods inventory are manufactured items completed and held for sale. Finished goods inventory costs includes the costs of direct material, labor manufacturing overhead related to manufacture. D) Manufacturing supplies inventory Include lubrication oils for the machinery cleaning materials and other items that make up on in significant part of the finished product. Miscellaneous inventories Include items such as office, janitorial and supplied inventories of this type re typically used in the near future and are usually recorded as selling or generals expense when purchased.

. 4 Function of inventory with in a firm 1 . Support production requirement

One of the primary reason for inventory is to support the production requirement Of a firm ten in one era of just - in time purchasing and manufacturing almost all firms still hold some level of production inventory, 10 which may include bulk supply of raw materials, semi finished goods, or material to support the packaging and shipping of finished product.

Production inventory has historically represented a major source of inventory investment.

For this reason, firms emphasize the development of systems designed to control and reduce the amount of production-related inventory maintained at any given time.

Firms recognized that the reduction of production inventory (particularly work in process) results in lower inventory investment costs. The need to support production requirements is still a primary reason why firms hold physical material inventory. 2) Support Operational requirements Nearly every firm carries MRO - maintenance, repair and operating supplies to support operations. This category includes the items required to keep a facility operating and machine running.

MRO items usually represent a large inventory investment, especially in process-related industries such as shoe production or paper production. 3) Hedge against market place uncertainty Purchasers are incentivized to change in supply market, including changes in the availability of material supply as well as price changes when purchasers anticipate material shortages or price increases, they often increase purchase quantity as a hedge against this uncertainty. Increasing inventory levels in response to a legitimate threat of a shortage can be a good reason, at least in the short run, for holding additional material.

One of the primary objectives of purchasing is to support the continued, uninterrupted flow of production. If this requires increased inventory to avoid a material shortage. (Monocle teal, 1998; 585-587). 2. 5 Factors leading to in <https://assignbuster.com/assessment-of-inventory-management-flashcard/>

inventory Waste 1) In accurate or uncertain Demand forecasts 11 This is a common source of uncertainty affecting inventory levels, particularly for firms that manufacture products in anticipation of future order.

Some firms simply have an accurate inventory for casting system, when this is the case, a firm may increase inventory level to protect itself against for casting inaccuracy.