

## INVENTORY CONTROL

The main objective of inventory control is operational as well as financial.

The operational objectives mean that food materials should be available in sufficient quantity so that work is not disrupted for want of inventory.

The financial objective means that investment in inventory should not remain idle for a long period of time & minimum working capital should be locked in it.

### STOCK LEVEL DETERMINATION

Stock levels are determined keeping in mind the following:

- Usage
- Lead time
- Economic order quantity (EOQ)

#### Various Stock Levels

**Minimum stock level:** The minimum stock level is that level of any food item below which it should not be allowed to fall.

MIN STOCK = (ROL - AVG CONSUMPTION) X AVG RE ORDER PERIOD

**Maximum Stock level:** The maximum stock level above which stock of any item should not allowed to exceed.

MAX STOCK = (ROL - MIN CONSUMPTION) X MIN REORDER PERIOD

Considerations are:

- Rate of consumption
- Reorder level
- Delivery time
- Capital
- Storage life
- EOQ
- Storage space.

**Re order level:** Is a point lying between maximum and minimum levels. This is a point will usually be slightly higher than minimum stock to cover abnormal usage & delivery delays.

MAX STOCK = (ROL - MIN CONSUMPTION) X MIN REORDER PERIOD

**Danger level:** Is a level below minimum level. When stock reaches danger level urgent action is necessary.

$DANGER LEVEL = AVG CONSUMPTION \times MAX REORDER PERIOD.$

#### **ECONOMIC ORDER QUANTITY:**

The quantity which is most economical to order & to stock considering all factors bearing on the situation

**EOQ =  $2AXC_p/Sc$ .** Where A = Annual Usage,  $C_p$ = Cost of Purchase,  $Sc$ =Storage Cost.

The size of the economic order quantity depends on:

- Inventory Carrying Cost.
- Cost of Purchasing.
- Consumption
- Interest on Capital
- Quantity discount.

Sometimes economic order quantity is called Re-order quantity.

#### **ABC Analysis**

It is a relatively new technique for classifying and controlling items, popularly known as 'Always Better Control'. It first controls the best, then the better, and then the good. Its genesis lies in the characteristic distribution of anything that can be measured in monetary terms.

According to ABC analysis that 70% of annual consumption value accounts for 10% of total number of items are called A items & need close supervision. Similarly 10% of Annual consumption value accounts for 70% of total number of items. These are called C items and need causal attention. In between the two extremes is B. It is said that A needs more attention, B the next and C the least.

#### **ACTUAL & PERPETUAL STOCK TAKING**

Actual stock taking is closing the stores and physically taking count of all items.

Perpetual stock taking is taking stock through books of the stores.

$STOCK TURNOVER RATIO = AVG STOCK / SALES$

$AVG STOCK = (OPENING STOCK + CLOSING STOCK) / 2$

VED - VITAL ESSENTIAL DESIRABLE

FSN - FAST SLOW NON-MOVING