



# RAMA UNIVERSITY

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**FACULTY OF COMMERCE AND MANAGEMENT**

**COURSE: BBA III SEM..**

**SUBJECT: FINANCIAL MANAGEMENT**

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**LECTURE: 37**

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## LECTURE-37



## **INVENTORY MANAGEMENT**

Inventories constitute the most significant part of current assets of the business concern. It is also essential for smooth running of the business activities. A proper planning of purchasing of raw material, handling, storing and recording is to be considered as a part of inventory management. Inventory management means, management of raw materials and related items. Inventory management considers what to purchase, how to purchase, how much to purchase, from where to purchase, where to store and When to use for production etc.

### **MEANING**

The dictionary meaning of the inventory is stock of goods or a list of goods. In accounting language, inventory means stock of finished goods. In a manufacturing point of view, inventory includes, raw material, work in process, stores, etc.

### **KINDS OF INVENTORIES**

Inventories can be classified into five major categories.

- A. Raw Material:** It is basic and important part of inventories. These are goods which have not yet been committed to production in a manufacturing business concern.
- B. Work in Progress:** These include those materials which have been committed to production process but have not yet been completed.
- C. Consumables:** These are the materials which are needed to smooth running of the manufacturing process.
- D. Finished Goods:** These are the final output of the production process of the business concern. It is ready for consumers.
- E. Spares:** It is also a part of inventories, which includes small spares and parts.

### **OBJECTIVES OF INVENTORY MANAGEMENT**

Inventory occupies 30–80% of the total current assets of the business concern. It is also very essential part not only in the field of Financial Management but also it is closely associated with production management. Hence, in any working capital decision regarding the inventories, it will affect both financial and production function of the concern. Hence, efficient

management of inventories is an essential part of any kind of manufacturing process concern. The major objectives of the inventory management are as follows:

- To efficient and smooth production process.
- To maintain optimum inventory to maximize the profitability.
- To meet the seasonal demand of the products..
- To ensure the level and site of inventories required.
- To plan when to purchase and where to purchase
- To avoid both over stock and under stock of inventory.
- To avoid price increase in future.