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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM V SEM..

SUBJECT: FUNDAMENTAL OF FINANCIAL MANAGEMENT

SUBJECT CODE: BCH 505

LECTURE: 39

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LECTURE-39

EOQ refers to the level of inventory at which the total cost of inventory comprising ordering cost and carrying cost. Determining an optimum level involves two types of cost such as ordering cost and carrying cost. The EOQ is that inventory level that minimizes the total of ordering of carrying cost. EOQ can be calculated with the help of the mathematical formula: **EOQ = 2ab/c**

Where,

a = Annual usage of inventories (units)
b = Buying cost per order
c = Carrying cost per unit
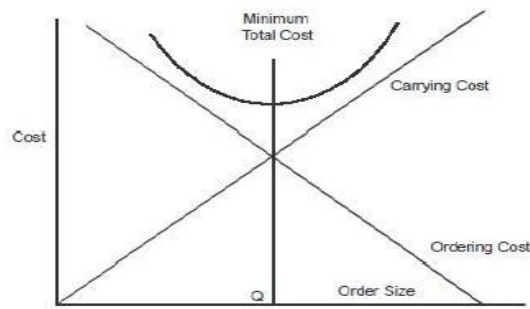
TECHNIQUES BASED ON THE CLASSIFICATION OF INVENTORIES

A-B-C analysis

It is the inventory management techniques that divide inventory into three categories based on the value and volume of the inventories; 10% of the inventory's item contributes to 70% of value of consumption and this category is known as a category. About 20% of the inventory item contributes about 20% of value of consumption and this category is called category B and 70% of inventory item contributes only 10% of value of consumption and this category is called C category.

Inventory Breakdown Between Value and Volume

Category	Volume (%)	Value (%)
A	10	70
B	20	20
C	70	10
Total	100	100
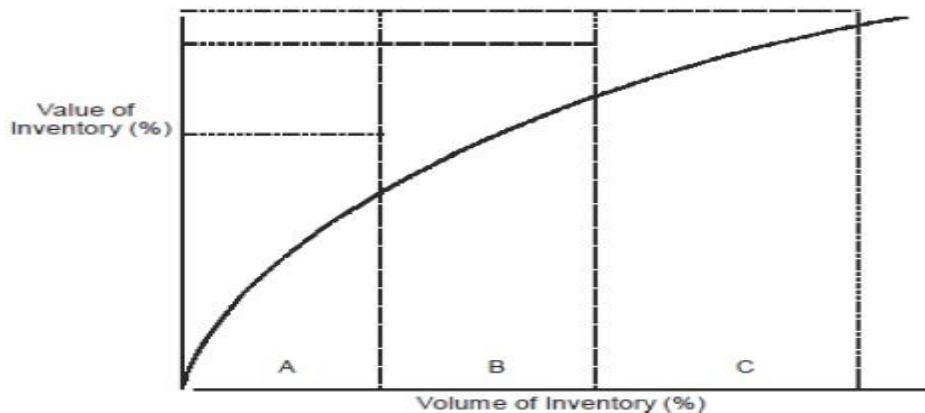
Aging Schedule of Inventories

Inventories are classified according to the period of their holding and also this method helps to identify the movement of the inventories. Hence, it is also called as,

FNSD analysis— Where,

F = Fast moving inventories

N = Normal moving inventories

S = Slow moving inventories

D = Dead moving inventories

This analysis is mainly calculated for the purpose of taking disposal decision of the inventories.

VED Analysis

This technique is ideally suited for spare parts in the inventory management like ABC analysis. Inventories are classified into three categories on the basis of usage of the inventories. V = Vital item of inventories # E = Essential item

of inventories

      D = Desirable item of inventories

HML Analysis

Under this analysis, inventories are classified into three categories on the basis of the value of the inventories.

      H = High value of inventories

      M = Medium value of inventories

      L = Low value of inventories