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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

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LECTURE-16

INVENTORY MANAGEMENT

Inventories constitute a major element of working capital. It is, therefore, important that investment in inventory is property controlled. The objectives of inventory management are, to a great extent, similar to the objectives of cash management. Inventory management covers a large number of problems including fixation of minimum and maximum levels, determining the size of inventory to be carried, deciding about the issues, receipts and inspection procedures, determining the economic order quantity, proper storage facilities, keeping check over obsolescence and ensuring control over movement ofinventories.

Meaning of Inventory Management:

'Inventory refers to the stockpile of the product a firm is offering for sale and the components that make up the product.' In short, inventory is such type of assets which will be disposed of in future in the ordinary course of the business.

In other words, 'Inventory" is used to designate the aggregate of those items of tangible assets which are:

(i) Held of sale in ordinary course of the business;

(ii) In the process of production for such sale; or

(iii) To be currently consumed in the production of goods or services to be available for sale.

Thus, it means and includes:

(i) Raw Materials & Stores — (Consumable):

It contains items which are purchased by the firm from others.

(ii) Work-in-Progress — (Convertible):

It consists of items which are currently used in the production process. These are semi-finished goods that are held at various stage of production in multi-stage production process.

(iii) Finished goods — (Saleable):

It represents final or completed products which are available for sale.

In financial management, however, inventory is defined as the sum total of raw materials, work-in-progress and finished products although it depends largely upon the type of business.

For example, in case of manufacturing concern, inventory will mean and include all the three groups stated above while, in case of a trading concern, it will represent only the finished goods. Manufacturing concerns hold inventories to give flexibility between production and sales.

That is why, it is the duty of the financial manager to see whether increase in inventories results in increased earnings and to minimize the level of inventories, as well. As such, if inventories are reduced as a result of sale, the funds so generated may be used for different purposes.