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A Study on Inventory Management

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ABSTRACT

Finance is the study about funds and management. The most common area of finance is personal finance, public and business finance. Finance is basically focused on how the money is spent and budgeted. It is one of the most important aspects in handling business. Finance addresses the methods wherein business entities used their financial resources on a certain period of time.
Key Words: *Inventory management, Finance, Funds Flow Statement, Public Finance.*

1. INTRODUCTION

Inventory management is one of the components of working capital management. It involves the processes of providing continuous flow of raw materials to production department. More than 60% of the working capital will normally be invested in the inventory.

An efficient system of inventory management directly contributes to the growth of profitability of the business concern.

Due to inflation and the concept of time value of money, inventory management has gained important recognition in the day to day management of business units.

The main objective of inventory management is to reduce the order placing, receiving and inventory carrying cost. This not only ensures continuous flow of raw materials but also reduce the cost of production.

The excess and inadequate supply of raw materials directly disturbs the normal functioning of the business units. Excess inventory leads to idle investment, high inventory carrying cost and wastages. Inadequate inventory directly affect the production processes.
The scientific process of implementing inventory management provides inventory at right time, from right source and at right prices. It also involves the steps that are to be undertaken with regard to storage and supervision of these materials.

2. SCOPE OF THE STUDY

- This study identifies the total cost incurred in inventory management.
- This study focuses on managing inventory with an effective and suitable inventory control system.
- From this study, performance of inventory is well measured. So that the inventory required for the future can be predicted.

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3. NEED FOR THE STUDY

1. The total costs that are investing in inventory can be found out, and necessary steps can be taken to minimize the total expenditure.
2. It helps to know the various levels of stock that are maintained and its performance in the production process.
3. Analyzing the production statement will help in knowing the inventory level that is maintained.

4. OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

To study the effectiveness of inventory management.

SECONDARY OBJECTIVES

1. To find the relationship between usage of inventory and sales.
2. To analyze the overall efficiency of inventory
3. To compare the standard and actual cost of inventory
4. To evaluate an inventory control system to effectively manage inventory

LIMITATION OF THE STUDY

1. The survey is carried out mainly based on past six year's data.
2. Time factor is the major constraints for this study because their financial system is quiet vast.

5. RESEARCH DESIGN

SOURCE OF DATA

Data collection has been done by only one method.

SECONDARY DATA

The secondary data collections on the other hand are those which have already been passed through the statistical process.

There was no need for collecting primary data as the study involves analysis of data available.

6. FINDINGS

There is a moderate positive linear relationship between sales and inventory.

1. The raw material turnover ratio reflects the rate of utilization of raw material. A higher turnover ratio indicates higher utilization of raw material. On the other hand a low turnover of raw material is an indication of accumulation of inventory.
   In the year 2007 raw material turnover ratio is maximum is 16.43. But from the year 2007 to 2009 it was decreased from 16.43 to 9.05. Then in the year 2011 the raw material turnover ratio

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is slightly increased up to 10.51.

2. Higher work in progress turnover ratio indicates lower inventory accumulation and vice versa. In 2008 work in progress turnover ratio is highest is 61.95. Remaining all years it was similar, but in 2010 it is very low is 29.42.

7. SUGGESTIONS

1. Compared to previous year 2007 the inventory turnover shows a decline, this denotes lower performance of the company in terms of productivity. Hence better production strategy could be adopted to boost up the sales thus increasing the inventory turnover.
2. Raw material turnover is less compare to previous years; this only shows the gradual increase in the year 2011. This also needs to be increased by the company, which is possible through an increase of production.
3. The demand forecasting for the product should be made accurately in order to efficiently analyze the standard material cost to be incurred for the year.
4. The company must maintain close control and supervision of raw materials of plates and sheets. This could eliminate waste and scarp. Thus leading to efficient management of inventory.

8. CONCLUSION

The study on inventory management in Ashok Leyland limited has brought out various insights about the importance and the need of inventory management in Ashok Leyland limited.
The study is proving that inventory management is quiet efficient in the company, except that the turnover of the inventory in the company should be improved. The variance in cost should be reduced and a close check on inventory could enable the company to maintain a still more efficient management of inventory.

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