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Research Paper

A STUDY ON EFFECTIVE INVENTORY MANAGEMENT STRATEGIES FOR REDUCING COSTS AND ENHANCING PRODUCTIVITY WITH REFERENCE TO HERITAGE FOODS INDIA LIMITED

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ABSTRACT

Inventory Management System is important to ensure quality control in businesses that handle transactions revolving around consumer goods. Without proper inventory control, a large retail store may run out of stock on an important item. A good Inventory Management System will alert the retailer when it is time to reorder. Inventory Management System is also an important means of automatically tracking large shipments. For example, if a business orders ten pairs of socks for retail resale, but only receives nine pairs, this will be obvious upon inspecting the contents of the package, and error is not likely. On the other hand, say a wholesaler orders 100,000 pairs of socks and 10,000 are missing. Manually counting each pair of socks is likely to result in error. An automated Inventory Management System helps to minimize the risk of error. In retail stores, an Inventory Management System also helps track theft of retail merchandise, providing valuable information about store profits and the need for theft-prevention systems. Automated Inventory Management System work by scanning a barcode either on the item. A barcode scanner is used to read the barcode, and the information encoded by the barcode is read by the machine. This information is then tracked by a central computer system. For example, a purchase order may contain a list of items to be pulled for packing and shipping. The Inventory Management System can serve a variety of functions in this case. It can help a worker locate the items on the order list in the warehouse, it can encode shipping information like tracking numbers and delivery addresses, and it can remove these purchased items from the inventory tally to keep an accurate count of in-stock items. All of this data works in tandem to provide businesses with real-time inventory tracking information. Inventory Management System make it simple to locate and analyze inventory information in real-time with a simple database search.

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I. INTRODUCTION

Inventory control is vitally important to almost every type of business, whether product or service oriented. Inventory control touches almost every facets if operations. A proper balance must be struck to maintain proper inventory with the minimum financial impact on the customer. Inventory control is the activities that maintain stock keeping items at desired levels. In manufacturing since the focus is on

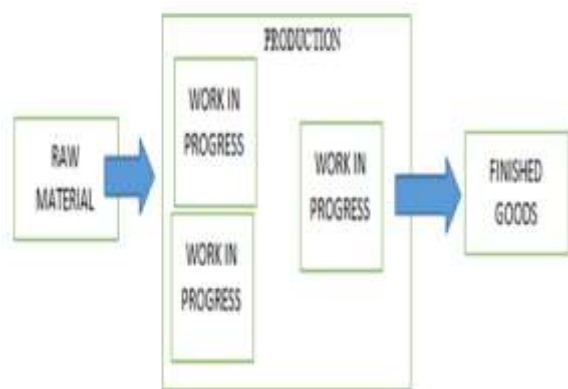
physical product, inventory control focus on material control.

“Inventory” means physical stock of goods, which is kept in hands for smooth and efficient running of future affairs of an organization at the minimum cost of funds blocked in inventories.

The fundamental reason for carrying inventory is that it is physically impossible and economically impractical for each stock item to

arrive exactly where it is needed, exactly when it is needed.

Inventory management is the integrated functioning of an organization dealing with supply of materials and allied activities in order to achieve the maximum co-ordination and optimum expenditure on materials. Inventory control is the most important function of inventory management and it forms the nerve center in any inventory management organization. An Inventory Management System is an essential element in an organization. It is comprised of a series of processes, which provide an assessment of the organization's inventory.



production of raw material into finished goods

OBJECTIVES OF THE STUDY

- To analyze the efficiency of Inventory Management of company
- To identify optimum level of inventory which minimizes the cost?
- To identify the safety stock level for various components.
- To identify inventory requirement of the company for the next year.

II. INVENTORY MANAGEMENT

It is necessary for every management to give proper attention to inventory management. A proper planning of purchasing, handling storing and accounting should form a part of inventory management. An efficient system of

inventory management will determine (a) what to purchase (b) how much to purchase (c) from where to purchase (d) where to store, etc.

There are conflicting interests of different departmental heads over the issue of inventory. The finance manager will try to invest less in inventory because for him it is an idle investment, whereas production manager will emphasise to acquire more and more inventory as he does not want any interruption in production due to shortage of inventory. The purpose of inventory management is to keep the stocks in such a way that neither there is over-stocking nor under-stocking. The over-stocking will mean reduction of liquidity and starving of other production processes; under-stocking, on the other hand, will result in stoppage of work. The investments in inventory should be kept in reasonable limits.

TYPES OF INVENTORY

Inventories Can Be Classified into five basic types on the basis of their production. These various types of inventories cannot be identified and segregated within the organization. As such all types will not be represented in all organization. These five types are

1. Management inventory

They are needed because of the time required to move stocks from one to another.

2. Lot size Inventories

These are as a result of buying materials in quantities larger than the immediate requirement, with a view to minimizing cost of transportation, buying, receipt and handling and to obtaining discount.

3. Fluctuation Inventories

These are carried to ensure ready suppliers to consumer even when these are irregular and unpredictable fluctuation their demand.

4. Anticipation Inventories

These are usually maintained to meet a predictable but changing pattern of future demand.

5. Cycle Inventories

These result from managements attempt to minimize the total cost of carrying and ordering inventory. They arise from ordering in batches or lots, rather from needed basis.

Inventories can be further classified into production inventories maintenance repair and operation (MRO) inventories, in-process inventories and finished goods inventories.

- Production inventory consists of raw materials, parts and components that are used in the production process forming parts of the final product.
- Maintenance, repair and operation supplies which are used in the production of goods or services but do not become part of the product.
- In-process inventories are semi-finished materials, parts and assemblies found at various stages in the production operation.
- Finished goods inventory consists of completed products ready for sale.

III. RESEARCH METHODOLOGY

RESEARCH

Research is a process in which the researcher wishes to find out the end result for a given problem and thus the solution helps in future course of action. The research has been defined as “A careful investigation or enquiry especially through search for new facts in branch of knowledge”

RESEARCH DESIGN

The research design used in this project is Analytical in nature the procedure using, which researcher has to use facts or information already available, and analyze these to make a critical evaluation of the performance.

SOURCE OF DATA COLLECTION

❖ Primary Data

1. Data are collected through personal interviews and discussion with Finance-Executive.
2. Data are collected through personal interviews and discussion with Material Planning- Deputy Manager.

❖ Secondary Data

1. The data are collected from the annual reports maintained by the company for the past five years viz., 2013 to 2017
2. Data are collected from the company's website.
3. Books and journals pertaining to the topic.

IV. INVENTORY VALUATION AND COST FLOWS:

What is the cost of inventory?

One can readily visualize the determination of inventory quantities by physical count or by use of perpetual inventory records. When this quantity is determined, it must be multiplied by a unit cost in order to determine the inventory value that is used on financial statements.

Trade and quantity discount are to be excluded from unit cost since these discount exist for the purpose of defining the true invoice cost of merchandise. Cash discounts, on the other hand, have been considered as a reward for early payment and as a penalty for late payment. The “reward” has often been interpreted as a loss rather than as a part of unit cost. Thus it would not be difficult to find difference of opinion as to whether invoice cost includes or excludes cash discount.

When the “current replacementAutomobial cost” of material on hand at the close of a year is less than the actual cost, the inventory value is reduced to replacementAutomobial cost (current market

price). Thus the acceptable basis inventory valuation is the “lower of cost or market” or more properly the “lower of actual cost or replacement cost”.

The determination of inventory values is very important from the point of view of the balance sheet and the income statement since costs not included in the inventory (the balance sheet) are considered to be expensive and are thus included in the income statement.

Valuation of inventories – methods of determination:

Although the prime consideration in the valuation of inventories is cost, there are a number of generally accepted methods of determining the cost of inventories at the close of an accounting period. The most commonly used methods are first – in first out (FIFO) average, and last – in first – out (LIFO). The selection of the method for determining cost for inventory valuation is important for it has a direct bearing on the cost of goods sold and consequently on profit. When a method is selected, it must be used consequently and cannot be changed for year to year in order to secure the most favorable profit for each year.

THE FIFO METHOD (FIRST – IN FIRST – OUT METHOD)

Under this method it is assumed that the materials or goods first received are the first to be issued or sold. Thus, according to this method, the inventory on a particular date is presumed to be composed of the items which were acquired most recently.

The value inventory would remain the same even if the “perpetual inventory system” is followed.

Advantage:- The FIFO method has the following advantages.

- 1) It values stock nearer to current market prices since stock is presumed to be consisting of
- 2) The most recent purchases.

- 3) It is based on cost and, therefore, no unrealized profit enters into the financial accounts of the company.
- 4) The method is realistic since it takes into account the normal procedure of utilizing or selling those materials or goods which have been longer longest in stock.

Disadvantages:- The method suffers from the following disadvantages.

- 1) It involves complicated calculations and hence increases the possibility of clerical errors.
- 2) Comparison between different jobs using the same type of material becomes sometimes difficult. A job commenced a few minutes after another job may have to bear an entirely different charge for materials because the first job completely exhausted the supply of materials of the particular lot.

The FIFO method of valuation of inventories is particularly suitable in the following circumstances.

- I. The materials or goods are of a perishable nature.
- II. The frequency of purchases is not large.
- III. There are only moderate fluctuations in the prices of materials or goods purchased.
- IV. Materials are easily identifiable as belonging to a particular purchase lot.

The LIFO method (Last – in – First – Out method)

This method is based on the assumption that last item of materials or goods purchased are the first to be issued or sold. Thus, according to this method, inventory consists of items purchased at the earliest cost.

Advantages: - This method has the following advantages:

- 1) It takes into account the current market conditions while valuing materials issued to different jobs or calculating the cost of goods sold.
- 2) The method is based on cost and, therefore, no unrealized profit or loss is made on account of use of this method.

The method is most suitable for materials which are of bulky and non – Perishable type.

Base Stock Method:

This method is based on the contention that each enterprise maintains at all times a minimum quantity of materials or finished goods in its stock. This quantity is termed as base stock. The base stock is always valued at this price and it's carried forward as a fixed asset. Any quantity over and above the base stock is valued in accordance with any other appropriate method. As this method aims at matching current costs to current sales, the LIFO method will be most suitable for valuing stock of materials or finished goods other than the base stock. The base stock method has advantage of charging out material / goods at actual cost. Its other merits or demerits will depend on the method which is used for valuing materials other than the base stock.

Weighted average price method:

This method is based on the presumption that once the materials are put into a common bin, they lose their identity. Hence, the inventory consists of no specific batch of goods. The inventory is thus priced on the basis of average priced on the quantity purchased at each price.

Weighted average price method is very popular on account of its being based on the total quantity and value of materials purchased besides reducing number of calculations. As a

matter of fact the new average price is to be calculated only when a fresh purchase of materials is made in place of calculating it every now and then as is the case with FIFO, LIFO methods. However, in case of this method different prices of materials are charged from production particularly when the frequency of purchases and issues/sales is quite large and the concern is following perpetual inventory system.

V. FINDINGS

- 1) All the Years are not showing sample profits. This is because of raw material prices have been continuously under pressure due to persistent mismatch between supply and demand.
- 2) In purchase department for want of any item it should go through several processes. This may include receiving indents, floating enquiries, preparation of order processing form, preparation of purchase order and order follow up inform the supplier. Most of the time was spent in accounts payable.
- 3) In this type of process, it requires more number of employees and supplier should also wait for until the accounts are matched.
- 4) This process takes an input, adds value to it and provides an output to an internal or external customer.

SUGGESTION

There are many recommendations on purchase of inventory goods depending upon demand , they are
Company may try to order annually rather than monthly depending upon demand for the products.

- Total cost incurred when purchases are made annually is less than the total cost incurred when orders placed monthly.
- Company should make orders at one stretch.
- When orders are made at one time in bulk, then suppliers may provide special discounts.
- Reduction of transport facilities is noticed when orders in a bulk.
- Ordering cost, inventory carriage cost may not be reduced.

VI. CONCLUSIONS

Though HERITAGE FOODS PVT LTD Ltd is doing good in manufacturing many products or items it was found that a little rectification has to be made

They are

- Order is placed monthly or quarterly
- It may cost heavy expenditure for placing order so many times
- Cost will be incurred each time an order is placed
- So it is suggestible that order should be placed annually depending on demand
- Storage facilities should be modified
- A stores manager should be appointed separately to look after product at hand
- Separate department of research should be placed
- Especially for inventory of goods

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