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# Materials

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# MATERIALS

1. What do you mean by material? What are its categories?

## **Meaning of the word 'Material'**

Material refers to all commodities that are consumed in the process of manufacture.

*Material can be defined "anything that can be stored, stacked or stockpiled"*

It constitutes an important part of the cost of production of a commodity. They account for nearly 60% of the cost of production of large number of organisations.

## **Types of Materials:**

The materials can be categorized into two:

### **a. Direct Material**

The materials, which can be identified with the individual units, are known as 'direct material'. These materials form part of the finished product. All costs, which are incurred to obtain direct material, are known as 'direct material cost'. Leather used in the manufacture of shoes and yarn required for production of cloth are examples of direct materials.

### **b. Indirect Material**

Indirect materials do not form part of the finished products. Indirect material cannot be accurately allocated to a particular unit of product. Examples of such materials are: consumable stores, cotton waste and lubricating oils, required for the maintenance of machines, etc

2. Explain the meaning of material control?

The term 'material control' can be defined as follows:

*Material control means "the regulation of the functions of an organization relating to the procurement, storage, and usage of materials in such a way as to maintain an even cash flow of production without excessive investment in material stock"*

Material control includes the control of three important functions i.e., procurement or purchase control, storage or inventory control and issue control. Material control involves two objectives. The two objectives of material control as stated in the definition are

- a. Ensuring even flow of production and
  - b. Prevention of excessive investment in material stock.
3. What are the objectives of material control?

The following are the main objectives of material control.

- a. All types of raw materials should be available through out. This ensures uninterrupted production schedule.
- b. There should be no under-stocking, which generally hampers the production process

- c. There should be no over-stocking, which makes the capital dearer.
- d. The purchaser is able to make a valuable contribution to reduction in cost by purchasing raw materials at the most favourable prices.
- e. Purchase of material should be of the right quality consistent with the standards prescribed in respect of the finished goods.
- f. Proper storage conditions should be provided to different types of raw material in order to minimize the loss of material
- g. There should be a system to give complete and up-to-date accounting information about the availability of material.

4. What are the basic requirements of a system of material control?

Material control must ensure that the following requirements are fully met.

- a. Proper coordination amongst the departments involved in the process of material control
- b. Centralisation of purchase function
- c. Fixing responsibility of every function of material control
- d. Using proper forms with regard to receipt, issue and transfer of materials from one job to another
- e. Execution of a system of internal check to ensure the work of one person is automatically checked by another.
- f. Proper storage of materials and supplies
- g. Scheduling material requirements and the preparation of the material budget
- h. Fixation of stock levels
- i. Striking an appropriate balance between quality and price while buying
- j. Proper system for the issue of materials
- k. Operation of perpetual inventory system of stores control

5. Distinguish between centralized purchasing and decentralized purchasing.

Organisation of the purchase function will vary with conditions and ideas. Purchase may be centralised or decentralised.

- There is a separate department entrusted with task of making all purchases of all types of materials in centralised purchasing. The person one who heads the purchase department is known as 'Purchase Manager'.

**Advantages of Centralised Purchasing:**

- a. It brings about economies of scale in bulk purchasing.
- b. Specialised purchasing staff can be concentrated in one department
- c. It ensures consistent policy with regard to purchase. It eliminates haphazard buying and the consequent effect on the finances of the organisation.
- d. Standardisation of quality raw material is facilitated.
- e. Keeping all records of purchase transactions at one place helps in control.

**Disadvantages:**

- 1. The creation and maintenance of a special purchasing department leads to higher administration costs. The small firms may not be in a position to afford.
- 2. Centralised purchasing is not suitable for plants located at different places, which are far apart.

- The branches of plants are, in some undertakings, located at distant places. It may not be possible for these undertakings to centralize the purchases. Each department or branch, therefore, is empowered to make its own purchase. It is called decentralized purchasing. The decentralised purchasing can better meet the situation by making purchases in the local market by plant or branch managers.

**Advantages of Decentralised Purchasing:**

1. It is quite flexible. It can be quickly adjusted in accordance with the changed requirements of a particular plant.
2. Localised purchasing is best suited in case of emergency.
3. Technical requirements of each plant can be ascertained.

**Disadvantage:**

1. It offers lesser economy of scale in purchasing.
2. There are problems of co-ordination among various departments of the organisation and it usually leads to unplanned buying
3. Uniformity in prices may not be experienced because every branch head may not possess the calibre of an expert buyer.

It can be arrived from the above analysis that centralised purchasing is decidedly better than decentralised purchasing. However, the methods may be decided based on the nature of the organisations. A manufacturing firm, which operates several branches at different places can have decentralised purchasing.

6. What are the various steps involved in purchases?

The purchase procedure may differ from one concern to another. The following are usual steps followed in purchasing and receiving materials.

**1. Purchase Requisition:**

A form known as Purchase Requisition is commonly used as a formal request to the purchasing department to buy materials specified therein. The requisition is received from certain authorised persons. They are storekeeper, purchase planner, plant engineer, department heads.

A purchase requisition has the following purposes:

- a. It sets the purchasing process in motion
- b. It is a written record of details like quantities, any specification etc.
- c. It provides date for reference i.e., date when materials are required. Dates are important in case responsibility for stoppage in production due to shortage of materials is to be determined.

Figure no. 2.1 Purchase requisition

BITOSOFT LTD			
PURCHASE REQUISITION			
Department-----		No-----	
To be delivered at-----		Date-----	
-----		Date required-----	
Please order the items listed below:			
Item No.	Quantity	Description and Code no.	Purpose
For use of purchase department only		Requisition by-----	
Purchase order No.-----			
Supplier-----		Approved by-----	
Delivery date -----			

Original - To Purchase department
-----------------------------------

## 2. Selecting the Supplier:

When the purchase department receives a duly authorised purchase requisition, the department invites tenders for the supply of materials. A comparative statement known, as 'schedule of quotation' should be prepared so that supplier may be selected. The important rule here is to buy best quality materials at the lowest possible price after giving due consideration to delivery dates and other terms of purchase.

## 3. Purchase order:

When the supplier is identified, the most common procedure is the preparation of a purchase order. The purchase order is the form used by the purchase department authorising the supplier to supply the specified materials at an agreed price and terms. The purchase order should be carefully prepared as it forms a basis of legal contract between parties concerned.

The number of copies of the purchase order depends on the size of the organisation. A bigger concern usually issues 5 copies. The supplier receives the original order. Purchase department retains the *second copy*. The receiving department gets the *third copy*. Accounting department files the *fourth copy* to make an entry in the stores ledger. *Last copy* is sent to the department requisitioning the material as an intimation of the order and expected date of receipt of materials.

Figure 2.2 Purchase order

BITOSOFT LTD PURCHASE ORDER			
Supplier		No.	
		Date:	
Please supply the following subject to the terms and conditions given on the reverse side of the purchase order:			
Quantity	Description	Unit Price	Amount
Please quote purchase No. on all advice notes and invoices			
Place of delivery		Chief buyer	
Date of delivery			
Original copy - to supplier			

## 4. Receipt of Materials:

Receiving Department receives all incoming materials. When the packages are received, the receiving official gets them and makes a detailed verification of the contents. The details of the materials received are entered in a Goods received note. Five copies of the note are prepared. Receiving department

keeps one copy. The remaining copies are routed to the purchase department, the department originating the purchase requisition, the stores department and the accounting department.

Figure 2.3 Goods Received Note.

BITOSOFT LTD GOODS RECEIVED NOTE						
Supplier's Name-----				G.R.No....		
Purchase order No..-----				Date.....		
Item no.	Description	Code No.	Qty. Orderd	Qty. Received	Amount	Remarks
Received by.....				Inspected by		
Storekeeper.....						
Stores ledger posted by..						

**5. Checking and Passing of Bills for Payment:**

Invoice gives details of goods supplied and the amount to be paid. Account department receives the invoice from the purchase department. Then, account department checks the authenticity as well as the arithmetical accuracy. The quantity and the price mentioned in the invoice are checked with reference to goods received note and the purchase order respectively. The inspection report and goods returned note should be compared with the invoice. It is also necessary to check extensions and totals.

After comparing these documents with the invoice, if it is found that the invoice is in order, the purchase manager will sign it and pass it to the accounts department for payment.

**7. What are the characteristics of efficient system of store keeping?**

**Efficient store keeping should:**

- a. Ensure uninterrupted supply of materials and stores without delay to various production and service departments of the organization
- b. Protection of materials from losses due to fire, theft, evaporation etc.,
- c. Avoiding over-stocking and under-stocking
- d. Economical utilization of storage space.
- e. Up-to-date stores records
- f. Ensuring perpetual inventory
- g. Immediate location of material required
- h. Speedy receipt and issue of stores
- i. Minimize the cost of storage.

8. Explain various functions and duties of storekeeper

The main functions of storekeeper are receipt, storage and issue of materials. Apart from these main functions, there are quite a few other functions, which are incidental to these. Various functions and duties of storekeeper are as follows:

- a. Receive materials into the stores after checking them with the contents of the Goods Received Note;
- b. Store the materials in the allotted places;
- c. Maintain proper record of receipt, issue and balance of all items of materials
- d. Employ location coding and stores coding for easy identification of every item of stores
- e. Maintain the Stores department in a tidy manner
- f. Protect material from losses due to fire, theft, evaporation, obsolescence etc.,
- g. Issue stores, against proper authorization, in right quantity of right specification, and at the right time
- h. Ensure that the stock neither exceed the maximum level nor go below the minimum level at any point of time
- i. Prevent unauthorized persons entering into the stores
- j. Co-ordinate the work of staff in the stores department
- k. Periodic comparison of bin card balances with physical quantities in the bins
- l. Advise management of obsolete and slow moving stocks.

9. Describe about location and layout of stores

**Location of Stores:**

Location of stores should be carefully planned. The management should keep in mind various important considerations before locating the stores department in a site. It should be in close proximity to the receiving department. It should be close to roads, railway sidings and wharfs.

**Layout of Stores:**

Layout of stores should facilitate easy flow of goods in and out with out any barrier. Layout refers to the internal arrangement or placement of material inside the stores. It aims at effective utilization of space available for storage of materials. The stores should be divided into racks, which should be sub-divided into small spaces. All these spaces are know as bins. A bin is allotted for every kind of material. All bins should be serially numbered.

The stores should be equipped with racks, bins, shelves, boxes, barrels, jars, drums, cylinders etc. The receptacles should be arranged in such a way as to make the fullest utilization of available space. They should be easily accessible at the same time. Sufficient space should be provided for the movement of trucks, conveyors, lifts and other mechanical devices.

10. State the procedure for issue of materials

Items in stores are meant issuance. The management generally lays down the procedure for the issue of material. The storekeeper should ensure the following:

- a. A properly authorized material requisition should be presented to him
- b. A foreman should prepare the requisition.
- c. Requisition should be prepared in triplicate, two copies should be sent to the stores and the requisitioning department should retain the third copy.
- d. The storekeeper should issue the necessary materials against the signatures of the person receiving the materials.
- e. The storekeeper uses one copy of material requisition in making necessary entries in the bin card. The costing office receives the other copy for pricing the issue and making necessary entries in the stores ledger.

Figure 2.4 Material Requisition.

BITOSOFT LTD MATERIALS REQUISITION									
Department-----					Serial No...				
Job No-----					Date.....				
Qty.	Description	Code No.	Bin No.	Card	Stores No.	Ledger	Folio	Rate	Amount
Authorised by.....					Received by-----				
Storekeeper's Signature .....					Checked by-----				

11. Why should there be classification of stores? Write a note on classification and codification of materials.

#### Importance of Classification:

The stores department of big organizations carries a number of items of different grades and specifications. It generally faces the problem of locating and identifying the items at the time of storage and issue. Delay due to difficulty in locating an item causes production hold-ups. There is also possibility of the same item of two different grades getting mixed up, thereby providing a wrong account of the stocks of both the items. Therefore, everyone feels to have his or her goods properly classified.

#### Classification:

Classification is the process of arranging items into groups according to their likeness. ICMA, London defines

“ The a

12. How a manufacturing concern is to be cautious while procuring materials?
13. How does purchase department effectively control purchases of raw materials?
14. Who is in charge of purchase department? What are the qualifications of a purchase manager?



15. What are the procedures generally followed by purchase department?
16. What do you mean by the following inventory levels? How is computed?
  6. Economic order quantity
  7. Maximum level
  8. Minimum level
  9. Re-order level
  10. Danger level (problems)
17. What do you mean by stores control and issues control?
18. What are the functions and duties of storekeeper?
19. What do you mean by Bin Card? Or Bin tag or stock card? Bring out the specimen of a Bin card
20. What is meant by store ledger? What are the advantages of maintaining stores ledger? Give specimen of a stores ledger.
  21. What do you mean by perpetual inventory system? What are its advantages?
  22. What do you mean by ABC method of stores control? Illustrate.
  23. What do you mean by material requisition note? What are its contents?
  24. Critically evaluate the various methods of pricing materials issues.

Problems: 1. Inventory Level  
2. Pricing of Material Issues.