

Format :

$$\text{Assets} = \text{Liabilities} + (\text{Capital} + \text{Revenues} - \text{Expenses} - \text{Drawings})$$

Whence, ^{Owner's} Capital + Revenues - Expenses - Drawings = Owner's Equity

Effects on/Rules of Debit and Credit: Debit means left side of an account and credit means right side of an account; But rules of debit and credit mean the laws of debiting and crediting an account. Therefore, rules of debit and credit state that why account is debited and credited.

Accounts

- Assets
- Liabilities
- Capital
- Revenues
- Expenses
- Drawings

Debit, Credit Determination

Dr.	Cr.
Increase	Decrease
Decrease	Increase
Decrease	Increase
Decrease	Increase
Increase	Decrease
Increase	Decrease

As stated above, assets, expenses and drawings are increased by debit and decreased by credit and vice versa. Liabilities, capital and revenues are increased by credit and decreased by debit.

Inventory Management

14.1. Inventory: Meaning of Inventory: Inventory generally refers to the materials in stock. It is also called the idle resource of an enterprise.

According to S. M. Lee, "Inventory is any resource (goods) that is set aside for future use."

According to Goel & Gupta, "Inventory means stock of items keep in reserve for certain period of time."

According to K.K.Ahuja, "Inventory is made of all those items ready for sale or of items which keep the process running."

At last we can say, Inventory is the stock of any item or resource used in an organization. Inventory is an idle resource of any kind that possesses economic value.

14.2. What is inventory management?

Inventory management refers mainly to when a firm strives to attain and uphold an optimal inventory of goods while also taking note of all orders, shipping and handling, and other associated costs.

According to I.M.Pandey, "All the activities that are related to maintain adequate (optimum) inventories for a certain firm is called inventory management."

What are the objectives of inventory management?

The overall objective of inventory management is to achieve satisfactory levels of customer service while keeping inventory costs within reasonable limits. In this context, a decision maker must make two fundamental decisions: the timing of the order and size of orders. The performance of inventory management can be measured in the following terms:

- 1. Customer satisfaction:** This is measured by the number and quantity of backorders and/or customer complaints. If the customers' complaints are less then the customer satisfaction is high and vice-versa.
- 2. Inventory turnover:** This is the ratio of annual cost of goods sold to average inventory investment. It is a widely used measure. The turnover ratio indicates how many times a year the inventory is sold.
- 3. Days of inventory on hand:** The expected number of days of sales that can be supplied from existing inventory. A balance is desirable: a higher number of days might imply excess inventory, while a lower number might imply a risk of running out of stock.
- 4. To reserve raw-material:** Every organization produces a large number of products/goods. But all the products are not sold at a time. As a result, the inventory management reserves raw-material.
- 5. To mass production:** Inventory management always supplies their product to the customers.

6. To control of investment: Inventory management helps to maintain safety stock.
7. To maintain continuity: Inventory management helps to maintain continuity the production process.
8. To reduce time: Inventory management reserves a huge number of raw materials. As a result, factory can start their production process easily.
9. To reduce cost: Inventory management produces the products/goods according to the satisfaction of customers. It always supplies the products by the order of consumers. For that, it reduces cost to collect the raw material.

14.3. What is safety Stock?

Safety stock (also called buffer stock) is a term used by logisticians to describe a level of extra stock that is maintained to mitigate risk of stock outs due to uncertainties in supply and demand. According to L. J. Krajewski and Ritzman, "Safety stock is surplus inventory that a company holds to protect against uncertainties in demand lead time and supply."

Adequate safety stock levels permit business operations to proceed according to their plans. Safety stock is held when there is uncertainty in the demand level or lead time for the product.

What are objectives of safety stock?

1. To meet up demand
2. Increasing sales
3. Helping seasonal production
4. Increasing production
5. Maintaining the continue production process
6. To face uncertainty
7. Reduction cost
8. Occupation of market
9. Reserving finished goods
10. Reserving unsold production
11. To check delay
12. Continuous production
13. Solution of unemployment problem.

14.4. What is EOQ?

The economic order quantity (EOQ) may be defined as that level of inventory order that minimizes the total cost associated with inventory management.

According to H.N.Broom, "The order size associated with such minimized cost is called an economic order quantity."

production sites as well as goods stored in warehouse - leads to pipeline inventories throughout a production-distribution system.

14.6. Ordering cost:

Ordering cost is the fixed cost of placing and receiving an inventory order.

According to L. J. Krajewski and Ritzman, "Ordering cost is the cost of preparing a purchase order for a supplier or a production order for the shop."

According to S. M. Lee, "Ordering costs represent costs that are associated with replenishing inventories."

Ordering costs are the costs of ordering and receiving inventory.

Carrying/Holding cost

Carrying costs are the variable costs per unit of holding an item in inventory for a specified time period.

According to L.J. Krajewski and Ritzman, "Inventory carrying cost is the variable cost of keeping items on hand, including interest, storage and handling, taxes, insurance and shrinkage."

Lead time:

Lead time is the time interval between ordering and receiving the order.

Lead time is the time period between the date of placing order and the date of receiving delivery.

Lead time also be called procurement inventory.

Total cost:

Total cost is the sum of the ordering costs and carrying costs of inventory.

Re-order level/point: The re-order point is that point at which an order is placed. The re-order point is that inventory level at which an order should be placed. Both the excessive and inadequate level inventory is not favorable for business. Therefore, the re-order level should not be set up very high or very low. The re-order point is calculated by the following formula: The re-order level/point = Lead time * Average usage

Cycle time: The time that elapses from the beginning to the end of a process.

The period required to complete one cycle of an operation; or to complete a function, job, or task from start to finish. Cycle time is used in differentiating total duration of a process from its run time.

Run time: The Run time (the production phase of the cycle) is a function of the run size and production rate.

14.7. Meaning of Inventory Control:

Inventory control is a systematic procedure for ensuring the availability of items necessary to meet the production requirement at optimum cost. It is concerned with the procurement of raw materials and components and their supplies to the production department.

According to Gupta, "The economic lot size is a quantity of raw material, component part for product which a firm must purchase or product if it wants to minimize cost."

According to Heitger & Matulich, "Economic order quantity is the order size for some particular inventory item that results in the lowest total inventory cost for the period."

At last we can say, Economic Order Quantity is the quantity at which the total inventory cost is minimum and EOQ can be calculated using the average inventory, carrying cost and ordering cost.

14.5. Discuss the functions of inventory management/ Purpose of inventories:

Inventories serve a number of functions. Among the most important are the following:

1. To meet anticipated customer demand: Inventories are referred to as anticipation stocks because they are held to satisfy expected average demand.
2. To smooth production requirement: Firms that experience seasonal patterns in demand often build up inventories during off-season to meet overly high requirements during certain seasonal periods.
3. To protect against stock out: Delayed deliveries and unexpected increases in demand increase the risk of shortages. The risk of shortages can be reduced by holding safety stocks, which are stocks in excess of average demand to compensate for variability's in demand and lead time.
4. To take advantages of order cycle: To minimize purchasing cost, a firm often buys in quantities that exceed immediate requirements. Similarly, it is usually economical to produce in large rather than small quantities.
5. To ensure against scarcity of materials and permit operations: Work-in-process and pipeline inventories allow the smooth operations throughout a production-distribution system.
6. To take advantage of price discounts: Usually the manufacturers offer discount for volume buying and to gain this price advantage the materials are bought in bulk even though it is not required immediately. Thus, inventory is maintained to gain economy in purchasing.
7. To meet the demand during the replenishment period: The lead time for procurement of materials depends upon many factors like location of the source, demand supply condition, etc. So inventory is maintained to meet the demand during the procurement (replenishment) period.
8. To keep pace with changing market conditions: The organizations have to anticipate the changing market sentiments and they have to stock materials in anticipation of non-availability of materials or sudden increase in prices.
9. To permit operations: The fact that production operations take a certain amount of time means that there will generally be some work-in-process inventory. In addition, intermediate stocking of goods - including raw materials, semi-finished items and finished goods at

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According to Kreitner, "Inventory control is the process of establishing and maintaining appropriate levels of reserve stock of goods."

According to S. M. Lee, "Inventory control is an important part of inventory management that ensures optimum inventory level."

Inventory control as the technique of maintaining stock keeping them at desired levels. Inventory control is a planned approach of determining what to order, when to order and how much to order and how much to stock so that costs associated with buying and storing are optimal without interrupting production and sales.

Objectives of Inventory Control

1. To ensure adequate supply of products to customer and avoid shortages as far as possible.
2. To make sure that the financial investment in inventories is minimum.
3. Efficient purchasing, storing, consumption and accounting for materials is an important objective.
4. To maintain timely record of inventories of all the items and to maintain the stock within the desired limits
5. To ensure timely action for replenishment.
6. To provide a reserve stock for variations in lead times of delivery of materials.
7. To provide a scientific base for both short-term and long-term planning of materials.

Benefits of Inventory Control

It is an established fact that through the practice of scientific inventory control, following are the benefits of inventory control:

1. Improvement in customer's relationship because of the timely delivery of goods and service.
2. Smooth and uninterrupted production and, hence, no stock out.
3. Efficient utilization of working capital. It helps in minimizing loss due to deterioration, obsolescence damage and pilferage.
4. Economy in purchasing.
5. Eliminates the possibility of duplicate ordering.

Formula of inventory management:

$$1. EOQ = \sqrt{\frac{2AO}{C}}$$

EOQ = Economic Order Quantity;

A = Annual needs/demand/usages.

O = Ordering cost per order.

C = Carrying cost per unit.

Annual needs
demand
usages

$$2. \text{Number of order} = \frac{\text{Annual demand}}{\text{Economic Order Quantity}} = \frac{A}{EOQ}$$

$$3. \text{Annual Ordering cost} = \frac{A}{EOQ} \times O$$

$$4. \text{Annual Carrying cost} = \frac{EOQ}{2} \times C$$

$$5. \text{Total annual cost} = \left(\frac{A}{EOQ} \times O \right) + \left(\frac{EOQ}{2} \times C \right)$$

$$6. \text{Number of orders} = \frac{A}{EOQ}$$

$$7. \text{Safety Stock} = (\text{Maximum usage per day} - \text{Normal usage per day}) \times \text{Lead time}$$

= Daily usage * safety stock use days

8. Re-order point: If there is no Safety Stock:

$$(i) \text{Re-order point} = \text{Maximum use} \times \text{Maximum lead time}$$

If there is remains Safety Stock:

$$(ii) \text{Re-order point} = (\text{Average use} \times \text{Maximum lead time}) + \text{Safety Stock}$$

$$9. \text{Number of working days} = \frac{A}{\text{Average daily usage}}$$

$$10. \text{Cycle time} = \frac{EOQ}{U} \quad \text{Where, } U = \text{Use rate}$$

$$11. \text{Run time} = \frac{EOQ}{P} \quad \text{Where, } P = \text{Production or delivery rate}$$

$$12. \text{Maximum level} = \text{ROL} + \text{EOQ} - (\text{Minimum usage} \times \text{Minimum lead time})$$

$$13. \text{Minimum level} = \text{ROL} - (\text{Normal usage} \times \text{Average lead time})$$

Example-1: A local distributor for a national tire company expects to sell approximately 9,600 steel-belted radial tires of a certain size and tread design next year. Annual carrying cost is Tk. 16 per tire, and ordering cost is Tk. 75. The distributor operates 288 days a year.

- What is the EOQ?
- How many times per year does the store reorder?
- What is the length of an order cycle?
- What is the total annual cost if the EOQ quantity is ordered?

Solution: Given that:

Annual Demand, $A = 9,600$ tires per year Carrying Cost, $C = \text{Tk. } 16$ per unit per year

Ordering Cost, $O = \text{Tk. } 75$ per year

a. $EOQ = \sqrt{\frac{2AO}{C}} = \sqrt{\frac{2 \times 9,600 \times 75}{16}} = 300 \text{ tires}$

b. No of orders per year = $\frac{A}{EOQ} = \frac{9600}{300} = 32 \text{ times}$

c. Length of order cycle = $\frac{EOQ}{A} = \frac{300}{9600} = \frac{1}{32} \text{ of a year, which is } \frac{1}{32} \times 288$
 $= 9 \text{ workdays}$

d. Total Cost = Ordering Cost + Carrying Cost

$$= \left(\frac{A}{EOQ} \times O \right) + \left(\frac{EOQ}{2} \times C \right)$$

$$= \left(\frac{9600}{300} \right) 75 + \left(\frac{300}{2} \right) 16$$

$$= \text{Tk. } (2400 + 2400)$$

$$= \text{Tk. } 4800$$

Example- 2: A toy manufacturer usage 48,000 rubber wheels per year for its popular dump truck series. The firm makes its own wheels, which it can produce at a rate of 800 per day. The toy trucks are assembled uniformly over the entire year. Carrying cost is \$1 per wheel a year. Setup cost for a production run of wheels is \$45. The firm operates 240 days per year. Determine the

- Optimal run size.
- Minimum total annual cost for carrying and setup.
- Cycle time for the optimal run size.
- Run time.

Solution:

Here, given that:

Yearly Demand, $A = 48,000$ wheels per year

Ordering/Setup costs for a production run, $O = \$45$

Carrying cost, $C = \$1$ per wheel per year

Production rate, $p = 800$ wheels per year

Usages rate, $u = 48,000$ wheels per 240 days = 200 wheels per day.

a. We know, economic or optimum run quantity is

$$\frac{EOQ}{EPQ} = \sqrt{\frac{2AO}{C} \times \frac{P}{P-U}} = \sqrt{\frac{2(48,000)45}{1} \times \frac{800}{800-200}} = 2400 \text{ wheels}$$

b. We know, Minimum total annual cost for carrying and set up cost is

$$TC_{min} = \text{Carrying Cost} + \text{Setup Cost} = \left(\frac{l_{max}}{2}\right)C + \left(\frac{A}{EOQ}\right)O$$

Thus, we must first compute, l_{max}

$$l_{max} = \frac{EOQ}{p} (p-u) = l_{max} = \frac{2400}{800} (800-200) = 1,800 \text{ wheels}$$

$$TC_{min} = \left(\frac{1800}{2}\right) \times 1 + \frac{48000}{2400} \times 45 = 5900 + \$1800 = \$1800$$

c. We know,

$$\text{Cycle time} = \frac{EOQ}{u}$$

$$\text{Cycle time} = \frac{2400 \text{ wheels}}{200 \text{ wheels per day}} = 12 \text{ days.}$$

Thus, a run of wheels will be made every 12 days.

d. We know

$$\text{Run time} = \frac{\text{EOQ}}{p}$$

$$\text{Run time} = \frac{2400 \text{ wheels}}{800 \text{ wheels per day}} = 3 \text{ days}$$

Thus, each run will require three days to complete.

Example- 3: Piddling Manufacturing assembles security monitors. It purchases 36,000 black-and-white cathode ray tubes a year at Tk. 65 each. Ordering costs are Tk. 31, and annual carrying costs are 20 percent of the purchase price. Compute the optimal quantity and the total annual cost of ordering and carrying the inventory.

Solution:

Here: $A = 3,600$ cathode ray tubes per year $O = \text{Tk. } 31$ $C = (\text{Tk. } 65) 0.20 = \text{Tk. } 13$

$$\text{EOQ} = \sqrt{\frac{2AO}{C}} = \sqrt{\frac{2(3600)31}{13}} = 131 \text{ cathode ray tubes}$$

Total Cost = Carrying Cost + Ordering Cost

$$= \left(\frac{\text{EOQ}}{2} \times C \right) + \left(\frac{A}{\text{EOQ}} \times O \right)$$

$$= (131/2)13 + (3600/131)31$$

$$= \text{Tk. } 852 + \text{Tk. } 852$$

$$= \text{Tk. } 1704$$

Example- 4: ABC Company requires 50,000 units of raw material of a certain product for the next year. The cost of placing an order is Tk. 20. The carrying cost per unit is 10% of cost of the material. The cost of price of material is Tk. 5 per unit. Normal lead time is 5 days. The working days may be 250 days. You are required to calculate-

- a. The Economic Order quantity (EOQ). b. No of orders
 - c. Safety stock (two days usage). d. Re-order point.

Solution: (a) Given that: Annual Demand, $A = 50,000$ units of raw material.

Ordering cost, $O = 20$, Carrying cost, $C = \$5 \times 1000 = \5000

The Economic Order quantity

$$EOQ = \sqrt{\frac{2AO}{C}} = \sqrt{\frac{2 \times 50,000 \times 20}{5}} = 400$$

$$(b) \text{No of orders} = \frac{A}{EOQ} = \frac{50000}{4000} = 12.5 \text{ times}$$

(Q) Safety stock = Daily usage \times $\sqrt{3}$

(d) Reorder point = Safety stock + (Lead time x usage)

Example- 5: A company has an expected usage of 1,00,000 units of certain product the next year. The cost of placing an order is Tk. 500 and carrying cost per unit, Tk. 1.

Calculate D ECO Total carrying cost

Solution: Q Given that Annual Demand, A=1,00,000 units

Ordering cost, $O = \text{Tk. } 500$, Carrying cost, $C = \text{Tk. } 1$

The Economic Order quantity

$$(ii) \text{Total ordering cost} = \frac{A}{EOQ} \times O = \frac{1,00,000}{10,000} \times 500 = Tk. 5,000$$

$$(ii) \text{Total carrying cost} = \frac{EOQ}{2} \times C = \frac{1000}{2} \times 1 = \text{Tk } 5000$$

the following table shows the number of men in each company, the number of companies in each section, and the total number of men in each section.

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Section	Companies	Men
1	1	100
2	1	100
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287	1	100

Activity	Time	Task
Arrived at office	08:00	Arrived at office
Met with Mr. X	08:30	Met with Mr. X
Discussed project details	08:45	Discussed project details
Reviewed documents	09:00	Reviewed documents
Planned tasks for day	09:15	Planned tasks for day
Completed task A	10:00	Completed task A
Completed task B	10:30	Completed task B
Completed task C	11:00	Completed task C
Completed task D	11:30	Completed task D
Completed task E	12:00	Completed task E
Lunch break	12:30	Lunch break
Completed task F	13:00	Completed task F
Completed task G	13:30	Completed task G
Completed task H	14:00	Completed task H
Completed task I	14:30	Completed task I
Completed task J	15:00	Completed task J
Left office	15:30	Left office

1. *Chlorophytum comosum* L. var. *variegatum* (L.) Willd.
2. *Chlorophytum comosum* L. var. *variegatum* (L.) Willd.

לעומת מטרת החקיקה, מטרת החקיקה היא לא לנקוט במדיניות כלכלית אנטו-אינטלקטואלית, אלא לנקוט במדיניות כלכלית אנטו-אינטלקטואלית.

“I’m not my mother’s son,” he said.