Accounting for Materials

**Formulas:**

**Free inventory =** Material available in store + Material order to supplier – Material ordered by customers

**Re-Order Level** = Maximum usage x maximum lead-time

**Minimum Level/Buffer Stock** = Re-order Level – (Average usage x average lead-time)

**Maximum Level** = Re-order level + re-order quantity – (minimum usage x minimum lead-time)

**Average Inventory** = Buffer stock + (re-order quantity/2)

**Note:** Ignore Buffer Stock if company does not keep buffer stock

**Total Annual Cost of Holding** = [Buffer stock + average inventory] x annual holding cost per component

**Note:** Ignore Buffer Stock if company does not keep buffer stock

**Annual Holding Cost** = average stock x holding cost per unit per annum

**Annual Ordering Cost** = Number of orders x ordering cost per order

**No of Orders** = Demand / order quantity

**Economic Order Quantity** =

**Economic Batch Quantity (EBQ) or Economic Production Run** =