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A Study on Inventory Management in Sri Varsha Food Products India Limited

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ABSTRACT:

Inventory Management is a fundamental aspect of managing a company successfully. Inventory is a animated part of current assets mainly in manufacturing concerns. Huge funds are faithful to inventories as to ensure smooth flow of production to meet consumer demand. Maintaining Inventory also involves holding or carrying costs along with opportunity cost. An efficient inventory management ensures continuous production by maintaining inventory at a satisfactory level. It also minimizes capital investment and cost of inventory by avoiding stock-pile of product. Efficient and Effective Inventory Management goes a long way in successful running and survival of business firm.

INVENTORY MANAGEMENT:

Inventory is a list for goods and materials, or those goods and materials themselves, held available in stock by a business. It is also used for a list of the contents of a household and for a list for testamentary purposes of the properties of someone who has died.

Investment in inventory normally accounts for about 1/3 value of the total assets and for an average manufacturing concern, cost of inventory represents about one half of the product cost. Because inventory constitutes such a significant part of product cost since the cost is controllable, proper planning, purchasing, handling, accounting and control of inventories is of great significance.

It is almost essential to maintain some inventories for the smooth functioning of an enterprise.

INTRODUCTION TO INVENTORY:

Inventory in extensive sense, is defined as any idle resource of an enterprise. It is a physical stock of goods kept deportment for the purpose of future concerns. The term is generally used to indicate raw materials in process, finished products, packing, spares and others – stocked in order to meet expected demand or distribution in the future. Though inventory of materials is an idle resource –it is not meant for immediate use.

DEFINITIONS:

- According to **GUTHMANN AND DOUGHAL:** "Business Finance can broadly be defined as the activity concerned with planning, rising, controlling and administering of funds used in the business".

- ❖ **KEY POINTS:**

  Inventory of materials, product cost, cost of inventory.

REVIEW OF LITERTRATURE:

Abramovitz and Modigliani (1957): They highlighted the relationship between capacity utilization and inventory investment. Existing stock of inventories was expected to adjust to the desired levels. Thus the variable, existing stock of inventories, was essential to be negatively related with the desired stock. The result was that there is positive relation among the ratio of inventory to sales and inventory investment. High ratio of stocks to sales in the past suggests requirement of high levels of inventories in the past and promising high investment in inventories in the current period also.

Krishna Murthy (1964) : Study was aggregative and dealt with inventories in the private sector of Indian economy as a whole for the period 1948-61. This study used sales to represent demand for the product and suggested the importance of accelerator. Short-term rate of interest had also been found to be significant.

R.S. Chadda (1964): Study had been made on inventory management practices of Indian companies. The analysis suggested application of modern scientific inventory control techniques like operations research. These modern scientific techniques furnish opportunities for the companies, Companies can minimize their investment in inventory but there is continuous flow of production.

He argued that industrially advanced countries, like, USA, were engaged in developing highly sophisticated mathematical models and techniques for modernizing and redefining the existing tools of inventory investment.

Farzaneh (1997): Presented a mathematical model, to assist the companies in their decision to switch from EOQ to JIT purchasing policy. He defines JIT as "to produce and deliver finished goods just in time to be sold, sub-assemblies just in time to be assembled in goods and purchased material just in time to be transformed into fabricated parts". He highlights that the EOQ model focuses on minimizing the inventory costs rather than minimizing the inventory. Under the ideal condition where all the conditions meet, it is economically better off to choose the JIT over the EOQ because it results in purchase price, ordering cost.

TOOLS AND TECHNIQES OF INVENTORY MANAGEMENT:

Effective inventory management requires an effective control system for inventories. A proper inventory control not only helps i solving the acute problem of liquidity but also increases profits and causes substantial reduction in the working capital of the concern. The following are the important tools and techniques of inventory management and control:

1. Determination of stock levels.

2. Determination of safety stocks.

3. Selecting a proper system of ordering for inventory.

4. Determination of economic order quantity.

5. ABC analysis.

NEED OF THE STUDY:

This project work is an attempt to get acquainted with various facts of short-time finance management.

❖ Through the company has several departments, the prime area of interest was in finance. After scrutinizing various financial aspects, found inventories which consists an integral part of working capital of sri varsha food products india Ltd, needed better management.

❖ The company did not follow any scientific inventory management and hence there arise a need to device a system which could considerably reduce the cost and constitutes towards profitability.

OBJECTIVES OF THE STUDY:

1. To know the tools and techniques of inventory management.

2. To study the effective utilization of inventory of sri varsha food products india limited.

3. To analyze ABC and EOQ of inventory management at sri varsha food products india limited.

4. To make a comparative study of inventory management in last 5 years using ratio analysis technique.

SCOPE OF THE STUDY:

The study of INVENTORY BALANCE SHEETS are confined only to the Srivarsha Food Products India Ltd.

❖ The study is undertaken to know how to manage inventory effectively. How to meet unexpected demands of material and to avoid shortage of material. The study based on the report of the company for a period of 5 years. The purpose of the project is to analyze past and present performance of the company.

METHODOLOGY OF THE STUDY:

1. *Secondary data*

➢ *Secondary data:*

Most of the calculations are made on the financial statement of the company and the company provided financial statements for 5 years.

1. Referring standards texts

2. Reference books

3. Internet collected some of the information regarding to the theoretical Aspects.

CLASSIFICATIONS OF INVENTORY MANAGEMENT:

1. INVENTORY TURN OVER RATIO:

Inventory turnover indicates the efficiency of the firm in producing and selling its product. It is calculated by dividing the cost of goods sold by average inventory.

 **Inventory turnover ratio= cost of goods sold/average inventory**

Cost of goods sold = sales – gross profit

Average inventory= opening inventory + closing inventory/2

Calculation of Inventory Turn Over Ratio from 2017-18 to 2021-22

Years	Sales	Inventory	Ratio (%)
2017-2018	37460.60	5317.72	7.04
2018-2019	37316.74	5676.78	6.57
2019-2020	44543.31	6992.14	6.37
2020-2021	67998.50	7519.23	9.04
2021-2022	58435.06	8015.16	7.29

Graphical representation of inventory turnover ratio
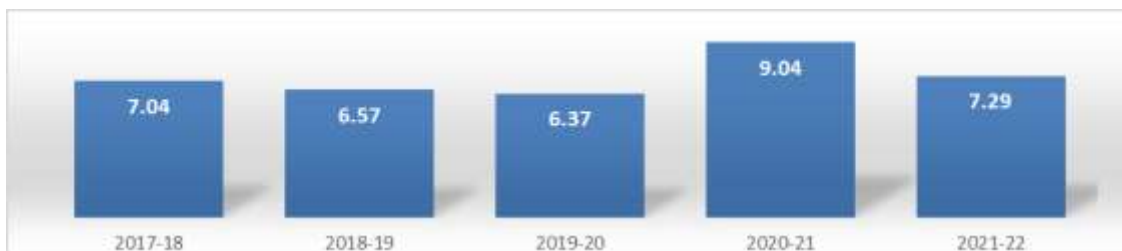

INTERPRETATION:

In the inventory turnover ratio in the year 2017-18 the ratio is 7.04 and the ratio is 6.57 in the year of 2018-19 then the ratio is decreased in 2019-20 with 6.37 and it is gradually increased in 2020-2021 with 9.04. the inventory turnover again declined ratio in 2021-22 is 7.29.

2. INVENTORY OF HOLDING PERIOD:

Stores and spares is a term which commonly covers all kinds of supplies necessary to keep production equipment operating to turn out production to the desired quantity and quality at the desired time.

$$\text{Inventory holding period} = \frac{365 \, days}{Invetory \ turnover \ ration}$$

Graphical Representation of Inventory of holding period:**2017-18 to 2021-22**
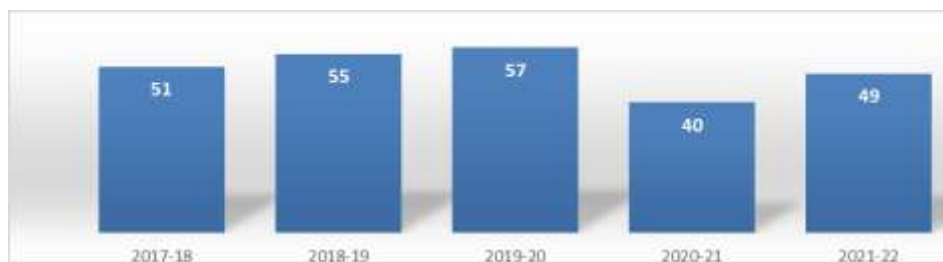
Calculation of Inventory of holding period: 2017-18 to 2021-22

| Years	Number of Days	Inventory Turn Over Ratio	Inventory Turn Over Period
2017-2018	360	7.04	51
2018-2019	360	6.57	55
2019-2020	360	6.37	57
2020-2021	360	9.04	40
2021-2022	360	7.29	49

INTERPRETATION:

In the year 2017-18 the turnover ratio is of 7.04 % and the making of turn over period is 51. Here the period of the turnover has fluctuations placed due to the changes in marketing sectors and the total days of 360 is maintained for the turnover ratio.

ABC ANALYSIS ON THE YEAR 2020-2021:

ITEM	QTY	QTY VALUE	VALUE	%	CUMLATIVE %	ABC ANALYSIS
Totapuri mango pulp (5Kg tins)	4506	75	337950	48.06	48.06	A
Totapuri mango pulp (1 Kg)	8500	1.6	136822	19.5	67.56	A
Pink guava pulp (500 Gms)	15675	6.2	97185	13.1	80.66	B
Red guava (200 Gms)	72	380	27360	3.9	84.56	B
Tomato paste (100 Gms)	40	66	2640	0.39	100	C

ABC Analysis for food & beverage and its quantity.

| S NO	ABC ANALYSIS	TOTAL
1	A	2
2	B	2
3	C	1

Showing the ABC Analysis
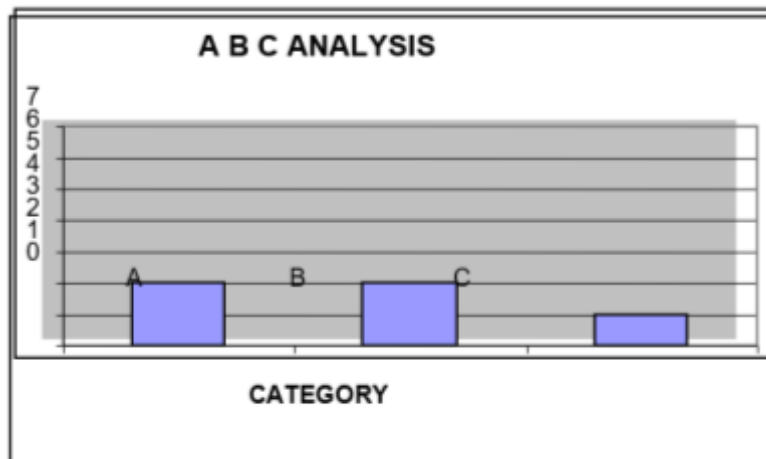
INFERENCE: Above table showing the details for stores differential that material are classified in A B C. Above 19.5percent material given A. than above the 3.15percent to below 19.5percent material value is B. than below 3.15percent material adding value is C.

ECONOMIC ORDER QUANTITY (EOQ) OF (2016-17 TO 2020-21)

Description	2017-18	2018-19	2019-20	2020-21	2021-22
Mango pulp	194	311.8	339	327.6	480.6
Guava pulp	42.84	64.8	82.6	141.42	106.2
Tomato pulp	215.2	264.36	224	307.8	276

Papaya pulp	11.5	39	42.45	91.2	26
canned fruit slices	248.49	343.27	200	350.8	185.5
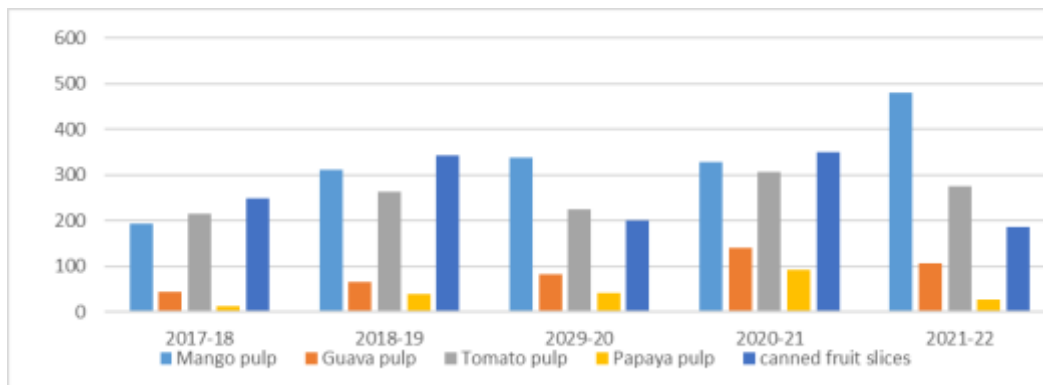
Inference:

Mango pulp economic order quantity is high i.e. 480.6 in 2021-22 because of consumption is decreases fallowed by previous years consumption and also decrease in carrying cost. Value papaya pulp decreased from 91.2 to 46 in 2019-20 due to increase in ordering cost and consumption.

FINDINGS:

1. As the analysis of the above data it is found that the inventory turnover ratio, in the year 2019-20 it is observed that the increase in stock and slit changes are occurred in the ratio.

2. In the holding period of inventory, it is observed that the stock that is prepared in all the 360 days, stock is stored in sufficient days only that are required. Turnover Ratio of the company is satisfactory. Because the average collection period is good.

3. From the inventory as a percentage of current assets, it is observed that in the year 2017-18 it is 10.97% and except that year in all the years it increased only 1% frequently up to 2022.

SUGGESTIONS:

1. The organization may have to control cost, for increasing raw material to inventory ratio.

2. The organization may have too increased gradually the ratio of inventory to fixed asset.

3. The organization may have to maintain sufficient portion of cash in current assets, because high ratio of inventory to current assets.

4. The finance department has to maintain the same procedure to develop inventory management.

5. The company has to concentrate on research and development so that it can use the inventory efficiently and reduce wastages.

CONCLUSION:

Finally, I conclude that, in food & beverages industry needs inventory for smooth running of its activities. It serves as a link between production and distribution processes. There is generally a time lag between the recognition of a need and its fulfillment. The unforeseen fluctuations are demand and supply of goods also necessitates the need for inventory. The Sri varsha Food Products India Ltd. maintain high closing balance of inventory it leads to over expenditure so company should control over expenditure to maximize profits.

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