Stock Control

Stock control is essential. Records and keeping an update of stock is of high importance. Stock must be motivated by not only one person and re - checks should be carried out.

The store keeper should ask a superior for the latter. Records should show:

The present current stock –	for the company to know what is in stock & so when it comes to stock taking there won't be any problems.
Stock Description -	to be able to distinguish one item from another. Usually stock is in number format with a barcode or item number.
The Re-order level -	for the company to be aware that it is in-need of ordering new stock.
The Re-order quantity -	the amount that the company usually orders when the re-order level is reached
The Expiry date -	so the company would not finish with old stock in the stock rooms without selling it before it expires. Usually companies offer a special offer on the item to attract customers to buy it.

Etc…

It is important for a company to keep such records because if not the company would not know what is going on with its stock, thus causing disadvantages for the company. These disadvantages are:

- Disadvantages of holding too much stock

  - Buying too much cost can be an expense to the company. If the stock bought is extra and not going to be in use then that money spent could have been put to better use.

  - When too much stock is held, then the stock might expire or deteriorate thus having to sell it at a cheaper price or having to dispose of it.

- Extra stock takes up space, thus the company might need a bigger warehouse which is cost effective.

- Disadvantages of holding too little stock

  - If the company holds too little stock then customer will be dissatisfied if they go to shop ad would not find the product wanted on the shelves and thus the company would be lo sing customers.

  - if the manufacturing company from were you import is out of stock of a specific product then it can also cau se your company a disadvantage or also cause it to a halt.

Stock Levels

Stock levels are set to determine when one should re -order. Raw material, work in progress and finished goods make - up stock.

Good control and stogie is imperative.

Storage

- Storage is important since stocks are not delivered on demand.
- Having stock flowing is important to meet customer's demand
- Stocks are also important to reduce the risk of halting production process and incurring a more expensive cost than investing in more stocks.
- Stocks help to keep prices stable and not inflated due to shortages

The main objective of stock control is: -

1. To meet demand
2. To avoid loss of customers
3. To avoid stock piling

This is because it could cost money, so one must find a balance.

Stock Levels

Maximum Stock Level
Minimum Stock Level
Re-Order Level
Re-order Quantity
Economic Order Quantity

- Maximum Stock Level – this is decided when one considers the rate of consumption, the risk of deterioration and storage space available for normal stock.

Maximum Stock Level = Re-order level –
(Minimum consumption * minimum lead time) +
Re-order quantity

- Minimum Stock Level – the lowest amount of stock that should be held in the store to satisfy customer demands and enough to keep production flowing.

Minimum Stock Level = Re-order level –
(Normal consumption * Normal lead time)

- Re-Order Level – the level at which a company should re-order stock. This level should be slightly above the minimum level so that stock can arrive on time before the other stock is finished. To calculate the re-order level one must take into consideration the maximum consumption and the maximum lead time.

Re-Order Level = Maximum consumption / Maximum lead time

- Re- Order Quantity – the amount of stock that is normally ordered in normal circumstances.

- Economic Order Quantity –if the demand for an item is stable through out a period, the economic order quantity will be the one which will minimize total costs pf procuring and holding stock. This quantity can be worked either by a method of trial and error or by using the formula below.

Economic Order Quantity = $\dfrac{\text{2*Ordering cost/order * Demand/annum}}{\text{Unit price * Stock holding cost}}$

Sources of Documents

Stock control is carried out by recording all movements of stock on various forms. This documentation includes the following:

1. **Material Requisition**

A material requisition note is sent to the storekeeper from the production department regarding stock that the production department is in need of to continue production.

2. **Purchase Requisition**

A purchase requisition note is sent to the purchasing department from the storekeeper to place an order of the necessary stock needed.

3. **Inquiry**

An inquiry is sent to various suppliers regarding the stock needed so the suppliers can send various quotations and the company then chooses the best cost price and quality.

4. **Quotations**

The company receives these various quotations regarding the stock in need of purchase and the company then chooses the best cost price and quality.

5. **Purchasing Order**

A purchase order is sent to the selected suppliers after the purchasing department has chosen which is the best quotation, quoting how much stock the company would need and any other specified information of stock needed.

6. **Delivery Note**

The delivery note is given to the storekeeper by the supplier quoting the amount of stock that has arrived. Usually a delivery note has two copies so when the stock arrives the store keeper signs this note and one is returned to the supplier specifying delivery and the other is kept by the storekeeper with a record of each receipt . The store keeper checks the actual stock with the delivery note and the purchase order .

7. **Goods Received Note**

The goods received note is raised by the storekeeper from the delivery name signed by him and sent to the purchase department acknowledging the receipt of goods.

8. **Invoice**

An invoice is sent by mail to the financial department quoting the amount that is to be paid to the supplier. More than one invoice is sent if the bill isn't settled.

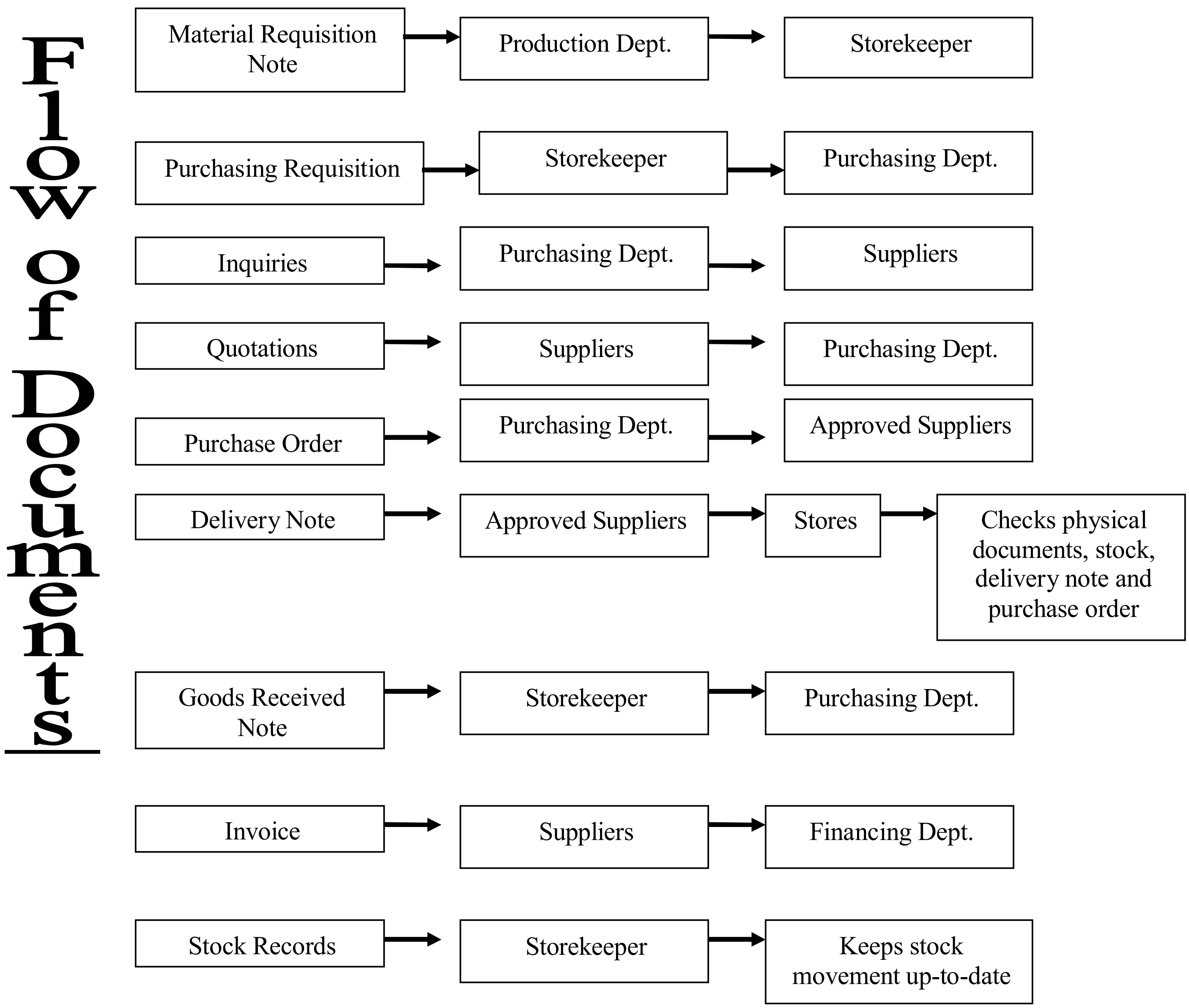
9. **Stock Records**

Stock records are completed by the storekeeper. These records include:

- The amount of stock bought and
- The amount of stock issued

This is done so the storekeeper can keep an account of how much stock is left.

Below is a figure illustrating the Flow of Documents



Stock Valuation

Stock can be controlled in two ways, either by Perpetual Stock Valuation or else on a Periodic Stock Valuation basis. If stock ha s been controlled by one of the above ways, then the fiscal amount and quantity of stock should be the same amount as recorded.

Periodic Stock Valuation

Periodic stock valuation is done on a longer basis then the perpetual, it is usually a done annually (after a long period of time). The periodic stock valuation is also used when checking physical stock.

A few factors need to be taken into consideration when using the periodic stock valuation. These are:

1. Stock take is ideally to be done when the compa ny is not in its production period this is because stock take takes up a lot of time and might stop production and sales, thus it is ideally best to be done either on a weekend or overnight

2. There will be the need of many stop checkers who may have little knowledge or interest in accuracy of their work (errors may take place)

3. Stock sheets should be checked on their own to make sure that they are correct.

4. Differences between stock records and physical stock are revealed after a long period and therefore di fficult to be tackled

Perpetual Stock Valuation

The perpetual stock valuation is records every purchase or sale that is made. When using the perpetual system the stock is checked frequently. A few advantages over the periodic stock valuation are:

- Reductions of errors as skilled stock takers are employed.
- No disruptions take place in the production and sale of stock

- Differences between physical and recorded stock is revealed sooner and investigated at once.

FIFO = First In, First Out – this method assumes that the first stock be bought is the first stock to be brought out (sold or used), this so the valuation of stock is always the most recent acquired stock.

Advantages:

- Realistic, i.e. It assumes that goods are issued in order of receipt
- Easy to calculate
- Stock valuation includes the actual prices that the items have been bought at.
- Closing stock valuation is similar to the most recent prices

Disadvantages

- The prices could, not be the latest prices
- When prices rise, the profit will also be higher than with other methods (thus increase in tax to pay)

LIFO = Last In, First Out – this method assumes that the last stock bought is the first stock to leave(sold or used), this is so the stock is of old purchases made.

Advantages

- Goods are released at the latest prices
- LIFO is easy to calculate

Disadvantages

- Illogical i.e. it takes into consideration that goods are issued in reverse order from that in which they are received
- Closing stock valuation is not similar to the most recent pr ices
- When the old stock is being used they would be selling at the old out -of-date prices

AVCO = Average Weighted Costs – in this method the average costs are calculated and every time something is bought a new average cost is calculated.

Advantages

- Over a number of accounting periods reported profits are almost alike . I.e. both high and low profits are avoided.
- The irregularity in purchase price is set alike so the prices do not vary greatly.
- Logical i.e. AVCO assumes that even though the item s were bought at different times they still carry the same value
- The closing stock valuation is close to the current market values.

Disadvantages

- AVCO is difficult to calculate
- Issues and stock valuation could have prices that never existed
- It is possible for issues not to be at current prices and sometimes when the price is rising it could be below current prices.

Comparing FIFO, LIFO, and AVCO

FIFO and LIFO are almost the total opposite of each other cause one uses up the old stock first whilst the other just takes from the new stock and leaves the old stock pending whilst as for AVCO is almost in the middle as it just takes the average of all and relies on that price.