

Frequently Asked Questions

1. What does the word inventory mean?

Answer:

The word 'inventory' refers to any kind of resource that has economic value and is maintained to fulfill the present and future needs of an organization.

2. What are the benefits of inventory?

Answer:

Inventory of resources is held to provide desirable service to customers (users) and to achieve sales turnover target investment in large inventories adversely affect an organizations cash flow and working capital as investment in inventory represents substantial portion of the total capital investment in any business.

3. What are the three approaches to check the status of the inventory?

Answer:

The three approaches to check the status of the inventory are

- Periodic review system
- Fixed order quantity system
- Optimal replenishment system

4. What are the factors on which the order quantity depends?

Answer:

The order quantity usually depends on:

- Demand pattern
- Price of an item
- Discount options
- Total budget
- Warehouse space
- Lead time

5. What is lot size inventory?

Answer:

Lot size (Cycle) inventory is the inventory necessary to meet the average demand during the successive replenishments. The amount of such inventory depends upon the production lot size, economical shipment quantities, warehouse space available, replenishment lead time, price-quantity discount schedules and inventory carrying cost, etc.

6. What is a process inventory?

Answer:

Since the movement of item cannot be instantaneous, optimal inventory level is required for shipment of inventory items to distribution centres and customers from production centers. Such an inventory is called a process inventory.

7. What is buffer inventory?

Answer:

Buffer Inventory is the specific level of extra stock of inventory that is maintained for protection against uncertainties of demand and the lead time necessary for delivery of goods.

8. What is a seasonal inventory?

Answer:

Seasonal inventory are inventories for items whose sales depends on seasonal pattern of demand and whose production (or supply) is not uniform, that is it varies with time.

9. What are the four groups of decoupling inventories?

Answer:

The four groups of decoupling inventories are:

- Raw material
- Work in progress
- Finished goods
- Spare parts inventory

10. Why inventory is considered evil?

Answer:

Inventory has been viewed as a necessary evil (Non- earning asset) that cannot be eliminated. It is termed as evil because maintaining inventory ties up money that could otherwise have been used for alternative purposes. It also increases carrying cost.

11. What are the factors involved in inventory problem analysis?

Answer:

A number of factors must be considered while analyzing inventory problems. Among the most important are the following:

- Relevant inventory costs
- Replenishment lead time
- Constraints on the inventory system
- Demand for inventory items
- Length of planning period

12. What is a continuous review system?

Answer:

Continuous review system is an inventory system where the current inventory level is monitored on a continuous basis.

13. What is a relevant cost?

Answer:

The cost that are affected (that is increase or decrease) by the firms decision to maintain a particular level of inventory are called relevant costs. These costs definitely play an important role in the study of an inventory system.

14. What is deterministic inventory control model?

Answer:

An inventory control problem can be solved using several methods, starting from trial-and-error method to mathematical and simulation models. Mathematical models help in deriving certain rules that may suggest how to minimize the total (or incremental) inventory cost in case of deterministic demand is called deterministic inventory control.

15. What is probabilistic inventory control model?

Answer:

An inventory control problem can be solved using several methods, starting from trial-and-error method to mathematical and simulation models. Mathematical models help in deriving certain rules that may suggest how to minimize expected cost in case of probabilistic demand is called probabilistic inventory control model.