

Reorder Schedule No						
Part No.	Description	In Stock	On Order	Total Available	Required For Schedule	Place Orders For

Fig. 26.1 Periodic re-ordering schedule

Summary Stock Status Report								
To						Date		
Item Code	Description	Opening Balance	Actual Transactions			Future Transactions		
			Recd	Issued	On Hand	On Order	Req'd	Not Comm-itted

Fig. 26.2 Summary Stock Status Report

Purchase Requisition			
To		REQ. NO.	
		Date	
Please purchase the following items			
Quantity	Description		
Ship to		Date Required	
Via			
Signed		Approved	

Fig. 26.3. Purchase Requisition

we need to classify costs incurred by way of custom duties, taxes and packages. In brief, we can say that the cost of the materials received is equal to the price quoted less discount, plus freight, insurance, duties, taxes and packing charges.

Statistical determination of Costs

The process of budget preparation takes into account only one cost-variation factor: Level of operations. Other factors, however, can be of great significance also. Consider the impact on operations and manufacturing cost of introduction of one or more new products into processing during a given month or quarter. Similarly, consider the impact of such factors as the following: changes in size of production orders; changes in rate of labour turnover; Changes in quality of raw materials used, changes in machine process. All these factors reinforce or detract from the cost impact of the current level of operations. The management can improve its forecasts of future costs and profits by such statistical determination of costs. Its budget will be more accurate and will conform more closely to actual results if operating conditions actually prevailing were correctly anticipated. It has been observed that management's increased cost knowledge will enable it better (i) To evaluate proposals for cost reduction, and (ii) to point out where it should make all efforts for cost reduction.

Costing of the Issues to Production Department

Some of the methods of costing are : First in First Out; Last in First out; Standard cost; Basket stock method; Market price at the time of issue; latest purchase price; Replacement or current cost are some of the methods used in costing the issues to production.

- (i) **FIFO:** The assumption made in First-in First-out costing method is that the oldest stock is depleted first. Therefore the time of issues, the rate pertaining to that will be applied. This is logical in the case of items which deteriorate with time. In FIFO process, the value of the stocks held on hand is the money that has been paid for that amount of stock at latest price levels and hence can straightaway be used in balance sheet reflecting the true value.
- (ii) **LIFO:** The assumption made in Last in First out is that the most recent receipts are issued first, we can apply LIFO system in a period of rising price. The latest prices are charged to the issues thereby leading to lower reported profits and hence saving in taxes. However the LIFO systems have the same disadvantages as that of the FIFO systems.

Average Cost Method

In this method, the issues to the production department are split into equal batches from each shipment at stock. It is a realistic method reflecting the price

Time Management

- ★ A check list for the top management
- ★ Are company policies, objectives and mission well defined and made known to staff/employees?
- ★ Are responsibilities clearly defined and assigned?
- ★ Is there an established executive development programme?
- ★ Are vendors rated for services and quality?
- ★ Is a full organisational analysis made periodically to evaluate competence and redundancy?

Cost reduction embraces unit cost reduction by expenditure reduction in respect of a given volume of output and/or unit cost reduction by the increase in productivity. The another way of looking at cost reduction is to view it as the process whereby permanent savings are made without any reduction in the quality and/or usefulness of the products. There is a need to develop an attitude of mind which challenges all standards with a view to their improvement.

Areas of Cost Reduction

The success of any business depends primarily on the efficient use of those basic cost elements viz electric energy; per unit of production of goods; man-hour of labour; weight of raw material etc. The various constituents of total cost are shown in following diagram.



Fig. 28.2

Control of inventories of raw materials, semi finished and finished goods is essential in a well managed business. Speculation in inventory appreciation is hazardous and has no place in manufacturing. Integration of industrial processes under one management can reduce production costs through control of raw materials and selling costs through elimination of middle men.

★ Spending company's money as one's own money.

These techniques are, however, used in a framework which is called value analysis job plan which consists of following steps or phases:

- (i) Information phase
- (ii) Speculative phase
- (iii) Analytical phase (Going back and looking at our ideas and converting to rupee value)
- (iv) Programme planning
- (v) Programme execution
- (vi) Conclusion

Design Analysis

The design analysis procedure entails a methodical step by step study of all the phases of design of a given item in relation to the function it performs. Analysis of each component attempts to answer the following four questions :

- (i) Can any part be eliminated without impairing the operation of the complete unit?
- (ii) Can the design of the part be simplified to reduce its basic cost?
- (iii) Can the design of the part be changed to permit the use of simplified and less costly production methods?
- (iv) Can less expensive but equally satisfactory materials be used in the part?

The specific manner in which a value analyst approaches the problem of design analysis is highly creative method and different from one analyst to another. Most companies developed some checklist to systematize the analyst's activity. The following is the Value Analysis checklists suggested by **Material Association of Purchasing Manufacturer** to determine the function of the items:

- (i) Can the item be eliminated?
- (ii) If the item is not standard, can a standard item be used?
- (iii) If it is a standard item, does it completely fit the application or is it a misfit?
- (iv) Does the items have greater capacity than required?
- (v) Can the weight be reduced?
- (vi) Is there a similar item in inventory that should be substituted?
- (vii) Are closed tolerances specified than are necessary?
- (viii) Is unnecessary machine performed on the items?
- (ix) Are unnecessarily fine finishes specified?
- (x) Is commercial quality specified?
- (xi) Can you make the items cheaper in your plant? If you are making it new can you buy it for loss?
- (xii) Is the item properly classified for shipping purposes to obtain lowest transportation rates?
- (xiii) Can cost of packaging be reduced?
- (xiv) Are suppliers being asked for suggestions to reduce costs?