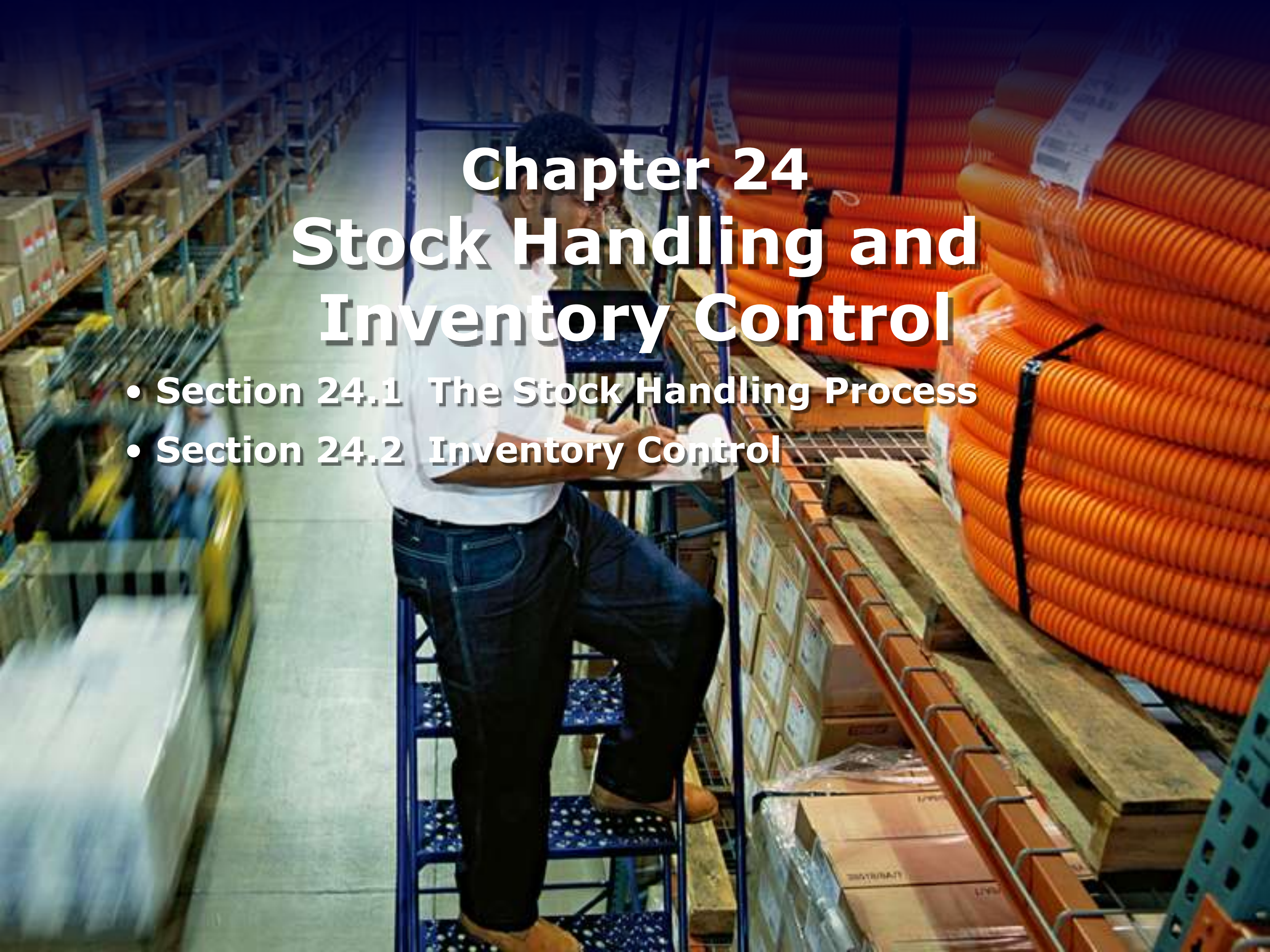


Chapter 24
Stock Handling and Inventory Control

- Section 24.1 The Stock Handling Process
- Section 24.2 Inventory Control

The Stock Handling Process

Key Terms

receiving record

blind check method

direct check method

spot check method

quality check method

source marking

preretailing marking method

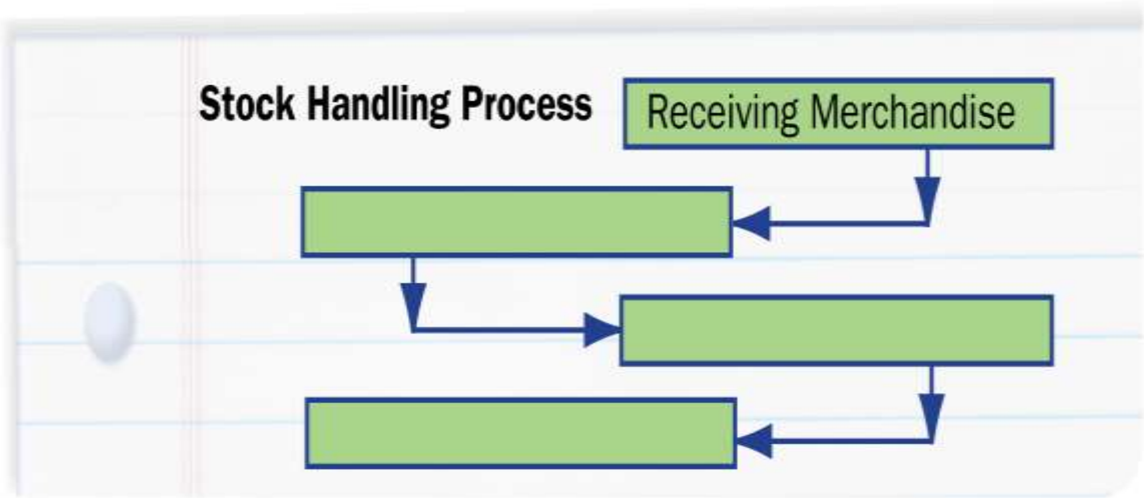
Objectives

- Describe the receiving process
- Explain stock handling techniques used in receiving deliveries

The Stock Handling Process

Graphic Organizer

Copy this flow chart. Use it to identify key steps in the stock handling process.



Stock Handling

The steps in stock handling include:

- Receiving goods
- Checking them
- Marking the goods with information
- Delivering them to a place to be used, stored, or displayed for sale

Receiving Stock

Where stock is placed when it is received depends on the type and size of the business. Smaller companies may just have stock rooms while larger businesses can have bigger areas, loading docks, and even warehouses.

receiving record

Information recorded by businesses about the goods they receive.

Receiving Stock

A **receiving record** is recorded information about goods received either manually or electronically. Information recorded can include:

- A receiving number
- Person who received the shipment
- Name of shipper and carrier

Receiving Stock

- Place from which the goods were shipped
- Number of items delivered and condition
- Shipping charges
- Department or store that ordered the merchandise
- Date the shipment was received

Checking Merchandise

Merchandise is checked to verify quantity and condition using these four methods:

- Blind check
- Direct check
- Spot check
- Quality check

Checking Merchandise

blind check method

The receiver of a delivery writes the description of the merchandise, counts the quantities received, and lists them on a blank form or dummy invoice.

The **blind check method** requires the receiver to write the merchandise description, count the quantities received, and list them on a blank form.

It is the most accurate method but can be very time-consuming.

Checking Merchandise

direct check method

The merchandise is checked directly against the actual invoice or purchase order.

With the **direct check method**, the merchandise is checked directly against the actual invoice or purchase order. This procedure is faster than the blind check, but errors may not be found if the invoice is incorrect.

Checking Merchandise

spot check method

The receiver of a delivery conducts a check of one carton in a shipment to see if the right kind and quantity of goods were delivered.

The **spot check method** is a random check of one carton in a shipment. The other cartons are assumed to be in the same condition, and this method is often used for products such as canned goods and paper products.

Checking Merchandise

quality check method

The merchandise is checked to determine whether the quality of goods received matches the quality of the products, which were ordered.

The **quality check method** is used to inspect the workmanship and general characteristics of the received merchandise. A buyer often performs this check. If the goods are damaged, a damage report is prepared.

Marking Merchandise

source marking

The seller or manufacturer marks the price before delivering the merchandise to the retailer; the marking often uses a universal product code (UPC).

The most common method of marking price is with a Universal Product Code (UPC). UPCs are often used for **source marking**, a method in which the manufacturer or seller marks the price before delivering the merchandise to the retailer.

Transferring Merchandise

Transferred merchandise is accompanied by a form describing the:

- Items
- Style numbers
- Colors and sizes
- Cost and retail prices

Transferring Merchandise

Stock transfers between departments or stores occur when merchandise is carried by one department or retailer but is needed by another. They can also occur when off-season merchandise is moved to surplus or discount stores.

SECTION 24.1 REVIEW

SECTION 24.1 REVIEW

- click twice to continue -

Inventory Control

Key Terms

- inventory
- inventory management
- just-in-time (JIT) inventory system
- perpetual inventory system
- physical inventory system
- cycle counts
- stockkeeping unit (SKU)
- dollar control
- unit control

Objectives

- Describe the process for providing effective inventory management
- Explain the types of inventory control systems
- Discuss the relationship between customer service and distribution

Inventory Control

Key Terms

inventory turnover

basic stock list

model stock list

never-out list

real-time inventory systems

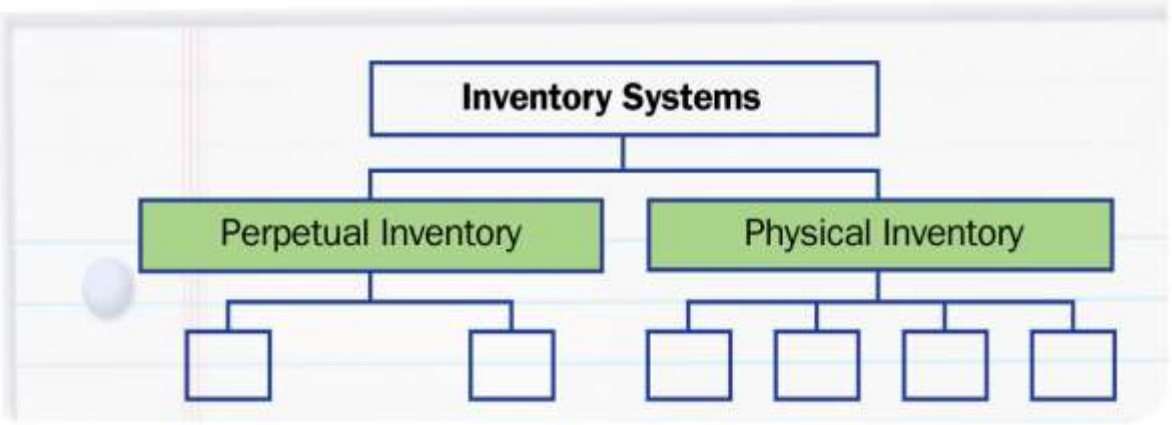
Objectives

- Analyze sales information to determine inventory turnover
- Discuss technology and inventory management

Inventory Control

Graphic Organizer

Copy this concept map and use it to record aspects of perpetual and physical inventory systems.



Inventory Management

inventory

All the goods stored by a business before they are sold.

Inventory refers to all the goods stored by a business before they are sold. It includes:

- Raw materials and packaging materials
- Components purchased from suppliers
- Manufactured sub-assemblies
- Work in progress and finished goods

Inventory Management

inventory management

The process of buying and storing materials and products while controlling costs for ordering, shipping, handling, and storage.

Inventory management is the process of buying and storing these materials and products while controlling costs for ordering, shipping, handling, and storage.

just-in-time (JIT) inventory system

An inventory system that controls the flow of parts and material into assembly and manufacturing plants.

Distribution, Inventory Management, and Customer Service

Every department in today's business environment must be customer oriented.

A **just-in-time (JIT) inventory system** coordinates demand and supply so that suppliers deliver parts and raw materials just before they are needed.

Inventory Systems

Two methods of tracking inventory are the:

- Perpetual inventory system
- Physical inventory system

Perpetual Inventory System

perpetual inventory system

An inventory system that tracks the number of items in inventory on a constant basis.

A **perpetual inventory system** tracks the number of items in inventory on a constant basis. With this system, a business keeps track of sales as they occur.

In a manual system, employees gather paper records of sales and enter that information.

physical inventory system

An inventory system where every so often, stock is visually inspected or actually counted to determine the quantity on hand.

Physical Inventory System

In a **physical inventory system**, stock is visually inspected or counted to determine the quantity on hand. A company uses this system to:

- Calculate income tax
- Determine the value of its inventory
- Identify shortages and plan purchases

cycle counts

A small portion of the inventory is physically counted each day by stockkeeping units so that the entire inventory is accounted for on a regular basis.

stockkeeping unit (SKU)

A unit or a group of related items in a unit control inventory system; the smallest unit used in inventory control.

Physical Inventory System

The most popular method of inventory management is physical inventory. **Cycle counts** allow a business to count a small portion of the inventory every day to track the entire inventory. A **stockkeeping unit (SKU)**, a unit or a group of related items, counts it.

Physical Inventory System

Visual control is used mainly by smaller businesses. It uses stock cards noting the necessary number of each displayed item. The difference between the number on the card and the actual number of items on hand is the amount that needs to be reordered.

Using Both Systems

Most businesses find it effective to use both systems because they complement each other. The perpetual system gives an up-to-date inventory record throughout the year. The physical system gives an accurate count that can be compared to the perpetual records.

Stock Control

Stock control involves monitoring stock levels and investments including:

- Dollar versus unit control methods
- Inventory turnover calculations
- Three stock lists: model, basic, never-out

Using Both Systems

When the physical count shows less merchandise than is supposed to be in inventory, a stock shortage or shrinkage has occurred, such as:

- Employee and customer theft
- Receiving errors
- Incorrect counting and selling errors

Using Both Systems

dollar control

The planning and monitoring of the total inventory investment that a business makes during a stated period of time.

Dollar control represents the planning and monitoring of the total inventory investment that a business makes during a stated period of time. It helps a business determine the cost of goods sold and the amount of gross profit or loss.

unit control

The quantities of merchandise that a business handles during a stated period of time.

Using Both Systems

Unit control measures the quantities of merchandise that a business handles during a stated period of time. It allows purchasing personnel to see what brands, sizes, colors, and price ranges are popular.

inventory turnover

The number of times the average inventory has been sold and replaced in a given period of time.

Using Both Systems

Inventory turnover is the number of times the average inventory has been sold and replaced in a given period of time. It is the most effective way to measure how well inventory is being managed.

Using Both Systems

The higher the inventory turnover rate, the more times the goods were sold and replaced. Stores that keep records of the retail value of stock compute their inventory turnover rates as follows:

$$\frac{\text{Net sales (in retail dollars)}}{\text{Average inventory on hand (in retail dollars)}}$$

Using Both Systems

When only cost information about inventory is available, inventory turnover can be calculated with this formula:

$$\frac{\textbf{Cost of goods sold}}{\textbf{Average inventory on hand (at cost)}}$$

Using Both Systems

When a store wants to look at the number of items carried in relation to the number of items sold, it calculates its stock turnover rates in units with this formula:

$$\frac{\textbf{Number of SKUs sold}}{\textbf{Average SKUs on hand}}$$

Using Both Systems

There are three plans used to monitor different types of goods, staple items, fashionable items, and very popular items. They are:

- Basic stock list
- Model stock list
- Never-out list

Using Both Systems

basic stock list

A list used for those staple items that should always be in stock.

A **basic stock list** is used for those staple items that should always be in stock. It specifies the minimum amount of merchandise that should be on hand for particular products.

Using Both Systems

model stock list

A stock list used for fashionable merchandise.

A **model stock list** is used for fashionable merchandise. Goods are classified by general classes and style categories. The model stock list identifies how many of each type of item should be purchased, but the buyer must select specific models.

never-out list

An inventory monitoring plan used for best-selling products that make up a large percentage of sales volume.

Using Both Systems

A **never-out list** is used for best-selling products that make up a large percentage of sales volume. Items are added to or taken off the list as their popularity fluctuates.

real-time inventory systems

An Internet technology that connects applications, data, and users in real time.

The Future of Inventory Management

Real-time inventory systems involve Internet technology that connects applications, data, and users in real time. This lets a company constantly track every product it sells from when it is manufactured to when a customer receives it.

SECTION 24.2 REVIEW

SECTION 24.2 REVIEW

- click twice to continue -

FOCUS on KEY POINTS

Section 24.1

- Successful stock management procedures help control costs and ensure the continuation of business operations. The steps in the stock handling process include receiving goods, checking them, marking the goods with information, and delivering them.

continued

FOCUS on KEY POINTS

Section 24.2

- Inventory is one of the most costly parts of operations for many businesses. Inventory management is the process of buying and storing products for sale while controlling costs for ordering, shipping, handling, and storage.

THE DECA CONNECTION

DECA performance indicators:

- Explain the receiving process.
- Explain the stock-handling techniques used in receiving deliveries.
- Resolve problems with incoming shipments.
- Follow up orders.
- Demonstrate orderly and systematic behavior.

CHAPTER 24 REVIEW

CHAPTER 24 REVIEW

- click twice to continue -