

STUDY ON INVENTORY CONTROL FUNCTION OF SELECTED SPINNING MILLS IN KOLHAPUR DISTRICT

Mrs. S. S. Kadam, D. R. K. College of Commerce, Kolhapur.

Dr. U. M. Deshmukh, CSIBER, Kolhapur

Abstract

Inventory constitutes a major component of working capital. Inventory constitutes the most significant part of current assets of larger majority of Indian spinning mills. Inventory means all movable items in stores either ready for sale or for consumption in the course of production with a view to convert them into finished stock for sale. Inventory includes stock of raw materials, work in progress, finished goods and stores and spares. Inventories are an integral part of working capital and it requires a considerable investment. So, it is necessary to have control is over the inventories. The function of inventory control is to obtain the maximum inventory turnover with sufficient stock to meet all requirements. Inventory control is useful for the eliminates over stocking of inventories and maintain the optimum inventory as well as the continuous supply of goods to customers to maintain sufficient stock of finished goods. The objective of inventory control is necessary to maintain inventories at optimum level of investment in inventory.

Textile Industry contributes 4% GDP, 9% excise collection, 18% of employment in industrial sector and 16% share in the country's export. The spinning industry contributes around 25% share in the world trade of cotton yarn and it is the largest exporter of yarn in the international market. India contributes for 12% of the world's production of textile fibers and yarn. Indian textile industry is second largest after China, in terms of spindleage and has share 23% of the world's spindle capacity and 6% of global rotor capacity. Therefore to reduce the investment in inventory and to increase the profitability as well as liquidity it is very important. For that purpose increase in cotton yarn production and contribute increasing world's share of cotton yarn it is a very essential. Hence, in spinning mill to give more attention on proper inventory control and maintain optimum level of inventory and to increase the yarn production is very essential and for that purpose inventory control is a very important.

Keywords: Objective, Inventory control, Investment, Optimum, Production, Export Market, Profitability, Liquidity.

Introduction : Inventory consists of usable but ideal resources, provided that such resource has economic value. Inventory means the stock of goods, commodities or other economic resources that are stored and reserved at any given period for future production or for meeting future demand. As per accounting terminology inventory means “The aggregate of those items of tangible property shares which (a) are held for sale in the ordinary course of business (b) are in the process of production for such sale and (c) are to be currently consumed in the production of goods and service to be available for sale, including maintenance, supplies and consumables other than machinery spares. From the definition it is clear that inventories consist of the following type.

- 1) Raw material and components are the stocks of material held prior to their utilization in the production process.
- 2) Work-in-progress includes products which are only through a manufacturing process.
- 3) Finished goods are the products which the company sells to their customers.
- 4) Spares and stores are the items required to keep plant and machinery in working condition.

There are other inventories which include supplies; these materials are used in running the plant or in producing products.

Greene (1983) has defined inventory as “the movable articles of the business which are expected to go into the flow of trade. Inventory from the view point of financial manager is the aggregate value of raw materials, stores and spares consumables, work-in-progress and finished goods in which the company's funds have been invested.”

Objectives of the Study :

- 1) To study the inventory turnover ratio in selected spinning mills.
- 2) To study the inventory as current assets in selected spinning mills.

Methodology : The present study is based on primary and secondary data which is collected from various publications, journals, magazines, reference books, internet and annual reports etc.

Result and Discussion: The main objective of inventory management is to determine and maintain at optimum level of investment in inventory. The important elements of Inventories are; Inventory Turnover Ratio (ITR) and Total Inventory to Current Assets in selected spinning mills.

Inventory Turnover Ratio:

ITR is also known as inventory turnover ratio. It establishes a relationship between sales during the period and the amount of average inventory. Inventory turnover ratio indicates the efficiency of a firm's inventory management. This ratio gives the rate at which stock are converted into sales and then into cash. A low inventory turnover ratio is an indicator of dull business and over investment in inventory. A high inventory turnover indicates efficient management of a firm. The higher rate of inventory turnover, the larger the amount of profit, the smaller the amount of working capital tied up in inventory.

**Table No. 1: The Inventory Turnover ratio in Selected Spinning Mills
In percentage**

Years	The Ichalkaranji Co-op. Spinning Mills Ltd.	Indira Gandhi Mahila Soot Girni Ltd.	Average
2008-09	11.04	11.36	11.20
2009-10	12.37	11.83	12.10
2010-11	11.64	3.60	7.62
2011-12	7.27	1.71	4.49
2012-13	11.90	4.58	8.24
2013-14	13.14	8.19	10.67
2014-15	13.27	16.28	14.77
2015-16	13.62	29.14	21.38
Average	17.20	10.84	11.30

Source: Data collected from selected spinning mills.

Table no. 1 shows the calculation of inventory turnover ratio of selected spinning mills. Turnover ratio of The Ichalkaranji Co-op. Spinning Mills Ltd., in the year 2008-09, was 11.04 times, which decreased to 7.27 times in 2011-12 and again increased to 13.62 times in the year 2015-16. Turnover ratio of Indira Gandhi Mahila Soot Girni Ltd., in the year 2008-09, was found 11.36 times and it was found decreased 1.71 times in the year 2011-12 and again it was found increased in the year 2015-16 by 29.14 times. This observations shows Ichalkaranji Co-op. Spinning Mills have the best average of 17.20 times which was greater than average of Indira Gandhi Mahila Soot Girni Ltd. The yearwise analysis shows that the average inventory turnover ratio was 11.30 times of the year from 2008-09 to 2015-16. Overall inventory turnover ratio shows wide fluctuations in selected spinning mills.

Table no. 2: Total Inventory to Current Assets of Selected Spinning Mills

In percentage

Years	The Ichalkaranji Co-op. Spinning Mills Ltd.	Indira Gandhi Mah. Soot Girni Ltd.	Average
2008-09	72.37	9.60	40.98
2009-10	64.99	21.16	43.07
2010-11	59.84	85.03	72.43
2011-12	59.37	74.67	67.02
2012-13	52.43	65.07	58.75
2013-14	42.88	41.11	41.99
2014-15	39.93	15.87	27.90
2015-16	42.58	10.57	26.57
Average	54.34	40.38	47.33

The amount of working capital funds invested in inventories could be known by calculating inventories to total current assets. The part of inventory in the total current assets shows how much liquidity of firm is locked up in inventory. The lower percentage of inventory to the current assets, the

greater the liquidity of current assets. Thus the low ratio is better than the high ratio. Table no. 2 shows the total inventories as a percentage to total current assets of selected spinning mills. It is found that percentages of total inventories to current assets were fluctuated throughout the study period of spinning mills. Ichalkaranji Co-operative spinning mill have 72.37% of current assets invested as inventory in the year 2008-09, and it reduce the ratio in the year 2014-15 39.93%, where Indira Gandhi Mahila Sahakari Sootgirmi Ltd. shows 9.60% in the year 2008-09 and it was found increased 85.03% in the year 2010-11 it means it increased 11.29% and again it found declined up to 10.57% in the year 2015-16. The overall average inventory was found 47.33%.

It is observed that as a percentage of total inventory to current assets is fluctuated in the study period. Indira Gandhi registered 9.60% which was the lowest investment in inventory in the year 2008-09 and The Ichalkaranji Co-operative Spinning mill registered 72.37% and it is highest investment in inventory in the year 2008-09. The average percentage of total inventories to current assets of Ichalkaranji Co-operative Spinning mill is 54.34 where Indira Gandhi Mahila Soot Girmi have 40.38%. It showed that the investment in inventory of two selected mills was inconsistent.

Findings :

- 1) Selected spinning mill shows the inventory turnover ratio is fluctuated. On the basis of analysis it is clear that none of the mills has stable policy of inventory stocking. Indira Gandhi Mahila Soot Girani Ltd. shows the low ratio of 1.71 times in the year 2011-12, was due to the over stocking of inventory and highest inventory ratio was 29.14% in the year 2015-16. Ichalkaranji Co-operative Spinning Mills Ltd. shows the low ratio 7.27 time in the year 2011-12 and highest inventory turnover shows 13.62 times in the year 2015-16. Year wise selected spinning mills shows overall average of inventory turnover ratio was 11.30 times it means selected spinning mills converting its inventory into sales quickly.
- 2) The overall average percentage of inventory to current assets of selected spinning mills 47.33% during the study period. Indira Gandhi Mahila Soot Girani Ltd. shows the average percentage 40.38% which was quite consistent and The Ichalkaranji Co-op. Spinning Mill Ltd. reported the average percentage of inventory to current assets was 54.34% which was inconsistent.

Conclusion : Effective management of inventory is essential to avoid unnecessary locking up of investment in inventories. In both the selected mills inventory turnover ratio is fluctuated but Ichalkaranji Co-operative spinning mills shows the average turnover ratio is high inventory turnover ratio it means the mill was converting its inventory into sales quickly. Indira Gandhi shows the very low and very high turnover ratio. Hence, to high and too low inventory turnover ratio may not be good. So, it is suggested that mill have proper inventory turnover ratio and it is able to earn a reasonable margin of profit. Inventory represents the largest component of current asset in spinning mills. The overall average percentage of inventory to current assets of selected spinning mills was 47.33% during the period from 2008-09 to 2015-16. It is suggested that effective management of inventory is essential and to avoid the unnecessary locking up investment in inventories.

References :

- 1) Agarwal Krishna Kumar (1993), Inventory Management Concepts and Dynamics, Kanishka Publishers Distributors, Delhi, P. 26-27.
- 2) Arora M. N. (2012), Accounting for Management, Himalaya Publishing House, Delhi, P. 9.9 to 9.11.
- 3) Bose D. Chandra (2006), Inventory Management, Published by Prentice Hall of India Private Limited, Delhi, P. 64-67.
- 4) Chadda R. S. (1971), Inventory management in India, Allied Publishers Pvt. Ltd., Bombay, P. 1.
- 5) Greene James H. (1983), Production and Inventory Control System and Decisions, Taraporewala Sons and Co. Pvt. Ltd., Bombay, P. 203.
- 6) Ravindra V. and Sivasankar P. R. (2014), Financial Performance of Inventory Management – A Study of Select Cotton Mills in Chittor District, Journal of International Academic Research for Multidisciplinary, Vol. 2, Issue-11, P. 156-162.