

Meaning of Materials

Production of every product requires some form of basic materials. Materials are therefore, indispensable for every production process. Materials constitute the substances or the essential parts of which product is made. They can be classified into three broad categories:-

1. Raw Material :- The term raw materials includes materials which are in their natural or raw form, like sugarcane for sugar factory, oil seeds for oil mill, cotton for textile mill etc.

2. Semi-Finished Materials:- The term semi finished materials includes materials which are not 100% complete in all respect. In other words, some processing still remains to be done before the product can be sold. Like unpolished furniture to be polished before put for sale.

3. Finished Materials :- These materials comprise finished components which are used as raw materials for manufacturing a product. Like Picture tube is the finished material for to manufacture TV set.

Needs for materials Accounting

Materials accounting has two aspects, the value of the materials, and the physical qty. of the material. In regard to the first, accounting is necessary for large number of reasons which are as follows:-

1. The stocks represent assets of the company and as such it is necessary to include their value in the accounts of the company.
2. It provides a means of costing a manufactured item.
3. It provides a basis for inventory control by value.

As for as second aspect, it is necessary all the time to ensure that all the materials that have been received have been properly accounted for. All receipts and all issues have to be entered in stock ledgers or registers and have to be accounted for the following reasons:-

1. They indicate the amount of any material in stock at any time without it being necessary for the item to be counted physically.
2. They enable the physical stock and the stock as indicated by store accounts to be tallied. All receipts and issues entered in detail in the stock records are subsequently posted in value to store accounts.
3. They provide a means of determining how much should be ordered to maintain stocks at the required level.
4. They supply information for stocktaking whereby the quantities of all items in the stores ascertained by physical checking are compared with the corresponding quantity balances on the records.
5. They provide a method of informing staff of the location of goods in the storehouse.
6. They serve the purpose of a price list. If unit prices are given on the stock records they can be used to price all stores documents which are posted in the records.

Direct Materials and Indirect Materials

Direct materials are those which can conveniently and wholly be identified with a specific production unit, and indirect materials are those which can not be conveniently or wholly identified with a specific job product or process. These are ancillary to the production process.

Materials Control

Materials control may be defined as the systematic control over the procurement, storage and uses of materials so as to maintain an even flow of materials and avoiding at the same time excessive investment in inventories. Hence material control involves efficient functioning of the following operations:-

1. Purchasing of materials.
2. Receiving of materials.
3. Inspection of materials.
4. Storage of materials.
5. Issuing of materials.
6. Maintenance of stores records.
7. Stock Audit.

Allotment of Item code no.-Bill of material-Requisition-(SHIS, MPSheet, M.Review Sheet, Cash etc.), making of tenders-opening of tenders-placement of P.O.-Receipt of material-Checking of material, Preparation of MIS-Inspection of material-Bringing into stock-preparation of bin card-keeping material in Proper place/bins-proper storage of materials-issuing of materials-Proper entry into ledger-periodical checking of materials-Observance of levels-Minimum level-Ordering level-Danger Level-Economic order quantity

Difference between store ledger and bin card

1. Store ledger is maintained by costing while bin card is maintained by store keeper.
2. Store ledger records receipts, issue of material in both terms of quantity and value, while bin card receipt and issue of material only in term of quantity.

3. Store ledger generally contains detailed information regarding the materials ordered and reserved, while bin card does not contain such information. It is simply record actual receipts and actual issues of material.

4. In the store ledger transaction are posted after they have taken place while in bin card transaction are posted before they actually take place.

Periodic Stock Taking-Loss of material-Avoidable causes(like Error, Breakage or pilferage, wrong placing and issue, over/under issue)- Unavoidable causes(Like inherent nature, evaporation, shrinkage, issue in small lots, deterioration)-Loss due to accident/fire, pricing methods On approximation.

Losses due to unavoidable causes may be recovered from the cost of production either by issuing such material at inflated rate or by transferring them to factory overheads. Losses due to other causes should be transferred to costing profit and loss account. Treatment of gains is also done on a similar pattern.

Stock Audit.:- Periodic, Continuous

Inventory

Inventory includes stock of raw material, work in progress, finished goods, components and supplies.

Control

1. Effective and efficient purchasing, storage and issuing procedure.
2. Setting of various level(min/max.)
3. Fixation of EOQ.
4. Budgeting.
5. ABC analysis.
6. VED analysis.

7.XYZ analysis.

A may be more costly items,B may consist of less costly item and C may least costly item.But these are important item(import,non availability,maximum consumption)

VED is used for spare parts.V is vital,E is essential,D is desirable.

XYZ is resorted at the time of stock taking.X is costly,Y is less costly Z is still less costly.

Fast Moving,Slow Moving,Dormant,Obsolete inventory.

Material Losses

Waste-Scrap-Spoilage-Defective

Waste:- lost in the manufacturing process and which has no recoverable value i.e. gases,dust,smoke,unsaleable residue.shrinkage and evoporation.

Scrap:- on account of turning,boring,trimming end pieces etc.

Spoilage :- goods damaged beyond rectification which are to be disposed of suitably.

Defectives:- can be rectified.can be sold as seconds or as a firsts.