Be Your Own Boss

You own a small hardware store located on the Gulf Coast. Weather forecasters are predicting higher-than-average hurricane activity in your region for the upcoming season. You know that if a hurricane comes to your area, there will be a high demand for plywood, generators, batteries, and other hurricane preparedness supplies. You have limited storage space and limited funds to invest in inventory, but you realize the chance to increase sales and profits. Outline a plan for managing your inventory needs. Explain your decisions. Prepare 2 PowerPoint slides with your plans. Email the PowerPoint as an attachment.

Think Critically

1. What are some of the concerns managers have regarding inventory?

2. How does the perpetual inventory method differ from the periodic inventory method?

3. What three factors determine the amount of inventory a business keeps in stock?

True or False

_____ 1.   The most important aspect of inventory management is having items in stock when needed.

_____ 2.   A business should track its inventory using either the perpetual inventory method or the physical inventory method but not both.

_____ 3.   An inventory record for an item can be kept on a stock card or in an electronic format.

_____ 4.   Businesses that sell more than 50 different items usually use a computer to track inventory.

_____ 5.   Taking a physical inventory means counting the number of items you have in stock.

_____ 6.   The amount of inventory recorded when taking a physical inventory will always be the same as the amount recorded in a perpetual inventory system.

_____ 7.   If a business uses a periodic inventory method, it does not need to take a physical inventory.

_____ 8.   Point-of-sale software updates inventory as each sale is made.

_____ 9.   Businesses must weigh the cost of being out of stock with the cost of carrying more inventory.

_____ 10.   The stock turnover rate shows how many times a year a business sells all of its merchandise.

Multiple Choice

_____ 1.   The amount of inventory you need to purchase can be calculated from the (a) sales forecast, (b) balance sheet, (c) cash flow statement, (d) income statement.

_____ 2.   All of the following should be recorded on an inventory record except (a) item's cost, (b) the item's stock number, (c) current amount of inventory, (d) maximum inventory amount.

_____ 3.   The reorder point of an item is (a) the current amount of inventory, (b) the maximum inventory amount, (c) the minimum inventory amount, (d) the date inventory was ordered.

_____ 4.   If inventory is held too long it may become (a) out of stock, (b) deteriorated, (c) obsolete, (d) an insurance risk.

_____ 5.   A low stock report shows (a) that a physical inventory should be taken, (b) the number of units of each item to order, (c) the number of units sold, (d) when items should be ordered.

_____ 6.   The level of inventory you keep in stock depends on (a) the frequency with which you sell your inventory, (b) the cost of carrying inventory, (c) the cost of losing a sale because you are out of stock, (d) all of these.

_____ 7.   The costs of holding inventory are (a) deteriorating costs, (b) fixed costs, (c) carrying costs, (d) stock turnover costs.

_____ 8.   If an item is out of stock, you may (a) increase carrying costs, (b) lose customer loyalty, (c) have higher insurance costs, (d) have to change your inventory method.

_____ 9.   The stock turnover rate (a) shows how many times a year you sell all of your merchandise, (b) is the same for every industry, (c) should be calculated monthly, (d) all of these.

_____ 10.   If the stock turnover rate for your industry is 3, you should keep ___ months worth of inventory in stock at all times. (a) 2, (b) 3, (c) 4, (d) 9.

Problem Solving

1. How does the type of business help to determine the method used for tracking inventory?

2. How does the product or service of a business help to determine the method used for tracking inventory?

3. Explain how carrying costs, out-of-stock costs, and the stock turnover rate each contributes to determining the level of inventory a business should keep in stock.

Inventory Management

The owner of Elizabeth's Kitchen Warehouse has asked you to help evaluate her end-of-year inventory. Below is a list of the items in her inventory along with the price for each. Calculate the yearly sales and the ending value of her inventory based on the number of items left at the end of the year. Then answer the questions that follow to help Elizabeth evaluate her inventory needs.

Description	Beginning Inventory, Jan 1	Ending Inventory, Dec 30	Quantity Sold	Retail Price	Yearly Sales	Ending Inventory Value
Slow cooker	6	4	2	$150.00		
Bamboo pot rack, rectangular	2	2	0	330.00		
Griddle with backsplash	4	2	2	149.00		
Gourmet cutting board w/groove	25	5	20	69.99		
Pepper mill	30	10	20	14.99		
Salt mill	30	10	20	14.99		
Microplane coarse grater	14	6	8	14.99		
Stainless steel measuring spoons	35	15	20	11.50		
Salad spinner	4	3	1	59.95		
Stainless steel garlic press	12	4	8	39.95		
Spatula set	21	6	15	12.95		
Ice cream scoop	40	10	30	19.95		
Pizza wheel	40	15	25	9.95		
Stainless steel mixing bowls	5	4	1	99.99		
Two-cup coffee maker	19	4	15	29.99		
Popcorn popper, 10 cup	21	6	15	49.99		
Toaster	24	4	20	39.95		
Microwave oven	5	1	4	149.95		
Portable electric burner	16	4	12	49.95		
3-piece knife set	21	6	15	29.95		
Ice cube tray set	38	8	30	9.95		
TOTALS						

1. Based on your calculations, which product had the highest sales?

2. Based on your calculations, which product had the lowest sales?

3. Are there any products you think Elizabeth should discontinue selling? If so, list them below and explain why.

4. Based on the ending inventory and the number of items sold last year, which products do you think Elizabeth should reorder for the upcoming year? List them below.

5. Explain why it is important for Elizabeth to manage her inventory. What risks does Elizabeth face if she carries too much inventory or too little inventory?

6. What recommendations would you make to help Elizabeth decrease her carrying costs and reduce the chances of running out of stock?