

## Unit-2

\* Material Control → Material control is the mngt function that is concerned with the storage, handling & use of material to minimize waste & improve inventory accuracy. This process can be beneficial for companies to reduce costs & improve organization and productivity.

Objectives of Material Control → 1) To ensure continuous availability of right quality of material, in the right quantity at the right time.

2) To ensure that there is no excessive investment in materials

3) To ensure materials are purchased at right or reasonable prices

4) To ensure minimum wastage of materials at different stages of handling materials.

\* Purchase Cycle → Purchase Requisition → Exploring the sources of supply → Purchase order → Receiving & inspecting material → checking & passing of Bills for payment.

\* Purchase control → The basic objective of the effective purchase control is to ensure continuity of supply of requisite quantity of material, to avoid hold up of production & loss in production & at the same time reduces the ultimate cost of the finished products.

\* Store control → An imp part of material control. Stores (stock) is an imp current asset. Stores control helps to minimize material cost, loss due to wastage, theft, misappropriation, deterioration, damage etc. Efficient & effective control over stores is essential for cost control. Inventory control means to monitor the stock of goods used for production, distribution and captive (self) consumption.

\* Setting of level of stock → Stock level refers to the amount of goods or raw materials that should be maintained by businesses to continue their activities & avoid any situations like understocking or overstocking. Every organization should always keep an optimum amount of inventory to ensure the regular operation of its production activities.

Inventory acts as a bridge b/w production & sales of business & ensures a regular supply of finished goods to customers.

\* Major types of stock levels of inventory are as follows: →

1) Maximum level → It is the quantity of material beyond which a firm should not exceed its stock. If the quantity exceeds the maximum level limit then it will be termed as overstocking.

2) Minimum level → This represents the quantity that must be maintained in hand at all times. If the stocks are less than the minimum level, then the work will stop due to a shortage of materials.

3) Reorder level → When the quantity of materials reaches a certain level then fresh order is sent to procure

materials again. The order is sent before the materials reach the minimum stock level.

4) Average stock levels → It is the level of <sup>an</sup> average of minimum level and maximum level. It

means the average level is maintained in states.

5) Danger stock levels → This is the level below the minimum stock level. When a stock reaches this level, immediate action is needed to take for the replacement of stock.

\* LABOUR COST → Labour is the most perishable commodity & such as should be effectively utilised immediately. Labour cost control means control on the cost incurred on labour. Labour cost constitutes a significant portion of the total cost of a product manufactured or service rendered. Efficient & effective utilisation of labour, therefore is an important need of the modern business world. To this end, everything concerned with employment & utilisation of the labour force should be looked carefully.

Components → 1) Monetary payments → Basic wages or salary, Dearness allowances, production or profit bonus, Employers contribution to provident fund etc.

2) Non Monetary payments → Medical & health facilities, canteen subsidised meals, education facilities to children of employees, Recreation facilities.

\* Overtime → Overtime is the amount of wages paid for working beyond normal working hours as specified by factories Act or by a mutual agreement between the workers union & the mng. There is a practice is to pay for overtime work at higher rates. Hence, the payment of overtime consist of two elements (i) the normal wages eg → the usual amount (ii) extra payment eg →

## 92 \* Treatment of Overtime premium in CA →

1) If overtime is worked to at the desire of the customer, then overtime premium may be charged to the job directly.

2) If overtime is required to cope with general production program or for meeting urgent orders, the overtime premium should be treated as overhead cost of the particular department or cost centre, which works overtime.

3) If overtime is worked in a department, due to the fault of another department, the overtime premium should be charged to the latter department.

4) Overtime worked on account of abnormal conditions such as flood, earthquake etc. should not be charged to cost but to Costing P/L A/c.

## \* Steps for Controlling Overtime →

1) Entire overtime work should be duly authorized after investigating the reasons for it.

2) Overtime cost should be shown against the concerned departments. Such a practice should enable proper investigation & planning of production in future.

3) If overtime is a regular feature, the necessity for recruiting more men & adding a shift should be considered.

4) If overtime is due to lack of plant & machinery or the other sources, steps may be taken to install more machines, or to resort to sub-contracting.

5) If possible an upper limit may be fixed for each category of workers in respect of overtime.

\* Idle time → Idle time refers to the labour time paid for but not utilized on production. In fact, it represents the time for which wages are paid, but during which no output is given out by the workers. This is the period during which

premium

Workers remain idle. some idle time are controllable & some idle time cannot be controlled in spite of efficient mng

Page: \_\_\_\_\_

Date: \_\_\_\_\_

\* Two types of idle time → 1) Normal idle time →

Normal idle time is inherent in any job situation & thus it cannot be eliminated or reduced.

Treatment → Since normal loss is uncontrollable, the cost of normal idle time should be charged to the cost of production. This may be done by inflating the labour rate. It may also be transferred to factory overheads for absorption, by adopting a factory overhead absorption rate.

2) Abnormal idle time → Abnormal idle time is defined as the idle time which arises on account of abnormal causes. Such an idle time is uncontrollable.

Treatment → Since, abnormal loss is ~~un~~controllable, the cost of abnormal idle time due to any reason should be charged to costing P & L A/c. The main reason for this is to have meaningful comparison of cost of production at different times by keeping away abnormal wages from cost of production.

\* Steps for controlling idle time →

- 1) Vigilance must be exercised to control & eliminate idle time.
- 2) The instructions to the workers should be given in adv so that workers need not wait.
- 3) Plant & machine should be maintained properly so that their breakdown can be avoided.
- 4) The causes of the idle time should be found out & the root cause must be removed.
- 5) Regular & timely supply of raw materials must be made available through a good system of storing materials.