

INVENTORY TRACKING CAN BE SIMPLE

Posted on August 6, 2012

Managers often assume that they should maintain a “perpetual inventory system” to track inventory. That is not always necessary.

Certain small businesses do need detailed inventory tracking:

1. Manufacturers need detailed cost accounting by product, shop floor production tracking, and accurate inventory counts.
2. Retailers and Distributors need accurate inventory counts and good forecasting systems for precise ordering.

But, for most small businesses, the costs of maintaining a detailed inventory tracking system outweigh the benefits. This is especially true if:

1. There are few items in inventory that can easily be reviewed periodically.
2. The value of the inventory is low which does not justify the expense.

Maintaining a detailed inventory tracking system is labor intensive. It usually requires a full-time staff to track purchasing, receiving, production, sales and shipping.

To be useful, the system should be maintained on a real-time basis with up-to-the-minute information. If the inventory system is not up-to-date, then ordering is skewed and shortages and overstocks occur.

For companies whose inventory requirements are simple Bookminders suggests one of two simple methods to track inventory:

1. Track all purchases as cost of goods sold and make a periodic entry to adjust to the actual inventory.
2. Track all purchases as inventory and make a periodic entry to adjust to the actual inventory.

Inventory can be managed by physical controls, such as inventory tags and management oversight. Periodic physical inventory counts (monthly, quarterly, or annually) are always necessary.