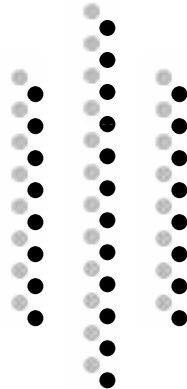


Inventory Policy and It's Effect on Profitability

With Special Reference to

(Comparison Study of Bottlers Nepal Ltd. & Unilever Nepal Ltd.)

A Thesis



Submitted By:

Rajesh Kumar Sah

T.U. Registration No. 7-2-14-636-2003

Exam Roll No. : 140052/066

Class Roll No.:24/064

Ramswarup Ram Sagar Multiple Campus, Janakpur

Submitted To

Office of The Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for The Degree of

Master Business Studies (MBS)

R.R.M. Campus, Janakpurdham

September, 2011

RECOMMENDATION

This is to certify that the thesis:

Submitted by:

Rajesh Kumar Sah

Entitled

“Inventory Policy and It’s Effects on Profitability with special reference to (comparison study of Bottlers Nepal Ltd. & Unilever Nepal Ltd.)” has been prepared as approved by this department in the prescribed format of Faculty of Management.

This thesis is forwarded for examination.

Thesis Supervisor

Signature:.....

Name: Dr. Balram Jha

Date:.....

Chairperson of Research Committee

Signature:.....

Name: Mr. Jugeshwar sah

Date:.....

Campus Chief

Signature:.....

Name: Mr. Vishnu Deo Yadav

Date:.....

VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis

Presented by

Rajesh Kumar Sah

Entitled

“Inventory Policy and It’s Effects on Profitability with special reference to (comparison study of Bottlers Nepal Ltd. & Unilever Nepal Ltd.)” and found the thesis to be the original work of the student & written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master’s Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson, Research Committee

Member (Thesis Supervisor)

Member (External Expert)

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled **“INVENTORY POLICY AND IT’S EFFECTS ON PROFITABILITY with special reference (comparison study of Bottlers Nepal Ltd. & Unilever Nepal Ltd.)”** submitted to Office of the Dean, Faculty of Management, RRM Campus, Janakpur Dham. Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies(M.B.S) under the supervision, Dr. Balram Jha R.R.M. Campus, Janakpur dham.

.....
Rajesh Kumar Sah
(Researcher)
R.R.M. Campus
Janakpurdham

ACKNOWLEDGEMENTS

Thesis is really an appreciable curriculum of T.U. because it helps the students to express their theoretical concept gained during the study period into the practical field. So, being concerned to thesis, I have also got a chance to express my theoretical concept gained from class and library study into this practical field. The present study **“INVENTORY POLICY AND IT’S EFFECTS ON PROFITABILITY with special reference (comparison study of Bottlers Nepal Ltd. & Unilever Nepal Ltd.)”** has been prepared for the partial fulfillment of the requirement for Master Degree in Business Studies.

At first, I would like to pay thanks to my father and mother as well as my brother who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance, today I come in this position. So I would like to share the credit of my success with them. I’m really indebted by them.

After this, I would like to express my cordial gratitude to my all teachers. For this dissertation, I would like to pay my sincere thanks to my thesis Supervisor –**Dr. Balram Jha**, R.R.M. Campus. His incessant suggestion and guidance from the beginning to the end is really an appreciable effort.

I would also like to express my gratitude to all other members of R.R.M. Campus, Janakpurdham, especially, staffs from MBS department, libraries staffs as well as all known and unknown people who supported as well as inspired me to complete this thesis. Similarly, I am very grateful to my respective Big Brother Mr. RajKumar sah and Mr. Naval Murarka.

Last but not least I am greatly indebted by my all friends and family members. In this regard, I’m grateful to my friend’s Mr. Mahesh Mahato and other friends for their motivational effort and support even though they have very busy hour.

Advices, Recommendations and suggestions are whole-heartedly welcome. Thanks,

Rajesh Kumar Sah
(Researcher)
R.R.M Campus
Janakpur Dham

TABLE OF CONTENTS

Page no.

RECOMMENDATION	
VIVA-VOCE SHEET	
DECLARATION	
ACKNOWLEDGEMENT	
TABLE OF CONTENTS	
LIST OF TABLES	

CHAPTER – I

INTRODUCTION	1-10
1.1 General Background	1
1.2 Focus of the Study	4
1.3 Statement of Problems	6
1.4 Objective of the Study	7
1.5 Importance of the Study	8
1.6 Limitation of the Study	8
1.7 Organization of the Study	9

CHAPTER – II

REVIEW OF LITERATURE	11- 57
2.1 Conceptual Framework	11
2.1.1 Inventory Management	11
2.1.2 Objective of Accounting of Inventory	13
2.1.3 Types of Inventories	17
2.1.4 Purpose of Holding Inventories	18
2.1.5 Needs and Importance of Holding Inventories	19
2.1.6 Inventories Management Functions	20

2.1.6.1 Purchasing	21
2.1.6.2 Store Keeping	24
2.1.6.3 Issuing and Pricing	26
2.1.7 Inventory Valuation Method Under Cost Basis	26
2.1.7.1 Specific Identification Method	27
2.1.7.2 Weighted Average Cost/ End-of the month Method	28
2.1.7.3 First-In-First-Out Method (FIFO)	29
2.1.7.4 Last-In-First-Out Method (LIFO)	29
2.1.7.5 Standard Cost Method	30
2.1.7.6 Base Stock Method	30
2.1.8 Inventory Control	31
2.1.8.1 Objective of Inventory Control	33
2.1.8.2 Selective Inventory Control (ABC Analysis)	33
2.1.8.3 VED Analysis	35
2.1.9 Inventory Management Techniques	36
2.1.9.1 Economic Order Quantity Sub-system	37
2.1.9.2 Re-order point Sub-system	42
2.1.9.3 Safety Stock Level	43
2.1.9.4 Stock Level Sub-system	43
2.1.10 Inventory Cost	45
2.1.10.1 Carrying/Holding Cost	46
2.1.10.2 Ordering Cost	48
2.1.10.3 Stock Out Cost	50
2.1.11 Inventory Cost Control	50
2.2 Review of Selected Studies in Nepal	52

CHAPTER – III

RESEARCH METHODOLOGY	58-68
3.1 Research Design	58
3.2 Nature and Sources of Data	59
3.3 Population & Sample	59
3.4 Method of Analysis	60
3.4.1 Ratio Analysis	61
3.4.2 Percentage and Index	63
3.4.3 Mean	64
3.4.4 Standard Deviation	64
3.4.5 Coefficient of Regression	64
3.4.6 Coefficient of Determinants	64
3.4.7 Regression Analysis	65
3.5 Limitation of Method	67

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA	69-99
4.1 Percentage and Index	69
4.1.1 Inventory Stock Position of BNL and ULNL	69
4.1.2 Trend of Profit & Sales in BNL	70
4.1.3 Trend of Profit & Sales in ULNL	71
4.1.4 Trend of Sales & Total Costs in BNL	73
4.1.5 Trend of Sales & Total Costs in ULNL	74
4.2 Ratio Analysis	75
4.2.1 Inventory Turnover Ratio	75
4.2.2 Inventory to Current Assets Ratio	76
4.2.3 Inventory to Total Assets Ratio	77
4.2.4 Return on Net Worth	78

4.2.5 Return on Total Assets	79
4.2.6 Net Profit Margin	80
4.3 Correlation Analysis	81
4.3.1 Correlation between Inventory & Profit	82
4.3.2 Correlation between Sales & Inventory	82
4.3.3 Correlation between Inventory & Current Assets	83
4.3.4 Correlation between Inventory & Total Assets	83
4.3.5 Correlation between Net Worth & Net Profit	84
4.3.6 Correlation between Net Profit & Total Assets	85
4.3.7 Correlation between Sales & Net Profit	85
4.4 Simple Regression Analysis	86
4.4.1 Simple Regression Analysis of Inventory on Sales	86
4.4.2 Simple Regression Analysis of Inventory on Profit	87
4.4.3 Simple Regression Analysis of Profit on Sales	88
4.4.4 Simple Regression Analysis of Net Worth on Profit	89
4.5 Multiple Regression Analysis	89
4.5.1 Multiple Regression Analysis of Inventory on Sales & Profit	90
4.5.2 Multiple Regression Analysis of Profit on Inventory & Sales	93
4.6 Major Findings	96

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS	100-103
5.1 Summary	100
5.2 Conclusion	101
5.3 Recommendations	102
Bibliography	
Appendix	
Abbreviations	

LIST OF TABLES

S.N.	Table	Title	Page (59-94)
1.	3.1	Number of Enterprises Selected for the Study	59
2.	3.2	Number of Observations Selected from Manufacturing Enterprises	60
3.	4.1	Inventory Stock Position BNL and ULNL	69
4.	4.2	Trend of Profit and Sales in BNL	70
5.	4.3	Trend of Profit and Sales in ULNL	71
6.	4.4	Trend of Sales and Total Cost in BNL	73
7.	4.5	Trend of Sales and Total Cost in ULNL	74
8.	4.6	Inventory Turnover Ratio	76
9.	4.7	Inventory To Current Assets Ratio	77
10.	4.8	Inventory To Total Assets Ratio	78
11.	4.9	Return on Net worth	79
12.	4.10	Return on Total Assets	80
13.	4.11	Net Profit Margin	81
14.	4.12	Correlation between Inventory & Profit	82
15.	4.13	Correlation between Sales & Inventory	82
16.	4.14	Correlation between Inventory & Current Assets	83
17.	4.15	Correlation between Inventory & Total Assets	84
18.	4.16	Correlation between Net worth & Net Profit	84
19.	4.17	Correlation between Net Profit & Total Assets	85
20.	4.18	Correlation between Sales & Net Profit	86
21.	4.19	Simple Regression Analysis of Inventory on Sales	87
22.	4.20	Simple Regression Analysis of Inventory on Profit	87
23.	4.21	Simple Regression Analysis of Profit on Sales	88
24.	4.22	Simple Regression Analysis of Net worth on Profit	89
25.	4.23	Multiple Regression Analysis of Inventory on Sales and Profit for BNL	90
26.	4.24	Multiple Regression Analysis of Inventory on Sales and Profit for ULNL	91
27.	4.25	Multiple Regression Analysis of Profit on Inventory and sales for BNL	93
28.	4.26	Multiple Regression Analysis of Profit on Inventory and sales for ULNL	94

LIST OF FIGURES AND GRAPHS

Figure No.....1.....	Graphical Presentation of ABC Analysis	35
Figure No.....2.....	EOQ Functions	41

ABBREVIATIONS

FIFO	:	First-in-First-out
LIFO	:	Last-in-First-out
U.S	:	United States
IFRS	:	International Financial Reporting System
GAAP	:	General Accepted Accounting Principle
USA	:	United State of America
VED	:	Vital, Essential and Desirable
EOQ	:	Economic Order Quantity
TCC	:	Total Carrying Cost
LC	:	Letter of Credit
TOC	:	Total ordering Cost
LTD.	:	Limited
PEs	:	Private Enterprises
HTI	:	Hetauda Textile Industries
I	:	Inventory
BNL	:	Bottlers of Nepal Ltd.
ULNL	:	Unilever Nepal Ltd.
ITR	:	Inventory Turnover Ratio
CA	:	Current Assets
ITA	:	Inventory Total Assets
RTA	:	Return on Total Assets