

Material Cost Interview Questions And Answers Guide.



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Material Cost Job Interview Preparation Guide.

Question # 1

Do you know what are the techniques of inventory control?

Answer:-

The techniques of inventory control are:

- Economic Order Quantity
- Fixation of Inventory Levels
- Maximum Level
- Minimum Level
- Average Level
- Re-order Level
- Danger Level

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Question # 2

What is Maximum level?

Answer:-

This is the top level which indicates that level of material stock should not exceed this level. If it does, it may involve blocking of funds in inventory which may be used for some other useful purposes. This level is fixed after considering following factors:

- Maximum Usage
- Lead Time
- Storage facilities available
- Prices of material
- Other various costs involved like insurance, storage cost etc.
- Availability of funds for procurement of materials
- Nature of material
- EOQ

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Question # 3

What is Minimum level?

Answer:-

This level is fixed below the re-order level but above the danger level. The level of stock should not be reduced below this level. If it does, then it involves the risk of non availability of material whenever required. This level is fixed after considering two factors: Rate of Consumption and Lead Time.

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Question # 4

What is perpetual inventory system?

Answer:-

Perpetual inventory system - is a system under which continuous stocking takes place. This system is implemented by the large manufacturing units. It aims at maintaining bin cards and stores ledgers to know the quantity and value of the stock at any point of time which ensures that the physical balance and the book balance tallies. By systematically maintaining perpetual inventory system discrepancies can be easily located and can be adjusted in time. It also enable in locating slow and non-moving items and to take action for the same.

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Question # 5

What is Average Price Method?

Answer:-

Average Price Method - is the method by which the value of total assets or expenses is assumed to be equal to the average cost of the total assets or expenses. Under this method, it is assumed that the cost of inventory is based on the average cost of the goods available for sale during the period. It is computed by dividing the total



cost of goods by the total units which gives a weighted average unit cost for the units of the closing inventory.

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Question # 6

Do you know what can be the reasons for bin card and stores ledger not getting reconciled?

Answer:-

The following can be the reasons for bin card and stores ledger for not getting reconciled:

- Arithmetical error in calculating balances of the sheets.
- If posting of the transaction has been made on wrong bin card or stores ledger sheet.
- If issues transactions are treated as receipt transaction or vice versa, then this may create the difference in both the balances.
- Non posting of certain amount in any of the sheets.

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Question # 7

What is Single Tender?

Answer:-

Single Tender : When only one source of supply is available then single tender is addressed to the selected supplier.

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Question # 8

What is Limited Tender?

Answer:-

Limited Tender : This type of tender is addressed to a limited number of suppliers, who are the reliable source of supply.

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Question # 9

What is Global Tender?

Answer:-

Global Tender: is open to anybody from any part of the world to supply the required quantity and quality of materials.

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Question # 10

Explain ABC Analysis?

Answer:-

ABC analysis means 'Always Better Control' is a technique which classifies the various items of inventory according to their importance. It is an analytical method of inventory control which concentrates on the most significant inventory items. For example: A class consists of those items which are less in number but most important in nature. B class consists relatively less important items. C class consists of large number of items which are less important.

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Question # 11

Explain ABC Analysis advantages?

Answer:-

The importance of various items is decided on the basis of following factors:

- Critical nature of inventory
- Amount of investment
- Value of material consumed.

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Question # 12

How to calculate the following inventory levels?

Answer:-

- Re-order level = Maximum Lead Time x Minimum Lead Time
- Maximum level = Reorder Level + Reorder Quantity (Minimum Usage x Minimum Lead Time)
- Minimum level = Reorder Level (Normal Usage x Normal Lead Time)
- Danger level = Maximum Level x Lead time for Emergency purchases

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Question # 13

What is Weighted Average Method?

Answer:-

Weighted Average Method - is the method of calculation in which the weighted average of both the lot sizes as well as the prices of the lot. This method is best for valuing material issues. This method is very useful where the prices and quantities of items vary. Practically, this method is very simple to calculate.

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Question # 14

Tell me what can be the discrepancies in material receipt?

Answer:-

There are two categories of material discrepancies:

First category includes-

- Quantity received in excess
- Quantity received in short
- Quantity damaged

-Receipt of incorrect quantity of material.

These discrepancies are normally caused by the transportation system.

Second category includes "Discrepancies in quality of material supplied.

These discrepancies are caused by the manufacturer.

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Question # 15

What is valuation of receipts?

Answer:-

Valuation of receipts is the price billed in the invoices by the supplier. Following points should be kept in mind for this purpose:

-The trade discount is deducted from the basic price and all other amounts as billed by the supplier are added, like excise duty, sales tax, octroi duty, etc.

-Joint costs may be distributed on the basis of the basic price of the material.

-In case of imported material, the cost of the material consists of a basic price, customs duty, clearing charges, transport charges, etc.

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Question # 16

What is Fixation of inventory levels?

Answer:-

Fixation of inventory levels facilitates easy maintenance and control of various materials in a proper way. However, following points should be remembered: Only fixation of inventory levels does not facilitate inventory control. A constant watch on the actual stock level of materials should be kept so that proper action can be taken in time. The levels which are fixed are not for permanent basis and are subject to regular revision.

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Question # 17

What is Valuation of issues?

Answer:-

Valuation of issues is a complex process because the material may be issued out of various lots which might have been purchased at various prices. Following methods are used for this purpose:

- First in First out (FIFO)
- Last in First out (LIFO)
- Average Price Method
- Simple Average Method
- Weighted Average Method
- Highest in First out
- Market Price
- Specific Price
- Standard Price

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Question # 18

What is Re-order level?

Answer:-

This level is fixed between maximum and minimum level in such a way that the requirement of materials for the production can be met properly till the fresh supply of material is received. This level of material stock indicates that steps should be taken for procurement of further lots of material.

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Question # 19

Explain the steps in procurement of material?

Answer:-

Following are the steps in procurement of material:

Purchase Requisition is an indication to the purchase department to purchase certain material required for the production. Following particulars appear in the purchase requisition

- Material to be purchased
- When it is required
- How much to be purchased
- Selection of Source of Supply
- Single Tender
- Limited Tender
- Open Tender
- Global Tender
- Purchase Order
- Description of Materials to be supplied



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- Quantity to be supplied
 - Cash and trade discount Rates at which materials are supplied
 - Additional charges e.g. Excise duty, Sales tax, packing charges, insurance Instructions in respect of delivery
 - Guarantee clause
 - Inspection clause
 - Method of settlement of disputes
 - Terms of payment Receipt and Inspection
 - After the receipt of materials, inspection of the material is done. Inspection of materials means that the quantity actually received is compared with the quantity ordered; also the quality of the material is inspected.
- Invoice received from the supplier is compared along with the purchase order, goods received note and inspection note.

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Question # 20

What is bills of materials?

Answer:-

Bill of materials - is the list of all materials including all the details and quantity as required for a job or production process. This is prepared by the production department as soon as the order for the job is received. This also ensures proper inventory control. It gives an indication to the purchase department about the materials to be purchased if there is any shortage of material in the stores. A bill of material prepared in advance serves a base for quoting the price of the job.

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Question # 21

What is Danger level?

Answer:-

This level is fixed below minimum level. If the stock reaches this level an immediate action must be taken by the company in respect of getting supply. This level indicates a panic situation for the company as it has to make purchases in a rush which may involve higher costs.

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Question # 22

What is Economic Order Quantity (EOQ)?

Answer:-

Economic Order Quantity (EOQ) is the quantity which is fixed in such a way that the variable costs for managing the inventory can be minimized. This consists of two parts: Ordering Cost and Carrying Cost. Ordering cost consists of all the costs associated with the administrative efforts connected with preparation of purchase requisitions, enquiries, filing tenders, and comparative statements etc. which are incurred in ordering materials. Carrying cost consists of all the costs which are incurred in carrying or holding the inventory like godown rent, insurance handling expenses etc. There is an inverse relationship between ordering cost and ordering cost. An effort should be made to balance both the costs, which is possible at Economic Order Quantity where the total variable cost of managing the inventory is minimum.

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Question # 23

What is Valuation of returns?

Answer:-

Valuation of returns indicates the material returned by the production department to stores department. This valuation is done on two basis:

- At the same price at which issued
- At the current price of issues

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Question # 24

Can you please explain the difference between Bin Card and Stores Ledger?

Answer:-

- Bin Card is a quantitative record of the individual item of its receipts, issues and closing balance whereas Stores Ledger records both the quantity and cost of receipts, issues and balances of item of material received.
- Bin Card is prepared by stores department whereas Stores Ledger is prepared by costing department.
- In Bin Card system, entries are made immediately after each transaction. In Store Ledger, entries are made periodically.
- In Bin Card, postings are made before a transaction. In Store Ledger, posting is made after a transaction.
- Bin Card is kept attached to the bins inside the store as to enable to identify the stock. Store Ledger is kept outside the store.

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Question # 25

What is Open Tender?

Answer:-

Open Tender : is open to all the suppliers within the country who can supply the required quantity and quality of materials. Such invitation is made by advertising in newspapers, journals etc.

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Question # 26

Can you please explain why should over stocking be avoided?

Answer:-



Due to the following consequences over stocking should be avoided:

- Funds get blocked which could be used elsewhere
- More storage facilities are required
- High costs of storage and maintenance
- Deterioration of quality and obsolescence of stock
- High Insurance cost More security and safety measures.

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Question # 27

Tell me what can be the consequences of under stocking?

Answer:-

The following can be the consequences of under stocking:

- Production process cannot be operated efficiently, resulting delivery schedules.
- Firm may end up paying an idle labour force due to the production hold ups.
- Organisation may loose its important customers, due to the delay in meeting customers' orders.
- Unfavourable prices and quality Increased administration costs.
- Due to under stocking it will not be easy for the organisation to meet the unexpected demands of customers.

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