ASSESSMENT OF INVENTORY MANAGEMENT PRACTICE IN MANUFUCTURING SECTOR MICRO AND SMALL ENTERPRISE IN CASE OF METAL AND WOOD WORK ENTERPRISE IN WOLKITE TOWN

A RESEARCH PAPER SUBMITTED IN PARTIAL FULFILLMNET OF THE REQUIRMENTS FOR THE AWARD OF BACHELOR OF ART DEGREE (BA) IN ACCOUNTING AND FINANCE

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Abstract

This study aimed to empirically examine the factor that affects inventory management practice on firms' competitiveness and organizational performance. The main objective of the study was to assess the inventory management practice of in micro and small enterprise at wolkite town, to achieve the objective of the study all necessary data have been collected from primary and secondary data. Questionnaires have been distributed to employees of the enterprise who have direct contact with inventories working at purchasing, marketing and warehouses.

so as to identify areas of improvement Data for the study were collected from 95micro and small enterprises operating in manufacturing sub sectors. The results indicate that higher levels of inventory management practice can lead to enhanced competitive advantage and improved organizational performance. Also, competitive advantage can have a direct, positive impact on organizational performance. Therefore, it is recommended for policy makers, universities, NGOs and any concerned party who are engaged in supporting of micro and small enterprises need to work in providing the necessary training and resource to promote the inventory management practice of Micro and small enterprise which will result in increasing their competitiveness and organizational performance. That would enhance their contribution to economic development of the country. Note that, the conclusion obtained from this study may not be used to generalize to large and medium scale as well as overall sectors since its focus is only from the Micro and small enterprise manufacturing sub sector points of view.

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CHAPTER ONE

1. Introduction

1.1 Back ground of the study

Inventory consists of the most important elements in any system dealing with the supply, manufacture and distribution of goods and services. Inventory is the store of goods, which is used for selling, or materials input in production process to final output. Inventories are consisting of goods own by a business and held either for use in the manufacture of products or as products a waiting for sale (Keiso and Weygandt, 1998).

Inventories are parts of the business asset that are vital for operation and contributed for customer's satisfaction. Also are stock of raw materials, work in process and finished goods that appear at numerous points through a firm's production (Ballsu, 2004).

Holding inventory is often interpreted as carrying on asset, but also means carrying risk in terms of obsolescence deterioration axed quality faults in financial terms. Inventory impacts the balance sheet, cash flow, profit and loss accounts. Operationally inventory affects production efficiency and identifies a key component for measuring business performance in manufacturing environment (Coldratte, 1999).

Inventory management refers to the events or activities that affect inventory during the process of transferring input resources and materials in to out puts. Also, it refers to the process by which the enterprise manages the stock of goods (finished and semi-finished products) and raw materials. Inventories need good attention in the control system of the enterprise. There must be adequate control over both physical movement and related costs. As inventories usually constitute the largest working capital of the company and very susceptible to major errors and irregularities. Therefore, they need strong and closer follow up (Brigham, 2002) Inventory management is the planning, coordination and controlling activities related to the flow of inventories in to through

and out of enterprise (Mousech A. N, 1999). The purpose of inventory management is to maintain inventory as such level that the goal and objective of the enterprise is achieved.

1.2 Statement of the problem

Inventory management is defined as the process of controlling and managing the enterprise inventory in order to accomplish the specific and general goal of the enterprise. It is a means by which an enterprise resources are directed, monitored and measured and it play an important role in preventing and testing fraud and protecting the enterprise tangible and in tangible assets (Stephenson and Ross. 1998) fundamentals of corporate finance

Gurage zone is endowed with many micro and small-scale enterprises. Wolkite town is also one of the towns, which is endowed with this sector in this zone. In addition to this, there is good

Weather condition, which is favorable for many youth and entrepreneurs who want to engage in this enterprise. But, the growth. Status of the nature of micro and small-scale enterprises of metal and wood work in the area will determine major problems and possible solutions will be identified and concrete information will be identified and gathered and can also be documented for improvements of the performance of micro and small-scale metal and wood work enterprises highly. The growth entrepreneurship in Wolkite town will be led to increase in the number of micros and small-scale metal and woodwork enterprise in the town. Micro and small-scale enterprises play a key role in economic development and contribute to the large extent to employment and poverty reduction in the town. The statement of the problem was mainly, to identify the factors that affect the performance of micro and small-scale metal and wood work enterprise in this zone in case of Wolkite town and the role of micro and small-scale metal and wood work enterprises in economic development in case of this town.so the researcher try to assess the factor that affect the performance of micro and small enterprise in metal and wood work. Such as financial problems, lack of qualified employees, lack of proper

financial records, marketing problems and lack of work premises. The current researcher would try to fill the aforementioned gaps by doing study on related issues.

1.3 Objective of the study

1.3.1 General objective

The general objective of this study is to assess the inventory management system of metal and woodwork of the enterprise in Wolkite town.

1.3.2 Specific objectives

Based on the general objective the following specific objectives were addressed in this study:

To identify the factors that affects the inventory management system.

To find out what type of inventory management the enterprise has.

To review the main features of the inventory management system.

1.4 Research questions

In line with the statement of the problem stated above the following research, questions would rise in this study:

1. What factors affect the inventory management system of the enterprise?

2. What kind of inventory management system the enterprises have?

3. What features does the inventory management system of the enterprise have?

1.5 Scope of the study

This study was focused on inventory management practices in micro and small enterprise in Wolkite town involved in metal and woodwork.

1.6 Significance of the study

The significance of this study would help for the management of the enterprise in order to identify possible risk of failure they can made by employees in relation to the inventory management of the metal and wood work enterprise of the Wolkite town. Enable the managers aware of the inventory management importance. It was help for the auditors of the metal and woodwork enterprise of the Wolkite town to know their roles. From this study stakeholder would get benefits like: They were getting more knowledge about how to manage the inventory, the significance of inventory management and the role of effective inventory management financial position of the metal and woodwork enterprise of the Wolkite town.

1.7 Limitation of the study

One research work can't be found without any problem, so in conduct of this study many constraints will be faced. These constraints are: lack of time, lack of resources, lack of experience, lack of finance, data collection and communication with the people and the class schedule is not suitable.

1.8 Organization of the study

This study is organized under the five main chapters. In the first chapter deals with an introduction, background of the study, statement of the problem, objective of the study, scope and limitation of the study, significance of the study, organization of the study. The second chapter will have the literature review; the third chapter will include methods and research methodologies; the fourth chapter have the data analysis and presentation. Finally, the fifth chapter will provide the conclusion and recommendation of the study.

CHPTER TWO
2. REVIEW OF RELATED LITRATURE

2.1 Definition of inventory

Inventory refers to the accumulation of items or goods required by the enterprise for its production or service. An inventory may be defined as a stock of resources such as raw materials, semi-finished product ready for delivery to consumers' human resources such as: un used labor financial resource such as working capital. For many enterprises inventory represents as idle resources of field up capital depending up on the type of the enterprise. Also, inventory is one of the largest assets of an enterprise in manufacturing business. Inventory is converted in to cash within the enterprise operating cycle and therefore, is regarded as current asset in the balance sheet. Inventory is listed immediately after account receivable, because it is just one step further removed from conversion in to cash than account receivable (Hilton and RonaldW, 1994).

2.2 Importance of Inventory

The importance of inventory to the enterprise: -it provides and maintains good customer service, enables smooth flow good through the manufacturing process, ensures a reasonable and economical utilization of equipment and labor, and provides discount due to build purchases.

2.3 Classification of inventories

According to J. David and James F, 1998 inventories are classified to the following categories: Merchandise inventory**: -** acquires inventory for resells to the customers the cost of merchandizing inventory includes the purchase price plus any other costs necessary to get the goods in condition and location of sale, and manufacturing inventory: -it actually produce the goods that they sell to whole sellers, retailer or other manufactures normally it consists of three types of inventory. These are: raw materials: - refers to the cost of component purchase from the other manufactures would become part of the finishing product. Work in process: - refers to product that is not let completed. Finished goods: - are completed parts that are ready for customer order (J.

David and James F, 1998).

2.4 Need to hold inventories

Maintaining an inventory involves tying up of the company's funds and incurrence of storage and holding costs. There are three general motives for holding inventories (Pandey, 1999). those are: transaction motives: -emphases the need to maintain inventories to facilitate smooth production and sales operation. Precautionary motives: -necessitates holding inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors. Speculative motives: -influences the decisions to increase or decrease inventory levels to take advantage of price fluctuations.

2.5 Nature of inventory

Inventory consists of goods healed for customers partially computed goods, materials and supplies to be used in production. Inventory items are acquired and sold continuously by merchandise enterprise or acquired palace of production, convert to finished product and sold by the manufacturing enterprise (Mousech, 1999). There are two system of recording inventory. These are**:** periodic inventory system: -it relies on a physically count of goods on hand as a base for control management decision and financial accounting. Although this system may give accurate result resort on specific data, there is no consciously record of inventory. Perpetual inventory system: - requires continuous record of all receipts and with drawls of each items of inventory. When perpetual system is used physical count of goods owned by a business enterprise must be made periodically to verify the accuracy of the inventory (Mousech, 1998).

2.6 inventory valuation methods

2.6.1 Inventory cost flow assumption

If the items in the inventory are homogeneous in nature, is not necessary for the seller to follow cost flow assumptions. But if the inventories are heterogeneous, they must to follow the cost flow assumptions. There are three widely used assumptions. These are*:* Average cost*:*- it assumes that the cost of goods sold and the ending inventory consists

of a mixture of all the goods available for sale. The average unit cost applied to goods sold or to ending inventory is not simply and the average of the various unit cost of purchases during the period. But the average unit cost is weighted by the number of units acquired at the various unit prices. Weighted average method is based on the assumption that goods sold should be charged at an average cost, weighted by the number of units acquired at each price. FIFO: - this method assumes that the goods first added to the inventory are assumed to be the first to be the goods removed from the inventory for sale. Based on the assumption that cost should be charged to expense in which the costs are incurred, inventories are stated in terms of the most recent cost, expenses are charged with costs considered applicable to the goods actually sold and ending inventories are reported in terms of most recent costs. LIFO: - this assumption states that the goods last added to the inventory are assumed to be the first goods removed from the inventory for sale. Based on the assumption that the last cost of a specific item should be changed to cost of goods sold and inventories are stated at earliest costs (CharlesT.horngran, Gray L.sundem and William O. Stratton, 1999).

2.6.2 Cost to be included in the inventory

There are two costs that included in the inventory. These are: product costs: - are these costs that attach to the inventory and are recorded in the inventory account. These costs are directly connected with the beginning of goods to place of the buyer and converting such goods to a sealable condition. Such changes would include frights charges on goods purchase, other direct costs of acquisition, labor and other costs of production. Periodic costs: -are selling expenses under ordinary circumstance, generally administrative expenses are not considered to be a part of inventories (Garrison managerial accounting, 1996).

2.6.3 Physical quantities (goods) included in the inventory

Regardless of the system used for the measurements of inventory and cost of goods sold starts with determining the physical quantities of goods technically, purchases should be recorded when legal title to the goods pass to the buyer. The item that is included in the inventory to determine actual quantity on hand at the end of the

accounting periods are presented in three categories. Such as: goods in transit: - at the end of a reporting period, it is important to ensure a proper inventory cut off. This means determining the ownership of the company and its suppliers. Goods that are in store: - elsewhere in the premises of the enterprise, there is no question as. Goods on consignment: sometimes a company arranges for another company to sell its product under consignment. The goods are physically transferred to other consignee, but the consigner retains legal title until the commodities are sold. Goods held on consignment are included in the inventory of consigner until sold by the consignee (Kieso Donald, 1998).

2.7 Internal control of inventories

Inventories are usually the largest current asset of merchandising and manufacturing business. Fur there more, the very nature of inventories makes them subject to theft and to major errors and misstatement. The large amounts involved, coupled with the rapid turnover of inventory items and the variety of alternatives valuation methods make it possible for a major shortage to occur in inventories without attracting immediate attention. To provide the strong internal control procedures needed to protect inventories, the various physical functions involved in acquiring and holding goods should be assigned to separate departments. Assuring reliability in the amount reported as an inventory and cost of products sold is an annual audit by a CPA firm. For a given level of inventory, the efficiency of inventory control affects the flexibility of the firm. For essentially identical firms with the same amount of inventory may have significantly different degree of flexibility in operation due to difference in inventory control. No cost accounting system can become effective without proper and efficient control of inventory. Inventories are similar with cash and any theft, waste and excessive use of inventories are immediate and direct financial losses. To provide the strong internal control, the physical function involved in acquiring and issuing inventories (Meigs&Meigs, 1995).

2.8 Costs of inventory

Whenever costing decisions are made the cost of having inventory must be compared

with the cost of not having inventory. Inventory models compute these costs total them and search for a policy or an alternative solution that minimizes the total cost. The following are the main types of inventory costs. Carrying (holding) cost: these are costs associated with handling or possessing inventories. Carrying costs include handling charges, costs of storage facilities such as warehouse rentals, the cost of equipment used to handle inventory, labor and operating costs. Carrying costs increase when inventories decrease. The best way of minimizing carrying costs is to keep minimum inventory in the stock. Ordering costs: - there are costs associated with processing order such as managerial, clerical, material, telephone, mailing and accounting, transportation inspecting and receiving costs. These costs are the variable costs of placing an order to the goods. Material costs: -these are costs of purchasing the goods plus transaction and handling costs. Setup costs*:* there are costs associated with arranging a production run. Stock out (shortage) costs: - these are costs created due to shortages created in inventory at time and place of need. Stock out cots include lost sales, cost associated with substitution of less suitable or more expensive parts or materials, rescheduling and expediting cost labor and machine idle time etc. Stock out costs increases if the firm suffers frequently shortage of inventory. To minimize stock out costs the organization must keep sufficient level of inventory in its stock. Large Inventories result with high carrying costs but low stock out costs (Frederick S. hilier and Gerald J. Liberman, 2000).

2.9 Inspection of inventories

Goods received should be inspected for quality to ensure that they comply with specifications stated on the purchase order. The purpose of inspection is to check on the quality of the materials bought. Therefore, inspection should carry by independent department. Where material received are damaged or are not in accordance with the specifications, these are usually returned to the supplier along with a debit note, informing him that his account has been debited with the value of materials concerned. When the goods received are rejected in full or in part; a rejection form is raised. On rare occasions, materials once passed by the inspection and taken in to stock are also

rejected (Arora, 1998)

2.10 Inventory management

Is the planning, organizing, and controlling activities focused on the flow of inventory in to through and from the organization. The task of inventory control is a part of management function named materials management, which is consumed with acquisition, distribution, storage and disposal of inventories and parts in the organization. So, many decisions are fall under the inventory management umbrella (Horn green, 1994)

2.11 Objectives of inventory management

The basic objectives of inventory management are : making the required quantitative and qualitative inventories and services available at the required time and place as to ensure the balance flow of inventors at all time, to ensure proper control over inventories in order to minimize costs, to ensure captivity of supply to avoid the idle time of employees and a machine those push up over all costs of operation or production, to ensure good supplier relation by providing them fair treatment that is stimulating the suppliers for better performance. So as ensure continuous supply, counseling services to management this involves keeping top management aware of costs involved in the organization's procurements and any market changes that could affect the organization out puts or growth potential cost benefit analysis, and to achieve maximum integration with the other departments of the organization. This includes understanding the needs of using departments and translates these needs in to materials support action (R.Leenders, Fearon and England, 1992).

2.12 Benefits of inventory management

Inventory management can help to business to be profitable by lowering their costs of goods sold or by increasing sales. It is also important to improve customer service, to provide required creditability, to improve resources control, to improve employee morale and to enhancement of communication (L. magad and Amos, 1999).

2.13 Problem of inventory management

There are many problems that challenged the proper management of inventory, some of them are: -lack of qualified managers, lack of capable mangers with board experience and knowledge of various sub functions, improper planning and implementation, and lack of credibility due to inadequate service or information, delay of delivery and shortage of materials (L. magad and Amos ,1999).

2.14 Techniques of inventory management

The goal of inventory management is usually framed as cost minimization to manage inventories efficiently and effectively. The firm should determine the optimum level of inventory. There are different techniques of inventory management such as:

2.14.1 Economic order quantity (EOQ) system

Economic order quantity is the optimal quantity to be purchase at one lot that minimizes the cost of inventory in a year. It is the best-known approach to explicitly of establishing an optimal inventory level. This optimum inventory size is referred as EOQ. It is the order size at which annual total cost of ordering and carrying are the minimum. The total relevant costs for determining optimum EOQ are the sum of the ordering and carrying costs.EOQ answers the questions how much should be order each time when should it be ordered, what will be total costs, what will the average inventory level be, and what will be maximum inventory level be (Samantal Hettihewa,1997).

2.14.2 Always better control (ABC) approach

The ABC approach is a simple approach to inventory management where the basic idea is to divide inventory in to three groups. The underlying rational is that a small portion of inventory of quantity might represent large portion of inventory value. The ABC approach classification ensures that the products with the greatest savings. Potential from inventory planning receive the most attention products classified as “A” are the best candidates for the continues reveal inventory system.

Products classified as “B” is good candidates for the periodic review, and those classified as “C” justify simple inventory plan or the least attention (Samantala

Hettihewa, 1997).

2.14.3 Just- in- time (JIT) purchase system

Just in time purchase is the purchase of goods such that delivery immediately precedes demand or use which means no inventory would be held. Just in time purchase is a modern approach to managing dependent inventories. It is the purchasing of goods or materials such that delivery immediately precedes demand or use. As the name implies that the basic goal just in time purchase is to have only enough inventories on hand to meet immediate needs. The result of just in time system is that inventories are recoded and restocked frequently (Samantala Hettihewa, 1997).

2.15 Audit of the year end physical inventory count

The problem of accounting for inventory is highlighted at the enterprise year end. This is when the closing inventory system figures to be shown in both the income statement and balance sheet are calculated. In practice, the company will assess the final inventory figure by physically counting all inventory held by the company for trade .The year-end inventory count is therefore an important accounting procedure, one in which the auditors are especially interested .The auditor generally attends the inventory count to various the physical quantities .At the inventory count, value are rarely assigned to inventory items, so that problems facing the auditor relate to the identification of inventory items, their ownership, and their physical condition(Barry Elliot and Jamie Elliot,2007).

2.16 Identification of inventory items

The auditor would visit many enterprises in the course of a year and would spend a considerable time looking at accounting recodes. However, it is important for the auditor also to become familiar with each enterprise product by visiting the shop floor or production factices during the audit. This makes identification of individual's inventory items easier at the year end. Distinguishing between two similar items can be crucial where there are large differences in value (Barry Elliot and Jamie Elliot, 2007)

2.17 Owner ship of inventory items

The year-end cut off point is important to the final inventory figure, but the business activities continue regardless of the year end. And some accounting has been taken of this. Hence the auditor must be aware that the recording of accounting transactions may not consider with the physical flow of inventory. Inventory may be in one or two location: included as part of inventory; or in the loading by area waiting as part of inventory; or in the loading by area waiting dispatch or receipt. The auditor must be aware of all these possibilities and must be able to trace a sample of each inventory entry through to the accounting records, so that: if the purchase is recorded but not sale, the item must be in inventory, and of sale is recorded, purchase must also be recorded and the item should not be in inventory (Barry Elliot and Jamie Elliot, 2007).

2.18 Empirical Review

Letebrahan,2009 under taken the study on the assessment of inventory management in order to examine whether the company use proper accounting system in its inventories and to show how generally accepted accounting principles in relation to that of inventories are applied in the company. and also she has examined the following problems these are:-information transmit ion and implementation in regard to inventory aspect has been delayed, there are some spare parts purchased un necessary, uniform codification and classification was not done in a well-organized way between finance supply and division, employees particularly maintenance division has lack of awareness about the importance inventory management and they want to get materials as soon as they request without evaluation the cause of damage, the stock or inventory reconciliation is taken at the year end. And this leads to making various adjustments and it is tedious for the accountant and inventory control and also has impact on preparation of report.

And also, she outlines the following pitfalls such as the misstatements of the financial report between supply and finance division mainly due to the information gap regarding to the inventories. In effect it shows different report in different departments at the same company and it is time consuming and tedious to reconcile reports. On the hand

unnecessary purchase of spare parts, different codification and classification of materials has not preserved in the company. Thus, unnecessary purchase has incurred carrying costs and tied up capital. This shows the company doesn't have a planned purchase. The different codification and classification is difficult to reconcile inventories. Moreover, due to the wrong system of the company, some of the cannibalization impacts are observed. Some accessory parts may lose and broken during the operation time. This is because it loses its genuinely of the part, proper allocation of costs cannot be determined. This leads the misstatement to profit or loss of the company properly. There are also tendencies of the maintenance section that are not cost conscious, because they request new one than trying to modify simply need to get materials soon. This leads the company to raise costs, in return decrease profit of the company.

After she examined those problems, she had got the following solutions in order to enhance an effective and efficient inventory management. Such as: there should be strong close working relationship among the departments so that quick information can be exchanged and timely corrective action can take, the management should strictly follow the specification and usefulness of the material before purchasing or donation process was made. In addition to these old and unnecessary inventories have to be sold even below lost or should be discarded if they do not have market value. It must contain items which are unnecessary in the operation of the business, it would be better for the company to take physical count of inventories at least yearly in order to identify existing, out of date, damaged and lost in inventories, the committee should inform to the concerned body and system should be designed in order to evaluate the performance of the supplier as well as to protect the miss utilization of inventory, the management should get a system and especially the concerned department should take responsibility to follow the minimum, maximum levels and safety stashed maintenance department would give considerable attention to inventory as well as the company better give appropriate training concerning their profession and inventory management(concerning cost).

(Semhal, 2012) under taken the study on assessment of inventory management to examine and assess the inventory management system procedures and policies in the company. And the problems are: there is no skilled man power in a key area in controlling inventory using computer automation, there is no mechanism to minimize inventory cost, the management has not taken an immediate action for discrepancies between the physical count and stock balance, during the purchasing process of inventory there are not good inspection up on the inventory record, not handling the record of materials in the stock card appropriately under inventory control section, damaged inventories are not disposed of or avoided immediately from store, unsatisfactory and less protection of inventory control and there is no manual for controlling inventories.

And she had got the following solutions for the problems of internal control in the company such as: the company should employee a skilled person in relation to inventory management and computer skilled to control the inventories properly in efficiently manner and to determine the balance on time, the company should work and understand how to minimize the cost of inventory by strict control on the purchase and distribution of inventory to departments, the management of the company should exercise control on inventory strictly on purchasing with records(usage) and at the end of the period if should compete the physical inventory with the records and take an immediate action on the discrepancies of the balance to has responsibility person or staff, the damage material(inventory) in the store should be avoid on time, to control the inventory strictly on inventory control manual should be prepared to determine the level of inventory ,the budget and the overall activities in relation to inventory, the company should have built or prepared adequate or sufficient store to the inventories to carry properly, the total inventory at the end of the year on hand and record made in stock card is received by the external auditor so as to strengthen the internal control of the company.

2.19 conclusion and knowledge gap

As stated in the above different literature and empirical studies, the researcher tries to assess the factor that affect the performance of micro and small enterprise in metal

and wood work. Such as financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises. The current researcher would try to fill the aforementioned gaps by doing study on related issues.

CHAPTER THREE

3. Methods and research methodology

3.1 Description of the study

The metal and woodwork enterprise are found in south nations and nationalities people's regional state, in Wolkite, in southern part of Ethiopia 158 Km from the capital city of Ethiopia (Addis Ababa). And the purpose this study was in order to try to set in circumstances and to get solution with in the selected problems that faced in the inventory management practice of metal and woodwork enterprise in Wolkite town.

3.2 Research methodology

The research of this study is more of a descriptive research design, by using primary and secondary data source. Descriptive research design were proper when the research objective includes portraying phenomena's and determining the frequency occurrence on inventory management practices in manufacturing sector micro and small enterprise in the southern part of Ethiopia in Wolkite town.

3.3 Target population

In order to get the information, the target population of this study was the employees of the metal and woodwork enterprise of Wolkite town.

3.4 Data types and sources

In order to get the information this study was used both primary and secondary sources of data. The primary source of data would collect through questionnaires and secondary source of data would collect from related materials for this study. This study was used

both qualitative and quantitative types of data.

3.5 Data collection instruments

This study was used questionnaire for the collection of primary sources of data. Questionnaire was help to thesis study to collect the data from the employees of metal and woodwork enterprise of Wolkite town.

3.5.1 Sampling techniques and sample size

In order to get the data, this study used stratified random sampling technique. Because it is more suitable and easier in more homogenous large groups by dividing the total population in to homogenous sub groups to take sample random sampling from each group. So, in this study there were 95 groups in the total population among this town, then those are dividend in to five sub groups based on their similarity then select randomly five employees from each of five groups a sample size of 25 from wood work and 25 from metal work enterprise. Those are selected because they have better knowledge, skill, and experience than the rest and those are helpful to my study.

3.6 Methods of data analysis and presentation

For the purpose of data, analysis and presentation this study would depend on the following data analysis instruments. The data analysis instruments of this study will analyze by the help of table, frequency and percentage.

3.7 Ethical considerations

Permission to carry out the research was sought from the ethical broad of Wolkite Town University and relevant authority of the ministry of education Business and economics, the district and local government. Target respondents were given adequate explanation on the purpose of the research and there after given time any question or seek clarification. All respondents were taking through the required informed consent procedure. These were used at the point of recruitment and at the start of each interview/discussion.

CHAPTER FOUR:

4. Data Analysis, Interpretation and presentation

The research focuses on inventory management system of metal and wood work enterprise in Wolkite town. In conducting this research, the methodology adapts the questionnaire method of data collection. This chapter presents the result obtained from the analysis of the study interpretation and presentation discussion. The discussion section follows data analysis and interpretation.

Demographic characteristics of respondents

4.1sex distribution

Table 4.1 sex structure of Respondents

No	Description	No of respondents	Respondents in percentage
1	Male	40	80%
2	Female	10	20%
Total		50	100%

Source: questionnaire, 2023

The above table indicates that 80% of the respondents are male and the remaining 20% are female. This indicates that male respondents take the majority number.

4.2 Age ground

Table 4.2 Age group of the respondents

Age group in year	No of respondents	Respondents in percentage
18-25	15	30%
26-30	20	40%
31-35	10	20%
Above 36	5	10%
Total	50	100%

Source: questionnaire, 2023

As we shown in table 4.2: 40% of the respondents are between the ages of 26-30, 20%of the respondents are between the ages of 31-35, 30% of the respondents are between the age of 18-25 and the remaining 10% are at the age of above 36. Most of the respondents are under the age group 26-30.

4.3 Educational status

Table 4.3 Educational status of respondents

No	Description	No of respondents	Respondents in percentage
1	Certificate	15	30%
2	TVET	20	40%
3	Diploma	10	20%
4	First degree	5	10%

Total		50	100%

Source: questionnaire, 2023

This table indicates that 40% of the respondents have educational level of TVET, 30% of respondents have educational level of certificate, 20% of respondents have educational level of diploma and remaining 10% of the respondents have educational level of first degree. From this majority of the respondents have TVET educational level and this indicates that they have enough aware of inventory management.

4.4. Work experience

Table 4.4 work experience of respondents

Experience in year	No of respondents	Respondents in percentage
1-3	10	20%
4-6	25	50%
Above 7	15	30%
Total	50	100%

Source: questionnaire, 2023

The above table indicates that 20% of the respondent's have1-3 year of work experience, 50% have 4-6-year work experience and remaining 30% of the respondents have above 7 -year experience. This indicates that most of the respondents have 4-6 work of experience and they are well experienced employees to perform their work.

4.5 Respondents position

Table 4.5 respondent's position in the enterprise

Position	No of respondents	Respondents in percentage
Purchasing	15	30%
Store	25	50%
Marketing	10	20%
Total	50	100%

Source: questionnaire, 2023

As indicated in the above table from total 50 respondents 30% of the respondent's answer that their position in the enterprise is purchasing, 50% of the respondents have storing position and the remaining 20% of the respondents have marketing position. So, 50% of the respondents in the enterprise have storing position. So, this is help full to protect from any damage and store the materials of the enterprise properly.

4.6 Respondents Employment

Table 4.6 respondent's employment type

Employment type	No of respondents	Respondents in percentage
Permanent	35	70%
Temporary	15	30%
Total	50	100%

Source: questionnaire, 2023

From table 4.6 conclude that 70% of the respondents are work permanently in the enterprise and the remaining 30% respondents are work temporarily. This indicates that most of the respondents are permanent and they know the condition of the enterprise simply and is help full for the success of the enterprise.

Table 4.7 store of inventories

NO	Description	No of respondents	percentage
	Do you think the materials stored in a particular place and protected carefully?		
1	Yes	50	100%
2	No	0	0%
	Total	50	100%

Source: questionnaire, 2023

Table 4.7 indicates that the total respondents of the enterprise employees 100% of the respondents answer that the materials are stored in a particular place and protected carefully,

Table 4.8 the enterprise management system

No	Description	No of respondents	percentage
	What do you think about the inventory management system of your enterprise?		

1	Poor	10	20%
2	Good	35	70%
3	Very good	5	10%
	Total	50	100%

This table indicates that from the total respondents of the enterprise 20% of the respondent's answer that there is poor inventory management system,70% of the respondents answer that there is good management system and the rest 10% of the respondents answer that there is a very good management system of inventory. Then in general the inventory management system of the enterprise is good.

Table 4.9 factors that affect the inventory management system

No	Description	Respondents in number	In percent
	Doses have any factor that affect the inventory management system of your enterprise?		
1	Yes	50	100%
2	No	0	0%
	Total	50	100%

Source: questionnaire, 2023

As table 4.9 indicates all respondents50 (100%) of the enterprise responds that there are factors that affect the inventory management system of the enterprise and the problems are: -

- ✓ Improper planning and implementation of activities

✓Lack of capable manager with board experience and knowledge

✓Inventory theft

✓Lack of safety stores of materials

✓Holding of inventories for long period of time

✓Negligence of employees when perform their work

Table 4.10 features of inventory management system

No	Description	No of respondents	percentage
	Are there any features of inventory management system in your enterprise?		
1	Yes	50	100%
2	No	0	0%
	Total	50	100%

Source: questionnaire, 2023

The above table indicates that all respondents 50 (100%) responds that there are many features of inventory management system in the enterprise: these features are: -

✓Improving the quality of products and way of giving service in order to attract more customers

✓Keeping inventories in a particular area and protected carefully

✓Control properly the inventory levels

✓Protect safety of the enterprise

✓Achieve the objectives of the enterprise inventory management system

Table 4.11 impact of inventory management system

No	Description	No of respondents	percentage
	Dose the inventory management system has an impact on the profitability of the enterprise?		
	Yes	50	100%
	No	0	0%
	Total	50	100%

Source: questionnaire, 2023

As indicated in table 4.11, concerning the impact of inventory management on profitability of the enterprise ,100% of the respondents are agreed that inventory management have an impact on profitability of the enterprise. So, the impacts of the inventory management on the enterprise are: -

✓Protect the inventories of the enterprise from theft and improper storing

✓Helps to decrease the value of obsolescence of inventories

✓Improve customer services

✓Increase sales volume

✓Improving the inventory control system

Table 4.12 Effect of inventory management system over financial performance of the enterprise

No	Description	No of respondents	percentage
	Dose the inventory management system has an effect over the financial performance of your enterprise?		
	Yes	40	80%
	No	10	20%
	Total	50	100%

Source: questionnaire, 2023

Table 4.12 indicates that 80% of the respondents agree that the inventory management system have an effect on the financial performance of the enterprise and 200% of the respondents answer that it does not have an effect on the financial performance of the enterprise. Then the effects are: -

✓No obsolescence of inventories

✓Decreasing of expenses

✓Reduce storing inventories for long period of time

✓Increasing of sales volume of inventories

Table 4.13 responsibility of purchase requisition

No	Description	No of respondents	Percentage
	Who is responsible to prepare purchase requisition in your enterprise?		
	Store keeper	50	100%
	Total	50	100%

Source: questionnaire, 2023

The table indicates that 100% of the respondents said that the responsibility to prepare the purchase requisition is the store keeper. The responsibility to prepare the purchase requisition is the responsibility of the store keeper.

Table 4.14 Type of inventory system

No	Description	No of respondents	Percentage (%)
	Which inventory system is used in your		

	enterprise?		
	Periodic inventory system	50	100%
	Total	50	100%

Source: questionnaire, 2023

From the table above 100% of the respondents answer that the enterprise uses the periodic inventory system means the cost of goods sold is reported at the end of the year.

CHAPTER FIVE:

5. Conclusions and Recommendations

5.1 conclusions

The main points of this study is to point out the major findings and results of the study and to forward some recommendations regarding the major constraints and problems regarding the inventory management system of micro and small enterprise in Wolkite town.

Strengths of the inventory management system of the enterprise: -

*The enterprise implemented inventory management effectively because the major aim of the enterprise is to increase the profitability and productivity in day to day activities and also the production department gets raw material at a right time.

*In the enterprise there is a good way of stored the materials in a particular place and they protect carefully.

*The enterprise has effective inventory management system generally.

*The enterprise prepares the purchase requisition before any materials purchasing.

*There is an effective control over all inventory and uses different methods to attract customers and control properly the inventory levels.

*The inventory management system has a direct impact on the profitability of the enterprise a good inventory management that increase the profitability of the enterprise and vise versa

*After counting of inventories, the result is present to the management and division section.

There is also some Weakness of the enterprise inventory management system: -

*In the enterprise there are shortages of raw materials to make to large amount of inventories*During purchasing process of inventories there is not good inspection up on the inventory record

*Not handling the record of materials in the stock card appropriately under inventory control section

*The enterprise does not consider the ordering, holding and stock out cost more over manual system recording and controlling stock is abstract to user's activity.

*The enterprise also faces some problems that have occurred in holding excess inventory such as obsolescence of inventory and excessive carrying costs and have occurred in holding in adequate inventories such as losing sales, disruption of production process and unsatisfying customers.

5.2 Recommendation

Based on the findings and conclusions this study forwards the following recommendation**s.**

*The enterprise should hire more skilled persons (employees) in relation to inventory management system to control the inventories properly in efficiently manner.

*old and unnecessary inventories should be sold even below lost or should be discarded if they do not have a market value.

***The damaged materials or inventories in the store of the enterprise should be avoided on time, to control the inventory strictly on inventory control manuals should be prepared to determine the level of inventory ,the budget and the overall activities in relation to the company should have built or prepared adequate or sufficient store to the inventories to carry properly the total inventory at the end of the year on hand and record made in stock card is received by the external auditor so as to strengthen the internal control of the company.

*The enterprise should use the existing manual system of inventory management properly in order to proper managing of inventory classifying reporting of stock.

*The enterprise to improve the inventory management system by eliminates all waste cots such as material defect, loss of inventory and tries to overcome the overall problem related to the enterprise operation system. The enterprise also should avoid excessive and in adequate level of inventory because holding excess inventory is the main reason for over stocking and result in unnecessary tied up funds, loss profit and risk of liquidity.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

First, I would like to thank you for your cooperation to fill this questionnaire.

Questionnaire to be filled by workers of metal and wood work:

This questionnaire is prepared by fourth year accounting department student.

The purpose of this questionnaire is to assess the inventory management practice in micro and small enterprise in case of metal and wood work at Wolkite town. Therefore,

you are expected to give complete response for the given questions.

General instructions;

A. No need of writing your name

B. put (√) for closed ended questions and writes your answer for open ended question.

C. please attempt all question available.

Part 1: general personal detail

1, sex: male ☐ female ☐

2, age: A, 18-25☐ B, 26-30 ☐ C, 31-3☐ d, above 36☐

3, Educational level: A, certific...☐ B, TVE...☐ C, diplo...☐ D, firs☐ degree

4, Work experience: A, 1-3 year ☐ B, 3-5 year☐ C, above 5 ye☐

Part2: questions related the inventory management practice of the enterprise.

5, your position in the enterprise: A, purchas☐ ☐ B, store ☐rketing

6, Employment: A, permane☐ B, temporary☐

7, do you think the material stored in particular place and protected carefully?

A, yes ☐ B, no ☐ C, we don't know ☐

8, what do you think about the enterprise management system?

A, poor ☐ B, good ☐ C, very ☐

9, what are the factors that affect the inventory management system of your enterprise?

10, what are the main features of inventory management system in your enterprise?

11, Dose the inventory management system has an impact on the profitability of the Enterprise?

A, yes ☐ B, no ☐

12, if the answer for question number 12 is yes what are the impacts? _____

13, Dose the inventory management system has an effect over the financial performance of your enterprise? ☐ A, yes ☐ B, no

14, if the answer for question number 14 is yes what are the factors----------

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15, who is responsible to prepare purchase requisition? _____

_____

16, which inventory system is used in your enterprise?

A, periodic inventory system ☐ B, perpetual inventory system ☐