

2015

INTERNSHIP REPORT

Al-Nawasi General Trading & Contracting Company

Arif Hossain
ID: 11204034



Internship Report

On

“Impact of Inventory Management on the Financial Performance of the firm”

Date of Submission: 23rd August, 2015

Submitted By:

Arif Hossain

ID: 11204034

Department: BRAC Business School

Major: Accountancy

Submitted To:

Saif Hossain

Senior Lecturer

BRAC Business School

BRAC University

Letter of transmittal

23rd August, 2015

Saif Hossain
Senior Lecturer, BRAC Business School
BRAC University

Subject: **Internship report submission.**

Respected Sir

As part of the course structure of BBA, enclosed is a copy of my Internship Report. I have worked as a full time employee at Al-Nawasi General Trading and Contracting Co., which is a subsidiary of Abdul Aziz M. T. Alghanim General Trading & Contracting Company as an Assistant Inventory Controller from the period of 1st May, 2015.

The report is titled “**Impact of Inventory Management on the Financial Performance of the firm**” and focuses on the proper management of Inventory in an organization. The report further elaborates the practicality of Aging Report, Physical Stock Count in contrast to the Stock Ledger (ERP).

Hope this report meets your expectations.

Sincerely,

Arif Hossain
ID: 11204034
BRAC Business School
BRAC University

Acknowledgement

Firstly, I would like to endow my whole hearted gratitude to Mr. Abu Bakr Sheikh, Chief Accountant, Al-Nawasi General Trading & Contracting Co. for all his support and motivation towards the completion of this report.

Secondly, I owe a liability of thankfulness to Mr. Saif Hossain, Senior Lecturer, BRAC Business School for all his provision and guidance from the start of my Job to the completion of this report.

Furthermore, I would take this opportunity to thank Mr. M.A. Khaleel, Logistics Manager, Mr. Ali B. Maruf, Store Keeper, Al-Nawasi General Trading & Contracting Co. for all the time they put in the process of mentoring and supervising my progress.

To conclude, I would like to thank Almighty Allah for providing me the strength and wisdom to make this report a possibility.

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1. Executive Summary

The report has been written with the intention of providing its reader a clear idea of how mismanagement of inventory hampers the financial steadiness of an entity such as Al-Nawasi General Trading & Contracting Co. which deals in IT Products and Service in the Market of Kuwait.

Inventory is a crucial part for any business, especially if it is dealing in Fast Moving Consumer Goods (FMCG) or Technology. With varying taste and continuous innovation, industries need to keep their inventory updated as both excess and shortage of inventory can affect any industry drastically.

The report has been grouped into three parts, they are as follows.

Part 1: The Organization (Al-Nawasi General Trading & Contracting Co.)

The first part of the report elaborates on the history, corporate profile, operation organogram and future ventures of Al-Nawasi.

Part 2: The Job (Assistant Inventory Controller)

The second part of the report concentrates on the job, job description, assigned responsibilities, job performance, critical observations and recommendation.

Part 3: Project Assigned (Impact of Inventory Management on the Financial Performance of the firm)

The third part of the report is the heart of the report and provides a detailed analysis to why proper inventory management is a necessity to any business. The conclusion “Inventory mismanagement can lead to great financial loss” is drawn on the analysis done in this part through the aging stock report, data collected through questionnaire, financial statement and warehousing cost report.

2. The organization

Al-Nawasi General Trading & Contracting Company

2.1 Introduction

Al-Nawasi General Trading & Contracting Company (NTC) is wholly owned by Mr. Abdul Aziz M. T. Al-Ghanim and family, and is officially registered with the Chamber of Commerce and Industry and the Ministry of Commerce and Industry.

NTC holds agencies and is the representative of several internationally reputed manufactures and contractors, is actively involved in sale of various types of computer equipment and data communications equipment, in addition to services of the various government ministries and all the oil and petrochemical companies in Kuwait.

Their Information Technology Division was established in 1976 and is involved in the supply and installation of networking; inter networking and data communications systems to all sectors of the Kuwait market including Government, Finance, Education, Oil and private sectors. In recent years the division has introduced a comprehensive range of computer workstations and network server computers from leading suppliers from the United States together with mass storage devices, printers, and other peripheral components, keeping abreast with rapid advances in computing technology.

Their Radio Communication Division has a team of qualified engineers and trained technicians, who run a fully equipped radio communication workshop to provide competent customer services, which include design systems, installation and after sales services of repair and maintenance. Most of the business is military oriented and cannot be precisely defined or made public due to security reasons and commitments with the concerned authorities. This division among other specialized companies also represents the Racal Group of Companies for radio equipment, tactical data automation, marine communication systems and security systems.

NTC has a team qualified in electronics, electrical and telecommunication fields with qualified technicians to assist in installations, services and maintenance and a dynamic sales force to promote the products of the principals. In keeping with modern trend, NTC also has workshop facilities to provide customers with after sales repair, services, and maintenance of equipment installed by us and our principals, wherever required.

2.1.1 Al-Nawasi corporate profile

Business Type	Private, Family Owned
Industry	Information Technology
Establishment	1976
Location	Safat, Kuwait
Owner	Abdul Aziz M. T. Al-Ghanim and Family
Products	Fujitsu, ADB, Lexmark, Microsoft, HP, EMC ² , Thales, Matica, Verisoft, Etc...
Services	Corporate Networking Software Services and IT Outsourcing Support Services
Total Assets	766,634.309 KWD (2,528,485.59 USD) As of August 8, 2015
Total Sales	4,126,817.934 KWD (13,610,921.89 USD) As of August 8, 2015
Profit for the period	1,946,589.981 KWD (6,420,172.78 USD)
Website	http://www.al-nawasi.com
Alghanim Industry	www.alghanim.com/

Source: Profit and Loss Statement, Balance Sheet, *Al-Nawasi Website* (<http://www.al-nawasi.com/>)

Note: All figures are as of August 8, 2015 (Confidential figures, not to be shared publically)

2.1.2 Financial Statement

Al-Nawasi General Trading and Contracting Company

2.1.2.1 Balance Sheet

Al - Nawasi General Trading & Cont. Co.			
Balance Sheet 01-01-2015 To 06-08-2015			
Code	Account	Op. Balance Debits	Closing Debits
Applications of Funds			
11060101	Inventory For Sale	793,293.335	1,365,192.877
11060102	Inventory Faulty	1,944.420	9,642.108
11060103	Inventory Demo	16,332.973	17,465.663
11060104	Provision For Obsolete Stock	170,000.000	174,602.267
	Total Inventory	641,570.728	1,217,698.382
110602	Goods In Transit	0.000	0.000
11060201	Goods In Transit - Supplier	143.513	79.395
11060202	Goods In Transit - Cadens Worth	414.306	553.721
	Total Goods In Transit	557.819	474.326
	Total Inventory	642,128.547	1,218,172.708
12010101	Office Furniture	15,043.150	15,043.150
12010103	Office Equipment	6,871.000	6,871.000
1107	Investment	0.000	0.000
11070201	AL-Khaleeg Petroleum CO.	127,500.000	127,500.000
11070202	Accumu .AL-Khaleeg P. CO.	32,571.522	32,571.522
11070203	Nokia Siemens Networks Kuwait(Partiner)	62,000.000	62,000.000
	Total Investment	156,928.478	156,928.478
12	Fixed Assets	0.000	0.000
1202	Decoration	0.000	0.000
120201	Office Decoration.	0.000	2,650.000
120202	Store Decoration.	0.000	0.000
	Total Decoration	0.000	2,650.000
	Total Fixed Assets	0.000	2,650.000
12020301	Work Shop Decoration	22,603.000	22,603.000
12030101	Computer (Fixed Assed)	40,783.688	42,648.256
12030102	New Software	17,079.830	17,079.830
12030104	Printers	5,410.000	5,473.273
12040101	Office Equipment & Tools	0.000	415.000
12060201	Property	0.000	1,300,005.000

12050201	Cars & Trucks	6,951.000	15,801.000
51021502	Property Expenses	0.000	25,937.250
	Opening Balances Control A/C	0.026	0.026
	Profit / Loss for the Period	2,323,903.201	1,946,566.377
	Total	1,299,681.007	3,801,203.562
Sources of Funds			
1	ASSETS	0.000	0.000
11	CURRENT ASSETS	0.000	0.000
1101	CASH SHORT TERMS FUND	524,041.003	452,836.014
1102	Related Parts	1,221,787.576	76,852.365
1103	ACCOUNTS RECEIVABLES.	68,887.736	595,591.941
	Total CURRENT ASSETS	766,634.309	971,575.590
	Total ASSETS	766,634.309	971,575.590
12010102	Accumu.Dep.Office Furniture	14,120.550	14,120.550
12010104	Accum.dep For Office Equipment	5,745.272	5,745.272
12020302	Accoum.DepWork Shop Decoration	22,603.000	22,603.000
12030109	Accumulated For Computer,P& SW	17,695.353	17,695.353
12050202	Accumul.Dep For Cars & Trucks	696.000	696.000
2	LIABILITIES	0.000	0.000
21	CURRENT LIABILITIES	0.000	0.000
2104	Accounts Payable	938,820.832	1,293,777.010
	Total CURRENT LIABILITIES	938,820.832	1,293,777.010
	Total LIABILITIES	938,820.832	1,293,777.010
220101	Capital	0.000	0.000
22010101	Abdul Aziz AL-Ghani(Capital	97,500.000	0.000
22010102	Rawhya Saeed Abdou(Capital)	90,000.000	1,500.000
22010103	Saud Abul Aziz M.T.(Capital)	37,500.000	166,000.000
22010104	Nuha Abul Aziz M.T.(Capital)	37,500.000	166,000.000
22010106	Noora Abul Aziz M.T.(Capital)	0.000	500.000
22010105	Najlaa Abul Aziz M.T.(Capital)	37,500.000	166,000.000
	Total Capital	300,000.000	500,000.000
	Total	1,299,681.007	3,801,203.562

Note: All figures are confidential and represent in KWD.

Source: Balance Sheet, Al-Nawasi (1/1/2015 - 6/8/2015)

2.1.2.2 Profit and Loss Statement

<i>AI - Nawasi General Trading & Cont. Co.</i>				
<i>Profit & Loss 01-01-2015 To 06-08-2015</i>				
	Code	Account	Debits	Credit
			Income	
0.00			0.000	0.000
0.00	11060303	LC # GBK/00499	0.000	401.523
0.00	2105	Accrued Expenses	0.000	473.242
0.00	210501	Accrued Salaries	0.000	0.000
0.00	21050101	Accrued Salaries	340.742	0.000
0.00	210502	Accrued Rent	10.000	0.000
0.00	21050304	Accrual Customs {Abul Monain}	122.500	0.000
0.00			473.242	0.000
0.00	2106	Provisions	0.000	258,908.804
0.00	210601	Leave Pay Provisions	0.000	0.000
0.00	21060101	Provisions For Leave	3,695.009	0.000
0.00	21060301	Provisions For Training(MOF)	10,400.000	0.000
0.00			14,095.009	0.000
0.00	210602	Provisions For Indemnity.	0.000	0.000
0.00	21060201	Provisions For Indemnity	244,813.795	0.000
0.00			244,813.795	0.000
0.00			0.000	0.000
0.00	22020101	Legal Reserves	0.000	150,000.000
0.00	22020102	Voluntary Reserves	0.000	14,421.093
0.00	22020103	Retained Earnings -Previous Y	0.000	1,648,729.000
0.00	3	Revenue	0.000	2,018,848.771
0.00	31	Sales Revenue	0.000	0.000
0.00	3101	Computer Dep.S. Revenue	2,018,848.771	0.000
0.00			2,018,848.771	0.000
0.00			0.000	0.000
0.00	3104	Other Revenue.	0.000	34,616.124
0.00	310401	Other Revenue...	0.000	0.000
0.00	31040101	Other Revenue	34,216.373	0.000
0.00	31040103	Other Revenue (Interest)	399.751	0.000
0.00			34,616.124	0.000
0.00			0.000	0.000
0.00	51010201	Provisions For Obsolete Stock	0.000	419.377
0.00		Total	0.000	4,126,817.934
			Expenditure	
0.00			0.000	0.000
0.00	1105	Refundable Deposit	0.000	80,325.200
0.00	110501	Refundable Deposit	0.000	0.000

0.00	11050101	Refundable Deposit (N.B.K)	6,080.000	0.000
0.00	11050102	Refundable Deposit (Other)	1,900.000	0.000
0.00	11050103	Refundable Deposit(MOF)Training	72,345.200	0.000
0.00			80,325.200	0.000
0.00	31010201	Sales Return Management	0.000	2,828.000
0.00	31010203	Sales Return Walied	0.000	3,487.000
0.00	31010204	Sales Return Dujja	0.000	18,802.002
0.00	31010205	Sales Return Shakeel	0.000	157.400
0.00	31010207	Sales Return - Hamdi	0.000	10.000
0.00	31010206	Sales Return Morad	0.000	1,110.003
0.00	31060101	Penalty	0.000	33,843.306
0.00	41010101	Cost Of Sales Management	0.000	3,048.890
0.00	41010102	Cost Of Sales Maintenance	0.000	3,281.014
0.00	41010103	Cost Of Sales Walied	0.000	26,507.250
0.00	41010104	Cost Of Sales Duja	0.000	12,317.000
0.00	41010105	Cost Of Sales Shakeel	0.000	234,549.943
0.00	COGS	COGS	0.000	1,326,516.303
0.00	41010106	Cost Of Sales Mourad	0.000	46,489.316
0.00	41010302	Cost Of Replacement	0.000	2,878.871
0.00	41010304	Spare Parts & Nonstock Items	0.000	549.425
0.00	51020101	Staff Salaries	0.000	260,791.463
0.00	51020102	Bonus	0.000	12,806.208
0.00	51020103	Over Time	0.000	1,681.110
0.00	51020201	Salesmen Commissions	0.000	14,909.449
0.00	51020202	Collectors Commissions	0.000	2,945.326
0.00	51020203	Training Expenses	0.000	3,215.540
0.00	51020204	Travelling Allowance & Expense	0.000	2,727.050
0.00	51020211	Tender Expenses (Duja)	0.000	2,115.000
0.00	51020214	Tender Expenses (Mourad)	0.000	685.000
0.00	51020215	Tender Expenses (Walid)	0.000	770.000
0.00	51020301	Audit Fees	0.000	4,150.000
0.00	51020302	Legal Fees	0.000	10,000.000
0.00	51020401	Comm. Bank Charges	0.000	2,085.089
0.00	51020402	Comm. Bank Interest	0.000	377.928
0.00	51020403	Gulf Bank Charges	0.000	4,980.847
0.00	51020404	Gulf Bank Interest	0.000	544.015
0.00	51020405	N.B.K Charges	0.000	645.035
0.00	51020407	Other Banks Charges	0.000	180.000
0.00	51020503	Hospitality	0.000	1,354.300
0.00	51020507	Gifts	0.000	700.000
0.00	51020603	Rent Thuwainy (Banking Division)	0.000	2,400.000
0.00	51020601	Rent (Thuwainy Trading Co.)	0.000	25,585.000

0.00	51020602	Electricity & Water	0.000	380.000
0.00	51020604	Rent (Salmiya Store)	0.000	6,700.000
0.00	510207	Communication Expenses	0.000	13.000
0.00	51020701	Telephones	0.000	1,128.561
0.00	51020702	Mobiles& Pagers Exp.	0.000	2,335.395
0.00	51020704	Courier Postage	0.000	155.620
0.00	51020705	Freight Expenses	0.000	537.594
0.00	51020706	Customs Expenses	0.000	191.660
0.00	51020707	Customs(Fedex&Cadens&UPS&ARmx)	0.000	16.300
0.00	510208	Maintenance	0.000	123.850
0.00	51020803	Maintenance	0.000	50.000
0.00	51020901	Cars Repairs	0.000	189.695
0.00	51020902	Cars Fuel	0.000	890.140
0.00	51021001	Stationary	0.000	251.700
0.00	51021003	Printed Material	0.000	1,129.950
0.00	51021004	Computer, Printer& Fax Expenses	0.000	1,563.855
0.00	51021006	Other Office Expenses	0.000	801.770
0.00	51021102	Other Insurance	0.000	2,854.400
0.00	51021103	Medical Insurance	0.000	3,804.000
0.00	51021104	Social Security (Insurance)	0.000	1,268.130
0.00	51021201	Subscriptions	0.000	2,163.110
0.00	51021202	Certificates	0.000	1,329.940
0.00		Profit for the period	0.000	1,946,589.981
0.00		Total	0.000	4,126,817.934

Note: All figures are confidential and represent in KWD.

Source: Profit and Loss Statement, Al-Nawasi (1/1/2015 - 6/8/2015)

2.1.3 General Trading and Contracting Companies in Kuwait

General Trading & Contracting Company usually acts as middle men between International suppliers and local customers by fulfilling the demand of local customers through the supply of products and services. These companies usually indulge in contracts (tenders) with local companies and provide all the specified product or service as required by the tenders.

There is a list of General Trading and Contracting companies in Kuwait such as...

- K4 General Trading & Contracting Company
- SBC General Trading & Contracting Company
- GULF SPIC General Trading & Contracting Company
- Majlan General Trading & Contracting Company
- Al-Nawasi General Trading & Contracting Company
- AL DHOW Engineering General Trading & Contracting Company
- Al Thurya General Trading & Contracting Company
- Al-Khadda International General Trading & Contracting Company

The benefit Al-Nawasi possesses over other competitors is the sole fact of its Family Status (Alghanim Family); Alghanim Family is one of the most elite, associated and respected families in the gulf. Al-Nawasi General Trading & Contracting Company (NTC) supplies computing, networking and data systems to a large number of clients in all industry sectors throughout Kuwait, including Government, Finance, Education, Oil and private sectors. The following is a cross section of some of their major clients.

<ul style="list-style-type: none"> • Ministry of Public Health • Ministry of Interior • Ministry of Planning • Ministry of Justice • Ministry of Finance • Ministry of Education • Ministry of Defense • Ministry of Higher Education 	<ul style="list-style-type: none"> • Burgan Bank • The Shared Electronic Banking Services Company • Mobile Telecommunications Company • Al-Watania Telecommunication Company • Kuwait Oil Company • Kuwait National Petroleum Company • Kuwait Electronic Messaging System (KEMS)
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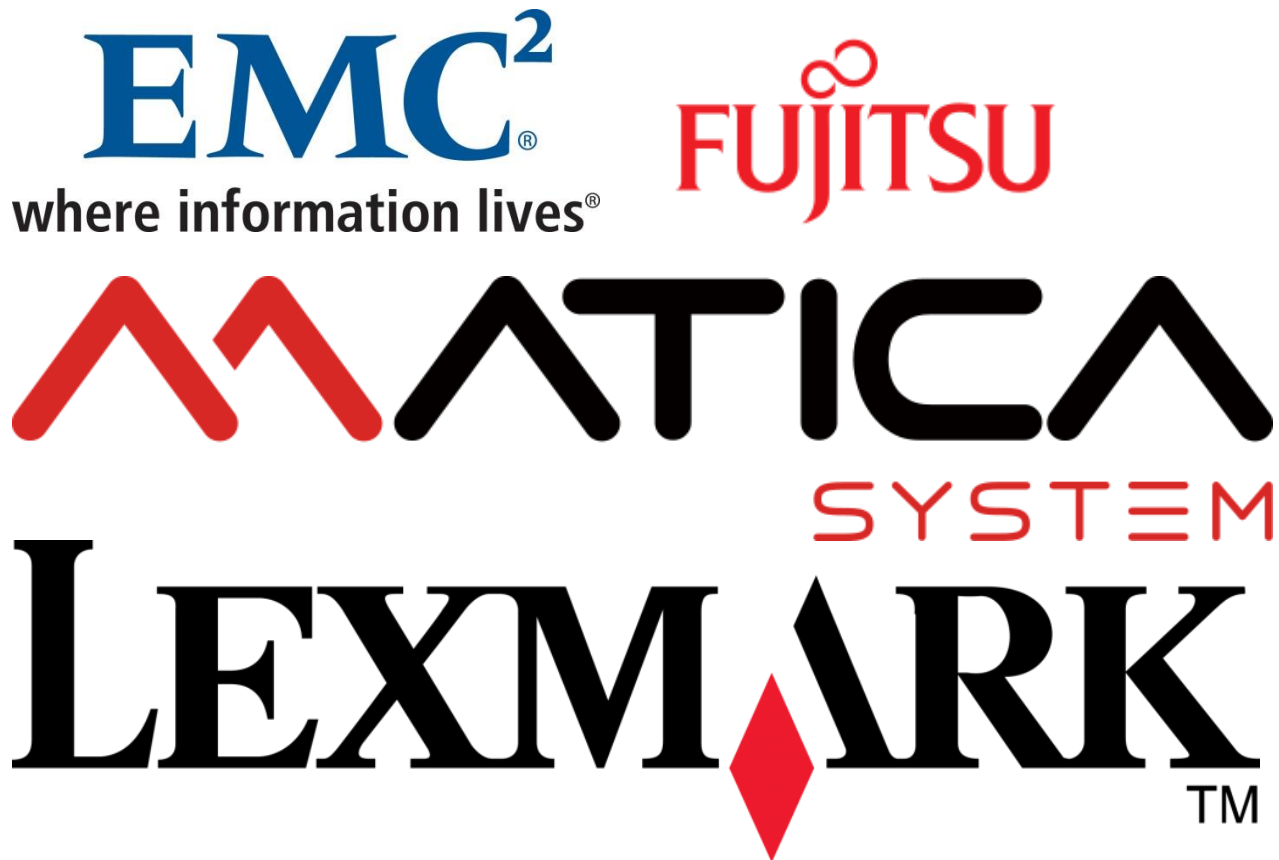
<ul style="list-style-type: none"> • Ministry of Public Works • Ministry of Awqaf • Kuwait University • Kuwait Institute for Scientific Research • English School • Adailya School • Kuwait Fund for Arab and Economic Development • Public Authority for Housing Welfare • Public Authority for Civil Information • Environment Public Authority • Public Authority for Agriculture & Fish Resources • MEW - Water Installations Department • The Commercial Bank of Kuwait • Gulf Bank 	<ul style="list-style-type: none"> • Kuwait Stock Exchange • Kuwait Awqaf Public Foundation • Zakat House • Kuwait Controls Co. • United Arab Shipping Co. • Gulfsat • Jassim Al-Wazzan Sons General Trading Company • Ali Al-ghanim & Sons Company • Kuwait British Readymix Co. • M. A. Kharafi. • Computer Networks • Kuwait Tech. Consulting Office • Kuwait Portland Cement • Anwar Al-Bisher Law Office • U.S. AirForce - Kuwait Base • KWT. Est. Educational services
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Source: Al-Nawasi Website (<http://www.al-nawasi.com/>)

2.2 Products & Services

2.2.1 Products

Al-Nawasi in general deals with some of the biggest IT hardware suppliers in the industry and resells them for a margin. Some of the business partners of Al-Nawasi, whose products the company sells are as follows...

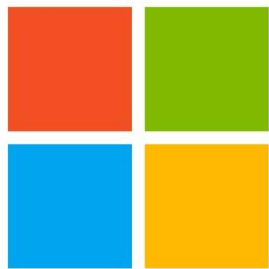


Fujitsu Siemens, Lexmark, Thales, Matica, EMC², Microsoft, HP, HUAWEI, Axis, QMS, Magtek, ADB, Net App, Dell, Sonic Wall, Paigian, Patton, Paradyne, CISCO, Konica Minolta and many others.

Among many of the product types of Al-Nawasi, majority of the stock consists of Printers, Scanners, Toners, Servers, Racks, ADB items, Card Issuing Printers, Visa Electrons, Security Items.

2.2.2 Services

Along with selling of IT products, Al-Nawasi also provides licenses for Banking & Security software's, EMC software, Server installation software's and so on.

The logo for Thales, featuring the word "THALES" in a bold, dark blue, sans-serif font. The letter 'A' is stylized with a light blue dot in the center.The word "Microsoft" in a grey, sans-serif font, positioned to the right of the four-colored square logo.

Al-Nawasi is also an authorized reseller for Microsoft license and holds partnership with Matica, EMC² and Thales for the issuance and installation of their software in different Financial and Government institutions.

Also as a part of after sales service, Al-Nawasi employs a team of dedicated and experienced engineers to provide the best service experience to their customer. Furthermore, the company has one dedicated employee serving their customer 24/7 as and when required by the customers.

2.3 Alghanim Industries

Alghanim Family

Alghanim Industries is one of the largest, privately-owned companies in the Gulf region. A multi-national company in outlook with operations in 40 countries, Alghanim Industries is a multi-billion dollar conglomerate with more than 30 businesses.

The company has been recognized as one of the Best Employer in the Middle East and one of Asia's Best Employer Brands, as well as having the Best Corporate Governance in Kuwait.

Alghanim industries operate in the following sectors:

- Manufacturing of industrial products, specializing in insulation products and steel solutions
- Engineering - commercial and residential (home automation, air-conditioning and elevators, building management and electro-mechanical solutions)
- Automotive sales and services
- Retailing in consumer electronics, home furnishings, children's furniture, bathroom fixtures and accessories
- Fast moving consumable goods - wholesale and distribution
- Food and beverage
- Oil and gas
- Shipping and transportation services
- Consumer credit
- Insurance
- Office automation
- Advertising and media
- Talent development
- Travel and Tourism

Key facts and figures about Alghanim Industries:

- They deal with over 300 global brands and agencies
- They have a strong presence in the Middle East, India and Turkey, with operations currently extending to Eastern Europe, Africa, East and Southeast Asia
- They are a market leader in almost every major business in each major geography that we operate
- They employ almost 14,000 employees from across 64 nationalities
- They have a long history of success built upon the early adoption of global best practices
- They are a highly-respected family and brand name in the region

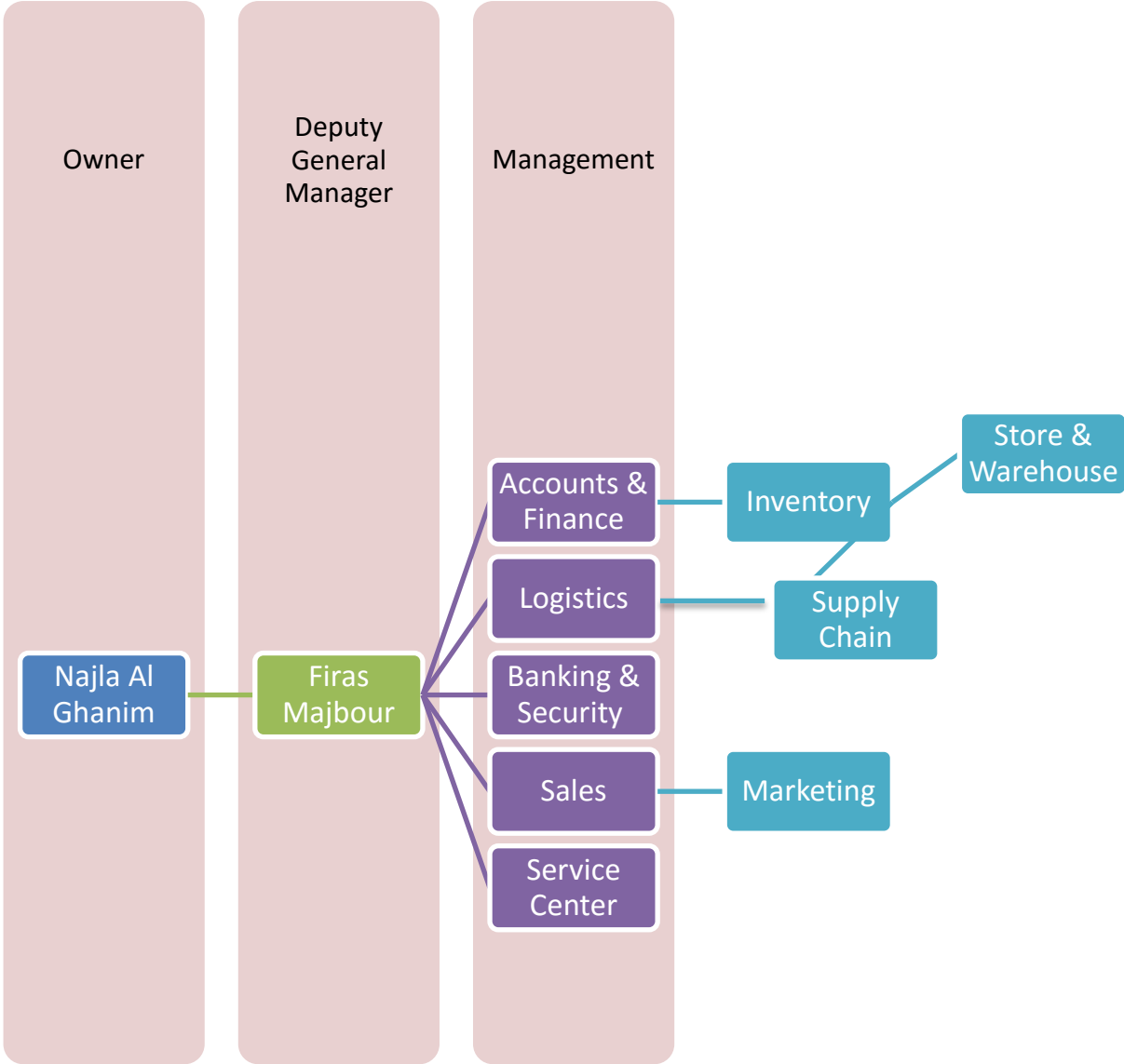
Alghanim Industries place a high value on commitment and investment in their people who contribute to the continued growth and vitalization of their business. Renowned for their progressive business culture and management philosophy, Alghanim Industries considers finding and developing talented and energetic people the key to their continued success.

Alghanim Industries has an 80+ year heritage as a successful commercial enterprise in the Gulf region, with a proven track record of reacting to economic and market changes. As a result, this diversified multi-national corporation has built a reputation synonymous with market leadership.

Source: Alghanim Industries Website (www.alghanim.com/)

2.4 Operational Network Organogram

The Operational Network Organogram of Al-Nawasi General Trading & Contracting Company is as follows...



Al-Nawasi General Trading & Contracting Company is a privately owned firm, run under the supervision of Madam Najla Al Ghanim, Administrative Director to the firm; all major decisions require her authorization. Mr. Firas Majbour is the Deputy General Manager of Al-Nawasi and possesses authority of daily activities and reports directly to Madam Najla Al Ghanim.

The management consists of 5 departments, Accounts and Finance, Logistics, Banking and Security, Sales and Service Center, each run by their respective managers.

2.4.1 Accounts & Finance Department

The Accounts and Finance department at Al-Nawasi is responsible for the authorization of all Purchases, Sales, Sales Return, Expense Allowance, Maintaining of employee salary account, generation of quarterly sales report, yearly financial report, etc..

Further, this department works in coordination with the Logistics department in ways of approving sales orders, purchase orders and dealing in all freight and customs charges.

2.4.2 Logistics Department

All purchases and sales made by the firm are done through the logistics department. The sales department has to work closely with the logistics department and keep them updated of prospective contracts, goods to order and required stock.

The logistics department is also responsible for maintaining and handling all the paper works related to purchasing and selling of inventory. All purchase order & sales order are made by the logistics department and are later handled by the Accounts and Inventory department.

2.4.3 Marketing & Sales

The marketing and sales department at Al-Nawasi is responsible for dealing with all customers and customer related issues. All sales orders, contracts and tenders are brought in by the sales and marketing team, which is later passed on to the logistics department for the supply and ordering of required goods.

2.4.4 Banking and Security

Al-Nawasi is among one of the few companies in Kuwait which supplies banking and security equipment's to financial institution, government agencies and military. This department deals entirely in Card printing (VISA/Master Card) equipment's and security hardware and software.

2.4.5 Service Center

Along with the selling of IT products, Al-Nawasi also provides before and after sales services to all its customers. The service center deals with all customer complaints and queries on a regular basis and all revenue generated from this department is a 100% profit for the firm.

2.4.6 Inventory (Store/Warehousing and Supply Chain)

The Inventory department of Al-Nawasi is responsible for keeping track of all inventory received, inventory available and inventory sold to customers. Further, the inventory department is also responsible to monitor and keep track of all deliveries made to and from the firm.

The inventory department is directly monitored by the accounts department and works in correlation with the logistics department. Half yearly stock count, Aging Report and Perpetual count are all responsibilities of the Inventory department.

2.5 Vision for the future

Al-Ghanim industries has a stake in almost every business sector in the Gulf but Al-Nawasi being a different entity of the same family wishes to expand their business in other sectors too. Recently Al-Nawasi has started investing in Real Estate and Government projects which are due to be completed by the year 2030. The most recent investment done by Al-Nawasi includes the purchasing of a residential flat for the price of 125,000 KWD (412,270 USD). A huge amount (Amount unknown) of investment is being made on the Kuwait 2030 project which is a government run project. The project is supposed to be completed by the year 2030 and Al-Nawasi has a partial amount of investment in this multi-billion dinar project.

3. Job

Assistant Inventory Controller

3.1 Inventory Department (Al-Nawasi General Trading and Contracting Company)

As a fresh graduate in Accounting, I looked around the Job Market in Kuwait hoping to grab any opportunity which came around but the real situation of the job market seemed too rigid for a fresh graduate with no working experience in the field.

After several interviews here and there, I ended up being appointed for one of the biggest companies in Kuwait “Al-Ghanim Industries”. My position in the company is “Assistant Inventory Controller” and report to the Chief Accountant of the firm. The inventory department of Al-Nawasi falls directly under the Accounts department and works in coordination with the Logistics Department. At current there are six employees who work in the Inventory department. The department is headed by me as the Inventory Controlling Office and 5 other employees who report directly to me, they are...

Store Keeper: Ali B. Maruf

Drivers: Farid Ahmed & Yasir Ahmed

Office Helpers: Muhammad & Muhammad Aala

The inventory department of the firm is responsible for the stores, warehouse, shipment receiving, delivery, stock count, perpetual count, stock updating and stock reporting.

3.2 Job Description

When assigned the title of Inventory Controller, I was also handed a Job description letter which listed the following as my responsibilities.

- Maintain record of the issuance and receipt of items that are issued to customer and purchased from local and foreign suppliers.
- Perpetual count: Keeping track of inventory balance, matching physical inventory with the system available inventory.
- Proper allocation and placement of goods, fast moving and slow moving inventory.
- Supervising the supply chain process, from the point of placing the purchase order to the point of physically receiving the shipment.
- Reporting to the Accounts and Logistics department on the availability of warehouse space, issues in delivery, stock report, aging inventory report, fast moving items and slow moving items.
- Updating the system on receiving and delivery of goods made on a daily basis.
- Writing off aging inventory.
- Assisting the logistics and other department with weekly stock update and purchase orders.
- Coordinate with the accounts department with the cost incurred in freight, customs and other documentation charges.

3.3 Specific responsibilities of the job

On joining Al-Nawasi as an Assistant Inventory Controller, I was assigned with 3 responsibilities which were to be completed by the end of my probation period (31st July, 2015). The responsibilities are as follows...

1. Updated Aging Inventory Report

The aging inventory report is a common report generated yearly by all firms which deal in inventory. The aging inventory report depicts a detailed report on all the aging inventory of the firm.

I was assigned to make an elaborate report on the available aging inventory of the firm in the Main Store and the Warehouses of the firm. There are usually two treatments that are followed in Al-Nawasi regarding aging inventory, they are...

a. **Write Off**

At the end of every academic year, the inventory department provides the aging inventory report to the Accounts department which is presented in the management meeting and a certain proportion of this aging inventory is written off the books as Provision for obsolete stock.

b. **Spares**

Since Al-Nawasi has a team of brilliant engineers who master in assembling and disassembling of majority of the products that Al-Nawasi sells, these aging stocks are then deserted in the service center where the engineers have the freedom to remove any parts they require for their daily work (Office and Customer purpose only).

2. System Updating and Training

Large organizations use some type of Enterprise Resource Planning (ERP) software to systemize their daily activities and keep track of business, so does Al-Nawasi. In December 2014, Al-Nawasi purchased new ERP software named “FOCUS ERP” and the software is still at its familiarizing stage in the firm. Earlier the firm used ERP software named “JAWA” and another Accounting software name “Mutammam”. The new ERP software ‘FOCUS ERP’ combines the functionality of both these software’s and provides a more user friendly and precise reporting experience.

- a. On joining the company I was sent on a two weeks ERP training program for me to familiarize with the systems commands and protocols. I was later assigned the responsibility to notify any reporting errors (difference in physical quantity against system quantity) and cite the reason of difference.
- b. I was also assigned to train and help my colleagues who had issues adapting to the new system.

3. Physical Inventory Count

After completing the Aging inventory count and reporting my finding to the Management, I was assigned to carry out a physical inventory count of all physical inventory available with the company in the Main Stores (Four Stores) and the Warehouses (Two warehouses).

I am happy to proclaim that the entire assigned tasks were completed on due time with negligible error.

3.4 Critical Observations and Recommendation

3.4.1 Observations

Inventory management has been one of the biggest challenges for any firm and me working as a first time inventory controller not only triggered the pressure on me but on the company too. The work load was severe and the learning process limited. The system was fresh, so was I. With inventory there are no loose ends, you either handle professionally or you are left with nothing to handle.

One of the biggest challenges to inventory management is meeting the customer needs. The demand of a product can arise anytime and availability is crucial. In the three month of my probation, the prime problem that I faced was reporting the physical availability of daily sellable items. The system follows a hierarchy approval system and stock is only updated once the management approves the Receipt Voucher (RV: Posted when an item is added in stock/ Stock updating). Stages of purchasing and selling an item are as follows...

Stage 1: Logistics places the order with the supplier and confirms the order.

Stage 2: Supplier delivers the order and sends the invoice along the shipment.

Stage 3: Inventory Department receives the items and enters them into the system to update the stock (RV).

Stage 4: Request Form/Sales Order Forms (RF/SO) are requested by the sales team and are created by the logistics department and forwarded to the stores for the issuance of the items.

Stage 5: Inventory department signs the papers and delivers the goods to the customer and loads the RF in the system.

Stage 6: RF is approved by management and only then the stock is updated in the system.

The problem arises in the time gap between the approvals given by the Inventory department and the Management. At certain times, the approvals take a couple of hours since the physical documents need to be handed after every stage and at many occasions the approvals take a day or two since Management is busy with other activities of their own.

This hinders the system to display the accurate amount of stock available.

Secondly, in many occasions many items are issued on Temporary Forms (For internal testing purpose within the organization) and Demo Forms (Issued to customers for trial period). These items taken by the service center, marketing and banking and security team often end up being sold Out to Out. Due to lack in communication between the Inventory department and other department and urgency of items, most of these items are manually issued on emails and over the phone call. These issued items often are not entered into the system and thus the system ends up showing irrelevant figures and later when asked about the availability of a stock the accuracy is questioned.

Further, contracts are a big revenue generator for the firm but these contracts are often partially delivered on the request of the customers. When the firm signs a contract, all items in the contract are purchased at one go but the items aren't delivered at a time but over the period. The customers' demands for items as and when they require, this creates problem in maintaining inventory since there are around 100 contracts every year and these items need to be properly allocated and grouped. Partial delivery adds to warehousing cost, confusion in inventory placement and vague inventory status.

3.4.2 Recommendation

a- Stock Update

In both cases of stock receiving and stock issuing, the system updating authority must reside to the inventory department since that's the department that actually receives and delivers the items.

b- Temporary and Demo

All temporary and demo must be systemized. Irrespective of emergency and

importance, any item taken on temporary or demo from the stores must be entered in the system first and only then can the item be issued.

c- Managing Contracts

Contract must describe the terms of delivery of the items for an organized allocation and warehousing system. Further, any purchase order placed or sales orders received, the inventory department must also be notified in advance for reducing the sudden pressure or receiving and delivery of inventory.

d- Warehousing

The warehousing facility of Al-Nawasi at current involves a lot of duplication of the same task over and over again. Ready for sale items are also kept in the warehouse which first have to be allocated in the warehouse on receiving from the supplier and then brought back to the main stores for delivery to the customers. For better management of time and inventory, Al-Nawasi should provide a proper sale and purchase figure and allocate inventory accordingly.

4. Project

4.1 Summary

Inventory management is one of the biggest challenges to any firm (Large or Small) dealing in inventory. Proper inventory management ensures that the available inventory is actually the required inventory. A well-organized Inventory system consists of...

- Categorized location for different group of products or brand.
- Barcoded and Labeled inventory for easy identification.
- An accurate opening and closing stock.
- Updated system for tracking inventory activity.
- Trained and professional personal that can follow procedure and know the system.
- Adequate warehousing space to accommodate the inventory.
- Inventory available equates Inventory required.

In this report I have tried to cite the reasons behind the failure of Inventory management and how it affects the financial figures of a firm, in this case Al-Nawasi. Interviews with the management and analysis of the firms' previous aging report were taken to come to the conclusion that, "Mismanagement in inventory can severely affect the financial standing of any firm".

4.2 Description of the project

4.2.1 Main Objective

The prime objective of the report is to narrate and provide an overview of the practicality of Inventory Management, how proper management and mismanagement of inventory effects the Financial Status of an entity. The report focuses on the importance of First in First out (FIFO) and the effect of Aging Inventory on a firm dealing in Information Technology.

4.2.2 Specific Objective

The report mainly concentrates on the effect of Inventory Management/Mismanagement on the Financial Statement of an entity. The specific objectives of the report consist of...

- 1- Maintaining records of daily sales, available stock, required stock and aging inventory.
- 2- Placing orders with local and foreign suppliers keeping in mind the current demand and existing warehousing space.
- 3- Ensuring minimum capital investment in inventory by eliminating unwanted and excessive stock.
- 4- Keeping track of current market demand, discount on purchase, sales discount and an efficient supply chain.
- 5- Maintain proper record of Sellable Items, Faulty – Under Warranty, Faulty – Out of Warranty, and Items issued for internal use and Fixed Assets.
- 6- Perpetual Inventory Count
- 7- Writing off Aging Inventory

4.3 Methodology

The report is entirely based on primary data with near to not existent secondary data. All information, both written and illustrated is collected from the corporation's records and financial reports.

4.3.1 Primary Source of Information

- 1- Stock Ledger Report: Provides an overview of all the purchases, sales, addition, reduction, temporary issue, demo issue, internal use and fixed asset issue of an item over a period of time.
- 2- Stock Statement: Stock statement provides a report of the available stock in hand to match with the physical quantity of the item for the purpose of perpetual count.
- 3- Location Wise Report: This report provides information on the availability of an item in different locations in the firm, main store, warehouse 1, warehouse 2 or if the item is lying in temporary with an employee or is gone to some customer on demo basis.
- 4- Financial Report:
 - Balance Sheet
 - P&L Statement

- Sub Ledger (Suppliers and Customer)

5- Interviews: To know better about the previous hitches faced associated to inventory; individual interviews were held with,

- Chief Accountant: Abu Bakr Sheikh
- Logistics Manager: Mujeeb Abdullah Khaleel
- Store Keeper: Ali B Maruf

4.3.2 Secondary Source of information

- 1- World Wide Web (WWW): Regarding definitions and strategies in other firms.
- 2- Published articles and reports on Inventory management and effect of inventory management on the financial statements of a firm.

4.4 Limitations

The report only focuses on firms which deal in Information Technology and no other sector; this limits the report to areas of extensive comparison between other industries and larger firms which follow a superior or mediocre level of Inventory Management. Furthermore, no previous financial records were made available from Al-Nawasi for a further detailed comparison.

5. Impact of Inventory Management on the financial performance of the firm.

5.1 General Terminologies

Before we rush into what inventory management really is and how it affects the financial performance of the firm, let us familiarize with some of the common terminologies and abbreviations related to inventory management.

5.1.1 Inventory Costing

Inventory costing estimated the actual price that a firm incurs in the process of acquiring an inventory. The different costs which add to the actual cost of an inventory are...

- a- Purchase Cost: The original price of the inventory as quoted by the manufacturer.
- b- Freight Charges: Freight/Shipping charges are the charges that the firm pays for the movement of goods from the production house to the firm.
- c- Ordering Cost: In many occasions, Inventory is modified or customized to suit the requirement of the market and hence the order varies. Any cost incurred when placing an order or customizing an order is referred to as ordering cost.
- d- Documentation Charges: All inventories carry some amount of documentation charges which are either bared by the supplier or by the order placer. In both cases, there are added charges with every order placed.
- e- Customs Charges: Goods need to be cleared from the dock or from the customs where a percentage of payment has to be made depending on the quantity and type of products.
- f- Transportation & Labor Cost: The cost incurred in the movement of inventory from the docks/customs to the firms warehouse/store.

Thus, the actual cost of an inventory isn't actually the purchase cost of the item but the sum average of Total cost divided by total quantity (Total Cost/Total Quantity).

5.1.2 Inventory related terminologies

Pallets: Pallets are the wooden sheets upon which the inventory is kept (for the purpose of security against water and easier movement).

ABC Stratification: ABC stratification is a systematic way of locating inventory by categorizing them into categories such as, Category A, Category B and so on.

Available Stock: Available stock is the actual amount of stock which is sellable and not issued to or reserve for anyone.

First In First Out (FIFO): Items received first will be issued first.

Last In Last Out (LIFO): Items received last will be issued first.

Cycle Count: Refers to the regular count of inventory available.

Fast Moving Consumer Goods (FMCG): Items which are sold more quickly in comparison to other items.

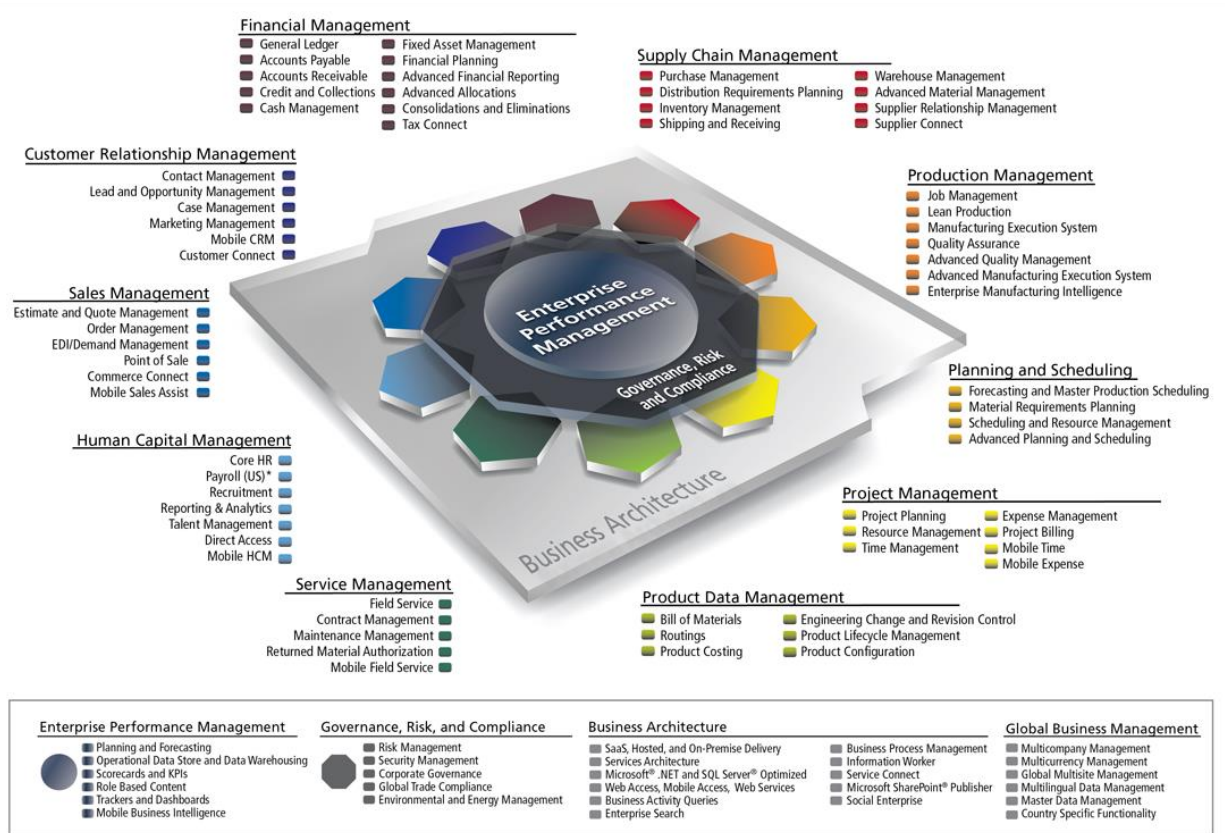
Aging Stock: Inventory which has aged over a period and hasn't been sold for a long period.

5.1.2 Enterprise Resource Planning (ERP)

Enterprise resource planning (ERP) is business management software—typically a suite of integrated applications—that a company can use to collect, store, manage and interpret data from many business activities, including:

- Product planning, cost
- Manufacturing or service delivery
- Marketing and sales
- Inventory management
- Shipping and payment

Module of ERP



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Figure 5.1.2: ERP Module

(Source: Wikipedia https://en.wikipedia.org/wiki/Enterprise_resource_planning)

Commonly used ERP Software's include, SAP, JAWA, Focus, Oracle, WorkWise, E2, etc...

The ERP software used by Al-Nawasi is Focus ERP.

Terminologies related to ERP (Inventory Department Only)

Purchase Order (PO): The order placed with the supplier (Manufacturer) for the required quantity of inventory at the quoted price.

Receipt Voucher (RV): The system update made once the items are received which is linked with the PO to determine if the shipment/delivery received is partial or complete.

Sales Order (SO): The sales order is made on receiving a purchase order from the customer (Al-Nawasi customer for instance ordered for 10 servers, once the order is confirmed by the sales personnel, the Sales order sheet is prepared).

Request Form (RF): The RF is created once the SO is confirmed and signed by the General Manager and the quoted price is accepted by the customer. On the basis of the RF the inventory department issues the items to the delivery personnel.

Delivery Note (DN) and Invoice: The delivery note is created for the delivery persons to provide them the access to take the items out of the Store and warehouse and the Invoice is created for the customer confirming the delivery.

Addition (ASA): Any intake or addition is stock made which is faulty-under warranty or faulty-out of warranty from the customer.

Reduction (ASR): Any reduction made in stock for the issue of stock to customer for replacement, internal use or fixed asset to employees or returned to customer for replacement (under warranty items only).

Reserve and Release (Temporary): This function provides the access to issue items on temporary (for employees) and demo (for customer). Further, this function also allows reserving stock for the different sales personnel who have confirmed a sale but haven't yet issued a sales order or request form.

5.2 Analysis: Inventory Management

A successful inventory management supervises a well planned purchase order, warehousing and sale of inventory. Inventory for a business is one of its biggest assets and represent its investment choices. A huge amount of capital investment is required in the purchase and storage of inventory.

5.2.1 Proper Inventory Management VS Improper Inventory Management and its effect on the financial statement of a firm.

How does Inventory affect the Financial Statement of a firm?

Inventory affects Financial Statements in two ways:

- a) Cost of Inventory on hand (Effect on Balance Sheet)
- b) Cost of Inventory sold (Effect on Income Statement)

5.2.2 Balance Sheet

Inventories are current assets of a firm which the firm needs to get rid of as soon as possible since the firm's capital is invested in them. In the balance sheet, the purchase of an inventory increases the value of Current Assets (Inventories) and offsets Accounts payable or Cash depending on the terms of purchase. When a firm is unable to sell of its inventory and has to store this inventory for a period of time, the firm not only incurs loss in investment but also incurs added expense such as warehousing cost, insurance/security cost and the cost of aging stock. Any investment which does not generate any profit is a bad investment and for a firm dealing in IT, with the passage of time, technology advances and outdates and so does the initial purchase price. An investment made today worth \$100 million may not be worth this amount the next year and this is how mismanagement of inventory can affect the Balance sheet of a firm.

The cost of inventory on hand increases day after day with additional cost being incurred in the process of warehousing, insurance, security, procurement and transportation expenses thus effecting the overall inventory price.

Inventory Report

Inventory	Opening Balance	Closing Balance
Inventory For Sale	793,293.335	1,365,192.877
Inventory Faulty	1,944.420	9,642.108
Inventory Demo	16,332.973	17,465.663
Provision For Obsolete Stock	170,000.000	174,602.267
Total Inventory	641,570.728	1,217,698.382

Goods in Transit

Goods In Transit	Opening Balance	Closing Balance
Goods In Transit - Supplier	143.513	79.395
Goods In Transit - Cadens Worth	414.306	553.721
Total Goods In Transit	557.819	474.326

Accounts Payable & Receivables

Accounts Payable	938,820.832	1,293,777.010
Accounts Receivables	68887.736	595591.941

Capital Structure

Capital	Opening Balance	Closing Balance
Abdul Aziz AL-Ghanim(Capital	97,500.000	0.000
Rawhya Saeed Abdou(Capital)	90,000.000	1,500.000
Saud Abdul Aziz M.T.(Capital)	37,500.000	166,000.000
Nuha Abdul Aziz M.T.(Capital)	37,500.000	166,000.000
Noora Abdul Aziz M.T.(Capital)	0.000	500.000
Najlaa Abdul Aziz M.T.(Capital)	37,500.000	166,000.000
Total Capital	300,000.000	500,000.000

Figure 5.2.1: Inventory, Goods in transit, Accounts payable and Capital figures for Al-Nawasi (Al-Nawasi 01/01/2015-06-08-2015).

In the above figures we can see that for Al-Nawasi the total amount of Inventory as of August 6, 2015 sums to KWD 1,218,172.708 and the total amount of Payables sums to KWD 1,293,777.010. The firm has more amount of payable (liabilities) when compared to the actual value of the inventory (Current Assets).

Current Ratio

The current ratio depicts the liquidity of the current assets of the firm in comparison to its current liabilities.

Current Ratio for Al-Nawasi (Taking Inventory and Payables to Suppliers only)

$$.941563112 = \frac{1,218,172.708}{1,293,777.010}$$

The amount of payables is higher than the amount of inventory and hence the ratio is below 1. However, the current ratio of .9415 isn't a bad ratio for Al-Nawasi since all sales done by Nawasi have advance payment of about 50% of the total order amount and balance upon delivery.

However, the amount of dues of Al-Nawasi is way higher than its available inventory, if this situation continues in the longer run, the value of the inventory might fall and the firm may end up paying more than receiving.

5.2.3 Profit and Loss Account

Inventory not only affects the Balance sheet of a firm by increasing its liabilities and assets but also hampers its Profit and Loss Account by incurring additional expenses. Inventory is an important part of profit and loss account since the cost of procuring inventory is computed against sales for the period. In the P&L account, when rate of expenses go higher in comparison to rate of sales, the net profit of the firm falls. Moreover, increasing ending inventory in an income statement decreases the Cost of Inventory sold (Beginning Inventory + Purchases = Inventory Available for sale – Ending Inventory = Cost of Inventory sold), in turn the net income increases.

Sales Report by Sales Man

Particulars	Sales Amount	Sales Return Amount	NET Sales
Management	68,106.940	2,818.454	65,288.486
Duja / Mourad	23,684.000	0.000	23,684.000
Duja / Walid	22,545.500	0.000	22,545.500
Mourad	280,999.418	361.053	281,360.471
Hamdi	375.750	10.000	365.750
Duja	784,621.862	7,885.359	776,736.503
Walid	300,348.018	1,611.884	298,736.134
Abrar	24,285.763	9.000	24,276.763
Shakeel	508,143.751	157.152	507,986.599
Total	2,013,111.002	12,130.796	2,000,980.206

Cost of goods sold (COGS)

COGS	1,326,516.303
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Figure 5.2.3: Sales Report by Sales Man & Cost of Goods sold figures for Al-Nawasi (Al-Nawasi 01/01/2015-06-08-2015).

Effect of Inventory on Gross Profit

$$\text{Gross Profit: Sales - COGS (2,000,980.206 - 1,326,516.303) = 674463.9}$$

(Amounts taken from the Figure 5.2.3)

Purchase cost or production cost (in case of Manufacturing firm) of inventory play a significant role in determining the gross profit of a firm (Gross Profit = Net Sales – Cost of Goods Sold). Reduced inventory cost will result in reduced cost of goods sold and thus increase the Gross Profit and overall increasing the net profit of the firm.

5.2.4 Statement of Cash Flow

The cash flow statement gives a detailed description of the inflow and outflow of cash in a firm. Inventory management plays a vital role in the positivity of the cash flow statement. The purchase of inventory requires the firm to make payment to the supplier (outflow of cash) and the sale of inventory generates cash for the firm (inflow of cash). Mismanagement of inventory increases the rate of outflow in comparison to the rate of inflow. For instance, Al-Nawasi has purchase \$1 Million worth of goods from Fujitsu (manufacturer) and has made full payment on receiving the items. Now, for Al-Nawasi, there is an inventory worth \$1.2 Million (Purchase cost + Freight + Warehousing cost + other costs) which needs to be sold to regain the amount of outflow. If this inventory is mismanaged by undervaluing, outdated/aging, not selling over time, the firms over all cash flow will result out to be negative since the amount of outflow is higher than the amount of inflow.

A proper inventory management ensures a planned purchase of inventory and proper management of stock where Inventory Available is the Inventory Required.

5.2.5 Error Inventory Reporting

Error inventory reporting is one of the key reasons to why a firm's income statement is understated or overstated. In many cases, a firm may misstate the available inventory in hand and this makes the firm's income statement seem more or less profitable. Overstating the available inventory decreases the cost of goods sold and vice versa. Some of the major reasons to why inventory is overstated or understated are as follows...

5.2.5.1 Wrong & Double Entry

Double entry may occur during the intake and issue of inventory. When a firm receives a shipment or issues it to a customer and updates the stock, any wrong entry done on either case can affect the available stock to the system updated stock. For instance, Al-Nawasi placed an order with ADB for 900 aviation fog lights and receives complete delivery of the order. But during stock updating in the system the data entry officer updated the available stock by 9000 and not by 900, this creates an error inventory report where the available stock does not match with the system report.

Furthermore, busy work schedule and work pressure can cause double entry of stock or no stock update in the system. The inventory department is one of the busiest departments in any firm with constant issuing, receiving and updating of inventory. Mistakes can happen and stock may not be updated or the same stock could be updated twice in the system by different employees of the department.

5.2.5.2 Faulty Items

For a firm like Al-Nawasi which deals in IT products and services, warranty is one of the biggest selling factors. In general the manufacturers provide one year international warranty on their products but as a sales technique Al-Nawasi provides additional two service warranty to all its customers.

Faulty goods from customer which are under warranty from the supplier are usually replaced with new ones. These faulty items are added in the Faulty – Under Warranty store and those

without warranty are added to the Faulty – Without Warranty store in the system. Any mistake in selecting the warehouse can increase or decrease the sellable stock. This causes error reporting in the system where the available sellable stock is higher or lower than the system available stock.

5.3 Results and Discussion

Until last year (2014) Al-Nawasi General Trading and Contracting Company had an aging stock figure of around KWD 100,000 which the firm decides to write off through the Provision for Obsolete Stock. The figure of aging stock isn't certain as of this year but the value is around KWD 4,602.267.

5.3.1 Inventory related problem in Al-Nawasi Include.

5.3.1.1 Warehousing

Until last year Al-Nawasi rented 1 warehouse and 3 stores to accommodate their Inventory and carry out their sales but as of this year, Al-Nawasi have rented 1 more warehouse and a store to accommodate their additional inventory.

Due to increasing contracts and customer demands, Al-Nawasi have a payable amount of KWD 1,293,777.00 and their cost of goods sold is KWD 1,326,516.303. The closing inventory balance of Al-Nawasi as of August 2015 is KWD 1,217,698.382 which is all stored in these 2 warehouse and 4 stores that Al-Nawasi currently rent. Warehousing is still a problem for Al-Nawasi since the new warehouse is still not totally accessible due to the small doors and security issues with it.

Moreover the warehouses and stores of the firm are situated in the basement with no proper channel of receiving and delivery of inventory. The only way to the store and the warehouse are two way stairs which add on to the lifting and carrying of items to and from the store.

5.3.1.2 Logistics

Whenever a contract or sales order is acquired by Al-Nawasi the logistics department places an order with the supplier and receives goods according, usually the goods arrive in 4-6 business weeks after an order is placed. The problem arises when these goods arrive and are not delivered according to the contracts. Starting this year, the management of Al-Nawasi came to the decision that delivery of items from the store and warehouse will only be made once the payment is received since the amount receivable for Al-Nawasi as of August 2015 sums around KWD 595,591.00. This decision of the management has hampered the movement of goods from the warehouse and stores of Al-Nawasi. Due to this decision of the management the logistics department do order the required quantity from the supplier but do not issue these goods received to the customer until and unless the payment is made and this puts a pressure on the Inventory Department since there is more Inventory movement inwards than outwards.

5.3.1.3 Customers

Al-Nawasi carries its business with some of the biggest and most prestigious clients in Kuwait. The problem occurs when these clients delay payment and delivery for their own convenience. For instance, Ministry of Information Kuwait (MOI) is one of the biggest clients of Al-Nawasi who alone contribute to around 10% of the total sales of the firm but the problem with MOI is, they only request partial quantity of the contract over the year and the whole contract is delivered over a period of one year, since all contracts validate for one year after which they are renewed again. This is a common problem with almost all the clients of Al-Nawasi, a contract is signed between Al-Nawasi and their clients but the goods are delivered partially over the period and the payment is received accordingly.

5.3.1.4 Supplier

Since Al-Nawasi is just a contractor and not manufacturer, all goods required is purchase from both local and foreign suppliers. The problem with suppliers is, they ship goods according to their comfort and not on the urgency of the order. Asbis Middle East FZE is one of the suppliers of Al-Nawasi who supply Lexmark products to Al-Nawasi. In August 2015, Al-Nawasi received an order for QTY 750 MS810dn Printers and QTY 1500 50D2500 Toners for these printer. Al-Nawasi placed an urgent order with Asbis ME FZE stating the order to be top urgent but Asbis delivered according to the Purchase order pending list since there were other

orders pending with Asbis made from Al-Nawasi. This placed Al-Nawasi in a great deal of problem since the order received was from Ministry of Information and the order was an urgent one.

Thus, the unavailability of inventory with Al-Nawasi led to the delay in delivery and further effected the contract terms with Al-Nawasi and MOI.

5.3.1.5 Contracts

As stated earlier, Contracts are one of the biggest sales revenue generators for Al-Nawasi which is brought in by the Sales man and at certain times by the management. Losing a contract effects inventory drastically since the Inventory department of Al-Nawasi provides a yearly detailed report of all contracts that were fulfilled and on closing inventory available as of the particular year. In order to be prepared for any upcoming and renewing contracts, Al-Nawasi places advance order with suppliers based on estimated of the report, cancellation of any contract in the upcoming year effect the purchase orders and inventory available since there is an overstock of inventory and the firms overall liability for payments increase.

5.3.1.6 Inventory Department

The inventory department is a recent introduction to the firm, earlier all inventory were being handles by Logistics and Accounts department. As of 2015, the inventory department is solely responsible for all inventories. The department is still young and unorganized with deficiency is proper resources and man power. At current, the Inventory department is headed by Arif Hossain with a team of 5 other employees who are responsible for the stores and delivery. At current, the biggest problem in inventory is the difference in system available stock and physically available stock. Since the upgrade in ERP software, the accounts department has been trying its best to rectify the system with the physical availability but with around 8000 different product types and limited employees who are solely dedicated to this job; this seems a little more challenging than expected.

5.4 Conclusion

Working in the Inventory department and heading it for four month now, I believe the problem with inventory isn't just centered with inventory but with all the activities of the firm. For a firm like Al-Nawasi where different department heads play different roles in inventory management, from the purchase order placement by Logistics, receiving of goods by inventory department, payments to suppliers by accounts department, sale of inventory by Sales department and Banking & Security and the replacement (warranty) of goods by Service center, accuracy of inventory is the responsibility of the entire management.

Al-Nawasi at current is one of the leading contractors in the Kuwaiti Market and proper inventory management will provide them the edge that other firms lack. I believe if all the departments in Al-Nawasi coordinate with each other and play their part right, accuracy of inventory and proper inventory management isn't an impossible task after all.

Thus, we can come to the conclusion that an unorganized inventory can create a huge impact on the financial statement of any firm.

6. Appendix

Serial Number	Particular	Attached File
1	Balance Sheet 2015	Reports\Balance Sheet 2015.xlsx
2	Profit and Loss Account 2015	Reports\Profit and Loss Statement 2015.xlsx
3	Net Sales by Salesman 2015	Reports\Net Sales by Salesman 01-01-2015 To 06-08-2015.xlsx
4	Trial balance 2015	Reports\Trial balance.xlsx
5	Physical Stock Count (Systems, Printer, ADB, Servers, Toners, Sheet Trays)	Reports\Physical Stock (Printers, Toners, Sheet Trays, Systems and Monitors).xlsx
6	Physical Stock Count Banking & Security	Reports\Banking & Security (Updated).xlsx

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