

BANGLADESH RURAL ELECTRIFICATION BOARD,

PBS INSTRUCTION 100-27

STORES MANAGEMENT MANUAL

**BANGLADESH RURAL ELECTRIFICATION BOARD,
PBS INSTRUCTION 100-27**

Approval Date: 27/06/1979

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SUBJECT: STORES MANAGEMENT MANUAL

General

The material and equipment incorporated in the construction of an electric network system represent a major portion of the capital invested in the system. Security of BREB loans is based on the value of the physical property of PBSs systems and the capability of the systems to deliver the power and energy required by the PBSs consumer-members, therefore, it is essential that adequate procedures be established and adopted by BREB and its PBSs to ensure that shipments of material and equipment are promptly and efficiently cleared through customs when necessary, inspected to ensure that deliveries correspond with orders, received into and stored in adequate warehouses with appropriate stock controls and records and moved to their point of use as needed to meet construction schedules.

The Store Management Manual has been prepared to provide the necessary directions and procedures for BREB and PBS personnel entrusted with this important phase of work.

I. INTRODUCTION

A.1. Any complete system of Store Management aimed at accomplishing a great variety of purposes. The following are the major gains can be achieved from a well- planned, well- administered system of Store Management.

- (a) Better Service to the using parties
- (b) A better balance among the items on hand
- (c) Reduce the costs by increasing use and making it possible for

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more economical ordering.

- (d) Reduce the costs of emergency purchasing.
- (e) Reduce the cost by preventing the buildup of inventories
- (f) Standardizing the stock items.
- (g) Minimizing losses from spoilage, deterioration, and obsolescence.
- (h) Reduction of clerical costs.

1. Two points that are fundamental in the development of a sound approach to stocking levels are:

- (a) Inventory Control is not necessarily keeping inventories at a minimum,
- (b) The importance of various stores control objectives may change with shifts in user's needs and fund availability, but the need for effective control of inventories is constant.

2. For better stores management the following activities to be done:

- (a) Screening special purchasing indents to ensure that they are not in stock.
- (b) Keeping forced use records.
- (c) Providing stock data and disposal lists to the proper authorities.
- (d) Post Stock records for on order, on hand, available and allocated transactions.
- (e) Maintaining a stock numbering and cataloging system
- (f) Establishing re-order points, economic order quantities,
- (g) Initiate pricing requests to the Accounts, Directorate.
- (h) Physical Inventories and initiate and compile spot checks of Inventory.
- (i) Creation and retention of stores replenishment indents.
- (j) Maintain latest applicable prices on stock records for all stock items and posting unit price on warehouse issue/returns (If possible).
- (k) To provide periodic reports for concerned offices; to control and plan all operations.
- (l) To provide data on stock items as required enabling the Directorate

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concerned to operate their functions and schedule projects.

- (m) To adhere to the stores control operating procedures and practices and initiate improvement through the approved channels.
- (n) Proper administration for proper operation of stores.
- (o) Maximize the servicing of orders on time and in full.
- (p) Minimize the cost of warehouse operations.
- (q) Maximize inventory turnover (i.e. minimize the time that materials stay in the warehouse)
- (r) Minimize response time to demand, and errors in dispatches.
- (s) Preserve the quality, value and security of the stored items.

II. INVENTORY CONTROL PRINCIPLES

For RE program, materials for construction of electric network system are procured considering the provision of 'Scope of work' in concerned DPP (Development Project Proposal). At present all procurement activities are initiated by the concerned Project Director's office. But overall material management of RE program is done by 'Material Planning and Standardizing Specification (MP&SS) Directorate of BREB. MP&SS directorate plays a vital role here in determining the items & quantities of materials to be procured for ongoing projects. To perform these activities MP&SS Directorate considers the item wise stock of materials in different Pally Bidyut Samity (PBS), DPP provision for procurement of different items, yearly Electric line and Sub-station construction target & also ADP budget for particular fiscal year. In case of procurement against different projects at a time, sometimes the basic principles of inventory management is not followed such as Re-order point, Economic order quantity (EOQ) but the main objectives of store management shall be maintained. Normally materials procured against different projects are received in BREB Central Warehouses but sometimes local manufacturers are allowed to deliver the materials

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(mostly poles) directly to the PBSs store to minimize the carrying cost of items. Other than Central Warehouses/ Stores, BREB may designate any place as Transit Store temporarily. Like Central Warehouses/ Stores, materials stored in transit stores are issued to project areas. The aim of Transit Store is to minimize carrying cost as well as time of carrying to the working site. BREB Central Warehouses/Stores including Transit Stores are operated under the control of Clearance, Storage & Movement (CS&M) Directorate. As MP&SS Directorate is responsible for overall material management, materials are allocated from Central Warehouses to different Project area/PBSs by MP&SS Directorate. After allocation, allocated materials are being carried by different carrying contractors appointed by the Director(CS&M). Carrying section of CS&M Directorate looks after the over all carrying activities. In case of material supplied from other countries and if consignee is BREB and if contract is FOB or C&F, 'clearance & insurance' section of CS&M Directorate takes necessary action to clear the materials from Custom Department of GOB.

Apart from those, the PBSs also procure different materials for operation and maintenance (O&M) and deposit works purpose as per DPP prepared by PBSs and approved by BREB. To continue uninterrupted power supply, all PBSs have to maintain a minimum stock level of all items required for O&M purpose. As in RE system about thousand type items are in a PBS Stores, it is not possible to pay same attention to each item. In order to overcome such complexity, items will be discriminated, so that degree of control can apply to each item that is appropriate to its level of importance. This requires specific methods of categorizing the items, that will provide an effective tools for optimizing service & stock levels. It is also essential for preparing disaster recovery plan.

ABC analysis has been used to set and control inventory levels for a long period, which is one of the most effective inventory management tools available. With this technique it can be categorized BREB items into 3(three) classes.

"A" Class items

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The “significant few” items are classified as “A” items. Generally, this group will range from 60% to 70% of PBSs total purchase expenditure, and yet only constitute around 10% to 15% of the total number of items in stock. These items are poles, conductors, transformers etc. Because of high expenditure involvement inventory levels of “A” class items should be kept to a minimum but “A” category items are reviewed frequently to ensure that potential stock-outs are avoided.

“C” Class items

At the other extreme are the “C” items. These are generally only constitute around 10% to 15% of total purchase expenditure and yet make up 60% to 70% to the number of items in stock, such as hardware, fuse link, connector etc. This “C” class items is reverse of “A” class items. Control for these items may be kept to a minimum as cost involvement is low. So, inventory cover can be increased because inventory costs are low. Large delivery quantities reduces the number of inventory transactions and reduces the chance of stock-outs.

“B” Class items

In between these two are the “B” items, usually ranging from 20% to 30% of both expenditure and of the number of items in stock, such as insulators, guywire, cross-arm, anchor log etc. “B” class items fall between those in the “A” & “C” classes in terms of both inventory levels & the extent of required management effort and control.

After categorization, AGM(O&M) will evaluate the use of different items in the previous years for O&M purpose and he/she will forecast accordingly on O&M materials be required and procured for next year.

For replenish the items PBS can identify re-order point and Economic order quantity by following Inventory control procedure/principles.

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1. The control of stock begins with the establishing of ordering rules. These ordering rules apply to a stock number or class of stocks and provides a guide for determining when to buy and how much to buy. For example, an order rule may sound like this. For stock Number B-1 order 100 units whenever the quantity on hand, plus the quantity on order falls below 80 units.
2. Determining when to order is called establishing an order point. An order point depends on how long it takes to receive the order, how much of the stock will be used while the order is being processed and a safety stock to allow for changes in demands or late delivery.
3. The basic use of order points is to establish the quantity of stock that should be on hand to allow for issues. During the time the order is in process and until it is actually delivered plus a safety stock to cover unknown problems (high use, late delivery). Establishing safety stock is a cost problem or in other words, we must balance the costs of carrying the safety stocks versus the cost of the stock outs. Four factors affecting the order point and the safety stock quantity are:
 - (a) Possible increased or unusual usage.
 - (b) Possible late delivery or longer than normal lead times.
 - (c) Carrying cost of the item.
 - (d) How critical is the item.
4. One ordering rule will not fit for all situations. There are items which have different inventory value, different carrying costs, and different lead times.
5. How do we establish a balance in the cost for the thousands of items in the stock? To start off, it is desirable to break and separate inventory into two or more groups and to use a different type of ordering rule for each group.

III. PROCEDURES FOR STOCK REPLENTSHMENT & REORDER LEVEL

There are three major types of inventory replenish systems in general use:

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(a) **Re-order level system (Fixed order quantity, variable interval)**

When the level of physical inventory (plus inventory already in order) falls to an established re-order level. The formula for determining the inventory re-order level (ROL) is as follows:

$$ROL = (Rd \times L) + S$$

Where, Rd= Rate of Demand (per week/per month)

L= Lead time (per week)

S = Safety level of stock

Re- order level systems are most appropriate for managing the inventory of low-value/low risk items.

(b) **Periodic review system (Fixed interval, variable quantity)**

Under the periodic review system, the main issue is not the order size but the length of the review interval.

The formula used to calculate order size is:

$$\text{Order size} = (\text{Demand over the review interval} + \text{the lead time}) \\ - (\text{Actual stock}) - (\text{Pipeline stock}) + (\text{Safety stock})$$

Periodic review systems are generally more appropriate than re-order level systems for high value/high risk items.

(c) **Demand driven lean supply system:**

In these cases, both the frequency of ordering and the quantity of items ordered are driven by on demand.

How much to order

In making a decision on how much & when to purchase, must try to identify the costs that will be affected by their decisions. Every order placed costs money, including clerical, communications and information processing costs. So, if the orders are & frequent order placed then ordering cost increased, on the other hand if orders are too large working capital cost, storage costs i.e. inventory holding cost increases. Besides goods become deteriorate.

To balance inventory holding cost & ordering cost the most common approach to

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understanding how much of an item to order when stock needs replenishing is through the Economic Order Quantity (EOQ).

The order point rule only tells when to order, not how much to order. The Economic Order Quantity tells how much to order. Economic Order Quantity (EOQ) is the name for balancing costs used in order rules. What it does is balance the costs of getting inventory with the cost of having the inventory. In other words, more purchase orders placed lowers carrying costs and less purchase orders placed increases carrying costs. A decrease in one cost causes an increase in the other. For example:

EOQ EXAMPLE:

BASIS

Annual use Tk. 5,000
 Purchase Cost Tk 40 per order
 Unit Cost Tk. 1 each
 Inventory Carrying Cost 24% of Inventory Value per Year

Number of orders per year	Value of Order (Tk.)	Average inventory (Tk.)	Purchase Costs (Tk.)	Carrying Cost (Tk.)	Total Cost (Tk.)
1	5000	2500	40	600	640
2	2500	1250	80	300	380
3	1667	833	120	200	320
4	1250	625	160	150	310
*4	1291	645	160	150	310
5	1000	500	200	120	320
10	500	250	400	60	460

* Calculated by using the EOQ formula as shown in example is given below

EOQ of this item is 1250 units @ Tk.1250, (4) orders per year. By using the formula the exact EOQ in units would be 1291. Since these are, odd amounts to order you would ordinarily order 1000 units or 1500 units depending on current use trends.

The EOQ is found by trying different values of the order quantity until the lowest total

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cost is obtained or the EOQ can be calculated directly by a formula:

Where: EOQ = Economic Order Quantity.

S = Annual usage in units.

O = Cost per order in taka (procurement costs)

K = Annual inventory carrying cost as a percentage of inventory value.

C=Unit cost in Taka.

Formula

$$EOQ = \sqrt{\frac{2SO}{KC}}$$

When: S = 5000 units
O = Tk.40.00
K = 24% or 0.24
C = Tk. 1.00

$$\text{Then, EOQ} = \sqrt{\frac{2SO}{KC}} = \sqrt{\frac{2 \times 5000 \times 40}{0.24 \times 1}} = 1290.99$$

EOQ or Economic order Quantity, is the only method that balance all these costs to determine the lowest cost possible for carrying an inventory.

Note:

The Economic Order Quantity table in the stock recording procedure was figured out using this formula.

The Economic Order Quantity and Order Point System are very flexible, since it automatically adjusts to changes in usage through more or less frequent ordering. With Economic Order Quantity, the time between orders varies depending on the rate of use. This system provided economical ordering, and small chance of stock-out and lowest possible costs, even when the change in use is large.

EOQ formula is based on certain assumptions. These assumptions are the following:

- Demand over the period remains unchanged
- Price including transport cost does not change with order size.
- Order processing costs are traceable & remain constant.

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- Lead time accurately predictable & does not vary.

Despite these limitations, the EOQ concept & stock replenishment system will help PBSs to determine when to order & how much to order different items for O&M purpose. As the cost of class “A” items are high, so special attention must be given to fix-up re-order point & re-order quantity for the items of class “A”.

IV. PROCEDURE FOR STOCK RECORD POSTING ON ORDER QUANTITIES AND RECETPTS

1. Purpose

To ensure that records show when items are ordered and received.

2. Procedure:

(a) Posting on order quantities

When contract signed with supplier by Procuring Entity(PE) for supply of material, concerned Warehouses will update the order information like date of contract, IFB/INB no, quantity to be delivered, delivery date etc.

(b) Posting Receipts

When an item is received, concerned Warehouse will prepare receiving report mentioning the quantity & date of receive and also with other necessary data.

Regarding preparation of receiving report described elaborately in PBS Instruction 100-15.

V. PROCEDURE FOR STOCK RECORD LEDGER POSTING OF ISSUES & RETURNS

1. Purpose

To ensure that records show when items are Issued and Returned.

2. Posting Issues and Returns

When an item is issued or returned, concerned Warehouse will prepare issue or return voucher mentioning the quantity & date of issue and return also with other necessary data.

Regarding preparation of issue voucher & return voucher described elaborately in

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VI. PROCEDURE FOR SPOT CHECKS

1. Purpose:

The Warehouse should constantly review the stock records ledger to insure the accuracy of stock records.

2. Procedure:

- (a) Each week the Warehouse will select ten items from the stock record ledger and list these items on the spot check form.
- (b) Then the warehouse will be checked and count the physical inventory for these items within a week.
- (c) After the spot checking, it will be checked for the bin count versus the balance on hand, and insure that order points are being observed. Warehouse will also review the count for neatness and readability.
- (d) Warehouse will also be checked to insure all receipts and issues have been posted.

VII. STOCK PRICE CHANGES

1. Definitions:

Changes in the issue price at which an item is carried on the stock records will be made in Material Section of Accounts Directorate or Office of the Project Director (if applicable). Stores Control Section of CS&M Directorate must compare each unit price at which an item is received with the average unit issue price shown on the stock records. Average unit issue price is defined as the price established at each activity, and represents the arithmetical average unit cost of a given item at that supplier or activity. Rounding off unit price is the term applied to the procedure of adjusting the new average unit issue price to the nearest paisa, five paisa, ten paisa, or taka depending on the unit value.

2. Receipt of items at same issue price:

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If the unit price at which an item is received is the same with the average unit issue price shown on the stock records, a check mark or other appropriate notation will be placed after the price on the receipt document by the Stores Control Section of CS&M Directorate to indicate to the Accounts Directorate or Office of the Project Director (if applicable) that the price is the same. If not the same price, the procedure as outlined in paragraph 3 and 4 will be followed.

3. Stock record adjustments:

Stock Record Adjustment Calculations form: The Material Section of Accounts Directorate or Office of the Project Director (if applicable) will compute the amount of gain or loss by price adjustment on a Stock Record Adjustment Calculation form, which then will be attached to the receipt document and forwarded to the Controller (Accounts & Finance) and Director, CS&M along with the journal voucher (stock price adjustment schedule). Only one item will be entered on the adjustment calculation form sheet. The stock record calculation adjustment form will show the amount of the gain or loss by average price adjustment noted on the face of the form is given below.

4. Stock price adjustment schedule:

The Material Section of Accounts Directorate or Office of the Project Director (if applicable) will make the appropriate entries on the Stock Price Adjustment schedule (Journal Voucher) in columns. The stock price adjustment schedule will be maintained separately for each inventory account involved. These adjustment sheets will be forwarded with the receipt documents to which they apply and forwarded daily to the Controller (Accounts & Finance). Entries on each stock price adjustment schedule may represent adjustments necessitated by several receipt documents.

5. Price adjustment when new stock received:

- (a) On receipt of an item having a cost price different from a similar item already carried on the stock records, the following procedures will be observed. The value of the items on hand will be added to the value of items received; this sum will be divided by the sum of the quantity on hand and the quantity

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received. The quotient is the new average cost of the item; this method is illustrated:

Particulars	Quantity	Unit price (Tk.)	Value (Tk.)
Quantity on Stock	144	0.62	89.280
Quantity Received	240	0.60	144.00

Particulars	Quantity	Unit price (Tk.)	Value (Tk.)
On hand and Received	384	0.607	233.28
New price (enter on stock record)	384	0.610	234.24
Gain or Loss		Tk. 0.96 gain	

After determining the average UNIT COST, the unit price will be fixed by rounding off the cost as follows:

Unit Value (Tk)	Rounded off To
0.10 or less	Nearest Mill
0.10 to 10.00	Nearest paisa
10.00 to 100.00	Nearest Ten paisa
More than 100.00	Nearest Taka

- (b) The new average unit price will be entered on the stock record, of the item and the old average unit issue price will be deleted. The resulting gain or loss by rounding off unit price will be noted on the face of the stock price adjustment schedule which will be forwarded with the receipt document to the Controller (Accounts & Finance).

VIII. PROCEDURE FOR STOCKING A NEW ITEM

In course of time it is required for stocking a new item which are added to the stock list. Stocking of a new item will be in accordance with PBS Instruction 100-25. Procedure for stocking a new item has described in the "PBS Instruction 100-25".

IX. STOCK NUMBERING AND CATALOGING PRACTICES

- (a) The Store Control Section of CS&M Directorate will have a complete permanent record of the stock numbers and continually add new items to the master stock control catalog and publish a new catalog annually. To remove a part from the stores control catalog, the Store Control Section of CS&M Directorate simply lines out the

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appropriate stock number until more than ten items on a page have been deleted from the catalog. The Store Control Section of CS&M Directorate will then have the particular page retyped and copied for distribution in the new annual catalog.

- (b) The description section of the stores control catalog is extremely important. The stock item description should be as complete as possible and accurately describe the items. Descriptions must contain the supplier's catalog descriptions whenever possible. Also, supplier's stock numbers are a part of the description if the item is a standard vendor item.
- (c) As new items are added to the catalog or as new pages are added to the catalog, they should be distributed to the directorates/offices concerned.
- (d) All correspondence, warehouse issue/return indent, purchases orders, etc. must include the stock number of Bangladesh Rural Electrification Board to enable person to specifically name and identify a stock item.
- (e) No transaction can be handled for stock items which do not contain BREB stock numbers. The Stock Number is the only control or way stock transactions are clearly and accurately communicated.

X. SPECIAL STORE CONTROL PRACTICES

Ageing list for disposal review:

- (a) On the balance of 30th June, an ageing list of stock items will be prepared yearly which will be reviewed and look for items which show:
- (1) no issues within the last twelve months.
 - (2) Items, which have a stock with an excess of the safety stock level,
 - (3) items, which are previously listed for forced use and which are still in stock.
- (b) Warehouses will forward the list to the Directorate of MP&SS. The Directorate of MP&SS will review the list and will take action as follows-
- (1) MP&SS Directorate will convey the message to all concerned not to procure slow moving & dead items further.

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- (2) With the help of SE&D Directorate and other offices to way out any alternate use of slow moving & dead items, it will be informed to all concerned by MP&SS Directorate.
- (3) Monthly review meeting will be held between MP&SS Directorate & all Project Directors of ongoing Projects.
- (4) When the stocks of any running item(s) becomes zero or tends to zero, concerned warehouse and other store will specially inform to MP&SS Directorate.

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