

## Entrepreneurship ©2013

### Chapter 15: Purchases and Inventory Management—Checkpoint Solutions

#### Checkpoint 15.1

1. Describe what is meant by inventory.

Answer: The goods and materials a business has on hand are called its inventory.

2. List the eight steps in managing the purchasing process.

Answer: 1. Identify inventory needs. 2. Identify vendors. 3. Select the vendor. 4. Negotiate the purchase. 5. Make the purchase. 6. Receive the order. 7. Pay the invoice. 8. Evaluate the vendor.

3. Why is establishing a reorder point an important part of managing inventory?

Answer: It is necessary to have a reorder point for each product. This practice puts a control in place before the inventory gets too low.

4. Explain why the cost per unit decreases as the number of items manufactured increases.

Answer: It is more efficient to produce products on a large scale than it is to produce just a few products at a time. This is known as the economy of scale.

5. Why is it important to track shipped items?

Answer: To make sure orders are delivered when promised.

#### Checkpoint 15.2

1. What three factors must be considered when purchasing inventory?

Answer: Lead time, buffer stock, and carrying costs.

2. Explain the concept of sales forecasting.

Answer: Sales forecasting is one way to plan for upcoming inventory needs. It is usually done a year in advance and is based on previous sales history.

3. What percentage of inventory is considered productive inventory?

Answer: 20 percent.

4. List at least five features of a computerized inventory-control system.

Answer: 1. Track incoming inventory and sales. 2. Run sales and inventory reports to track costs. 3. Track sales by salesperson or by category. 4. Manage sales tax by state if needed. 5. Generate daily sales reports. 6. May analyze profit by items sold. 7. Can automatically reorder standard products.

5. State the equation used to calculate turnover rate.

Answer:

$$\text{turnover rate} = \frac{\text{number of units sold}}{\text{average number of units on hand}}$$