

CA Inter CMA - Version 3 Batch

Test 1 : Q. 2 - Page 1 (Reorder Level)

Query : Sir, a different formula is used to calculate Re-order level.

When should we use this formula? What will happen if we use normal formula?

Solution :

This formula is to be used only when Safety Stock Level is given.

In such case, Minimum Level = Safety Stock Level

It is similar to the second formula printed in our notes. That is -

Reorder Level = Minimum Level + (Average Usage Rate x Average Lead Time)

Substitute Safety stock instead of Minimum level in the above formula.

Note : The above formula was used by ICAI earlier with Safety stock.

Important Note :

Even if you use the normal formula or Re-Order level, you will get the marks.

The **alternative answers** are as follows :

- (1) Reorder Level = Maximum Usage Rate x Maximum Lead Time
= 20 units/day x 15 days = 300 units
- (2) Maximum Level = Reorder Level - (Min. U.R. x Min. L.T.) + Reorder Qty.
= 300 - (10 units/day x 6 days) + 200 units = 440 units
- (3) Minimum Level = Reorder Level - (Average U.R. x Average L.T.)
= 300 - (15 units/day x 10 days) = 150 units
- (4) Safety Stock Level = Average Usage Rate x Time for emergency purchase
= 15 units/day x 4 days = 60 units
- (5) Average Stock Level = $\frac{1}{2} \times (\text{Min. level} + \text{Max. level})$
= $\frac{1}{2} \times (150 + 440)$ = 295 units
- OR
- = Min. level + $\frac{1}{2}$ of EOQ
= 150 units + ($\frac{1}{2} \times 200$ units) = 250 units