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# **Guideline for Dead Stock Management**

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## 1. Introduction

Farm Machinery Corporation Ltd. deals with all kinds of goods and services related to agriculture and mechanization in Bhutan. Over the period, it is inevitable that some goods will remain unsold and unused for an extended period due to changes in the market and other unforeseen factors. This will lead to blocking off valuable resources such as warehouse/store space, capital, and employee time, and also hamper the company's ability to keep pace with the changing market trends.

Therefore, it is crucial for businesses to have a well-planned dead stock management strategy in place to mitigate its negative impacts. In this guideline, various approaches to identifying and managing dead stock along with maintaining proper books of accounts through adjustments in the full form of EPR (EPR) system will be spelled out clearly. By following this guideline, we can minimize losses, optimize resources, and stay competitive in today's ever-evolving market.

## 2. Objectives

- 2.1. To set clear criteria for identifying dead stock.
- 2.2. Optimize inventory management.
- 2.3. Minimize dead stock storage for efficient cash flow management.
- 2.4. To ensure compliance with applicable regulations and manage associated risks.

## 3. Deadstock

- 3.1. Goods damaged during transit or unloading should not be considered dead stock under this guideline. Ensure the damaged goods are appropriately addressed through the claims or refund process, involving the principal company, insurance, transporter, or responsible officer.
- 3.2. Must retain stock: Stocks related to the hiring of machines expected to be used in the future should be retained, without meeting the criteria for dead stock.
- 3.3. Deadstock refers to inventory or goods that have remained unsold or unused for an extended period and are unlikely to be sold or utilized in the future. These are products that have become obsolete, outdated, or no longer in demand. The following criteria will be considered as dead stock (Table 1):

**Table 1. Criteria for deadstock of inventories**

<b>Inventory</b>	<b>No. of years</b>
Grant machine's spare parts	More than 5 years
Other machine's spare parts	More than 3 years
Machinery	More than 3 years
Others	More than 3 years

## 4. How to prevent dead stock

- 4.1. Do regular inventory checks to identify items that are not selling and take action to prevent them from becoming dead stock.
- 4.2. Set realistic sales goals after tracking customer data which provides information on their interest/demand.
- 4.3. Track your inventory turnover rate to check how quickly your inventory is moving and identify areas where you can improve.
- 4.4. Offer discounts and promotions to sell off dead stock and free up space in your inventory.
- 4.5. Use demand forecasting tools to help predict demand for products and to avoid overstocking.

- 4.6. Work with suppliers to get accurate delivery dates to avoid ordering too much inventory in anticipation of future demand.
- 4.7. Be flexible with our product mix: If a particular product is not selling well, we can discontinue it or replace it with something else.

## 5. Disposal Protocol

- 5.1. The company will attempt to sell its remaining inventory by implementing a stock clearance scheme that includes offering suitable discounts.
- 5.2. In the event that the previous approach is unsuccessful, the company will announce in the media, inviting sealed bids for items classified as dead stocks according to this policy.
- 5.3. The items will be sold to the highest bidder, ensuring that the reserve price set for the bidding items is safeguarded.
- 5.4. The relevant business unit or division will propose the minimum reserve price that should be maintained.
- 5.5. If the aforementioned proposals do not yield satisfactory results, the company will engage with potential buyers and dispose off the items at the most favorable negotiated rate.

## 6. Timeline for segregation of dead stock, inventory assessment, and execution of procurement activities

The concerned unit/division shall segregate dead stock and process for disposal as per the following schedule every year (Table 2).

**Table 2. Calendar for identification and disposal of dead stock**

Activity Description	Start Date	End Date	Responsible
Identification of Dead Stock through the online system	1st December	14th December	Procurement & ICT
Manually identifying and segregating by model and part number	15th December	30th December	Store In charges
Complete inventory assessment (Inventory Turnover Ratio, Deadstock)	1 <sup>st</sup> December	31 <sup>st</sup> December	Procurement Division
Execution of procurement as per the requisition and assessment	1 <sup>st</sup> January	7 <sup>th</sup> January	Procurement Division
Moving of identified deadstock to a new location after approval for disposal	1st February	30th March	Procurement Division
Disposal of Dead-stock as per the procedure	16 <sup>th</sup> March	30 <sup>th</sup> November	Procurement Division

## 7. Committee for disposal of dead stock

The disposal committee is vested with the authority to dispose off the dead stock upon the proposal submitted by the relevant Division. The following are the disposal committee members:

- 1.1. Chief Executive Officer, Chairman
- 1.2. General Manager, Administration and Finance Department- Member
- 1.3. Finance Officer- Member
- 1.4. Administrative officer- Member

- 1.5. Marketing Officer- Member
- 1.6. Procurement Officer- Member Secretary

## **8. Adjustment in the system**

The ICT team shall make the necessary adjustment in the system upon the final report submitted by the Division/Unit.

## **9. Book Keeping and Accounting**

Finance Division shall arrange for making necessary accounting as per the accounting practice.

## **10. Review**

The Internal Audit Division shall review the entire process of disposal of deadstock on yearly basis and report to the Management.

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