



**STRATHMORE INSTITUTE
DIPLOMA IN ENTREPRENEURSHIP
END OF SEMESTER EXAMINATION
DE 1303: BUYING AND STOCK CONTROL**

DATE: 13th December 2019

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.
3. Do not write on the question paper

QUESTION ONE

PART A:

1. When you buy machines and other equipment you must...
 - a. Sell the machines you already have.
 - b. Buy the same machines your competitors have.
 - c. Find out if service and spare parts are available locally.

2. You want to buy new types of goods to sell in your store. Before you decide what goods to buy, the first thing to do is to find out...
 - a. What goods your customers want.
 - b. What goods suppliers can offer you.
 - c. How much it costs to make your storage area larger.

3. When you select a service provider or someone to do outsourcing, the most important information you should have is...
 - a. Their customers.
 - b. Their size and production capacity.
 - c. Their skills and experience.

4. Buying well can help your business...
 - a. Reduce costs.
 - b. Keep costs unchanged.
 - c. Sell at a higher price than other businesses.

5. A written order is better than a spoken order because...
 - a. It is a neater way to order.
 - b. It is a quicker way to order.
 - c. It is proof that you made an order.

6. Check the goods against the delivery note or the invoice...
 - a. When you count your stock at the end of the week or at the end of the month.
 - b. Immediately when you get the goods.
 - c. When you make your order.

7. Your supplier delivers coffee. It is listed on the invoice, but you cannot remember if you asked for it. To find out, check the...
 - a. Order.
 - b. Quotation.
 - c. Receipt.

8. If a supplier sends you damaged goods, you must immediately...
 - a. Give the supplier a bad reputation.
 - b. Complain and then agree with the supplier on the best way to solve the problem.
 - c. Lower the price to your customers and advertise the goods.

9. COD means that you must pay...
 - a. By cheque.
 - b. When the goods are handed over to you.
 - c. Within 30 days.

10. Stock control is important...
 - a. Only for retailers.
 - b. Only for manufacturers.
 - c. For all businesses.

11. It is bad for your business to over-stock. This may cause ...
 - a. Your suppliers to complain that the payments are not made on time.
 - b. Some stock to expire or become obsolete before being sold.
 - c. Your money to be tied up in the stock, while borrowed money accrues interest charges.

12. A good way for store owners to improve their stock control is to ...
 - a. Always have goods in large quantities.
 - b. Always keep their stock well arranged.
 - c. Make sure that they have enough of many different types of goods so they never have to say no to a customer.

13. Stock control helps your business to ...
 - a. Sell less goods on credit.
 - b. Get discounts for advertising.
 - c. Avoid running out of stock.

14. If you suspect that you are losing stock, your stock records will tell you ...
 - a. Who is stealing.
 - b. How much stock is missing.
 - c. How to solve the problem.

15. A customer complains because the shirt you sold him had stains. You give him a new shirt. This means that the balance on your Stock Card will ...
 - a. Be higher than before.
 - b. Be lower than before.
 - c. Remain the same.

16. Your sales of lemon biscuits have increased, so you must ...
 - a. Increase your reorder level.
 - b. Decrease your reorder level.
 - c. Keep your reorder level exactly the same.

17. Your reorder level for 2kgs sugar is 20 bags. This means that ...
 - a. You need 20 bags of sugar in each order from your supplier.
 - b. You need to order more sugar when your stock of sugar falls to 20 bags.
 - c. Your supplier will not sell less than 20 bags of sugar at a time.

18. If you often run out of stock, a good way to solve the problem is to ...
 - a. Work out more accurate reorder levels.
 - b. Buy extra stock every day from a nearby wholesaler.
 - c. Always keep extra stock of all your goods.

19. The best way to find out if stock is missing is to ...
 - a. Count the stock and compare the quantities with the balances on your Stock Cards.
 - b. Count the stock and compare the quantities with the quantities on your suppliers' invoices.
 - c. Compare the balances on your Stock Cards with the copies of your receipts from sales.
20. Stock taking does not tell you:
 - a. If any stock is missing.
 - b. How much stock is missing.
 - c. The reason that stock is missing.

(Each question carries equal marks = 20 marks)

PART B

Phillip is a distributor of tissue papers. His business is 3 years old with an annual profit of Kes 10,000,000. He operates with a bank overdraft of Kes 3, 000,000. He won a tender to supply tissue paper to Muukuni Primary School but will be paid 120 days after delivery. He calls his supplier Mr. King'ang'i and orders for the tissue papers to fulfill the tender in the starting months.

Month 1

Transactions go on well and all the Suppliers deliver the orders as promised but he is short of space to store them.

Month 2

Business is still good. He makes his first delivery to the school which increases his overdraft.

Month 3

Phillip is in a ditch. He has made more deliveries to the school but his overdraft is at the limit and is getting calls from unpaid suppliers.

Month 4

Phillip is in a crisis. He cannot pay all the suppliers. Some suppliers stop delivering and threaten legal action. However he thinks the situation will stabilize since he is still supplying the school.

Month 5

His overdraft is 5,000,000 over the limit. Two suppliers start legal action. The bank refuses to pay anymore cheques. Luckily enough he receives his first payment from Muukuni.

Month 6

The subsequent payments from the school delay and he cannot fulfill any more orders. The bank demands for payment of the overdraft within 10 working days. Phillip closes business and blames the bank.

Required:

- i. Imagine you are Phillip, how would you have managed the situation differently?
(5 Marks)
- ii. Give **TWO** reasons why Phillip failed? **(2 Marks)**
- iii. What is the problem with the way Phillip operates his business? **(1 Marks)**
- iv. With **TWO** reasons, advice Phillip on how to improve his working capital?**(2 Marks)**

Total: 30 Marks

QUESTION TWO

- a) Many small businesses in hospitality and tourism pay too little attention to stock control. The process can be as uncomplicated as you need it to be, however, the key is to check your stock-holding on a frequent basis. This will provide an early warning of problems. There are a number of methods for controlling stock, several of which are appropriate to the small businesses:

Required:

- i. Discuss **TWO** methods which can effectively assist small and medium businesses owners to control the level of their inventory. **(5 Marks)**
- b) Describe **EIGHT** steps to follow when buying goods, raw materials, equipment or other things your business needs. **(10 Marks)**

Total: 15 Marks

QUESTION THREE

- a) Kelvin currently operates a general shop in Fedha Estate. He thinks stock control is not important for his busy shop. "I simply watch my shelves and order more when something is finished. The nails are all mixed together. I cannot find any in the size I need. This bread is old and hard. Let us go to another shop. I did have the lamp you want, but I cannot find it now. Put this in your pocket. He will never notice. Most of these cups are broken. There are lots of red pens, but no blue ones that I need for school. It is the beginning of the school term, but all the exercise books are sold out".

Required:

- i. Identify **SIX** stock control problems at Kelvins shop? **(3 Marks).**
- ii. What can Kelvin do to solve each of the stock control problems you have identified in (i) above **(3 Marks).**
- b) With examples describe **FOUR** reasons why customers are increasingly concerned about how certain products impact the environment and their health **(9 Marks).**

Total: 15 Marks

QUESTION FOUR

- a) Tavid had been looking for a generator for a long time. A few months ago, he bought a new, powerful generator. About a month later, something in the generator broke. Then, Tavid found out that spare parts are not available in the country. No one knows how to repair the generator. His small business now has a machine that cannot be used. A friend of mine said he could bring me a new generator from outside the country. It was the latest model and had all the desirable features. How could I say no?

Required:

- i. Was it a mistake for Tavid to buy that generator? Why? Give **TWO** reasons **(2 Marks)**
- ii. Who should Tavid have talked to before he bought the generator? Why? **(1 Marks)**
- iii. Give examples of **THREE** questions that Tavid should have asked before he bought the generator **(3 Marks)**
- b) Stock taking is a system of physically counting and writing down all the stock in your business on a list. With **FOUR** reasons explain the usefulness of stock taking in a business **(9 Marks)**

Total: 15 Marks

QUESTION FIVE

- a) Explain the term stock and stock control? **(2 Marks)**
- b) Discuss **THREE** importance of stock control for a business. **(3 Marks)**
- c) Describe **SIX** steps to be followed in stock taking for a business. **(6 Marks)**
- d) Mr. Felix has a new hotel along Luthuli Avenue which is currently under renovation by Nairobi County. He has signed a contract with a new supplier to supply milk to the hotel for the next one year. After six months in business, Mr. Felix lost 50% of his customers. On investigation, he realizes that the supplier's quality has been compromised. Further investigation, Mr. Felix revealed that, recently the supplier supplied contaminated milk. Advice Mr. Felix on how to resolve the dispute with the supplier **(4 Marks)**

Total: 15 Marks