



STRATHMORE INSTITUTE
DIPLOMA IN BUSINESS CREATION & ENTREPRENEURSHIP
END OF SEMESTER EXAMINATIONS
DE 1303: BUYING AND STOCK CONTROL

DATE: 20th January 2022

Time: (13:00pm-15:00pm)

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

- a) Outline **FIVE** differences between buying goods and buying services **(10 marks)**
- b) Explain any **FOUR** of the '5 rights of buying' including how each might be achieved **(8 marks)**
- c) During the next year **DBM Ltd.** is planning to launch a new product and budgets to use 56,250 units of a special material. The material will be used during the year at an even rate. Mr. David has decided he is going to place orders for 1,125 units at regular intervals during the year. The costs associated with the material are as follows:
Purchase price Kes 3.50 per unit.
Ordering costs Kes 10 per order.
Holding costs Kes 0.50 per unit per year.

Required:

- i. Calculate the ordering and holding costs based on the suggested order quantity of 1,125 units per order. **(4 marks)**
- ii. Calculate and explain the economic order quantity. **(4 marks)**
- iii. Calculate the difference in the ordering and holding costs between the order quantities suggested in parts (i) and (ii). **(4 marks)**

[Total 30: marks]

QUESTION TWO

- a) To be effective, buying for your business should follow a systematic step-by-step process. These are called buying rules and procedures. Describe eight recommended steps that your business has to follow when buying goods, raw materials, equipment or other things that your business needs. **(8 Marks)**
- b) You recently started a small hardware business within Madaraka Estate which consists of four separate business units, each of which undertakes its own purchasing activities.

Required:

Discuss **THREE** benefits of centralising all purchasing activities

(7 marks)

[Total 15: marks]

QUESTION THREE

- a) Jemwa has a general store business in Kangundo road. He thinks stock control is not important for his business. “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 Jemwa General Store **(3 Marks)**
 - ii. What can Jemwa do to solve each of the stock control problems you have identified in (i) above **(3 Marks)**
- b) With examples describe **THREE** reasons why customers are increasingly concerned about how certain products impact their environment and their health **(9 Marks)**

[Total 15: marks]

QUESTION FOUR

- a) The bakery owner signed a contract with the supplier to supply flour to the bakery for the next one year. After six months of engagement, the bakery owner realized that the supplier’s quality has been compromised. On investigation the bakery owner revealed that, recently the supplier supplied moldy flour.

Required:

- Advise the bakery owner on how to resolve the dispute with the supplier **(6 marks)**
- b) Stock taking is a system of physically counting and writing down all the stock in your business on a stock taking list.

Required:

- With **FOUR** reasons explain the usefulness of stock taking in a business **(9 Marks)**

[Total: 15 Marks]

QUESTION FIVE

You just started a small business within Nairobi to buy and sell electronic accessories. Due to high demand of accessories within the estate, you have decided to set up a unit to deal with stock control and employ a qualified stock controller for your business.

Required:

- i. Describe **THREE** functions of the stock controller and the importance that this department must operate efficiently. **(6 marks)**
- ii. State and explain **THREE** considerations that you would have in mind when preparing for the stocktaking? **(6 marks)**
- iii. If you should decide to install a system of perpetual inventory and continuous stocktaking, what advantages would you expect the business to receive? **(3 marks)**

[Total: 15 Marks]