



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

**ABA 342: PROCUREMENT RECORDS AND INVENTORY
MANAGEMENT**

Date: 6th June, 2017

Time: 8.30 - 11.30am

INSTRUCTIONS:

- Answer Question ONE and any other THREE.



QUESTION ONE (Compulsory)

- a) Distinguish between deterministic and stochastic models in respect to inventory control and management [6 Marks]
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- b) Explain how stock out costs impact an organizational performance [12 Marks]
- c) Explain the following terms as used in inventory control and management:
- i). Economic Order Quantity (EOQ) [2 Marks]
 - ii). Buffer Stock [2 Marks]
 - iii). Free Stock [3 Marks]

QUESTION TWO

- a) Explain the major advantages and disadvantages of the periodic review system of inventory control [6 Marks]
- b) The following data relate to a particular stock item:
- Normal usage – 110 per day
 - Minimum usage – 50 per day
 - Maximum usage – 140 per day
 - Lead-time – 25-30 days
 - EOQ (Previously calculated) – 5000

Required: Compute:

- i). the re-order level [3 Marks]
- ii). the minimum stock level [3 Marks]
- iii). the maximum stock level [3 Marks]

QUESTION THREE

- a) Explain what is meant by a hybrid system of inventory control and indicate circumstances that may favor application of hybrid systems of inventory control [7 Marks]
- b) A company uses 100,000 units per year which costs sh. 3/- each, carrying costs are 1% per month and ordering costs are Sh. 250/- per order.

Required: Determine the company's EOQ [8 Marks]

QUESTION FOUR

- a) Develop the basic EOQ model from first principles [6 Marks]
- b) A company uses 50,000 buttons per annum which are Sh. 10/- each to purchase. The ordering and handling costs are Sh. 150/- per order and carrying costs are 15% of purchase price per annum.

Assume that the firm has decided to make the buttons in its own factory. The necessary machinery has a capacity of 250,000 buttons per annum.

Required: Assuming there will be gradual replenishment, determine the firms
EOQ. [9 Marks]

QUESTION FIVE

Explain how a Just-In-Time inventory system may help in inventory control
and management. [15 Marks]