

FOCUS K.C.S.E REVISION SERIES

BUSSINES STUDIES.

TOPICS COVERED

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SECTION I: PAPER ONE

01- INRODUCTION TO BUSINESS STUDIES

The topic entails;

Emphasis on the meaning and importance of Business studies to day-to-day activities around school and society in general.

1. State **four** importance of business activities to an economy

02. -BUSINESS AND ITS ENVIRONMENT

The topic entails;

- (i) **Meaning and purpose of a business**
- (ii) **Explain Business environment with clear distinction between internal and external business environments.**
- (iii) **Understanding of what makes up a healthy business environment.**

1. Identify the importance of the following types of environment to a business.

- i) Intermediaries
- ii) Technological
- iii) Demographic
- iv) Competitors

2. State **four** environmental effects that may result from the depletion of Kenya's forest cover

3. Name the internal environments whose effects are described by the following statements:

	EFFECT	INTERNAL ENVIRONMENT
(a)	Allows duties to be allocated to the right people thus resulting in higher productivity	
(b)	Helps the business achieve its objectives e.g. higher production level of goods and services	
(c)	Makes employees to acquire norms and code of conduct that is acceptable to all	

4. Outline **four** ways in which the government creates enabling environment for business

5. Mr. Mirugi has opened a retail outlet at Lukoye Trading centre. Advise him on **four** ways of creating an enabling business environment for the prosperity of his business
6. Mention **four** benefits of recycling waste production
7. Outline **four** adverse effects of production activities on environment and community health
8. Outline **four** elements that may comprise the internal environment of a business
9. The table below contains various categories of members of the society. In the spaces provided indicate the activity of social responsibility that a firm should undertake to each group

Category	Activity of social responsibility
a) Employees	
b) Customers	
c) Community	
d) Owners	

10. Give **four** ways in which Arid lands can be made more productive in any given country

03. -SATISFACTION OF HUMAN WANTS

The topic entails:

- **Meaning and characteristics of human wants with clear distinction between wants.**
- **Discussion of the meaning and characteristics of economic resources.**
- **Clear distinction among wants should be emphasized.**
- **Define and explanation of the concepts of scarcity, choice and opportunity cost.**

1. State **four** factors that may limit an individual ability to satisfy his basic wants

2. Identify **four** sources of energy available in Kenya
3. Indicate whether the following resources are renewable or non-renewable

Resource

Classification

1. Limestone
2. Natural rubber
3. Solar energy
4. Biogas
5. Rivers
6. Wildlife
7. Soda ash
8. Forest

4. Outline **four** benefits that accrue to a company by using a prize winning competition to promote its products
5. State **four** reasons why choice should be made in satisfying human wants
6. Outline **four** circumstances under which some human wants can fully be satisfied
7. Highlight **four** reasons why human wants are not easily satisfied
8. State **four** characteristics of basic human wants
9. Classify the following items into either basic wants or secondary wants

ITEM	WANT
(a) Furniture (b) Medical care (c) Sausages (d) shelter	

10. Highlight **four** problems faced in the satisfaction of human wants

04 – PRODUCTION

The topic entails:-

- **Definition of production.**
- **Definition of utility and give the various types of utilities**
- **Identifying types and levels of production and stating the rewards.**
- **Differentiation between division of labour and specialization in production process**
- **Discuss the concept of mobility and factors of production process**
- **Discuss the concept of mobility and factors that influence mobility of factors of production.**
- **Attempt , classification and distinction between goods and services.**

1. For each of the following production activities, indicate whether it is direct or indirect type of production

Activity	Type of production
i) An individual washing his own clothes	
ii) An individual supplying beef in an area	
iii) An individual operating a food kiosk	
iv) An individual producing maize for his family consumption	

2. Write in full the following abbreviations:

- i) Franco
- ii) O.N.
- iii) C.W.O
- iv) I.O.U

3. Explain the factors that have led to dominance of subsistence production despite development in technology in Kenya.

4. Identify the type of utility created in the following circumstances

Activity	Utility
a) Carpentry	
b) Selling bread to students	
c) Warehousing of goods imported	
d) Carriage of cargo to the market	

5. Outline **four** ways in which the productivity of land can be improved

6. State **four** ways in which a society benefits from indirect production

7. Outline **four** disadvantages of division of labour and specialization
8. Distinguish between the following types of utilities:-
 - (a) Form utility
 - (b) Place utility
9. A worker has been working as a mechanic for two years. However, he thinks of changing to another occupation
10. List **four** features of land as a factor of production
11. Highlight **four** factors that could influence mobility of capital as a factor of production
12. Highlight **four** types of utility and identify how each is created by production
13. Give **four** characteristics of indirect production

05. ENTREPRENEURSHIP

The topic entails:

- **Understanding the meaning and importance of entrepreneurship.**
- **Discussing the characteristics a successful entrepreneurs must have.**
- **Discussing the factors that inhibit enterpreneual development.**
- **Discussing the possible causes of business.**

1. What are the factors that have contributed to the growth of entrepreneurship in Kenya.
2. Outline **four** reasons for establishment of a business enterprise
3. Enter the following transactions in the ledger accounts of Onyango Traders for the month of

May, 2004

May 1: Started business with shs.150,000 cash

2: Bought goods on credit from Kamau for shs.40,000

4: Sold goods for cash shs.34,500

5: Returned some of the goods purchased from Kamau for Kshs.4,500

4. State **four** reasons to consider when evaluating a viable business opportunity

5. A surgeon set up a clinic in a distant rural centre. The business was closed after six months.

Identify **four** possible causes for the failure

6. State **four** reasons why the government of Kenya is encouraging entrepreneurial knowledge in schools

Q. Identify **four** benefits of entrepreneurship to the developing economies such as Kenya

O6. -MANAGING A BUSINESS

The topic entails:

- **Definition of management and how it can be applied to day to day lives**
- **Discussion of management functions and how they contribute to the success of a business.**

1. The manager of Kusimba stores has vowed to improve his yields by 50% through labour motivation. State **five** ways by which he can achieve this

2. Outline **four** non-monetary incentives that an organization may use to motivate its employees

3. Controlling is an important part of management. State four roles of controlling as a tool of management

07- THE OFFICE

The topic entails:

- **The meaning and importance of an office.**
- **Discussion of functions of an office and how they influence business activities.**
- **Discussion of various office layouts and circumstances under which each is appropriate. The advantages and disadvantages of each layout should be brought out.**
- **Identification of different equipments in an office and how they are used to enhance the running of an enterprise.**
- **The advantages and disadvantages of each equipment is discussed.**
- **The role of a good filing system in an office for effective running of business enterprises is discussed.**
- **The office staff is also discussed in terms of categories and essential qualities of the various office staff.**
- **Trends in office management is discussed especially the use of information and communication technology.**

1. Name **four** equipment that can be available in the accounts office
2. Identify four qualities of a personal secretary
3. Give **four** characteristics of a good memo
4. Outline **four** duties of a company secretary
5. Mwita has introduced computers in his business operations, outline **four** benefits that he may experience
6. Highlight **four** ways in which an open office lay-out can contribute to efficiency in office

- operations
7. State **four** reasons why an organization should keep stock records for its office stationery
 8. State **four** limitations of adoption of new technology by a business
 9. Highlight **four** factors to be considered when selecting a method of re-producing documents
 10. State **four** factors to consider when choosing an office layout
 11. Outline **four** modern trends in office management
 12. Enumerate **four** demerits of an open plan office

08 - HOME TRADE

The topic entails:-

- **Explanation of the meaning of trade and importance of trade.**
- **An attempt of classification of trade and why its done.**
- **Discussion of type and functions of various retailers and wholesalers.**
- **Meaning, importance, source, destination and functions of various documents used in home trade are discussed.**
- **Meaning and main terms of payment used in home trade**
- **Meaning, various and merits and demerits of means of payment.**

1. Write in full the following abbreviations:
 - i) Franco
 - ii) O.N.
 - iii) C.W.O
 - iv) I.O.U
2. Outline the difference between the following types of wholesalers:
 - i) Rack jobbers and drop shippers
 - ii) Specialized and generalized wholesalers.

3. State **four** circumstances under which a customer would prefer to be paid by a banker's cheque
4. Give **four** contents of a statement of account
5. State **four** limitation of hawking
6. State **four** disadvantages a person may experience when using credit cards
7. Name **four** commercial services which are useful to a manufacturer
8. Give **four** disadvantages of barter trade
9. Show how the following transactions may affect the items of balance sheet, stating whether it is an increase , decrease or no effect

Transaction	Assets	Capital	Liabilities
(a) Additional investment in cash			
(b) Purchase of stock by credit			
(c) Pre-paid loan in cash			
(c) Took a loan to pay another loan			

10. Identify the type of wholesaler described in each of the following cases in the table below:

Description	Type of wholesaler
(a) They sell a wide range of goods within one line of products	
(b) They stock their products in vehicles and move around selling to other traders	
(c) They stock particular types of goods and sell to other specialized traders	
(d) They operate on a self-service basis where other traders pick, pay and transport goods on their own	

11. Differentiate between the following documents used in home trade:
 - (a) Consignment note and delivery note

(b) Credit note and Debit note

12. A trader sold a bag of sugar at Kshs.4000. The buyer was allowed a trade discount of 10%. If he

pays the debt in two weeks and cash discount of 3% if payment is made within one month.

Calculate the amount the trader received if the buyer paid within 15days

13. In the spaces provided below, state the business document, to which each of the following

statement relates

Statement	Document
a) Gives a description of the goods and the prices at which the seller can supply the goods to the buyer	
b) Accompanies the goods and it contains the list of goods delivered	
c) To inform the buyer that goods have been dispatched	
d) To correct an under- charge	

14. State **four** circumstances under which a proforma invoice can be used

15. State **four** benefits of selling goods on hire purchase terms

16. List **four** advantages of hire purchase to the buyer

17. List **four** essentials of a bill of exchange

18. State **four** factors that determine the period for which documents should be stored

19. Identify **four** essentials of a valid bill of exchange

20. Mama Cindy purchased 100 packets of sweets worth kshs1625.if she was allowed a 5%

quantity discount and 2 ½% cash discount, calculate the price she paid per packets of sweets

09 - FORMS OF BUSINESS UNITS

The topic entails:

- **The basis of classification of business units e.g. sole proprietorship.**
- **Classification of business units on the basis of meaning, features, ownership, formation, sources of capital, merits and demerits, circumstances under which each form will be dissolved.**
- **Trends in business ownership.**

1. State **four** requirements necessary to secure a loan from the SACCO's
2. Give **four** hitches faced by the government of Kenya in the endeavor to privatize state firms
3. Outline **five** benefits of becoming a member of a savings and credit cooperative society (SACCO)
4. In the spaces provided below, write the type of partner described by each of the following statements
 - (i) One who is below 18years of age
 - (ii) One who has unlimited liability
 - (iii) One who gets involved in the daily running of the business
 - (iv) One who allows his/her name to be used in the business
5. Otswana intends to start a business. Give **four** reasons why it is advisable for him to start a

- retail business shop instead of buying shares in a public limited company
6. State **four** circumstances that may lead to the dissolution of a partnership
 7. State **four** features of incorporated business units
 8. List **four** documents that are required before a public limited company is allowed to operate
in the country
 9. List **four** documents that are required before a public limited company is allowed to operate
in the country
 10. Highlight **four** ways in which the running of public corporations is ineffective in this country
 11. You have been charged with a duty of preparing an article of Association for your company;
state **four** items that you will include in your article of Association
 12. Honey intends to join a consumer Co-operate society; Highlight **four** benefits she would get by
being a member of the society
 13. State **four** features of multinational corporation
 14. State **four** type of partnership businesses

10. - GOVERNMENT AND BUSINESS

The topic entails:-

- **Reasons to why the government involves in business and various ways through which**
- **Merits and demerits of government in business activities**
- **Discussion of meaning of consumer protection, the rationale for it and the various methods by which consumers may be protected.**

1. State **four** reasons why the government issues licenses to businesses
2. State any **four** limitation of consumer initiated methods in compating exploitation.
3. Highlight **four** services offered by the local authorities in Kenya
4. Outline **four** ways in which the government creates enabling environment for business
5. Local leaders would like to see more business enterprises established within Ugenya.
Outline **four** measures the government can take to encourage investments in this region
6. Limitations of consumer initiated methods of consumer methods
7. State **four** reasons why some local authorities in Kenya find it difficult to provide public utility
8. List **four** types of complaints that a consumer organization may receive from consumer
9. State **four** reasons why some local authorities in Kenya find it difficult to provide public utilities
10. State **four** ways in which the government is involved in business activities

11 - TRANSPORT

The topic entails:

- **Definition/meaning and importance of transport**
- **Discussing the various essential elements of transport**
- **Differentiate between mode and means of transport**
- **Discussing the advantages and disadvantages of the various means of transport**
- **Identifying factors considered in choice of an appropriate means of transport and implication of each factor to business.**
- **Trends in transport in relation to business.**

1. State **four** circumstances that make rail transport more desirable than road
2. Highlight **four** measures that the government can take to make road transport in our country to be more efficient
3. Marine transport is one of the important means of transport in Kenya. Give **four** disadvantages of this form of transport
4. Outline **three** features of tramps that distinguish them from other sea transporters
6. Outline **four** factors that have limited adoption of containerization in Kenya
7. G4S Limited Company offer courier services to provide safe transportation services.
Highlight **four** other services offered by G4S Limited
8. Outline **four** differences between liners and tramps as in sea transport
9. Bucket Ltd is an international pharmaceutical company. Under what circumstances can the firm send its products to customers by air transport?

12 - COMMUNICATION

The topic entails;

- **Meaning of communication**
- **Discussion of how communication contributes towards the success of business.**
- **Distinguishing between form and means of communication**
- **Various means of communication and circumstances under which they are used.**
- **Advantages and disadvantages of the various means.**
- **Discussion of factors that hinder effective communication.**
- **Discussion of factors to consider in choice of a means of communication.**
- **Identifying services that facilitate communication and circumstances under which they are used.**
- **Identifying trends in communication e.g. cell phones, internet etc.**

1. The following are special delivery services provided by the post office:-**post rest ante,**

speed post, business reply service, express delivery. Match each description with the term

- a) The arrangements to deliver the mail starts at the sender's post office
- b) The arrangement to deliver the mail starts at the addressees post office
- c) Services offered to travelers who wish to receive correspondence while away from home
- d) Service that relieves the customer of postage expenses

2. State **four** advantages of sending parcels using courier firms

3. Outline **four** reasons why communication may not be effective

4. State **four** essential components for communication to take place

5. List **four** forms of communication

6. State **four** circumstances under which verbal communication may be preferred to written

communication in a business enterprise

7. State any **four** current trends in communication in Kenya today

13- WAREHOUSING

The topic entails;

- **Meaning and importance of warehousing to business**
- **Outline the essentials of a good warehouse**
- **Distinction between the various types of \warehouses as well as the advantages and disadvantages of each type of warehouse.**

1. State **four** functions of warehousing
2. Under what circumstances can the location of a warehouse be seen to be inappropriate
3. State **four** reasons why it is suitable to locate a bonded warehouse at the point of entry of a country
4. Outline **four** benefits of a bonded warehouse to the government
5. Outline **four** circumstances that would hinder a warehouse from functioning effectively
6. State **four** reasons why goods may delay in a warehouse
7. State **four** functions of the purchases department of a ware house
8. State **four** advantages of warehousing to a retailer

14.- INSURANCE

The topic entails;

- **Meaning, purposes and principals of insurance.**
- **Discussion of classes of insurance and the basis of the classification**
- **Distinction between Re-insurance and contribution and circumstances under which each may be necessary.**
- **Explain the procedure for obtaining an insurance policy and claiming of compensation.**

1. Kazi moto insured a motor vehicle against fire with MotoMoto company by paying

Kshs.300.000. later the car was destroyed at a garage and a compensation of Kshs. 400,000

were paid. Using insurance terms, state what each of the following stand for ;

- a) Kazi Moto
- b) Fire
- c) Kshs 300,000
- d) Moto Moto Company

2. Give the significance of the following principles to both the insurer and insured

- i) Utmost good faith
- ii) Indemnity.....
- iii) Contribution
- iv) Insurable interest..

3. The following are description of various insurance policies. Identify the name of the policy

described by the statement:

	Description	Policy
1	Covers an organization against losses which might arise as a result of debtors failure to pay their debts	
2	Covers for the loss of profit due to interruption of business activities as a result of fire	
3	Covers employees who may suffer injuries while on official duties	
4	Covers partial or total physical disability caused to a person due to injury	

4. State **four** reasons why few Kenyan take out life assurance policy

5. Define the following types of marine insurance losses:-

- (a) Total constructive loss
- (b) General average loss

6. State **four** conditions necessary for the operation of the principle of indemnity in insurance
7. Highlight **four** characteristics of an insurable scheme
8. Outline **four** benefits of the “Pooling of risks” to an insurance company
9. Describe the procedure of acquiring an insurance policy
10. A private warehouse owner insured his warehouse valued at Kshs.400, 000 for Kshs600, 000 against risk of fire. The warehouse was later destroyed completely by fire including goods worth shs 100,000.

Required:

- i) Determine the amount of compensation paid by the insurance company
- ii) Give a reason for your answer in (i) above

15. - PRODUCT PROMOTION

The topic entails:

- (i) **Meaning and purpose of product promotion and its impact on the business performance.**
 - (ii) **Discussion of the various methods of production with characteristics of each method; advantages and disadvantages of each method.**
 - (iii) **Discuss factors that influence choice of a product promotion medium as well as advantages and disadvantages of each.**
 - (iv) **Discuss ethical issues in product promotion and how these issues affect the business.**
 - (v) **Discuss the emerging issues and explain their impact on the business.**
1. Below are terms used in sales promotions:-
 - Competitive advertising
 - Product advertising
 - Informative advertising
 - Institutional advertising

-Primary demand advertising

Identify the most appropriate term described in each of the following case,

- products
- i) Aims at increasing the sales volume of the company's entire range of products
 - ii) Provides relevant information about producers products
 - iii) Seeks to popularize the business enterprise offering goods for sale
 - iv) Seeks to promote the sale of a new variety of a company's creations
2. Outline **four** benefits that accrue to a company by using a prize winning competition to promote its products
3. Outline **four** steps involved in personal selling
4. State any **three** forms of after sales services offered to customers
5. State the functions of advertising agencies to the producers
6. Elgon industries a producer of sweets and chocolates wants to launch its products in the market. Outline **four** factors the firm should consider when choosing an appropriate medium for promotion
7. List **four** after sale services that a seller may offer to attract more buyers for his products

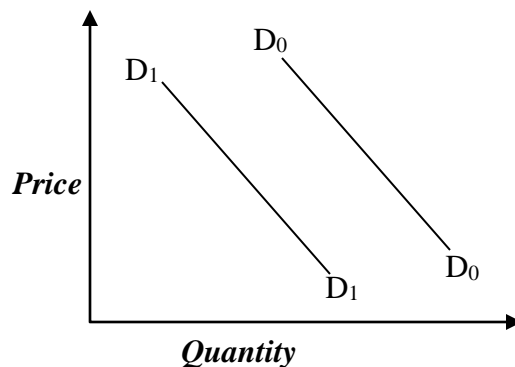
16- DEMAND AND SUPPLY

The topic involves:-

- **Definition of demand and discussing factors that influence the demand for a product**
- **Identify various types of demand**
- **Discuss the concept of demand and demand curve and derive demand curve form demand schedule.**

- Explain clearly, movement along a demand curve and a shift in demand curve.
- Define elasticity and categorize elasticity of demand and explain importance of the concept.
- Define supply and discuss factors that influence the supply of goods and services.
- Define supply schedule and curve; and derive supply curve from supply schedule.
- Differentiate between shift and movement along a supply curve.
- Define elasticity of supply and their various categories.
- Meaning of equilibrium price, point and quantity.

1. Outline **four** factors that influence both demand and supply of a commodity
2. State **four** factors that may result into an increase in the supply of a product in the market
3. State **three** circumstances under which a fall in the price of a commodity would lead to a fall in demand for a commodity
4. The following graph shows a shift in demand from D_0 to D_1



- State **four** possible reasons for the above shift
5. The table below represents a farmer's supply of cabbage in a local urban centre

Year	Quantity of cabbages (Kgs)
2001	20,000
2002	15,000
2003	10,000

Assuming the price remained constant state **four** reasons for the trends in the supply of cabbages

6. Outline **four** circumstances that would cause a commodity to have inelastic demand
7. State **four** causes of abnormal demand
8. Explain **four** circumstances under which the law of demand may be undermined
9. The table below shows changes in price of a product X and the changes in quantity demanded in

Product X and product Y

Price of x	Demand for x	Demand for Y
140	20,000	15,000
150	16,000	19,000

Calculate the loss elasticity of demand of product Y

17 - THE THEORY OF THE FIRM

The topic entails ;

- **Meaning and distinction between firm and industry;**
- **Discuss factors that influence the decision on what to produce.**
- **Discuss the various costs of production and their derivation.**
- **Differentiate between small and large firms**
- **Discuss the various factors influencing location of firms; reasons for localization and delocalization.**
- **Explain meaning of economies and diseconomies of scale and how they influence production decisions of the firm.**
- **Explain the reasons for continued existence of small firms despite economies enjoyed by large scale firms.**
- **Discuss environmental implications on production activities.**

1. Highlight **four** ways a trader benefits from localization of industries
2. State **four** factors that determine the size of a firm
3. Highlight **four** measures the government may take to promote delocalization in the country

4. Highlight **four** reasons why small scale businesses are popular in Kenya inspite of economies

of scale associated with large scale organizations

5. State **five** reasons for the existence of small firms in an economy

6. Give **four** ways in which a firm may achieve marketing economies of scale

7. The table below represents units of output and their cost of production. Find the values of

costs **A, B, C** and **D**

Units of output	Total fixed cost (TFC)	Total variable cost (TVC)	Total cost	Average fixed cost (AFC)	Average variable cost (AVC)	Average cost(AC)	Marginal cost (MA)
3	300	240	A	100	80	180	60
4	300	320	620	75	B	155	80
5	300	500	800	C	100	160	180
6	300	720	1020	50	120	D	220

8. The table below shows the total cost of a certain product at given output levels

Output (units)	0	10	20	30	40	50	70	80
Total cost (Kshs)	300	380	470	550	620	680	730	770

At output of 50 units; determine

a) Total fixed costs

b) Average variable cost

c) Average total cost

d) Marginal cost

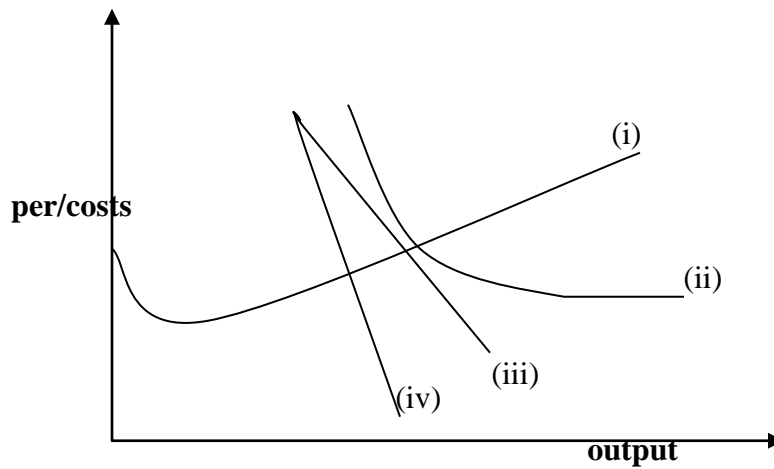
9. Give **four** reasons why a firm may choose to remain small despite the benefits of expansion

18 - PRODUCT MARKETS

The topic entails:-

- **Meaning and types of product markets**
- **Show clearly price and output determination in all markets**
- **Discuss the causes of various types of market situations**
- **Discuss other methods of price determinations.**

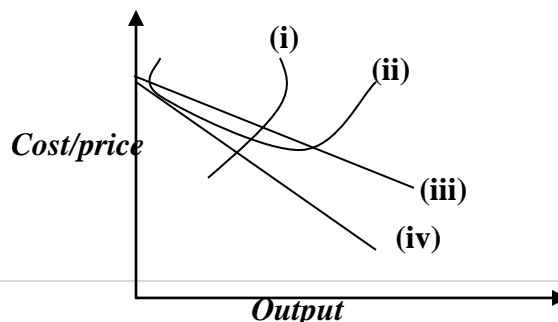
1. State **four** reasons why the government should control activities on monopoly
2. The following diagram shows how price and output is determined under monopolistic competition



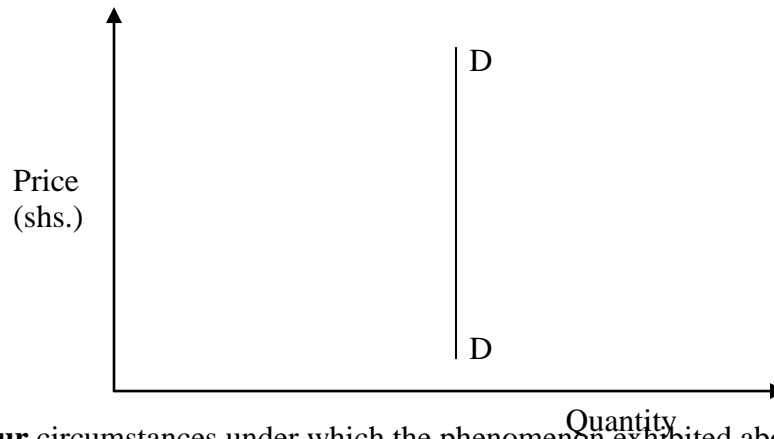
Name the curves:

3. The diagram below represents the short-run equilibrium of a firm in monopolistic competition.

Label the curves and show the best output and price on the graph



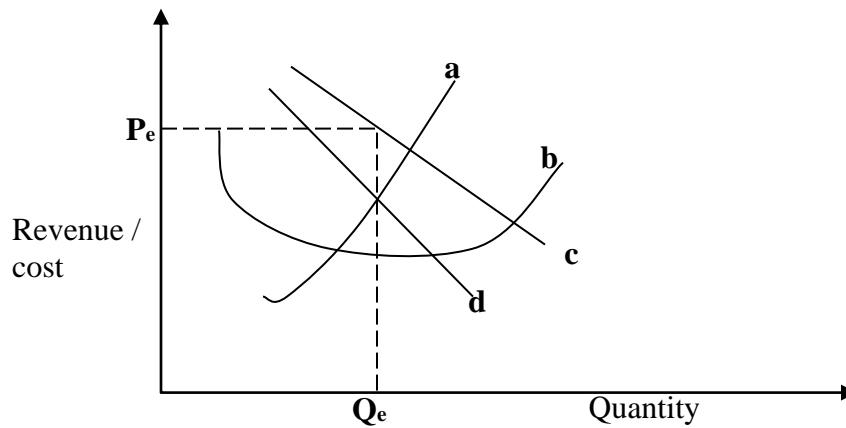
4.



State **four** circumstances under which the phenomenon exhibited above can be experienced in a market structure

5. State **four** sources of Monopoly power

6. The diagram below relate to a market structure



i) Name the market structure represented in the diagram shown above

ii) Name the curves marked

7. Give **four** reasons why market research is important to a trader

19. - CHAIN OF DISTRIBUTION

The topic entails:-

- **Explain, the meaning of distribution; chain of distribution and channel of distribution.**
- **Discuss the role of the intermediaries in the distribution of goods.**
- **Discuss the factors to be considered in choice of a distribution channel and circumstances under which each channel will be preferable for various types of products.**

1. Identify the type of utility created in the following circumstances

Activity	Utility
a) Carpentry	
b) Selling bread to students	
c) Warehousing of goods imported	
d) Carriage of cargo to the market	

2. State **four** roles played by intermediaries in the chain of distribution

3. Highlight **four** consequences of eliminating a wholesaler from a chain of distribution

4. Outline **four** factors used to determine the distribution of Omo, as a common household detergent in Kenya

5. State **four** circumstances under which it would be advisable for a manufacturer to sell directly to consumers

6. Dady a traders at Kibigori trading centre wishes to import goods from Brand kamp , a Germany
Describe **four** channels of distribution that Dady's goods are likely to take to reach his consumers at Kibgori

7. Kenya co-operative creameries (KCC) sell its dairy products directly to retailers. Highlight **four** factors that were considered in the choice of this channel of Distribution

20. NATIONAL INCOME

The topic entails:-

- **Meaning of national income as a measure of money value of goods and services resulting from productive activities of a country in any one year.**
- **Explain the circular flow of factors of production to business, and flow of goods and services back to households; and payments made for them.**
- **Measurements and uses of national income. Mention the three approaches and components of each.**

1. Outline **four** reasons why an increase in per capita income may not necessarily lead to a rise
in the standard of living of the citizens
2. State **four** factors that affect the circular flow of income in an economy
3. Identify **four** factors that may be contributing to income disparity between the rich and poor
citizens in Kenya
4. Account for the difference between the gross National Income figures between Kenya
and Uganda
5. Name **three** approaches for measuring national income
6. Highlight **four** problems associated with income approach
7. Highlight **four** problems associated with the output approach in computation of National income
8. Highlight **four** uses of National Income statistics in any given country
9. Outline **four** circumstances under which per capita income would be a good indicator

21. POPULATION AND EMPLOYMENT

The topic entails:-

- **Meaning and importance of population**
- **Explain the demographic concepts such as fertility and explain how they influence business activities and the growth of the economy in general.**
- **Discussing implications of the number of people as well as the structure of the population in a country and their implications on economic development.**
- **Meaning of employment and unemployment and their implication to the economy.**
- **Discussing the various types of unemployment and their specific causes.**
- **Solutions to the various types of unemployment problem in Kenya i.e. control measures to unemployment**

1. Explain the following terms as used in business

- i) Census
- ii) Unemployment
- iii) Mortality...
- iv) Optimum population.

2. Highlight **four** negative implications of a rapid population growth in developing countries

3. State **five** causes of unemployment in Kenya

4. Highlight **four** challenges passed to a country by a rapidly growing population

5. The table below shows a change in population size in country X for a period of four years

Year	Total population (000 000)
2001	40
2002	26
2003	13
2004	9

6. Give **four** reasons to account for this trend

7. Give **four** advantages of high population growth rate

22. DETERMINING THE NET WORTH OF BUSINESS

The topic entails:-

- (i) **Introduction and explanation of the meaning of assets, liabilities and capital and relate the concepts to operation of business.**
- (ii) **Derive the book-keeping equation and relate it to the operation of the business.**
- (iii) **Explain the meaning of a balance sheet and relate it to the book keeping equation**
- (iv) **Preparing the balance sheet explaining the order in which items are presented in the balance sheet.**
- (v) **Discuss purpose and limitations of a trial balance.**
- (vi) **Classify ledger accounts and discuss the various types.**

1. List **four** items that may affect the ending capital of a business

2. The following relates to Katiba traders as at 31st April 2010

	Kshs.
Capital	600,000
Motor van	280,000
Furniture	80,000
Current assets	?
Current liabilities	50,000

Prepare Katiba's between sheets

3. Asman Traders had the following information extracted from their books of accounts as at 31st

June 2006

	Shs.
Capital (1 st July 05)	3 500 000
Additional investment	540 000
Drawings for the year	25 200

Capital (31st June 06) 6 000 000
Determine the profit for the year

4. State **four** characteristics of Assets

5. Use the balance sheet equation to fill the missing figures in the table below

	CAPITAL(Shs.)	LIABILITIES(Shs.)	ASSETS (Shs.)
(a)	21,920	?	30,341
(b)	?	2,192	19,840
(c)	3,773	1,591	?
(d)	?	73,000	100,920

6. The accounting period of Ochomo Traders ended on 30th June, 2008. The assets, liabilities and

capital were as follows on their date :

Capital	51000
Cash in hand	4000
Stock	10000
Furniture	7000
Creditors	5000
Long term loan	20000
Premises	50000
Debtors	2000
Bicycle	3000

Required: Prepare Ochomo traders balance sheet as at 30th June,2008

23. -BUSINESS TRANSACTIONS

The topic entails:-

- **Meaning and types of Business Transactions**
- **Identifying the effects on the balance sheet items and preparations of eventual balance sheet.**
- **Discussion on changes in capital**
- **The process of determining initial and final capital.**

1. The proprietor of the sunrise dealer had ksh.13,730/= as capital as at 1st January 2010.

The following transactions took place.

- i) Sold goods worth ksh 3000/= for ksh.9000/=
- ii) Deposited ksh.50, 000/= from his personal savings

If his capital as at 31st January 2010 was kshs.62, 230/=, determine the value of drawings

for the month of January 2010.

2. For each of the following transactions indicate in the spaced provide the account to be debited,

account to be credited and the ledger in which the account would be maintained

	Transaction	A/C to Debit	Ledger	A/C to credit	Ledger
(a)	Sold goods on credit to Kamau Kshs.10,000				
(b)	Paid rent by cash Kshs.500				

3. Indicate the balance sheet items which would be affected by the following transactions

- (a) Purchase of a lawn mower by cheque
- (b) Sale of goods on credit to Mwangi
- (c) A debtor pays by cash
- (d) The owner converted his personal car into a business asset

4. Given below are transactions relating to Mwala traders. For each of the transactions, indicate

in the column below the account to be debited and the account to be credited

Transaction	Account to be debited	Account to be credited
(i) Paid salaries in cash		
(ii) Withdraw cash from bank for office use		
(iii) Paid telephone bill by cheque		
(iv) Sold goods for cash		
(v) Purchased office equipment on credit from Mwala limited co.		

5. Mention **four** items that change capital of a business

6. The following balances relates to Onyonka traders as at 1st Jan. 2010

**ONYONKA TRADERS
BALANCE SHEET
As at 1st Jan-2010**

Debtors	120,000	Capital	140,000
Machinery	40,000	5years loan	290,000
Cash in hand	80,000	Creditors	30,000
Cash at bank	180,000		
Stock	40,000		
	<u>460,000</u>		<u>460,000</u>

The following transactions took place the same month:-

Jan 2nd debtors paid in cash shs.20,000.

Jan. 31st sold stock worth shs.20,000 for Shs.25,000 by cheque

Prepare a balance sheet as 31st Jan. 2010

7. Show how the following transactions may affect the items of balance sheet, stating whether it is an increase, decrease or no effect

Transaction	Assets	Capital	Liabilities
(a) Additional investment in cash			
(b) Purchase of stock by credit			
(c) Pre-paid loan in cash			
(c) Took a loan to pay another loan			

8. Okelo invested Kshs.120,000 into a business. At the end of the year, his capital was Kshs.160000 and his monthly drawing was Kshs.2000. Determine the net profit for the year
9. The following balance sheet relates to Hamisi traders as at 1st January 2008.

Hamisi Traders
Balance sheet as at 1st January 2008

	Shs	shs		Shs	shs
Capital		600 000	<u>Fixed assets</u>		
<u>Current liabilities</u>			Motor van		400 000
Creditors	400 000		<u>Current assets</u>		
Bank overdraft	300 000	<u>700 000</u>	Stock	120 000	
			Debtors	240 000	
			Cash	540 000	900 000
		<u>1 300 000</u>			<u>1 300 000</u>

Additional information:-

- On 2nd January 2008, Hamisi traders bought stock for cash at Shs 36 000
- On 10th January 2008, a debtor paid shs 26 000 to Hamisi traders
- On 13th January 2008, Hamisi used his personal cash to buy equipment for shs 47 000 for the business

Prepare Hamisi traders balance sheet as at 31st January 2008.

10. The following was obtained from the books of Wambui Mary for the ended 31st December,2007

Drawings	82000
Profit	170000
Additional investment	58000
Capital 1.1.2007	240000

Calculate the of Mary Wambui as at 31st Dec,2007

11. Queen Traders had the following information extracted from her books of accounts as at

31st Dec 2009:-

	Shs
Capital (1/1/009)	3,400,000
Additional capital	610,780
Drawings for the year	25,220
Capital (31/12/009)	4,900,000

Determine the profit for the year.

12. The following information relates to Ogello traders as at 31st Dec 2009:-

Capital (1-1-2009)	kshs. 100,000
Loss during the year	kshs.40,000
Investment	kshs 35,000

If the trader took goods worth kshs. 15,000 during the year for private use, calculate the capital of the business as at 31-12-2009

24. THE LEDGER

The topic entails:

- **Meaning and purpose of ledger**
- **Record information in relevant ledgers**
- **Explain the concept of double entry as the basis of making entries into the ledger.**
- **Discussing the rule of recording transactions in various ledger accounts.**
- **Discussing procedure of balancing ledger accounts and explain the uses of the various columns.**
- **Preparation of trial balance from the ledger account balance.**
- **Discuss purpose and limitations of a trial balance.**
- **Classify ledger accounts and discuss the various types.**

1. Prepare Betty's trial balance from the following information

Items	ksh
Purchases	130,000
Capital	150,000
Sales	165,000
Debtors	45,000
Creditors	40,000
Motor vehicles	120,000
Stock	50,000
Cash at bank	10,000

2. Identify the situation in which the following types of ledgers are appropriate:

- i) Creditors ledger
- ii) Private ledgers
- iii) Normal ledger

3. The following balances were extracted from the books of Nyatike Traders

Limited as at

31st January 2010	Kshs.
Discount allowed	5,000
Buildings	250,000
Return outwards	6,000
Purchases	74,000
Creditors	20,000
Drawings	16,000
Capital	319,000

Required: Prepare Nyatike Traders Ltd trial balance as at that date

4. The following information relates to Kebirigo Traders as at 31st December, 2009

	Kshs.
Buildings	100,000
Debtors	54,000
Capital	136,000
Sales	85,000
Purchases	48,000
Stock 1 Jan.2009	25,400
Creditors	35,700
General expenses	31,800
Bank overdraft	2,500

Prepare a trial balance as at 31st December, 2009

5. The following trial balance was prepared by an incompetent book keeper thus failed to balance

Account	Dr.	Cr.
Fixed assets		250,000
Purchases		80,000
Sales	120,000	
Debtors	22,000	
Stock	60,000	
Creditors		45,000
Capital	<u>247,000</u>	
	<u>449,000</u>	<u>375,000</u>

6. Outline **four** errors in a trial balance although present it would still balance

7. Given below is a list of subsidiary ledgers:

- General ledger
- Nominal ledger
- Purchases ledger
- Sales ledger
- Cash book

Indicate in which ledger the following accounts should be recorded

8. Record the following transactions in the relevant ledger accounts for the month of June, 2009

June 1: invested shs.100,000 cash in a retail business

June 2: Obtained a co-operative loan of Shs.20,000 cash

June 3: bought furniture Shs. 70,000, paying Shs.40,000 cheque and the balance in cash

	Account	Subsidiary ledger
a)	Return inwards	
b)	Discounts received	
c)	Drawings	
d)	Juma a supplier	
e)	Ombichi a distributor	
f)	Bank	

9. The following transaction took place in the business of Highlands Retail in the month

of June 2008

1.6.2008-commenced business with Kshs. 120,000 in cash

4.6.2008-transferred kshs66, 000 from business till to the bank

13.6.2008-brought his private furniture worth kshs. 15,000 into the business for business use

28.6.2008-borrowed a loan in cash kshs.40, 000

Required: Post the transactions into the relevant ledger account

25. CASH BOOK

The topic entails:

- **Explaining meaning of cash book and the types of transactions recorded in the cash book.**
- **Discussing the purpose of a cash book**
- **Types of cash book when used and format**
- **Explain the concept contra-entry.**
- **Preparation of the various types of cash books.**

1. The following cash book relates to Baraka enterprises

Date	Details	Cash	Bank	Date	Details	Cash	Bank
2004				2004			
Jan 1	Bal. b/d	10,000		Jan	Bal b/d		15,000
Jan 10	Sales	18,500		1	Bank	12,000	
Jan 15	Cash		12,000		Jebet	6,000	
	Bal. c/d		3,000	Jan	Bal. c/d	10,500	
		28,500	15,000	15		28,500	15,000
				Jan			
				20			

2. State the transactions that took place on the above cashbook on the following dates

Jan 1
 Jan 10
 Jan 15
 Jan 20

3. Identify **four** uses of the cash book.

4. The following transactions took place in the business of Kiprono during the first week of Jan.

2003

Jan 1st Balance brought down
 Cash = Kshs12,000.00
 Bank= Kshs.35,000

Jan 2nd Sold an old piece of furniture for Kshs.8,000 cash

Jan 3rd Cash sales Kshs.10,000 paid directly to the bank

Jan 4th Purchased goods worth Kshs.20,000 , paid Kshs.5,000 cash and the balance
 to be paid later

Jan 5th Kiprono took cash Kshs.1,500 for personal use

Jan 6th Bought goods worth Kshs.15,000 paying partly by cheque Kshs.10,000 and
 the balance in cash

Required: Prepare Kiprono’s two column cash book for the month of January and balance it of

5. The following transactions relate to Kabelo Traders for the month of Dec. 2004.

2nd Dec cash sales shs.30,000
8th Dec. Banked shs.15,000

10th Dec. withdrew shs.10,000 from bank for office use

Prepare a cash book

6. Ondiko Traders had Kshs. 100000 cash in hand and Kshs.243000 cash at bank during the month

of March 2008. The following transactions took place in that month:

March 3 – paid rent Kshs.5000 cash

March 11- cash sales Kshs.14000

March 14-purchased equipment worth Kshs. 37000 paying by cheque

March 20- Deposited shs. 30000 into bank from cash till

March 31- Took Kshs. 10000 cash for personal use

Prepare Ondiko traders’ two- column cash book for March 2008

7. Record the following transactions in a double column cash book of JABER traders and balance

it off as at 12th June 2009:-

June 1: Balances : Cash shs.5500

Bank shs.18000 (Cr)

June 3: Purchases shs.4500 was made being paid by cheque shs.4000, balance later

June 7: Sold goods for cash shs.6000

June 12: took shs.7000 to bank

June 13: Credit purchases from Ombogo shs.3000

June 14: paid Alweny shs.1000 cash

8. State the meaning of the following terms as used in a cash book:

a) Contra- entry

b) Folio column

9. The following information was obtained from Laban traders during the month of February 2010

Feb. 4: goods returned by Otinge traders amounted to kshs. 4 000, credit note no.214

8: Akamba traders returned goods worth kshs. 15 000 and was issued with credit note no.316

15: received goods worth ksh.6,000 from punch line traders. Credit note 510

28: goods returned by Viva traders' kshs. 9 600. Credit note no. 440

Prepare the relevant journal for Laban traders

10. Omondi had the following transaction in the year ending 30th June 2008:-

	Shs
Debtors as at 1 st July 2007	113 000
Cash received from debtors in the year	651 500
Debtors as at 30 th June 2008	138 500
Bad debts in the year	1 700
Discounts allowed in the year	2 600
Cash sales	800 000
Calculate the total sales for the year	

11. Give **three** documents from which information entered in cash receipts and cash payments

Journals may be obtained

12. The following information was available for the year 2009:-

2009	Accrued rent	Prepaid rent
Jan 1	Shs.20,000	Shs.40,000
Dec 31	Shs.36,000	Shs.3400

Rent expense paid in the course of the year amounted to shs.121,200.

Prepare the rent account and show the amount charged to profit and loss

account

26.- SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY

The topic entails;

- **Meaning of source documents; identify source documents and explain how they are used in recording business transactions**
- **Meaning a book of original entry**
- **Discussing the various types of books of original entry**
- **The journal as the main book of original entry and how to record information from source documents into relevant journals.**
- **Posting information from the journals to relevant accounts.**

1. The following data was extracted from the books of Mwauri Traders:

	31-12-2002	31-12-2003
	Shs.	Shs.
Salaries accrued	46 000	
Salaries prepaid		150 000

For the year ended 31-12-2003, salaries paid amounted to sh.200 000.
Prepare the salaries account as at 31st Dec. 2003

2. State **four** conditions necessary for the operation of the principle of indemnity in Insurance

3. On 31st December,2009 details extracted from Khetia's Ltd. showed commission received for the

year as Kshs. 60,000. Commission received in advance by 1st January,2009 was Kshs.12,000. Whereas commission received in advance as at 31st December, 2009 was Kshs. 24,000. Determine the commission income for the year 2009 that is posted to the profit and loss account

4. State the journal that deals with each of the following types of transactions

TYPE OF TRANSACTION	JOURNAL
i) Credit sales	
ii) Return of goods by customers	
iii) Return of goods to suppliers	
iv) Cash cheques received	
v) Credit purchases	
vi) Sale of fixed assets on credit	
vii) Purchase of a motor van on credit from general motors	

viii) Correction of errors	
----------------------------	--

5. From the following information prepare debtors control account for the year ended 31st Dec 2007

	Shs
Debtors balance 1-1-07	11,000
Credit sales	?
Bad debts written off	5,000
Return inwards	1,600
Receipts from debtors	31,000
Dishonoured cheque	2,800
Discount allowed	3,400
Debtors balance 31-12-07	25,300

27.- FINANCIAL STATEMENTS

The topic entails:

- **Explaining the meaning of a financial statement and identifying basic financial statements and discuss purpose of each.**
- **Prepare basic financial statements as per the relevant formats.**
- **Discuss the various types of capitals and their implication on performance of business**
- **Identify basic financial ratios and compute the various ratios form financial statements**
- **Discussing the importance of each financial ratio.**

1. The following information was extracted from the books of Klub traders

	Kshs.
Opening stock	160,000
Closing stock	200,000
Purchases	1,800,000
Margin	20%

Calculate klubs sales

2. The following balances were extracted from the books of Masai retailers on 14th July 2000

	Shs.
Opening stock	30 000
Purchases	800 000
Closing stock	?
Sales	1 000 000

Return inwards	20 000
Return outwards	15 000
Maasai retailers sell goods at a mark up of 20%	

Prepare the trading account for the period ended 14th July 2000

3. The following account balances were obtained from Omenda traders on 31st December 2002

	Kshs.
Stock (1/1/2002)	120,000
Purchases	170,000
Return inwards	30,000
Stock (31/12/2002)	110,000
Sales	300,000

Calculate: (i) Margin

(ii) Rate of stock turn over

4. The following information relates to Kafupi business enterprise:-

Average stock	Shs.120,000
Rate of stock turnover	3 times
Margin	25%

From the data above, determine;

- (a) The cost of goods
- (b) Gross profit
- (c) Sales

5. The following information was extracted form the books of Bondo Traders as at 31st Dec. 2004

Opening stock	2,500
Purchases	46,000
Closing stock	1,500
Mark up	20%

Prepare a trading account

6. Identify **four** methods that a government can use to finance a national budget deficit

7. The information below relates to Half-Bilha Traders for the year ended 30th September 2009;

Net sales	300,000
Cost of sales	150,000
Bad debts	30,000
Wages	25,000
Discount received	25,000
Rent	6,000
Carriage inwards	18,000
Carriage outwards	12,000

Prepare a profit and loss account for the business

8. The following information related to Virusi Trader for the year ended June 28th 2009

	Shs
Sales	5 400 000
Expenses	800 000
Mark up ration	2:3
Stock turnover ratio	6times

Required:-

- Calculate:
- i) Gross profit
 - ii) Cost of sales
 - iii) Net profit

9. The following information relates to Mandu enterprises limited

Stock (1.1.2009)	40000
Stock (31.1.2009)	60000
Purchases	500000
Margin	20%

Prepare Mandu Enterprises Limited Trading account for the year ended 31st

December, 2009

10. The following balances were extracted from the books of Wanga traders as at 30th June, 2009

Current assets	320000
Capital	525000
Net profit	95000

Creditors	88200
Accrued expenses	10800
<i>Calculate:</i> a) Working capital	

b) Return on capital

11. The following relates to Atis traders

Stock (1-7-2007)	shs. 22,000
Purchases	100,000
Mark –up	10%
Stock (30-6-2008)	26,000

Prepare her trading account

12. The following balances were extracted from the books of Shah Traders on 30th June, 2010

	Shs
Opening stock	65,000
Sales	280,000
Purchases	190,000
Purchases returns	10,000
Sales returns	4,200

Closing stock was Kshs. 70,000 as at 30th June, 2010. Prepare the trading account for the period ended 30th June, 2010

13. The following balances were extracted from the books of Chombo wholesalers for the year

ended 31st December, 2009

	Kshs.
Sales	500,000
Purchases	320,000
Opening stock (1:1:2009)	80,000
Closing stock (31:12:2009)	40,000
Debtors	140,000
Creditors	90,000

- Calculate;-*
- a) Margin
 - b) Current ratio
 - c) Rate of Stock turnover

14. The following information was obtained from Maganda Enterprises for the year ended

31st Dec 2003:-

Opening stock	kshs. 40,000
Purchases	kshs. 400,000
Gross profit	kshs. 100,000
Goods were sold at a marked-up of 25%	

Required;

- Calculate:
- i) Sales for the year
 - ii) Rate of stock turn over

28 - INCOMPLETE RECORDS

The topic entails:

- **Meaning of incomplete record, giving examples and explain how they come about.**
- **Explaining the meaning of a statement of affair and show the difference between statement of affairs and balance sheet.**
- **Preparation of statement of affairs**
- **Identifying the items used in updating the records**
- **Prepare financial statement from the updated records.**

1. The bookkeeper of Chacha Traders extracted the following information form the accounting

records:-

	1/1/2009	31/12/2009
Suppliers	445,000	620,000
Discount received	-	12,000
Purchases returns	-	25,000

During the year ended 31/12/2009, suppliers were paid shs.1,400,000 while cash purchases

Amounted to shs.800,000. Determine the purchase for the year

2. On 31st January 2004, Maleya Traders had a capital of Kshs.65000. At the end of the year, the

following balances were available:-

	Kshs.
Stock	8,000
Creditors	6,000
Cash at bank	4,000
Premises	90,000

Prepare a statement of affairs on 31st December 2004

3. On 1st January 2009, Rodi Traders had a capital of shs 550 000 at the end of the year.

The following balances were available

Items	31.12.2009
	Shs.
Creditors	50 000
Debtors	30 000
Bank overdraft	80 000
Buildings	870 000
Rent due	10 000
Salaries prepaid	10 000

i) Prepare statement of affairs as at 31.12.2009

ii) Determine the net profit for the year

4. Highlight **four** differences between a balance sheet and statement of affairs

29 - MONEY AND BANKING

The topic entails:

- (i) **Explanation of meaning of barter and highlight its major limitations in facilitating trade.**
- (ii) **Explaining the meaning of money and its characteristics**
- (iii) **Discussing function of money and how each of the characteristics of money facilitate these functions.**
- (iv) **Discuss the factors that influence the demand and supply of money.**
- (v) **Meaning of banking and discuss the role of banking in an economy.**
- (vi) **Discuss the development of banking**
- (vii) **Discuss the various types of accounts offered by commercial banks**

- (viii) **Discuss the functions of non-bank financial institutions bringing out the differences between commercial banks and non-bank financial institutions.**
- (ix) **Discuss the role played by the central bank in an economy**
- (x) **Identify trends in banking.**

1. Give **four** circumstances under which a trader would operate a fixed deposit account
2. Give any **four** functions of money
3. Highlight **four** reasons why loans advanced by commercial banks in Kenya may not appeal to many people
4. Give **four** disadvantages of barter trade
5. Identify the motive of holding money in each of the circumstances below:-
 - (a) Need to hold money to cater for future unforeseen eventualities
 - (b) Need to have money to cater for daily expenses
 - (c) Need to have money with hope that prices will fall in future in order to purchase more
6. Identify **four** roles of the Central Bank as a government banker
7. E-banking is a method of banking through electronic systems. Give **four** reasons to account for the rising popularity of this banking system
8. Mention **four** ways in which individuals can hold money
9. State **three** motives of holding money
10. Outline **four** differences between commercial banks and non-bank financial institutions

11. Identify **four** roles played by the international monetary fund in international trade

30. - PUBLIC FINANCE

The topic entails:

- **The meaning of public finance and the purpose**
- **Identifying various sources of public finance.**
- **Categorizing public/government expenditure and explain various ways the government uses public finances and their influence on business activities in an economy.**
- **Discuss taxation and its contribution to public finance**
- **Discuss the purpose and principles of taxation laying emphasis on characteristics of a good tax system.**
- **Classify taxes and outline the merit and demerits of each.**
- **Meaning of the budget and discuss the role of a budget as a tool for planning.**

1. Outline **four** short comings of a country borrowing heavily from internal and external sources
2. Mention **four** cannons of taxation
3. State **four** reasons why government levy taxes
4. Identify **four** methods that a government can use to finance a national budget deficit
5. Match the following types of taxes with the appropriate description given below:-

Corporate tax, Customs duty, Estate duty, Excise duty

Tax	Description
(a)	Is a tax levied on manufactured goods
(b)	Is a tax levied on wealth of a person after his death
(c)	Is a tax levied on entry of goods into a country
(d)	Is a tax levied on profits of business enterprises

6. Highlight any **four** features of a good tax system
7. Outline **five** principles of taxation
8. Differentiate between progressive and regressive taxation giving an example of each
9. Highlight **four** advantages of direct tax
10. Highlight **four** sources of revenue to the local authorities

31. -INFLATION

The topic entails:

- **Explaining the meaning of inflation bringing out clearly how that affects the economy.**
- **Computation of the price index**
- **Discussing different types of inflation and how they may occur in real life situation and their consequences to an economy.**
- **Discuss the levels of inflation**
- **Discussing how to control the various types of inflation and how the government controls inflation rates so as to provided conducive environment for business to perform and contribute to the general growth and development of the economy.**

1. A country's domestic currency has been depreciating over time highlight five disadvantages of this to the country
2. State **four** negative effect of inflation to a country
3. State any **four** causes of demand-pull inflation
4. State **four** non-monetary methods of controlling inflation in a country
5. Mention **four** desirable effects if inflation
6. Highlight **four** negative effects of inflation in Kenya

7. Highlight **four** negative effects of inflation in Kenya

32. - INTERNATIONAL TRADE

The topic entails:

- **Meaning and importance of international trade**
- **Clear distinction between balance of trade, and balance of payment.**
- **Computation of balance of trade.**
- **Accounting for the differences in terms of trade of various countries**
- **Identifying components of balance of payment account and their preparation**
- **Discussing causes of disequilibrium in the balance of payment and measures to resolve them.**
- **Discussion on the terms of sale used in international trade and their cost implication of each to the seller and the buyer.**
- **Discussing the meaning of economic integration and distinguish between the various forms of integration.**
- **Discuss the benefits as well as the disadvantages of integration.**
- **Discuss free trade outlining case for and against free trade.**
- **Discuss merits and demerits of trade restrictions.**
- **Discuss the benefits of trade agreements such as A.G.O.A**
- **Meaning of exchange rates and comparison between salient features of flexible and fixed systems.**
- **Discuss reasons for various development.**

1. Write in full the following abbreviations:

- i) Franco
- ii)O.N.
- iii)C.W.O
- iv)I.O.U

2. State any **four** economic benefits Kenya may derive from the recently revived East African cooperation (E.A.C)

3. Highlight **four** trade measures that can be undertaken by a country to correct balance of payment disequilibrium

4. Highlight **four** difficulties encountered in international trade

5. The following statement shows the various level of economic integration. Against this statements,

give the level that suits each:

Statement	Level
(a) Member countries imposes common tariffs on non-member states	
(b) Member countries have joint economic institution and common monetary and fiscal policies	
(c) Member countries agree to either abolish or relax tariffs and other barriers	
(d) Member countries allow free movement factors of production	

6. Outline **four** ways in which Kenya benefits by being a member of Common Market

for East and Southern Africa States (COMESA)

7. The table below gives descriptions of some documents used in international trade complete the

table, by indicating the name of the document that corresponds to each description

Description	Document
i) Requests the exporter to supply the importer with the items indicated	
ii) Acknowledges the receipt of goods on board a ship	
iii) Authorizes the bank to resell goods being exported	
iv) Gives details of exported goods and name of country of origin	

8. Highlight **four** factor that may hinder the success of East African Co-operation (E.A.C)

33. -ECONOMIC DEVELOPMENT AND PLANNING

The topic entails:

- **Distinction between economic growth and economic development.**
- **Discussion of characteristics of under development.**
- **Discussion of the goals of development and factors that hinder development**
- **Discuss the meaning and importance of planning in an economy.**

- **Outlining common features of a development plan.**
 - **Outline problems encountered in development planning.**
1. Outline any **four** problems encountered in development planning in Kenya
 2. Mention any **four** obstacles faced by the Kenyan government in realizing its development planning .
 3. Outline **four** indicators of underdevelopment
 4. Highlight **four** circumstances under which a country may be classified as underdeveloped
 5. Highlight **three** goals of development
 6. Describe **four** reasons why it is important for Kenya to prepare a proper development plan
 7. Highlight **four** characteristics of good development plan

SECTION II: PAPER TWO

04 – PRODUCTION

1. Outline **five** differences between direct production and indirect production

05. ENTREPRENEURSHIP

- 1 The government of Kenya through the Ministry of Trade and Industry has developed policies to promote entrepreneurship. Explain **five** importance of such initiative to the economy of Kenya
- 2 Entrepreneurship is becoming the driving force behind most economies in the world and most governments support it. Explain why entrepreneurship is important to these economies
- 3 Explain **five** factors that may hinder entrepreneurship development in Kenya
- 4 Discuss **five** causes of the persistent balance of payment disequilibrium in East African countries
- 5 Explain any **five** reasons why a new business may fail

07. -THE OFFICE

- 1 Explain **five** importance of filing documents in an organization
- 2 Explain **five** factors that an organization should consider when buying an office

- machine /equipment
- 3 Most companies have a closed office layout. Explain **five** problems that are faced by such companies
- 4 Discuss **four** benefits of using the electronic filing system in an organization
- 5 Explain **five** factors to be considered when buying office equipment and machines

09. -FORMS OF BUSINESS UNITS

- 1 Explain **five** advantages that Melinda could derive by investing in shares of a public limited
- 2 The following information was extracted from books of Chunga Traders for the period ending

31/12/2000:- Fixed assets – 350,000
Drawings – 50,000
Creditors – 50,000
Cash – 60,000
Discount received 4,000
Rent – 12,000
Bank overdraft – 10,000
Debtors – 20,000
Stock (31/12/2000)-30,000
Commission received – 6,000
Gross profit – 80,000
Electricity – 3,000
Stock (11/1/2000) – 50,000
Salaries – 20,000

Calculate:- (i) Working capital
(ii) Capital employed

- 3 Distinguish between a public corporation and a public ltd company
- 4 Describe the procedure that a shareholder would follow in selling share through the stock exchange.
- 5 Challenges faced by the savings and credit cooperative societies

6. The Kenya Government has been privatizing its parastatals to would be investors. Explain any

five benefits of the privatization process to the government

7. Explain **five** differences between private limited companies and public limited companies

8 Discuss **five** benefits that the Kenyan government may get by privatizing a state corporation

9 Describe **five** circumstances under which limited liability companies may be liquidated

10 Describe **five** distinctions between a public ltd company and public corporation

11 Distinguish between a public limited company and a private limited company

12 Katwaa is a member of Bidii savings and credit Co-operative. (SACCO). What benefits

does she enjoy for being a member of the SACCO

10. - GOVERNMENT AND BUSSINESS

1. Explain **four** methods used by the government to protect consumers

2. Explain **four** methods used by the government to protect consumers

3. Name and explain **four** ways in which the government gets involved in business activities

4. Discuss **five** ways in which the Kenyan government can provide an enabling business

environment to encourage the young upcoming entrepreneurs

5. Outline **five** ways in which the department of external trade promotes a

country's external trade

11. -TRANSPORT

- 1 Explain **five** benefits that will accrue to a country due to use of pipeline in transporting oil products
- 2 Highlight **five** circumstances under which a trader may choose to transport goods by rail.
- 3 Discuss the factors that influence the choice of distribution channel
- 4 Kenya and Uganda are making efforts to improve their railway transport system. What are the benefits of this form of transport
- 5 Discuss the advantages of pipeline as a mode of transporting oil products

12. -COMMUNICATION

1. Explain **five** positive effects of introducing mobile phones in communication industry in Kenya.
2. Explain any **five** benefits that may accrue to an organization that uses effective communication
3. Outline **five** disadvantages of sirens as a form of communication that is popular with ambulances and the police
4. Discuss **five** advantages of mobile phones in communication
5. Explain five factors which may hinder effective communication

13. -WAREHOUSING

1. Discuss **five** ways of improving the efficiency of a warehouse

14.- INSURANCE

1. Under what circumstances can an insurance company fail to compensate the insured in the event of occurrence of the insured risk?
2. Describe the procedure for taking up an insurance policy
3. Your father wants to insure his life with British American Insurance Company. As a Business Studies student, explain to him **five** benefits of life assurance

4. Explain **five** principles of insurance

15.- PRODUCT PROMOTION

1. Highlight **five** benefits that a firm gets from the use of customers care services as part of its operation
2. Highlight **five** circumstances under which persuasive advertising may be used
3. Explain **five** benefits that consumers are likely to enjoy from product differentiation
4. Jogoo business enterprise has been using salesmen to market their products. Highlight **five** benefits of this strategy to the company
5. Explain **five** circumstances under which personal selling would be the most appropriate method of promoting a product
6. A manufacturer exhibited his goods in a local trade fair. However, his sales didn't increase significantly thereafter. Outline **five** reasons that may have led to lack of significant sales increase
7. Highlight **five** sales promotional methods which may be used by traders to increase their sales
8. Advertising in the newspapers is one way of promoting sales of goods. Highlight **five** limitations of advertising goods in newspapers

16. -DEMAND AND SUPPLY

1. The supply curve of a product registered a position shift despite the fact that the price of the product did not change. Explain at least five causes that may have led to this shift
2. Using a well labeled diagram, explain how excess demand and excess supply can be experienced in the market
3. Draw a normal demand and supply curves and explain the effects on equilibrium price and quantity created by an increase in demand accompanied by a proportionate decrease in supply

17. -THE THEORY OF THE FIRM

1. Highlight **five** reasons why a firm may be located near the market for its products
2. Explain **five** reasons why the government may adopt the delocalization policy of locating
3. Discuss **five** factors that may account for the existence of small firms in an economy
4. Explain **five** factors that determine the size of a firm
5. Explain **five** factors that determine the decision of a firm on what good and services to produce
6. Explain **five** circumstances under which a firm may be located near the source of raw

Materials

7. Outline any **five** reasons that account for the popularity of small scale retails in Kenya
8. Explain **five** factors that may account for the survival of small firms in an industry.

18.-PRODUCT MARKETS

1. Explain **five** characteristic of a monopolistic market.
2. By use of a diagram, explain how price and output are determined in a collusive oligopoly
(centralized cartel) market situation
3. Highlight **five** differences between perfect competition and monopolistic competition
4. Using a well labeled diagram, explain how a monopolist enjoy a supernormal profit in
both short and long run
5. Highlight **five** distinctions between perfect competition and monopolistic firms
6. a) With the aid of a diagram, explain how a firm under monopolistic competition is at
equilibrium in the short run

b) With the aid of a diagram, explain the **difference** between perfect competition and monopoly
revenue curves

19. CHAIN OF DISTRIBUTION

1. Explain **five** possible effects that would result if wholesalers were eliminated from a chain of distribution
2. Manufacturers distribute their products to the final consumers through various channels.
3. Explain circumstances under which a producer would sell directly to retailers
4. Discuss the factors that influence the choice of distribution channel
5. Outline **six** circumstances under which a manufacturer may prefer to sell goods directly to consumers

20. NATIONAL INCOME

1. Explain **five** uses of national income statistics to an economy
2. The gap between the rich and the poor is so wide In Kenya. Highlight **five** factors that contribute to this disparity in income distribution.
3. Explain **five** limitations of using per capita income as a measure of the standard of living in a country
4. Outline **five** problems that are encountered in measuring National income in your country
5. (a) Explain **five** limitations of using per capita income to compare living standards of people in different Countries

(b) High national income may not necessarily mean better welfare for the citizens of

that country. Explain **five** reasons to support this argument

7. a) A newly industrialized country with a population of 40 million people, had its national

income estimates during the year 2009 as follows:

	Value in Kshs (million)
Exports	250000
Consumption expenditure	624000
Investment	300000
Government spending	416000
Imports	210000
Depreciation	10000
Net indirect taxes	50000

Required:

a) (i) Calculate the GNP per capital of the country

ii) Outline limitations of using GNP pr capita in measuring the standard of living of accounts

b) Discuss **five** problems that are encountered in measuring National income in your country.

21. -POPULATION AND EMPLOYMENT

1. Explain **five** circumstances under which a high population growth may be desirable.

2. Explain **four** shortcomings of self employment

3. Explain **five** implications of an ageing population in a country

4. Explain **four** steps that Kenya can take to solve her employment problems

24. -THE LEDGER

1. Mr. Omanda started a business in January 2000 with cash in hand 100,000. The following

transactions took place during the year:-

January: Bought stock by cash Kshs.20,000

February: Sold goods on credit Kshs.30,000

March: Opened a bank account by banking cash Kshs.60,000

April: A debtor returned goods worth shs.5,000

May: Bought goods Kshs.70,000 on credit

June: The owner took cash Shs.10,000 to pay his children school fees

2. Record the following transactions in the relevant ledger accounts, balance the account

and extract a trial balance

Date	Transaction
1/4/2007	Mary started business with shs.80,000 cash
2/4/2007	Bought stationery for shs.4,000 and paid in cash
3/4/2007	Opened a bank account and deposited shs.50,000 from the cash till
4/4/2007	Bought motor vehicle worth shs.250,000 from Lucy motors on credit
5/4/2007	Bought postage stamps for shs.60 in cash

3. The following information relates to Ndhiwa resort traders for the month of November 2009:-

November, 1.started a business with shs 160,000 cash

2. Purchases shs.120,000

3. Made sales in cash shs.126,000

4. Paid for electricity shs.1000 in cash

5. Received rent of shs.37 500 in cash

6. Gave discount of shs.6,000 in cash

Required :- i) Post the above information in the relevant ledger accounts and balance them off

ii) Extract a trial balance

25. -CASH BOOK

1. On March 2007, Doris had cash in hand shs.87,000 and cash at bank shs.25,000. During this

month, the following transactions took place:

March 2nd : Cash sales shs.60,000
3rd: Paid salaries shs.101,500 by cheque
7th : Received a cheque of shs.76,000 from Henry after allowing a cash discount of 5%
13th: Bought office furniture by cheque shs.86,000
17th: Settle marital account for shs.34,200 in cash having deducted shs.8,000 cash discount
20th: Received a cheque for shs.165,000 in respect for cash sales
22nd: Paid wages shs.25,000 in cash
24th: Withdrew shs.32,000 for bank for office use
25th : Withdrew shs.4,000 cash for personal use
29th: Received shs.17,000 cash from Alvin in settlement of his account less shs.1000 cash discount
31st : Deposited all the money into the bank except shs.24,600
Required: Prepare a three column cash book duly balanced

2. Enter the following transactions in the petty cash book of Makavale stores for the month of

July 2009 using the following analysis columns: Telephone and postage; office stationery, traveling expenses and office expenses. The business operates the petty cash book

on an imprest system of 4000/= replenished on weekly basis

July 1st – received a cheque from the cashier to start the imprest

1st – paid for taxi hire 250/= and 130/= for office cleaning

2nd – bought postage stamps for 210/= and a ball of string for use in the office 100/=

3rd – postage of a parcel cost 100/= and paid a telephone bill 900/=

4th – purchased envelopes for 150/= and one ream of photocopying paper 500/=

5th – paid for bus fare 500/= and made a telephone call costing 50/=

6th – purchased a window cleaning cream for 250/= and bus fare 200/=

8th – Received a cheque to replenish the imprest

8th – bought various office stationery for 400/=

9th – purchased postage stamps for 210/= and paid 950/ telephone bill

10th – paid train fare 600/= and taxi fare 250/=

11th – paid for office cleaning 150/=

12th – purchased two reams of writing paper 600/= and office dusters

300/=

14th – obtained a cheque from the cashier to replenish the imprest

Required:. *Prepare the petty cash book for the two weeks*

3. Mumji Enterprises maintain a petty cash book on an imprest system with weekly float of Kshs.40,000.

The following information relates to the week ended 7th June 2009:-

1st cash in hand was Ksh.7000

1st receives reimbursement from the chief cashier

1st paid wages Ksh.5500, bus fare Ksh.1250, Sugar sh.220 and stamps shs.150

2nd Bought stationery Ksh.5000

3rd Paid postage shs.200

4th Bought tea leaves shs.80 and shs.2000 for type writer repair

5th Bought coffee shs.340 and milk shs.800

7th Bought a ribbon for type writer shs.500, stencils shs.350 and bus fare shs.900

Required: - Prepare a petty cash book duly balanced on 7th June with the following columns.

Traveling, Wages, Stationary, Postage, tea and miscellaneous

4. The following transactions relate to Furaha traders for the month of July,2008

July 1 : Balance brought down cash sh.16,250 and Bank Shs.19,847

July2 : Sold goods worth Shs.1,348 to Patel and received a calculator in exchange

July 5 : Paid transport by cheque Shs.2,000

July 6 : Issued a cheque to Kerio Traders setting an invoice for Shs.10,000 deducting 2%

cash discount

July 10: Transfer Shs.15 000 from cash till to bank

July 12: Sold goods for cash Shs.12,000 less 2% cash discount

July 13: Sold goods to Onyango on credit worth Shs.15, 000

July 14: The owner of the business withdrew Shs.3000 in cash to buy a present for his

daughter

July 16 : Received a cheque from Kuria Shs.2,500 less 5 % cash discount

July 22 : Bought furniture from Babu Traders on credit worth Shs.16,500 and cash

discount of 10% if payment is made within 2 weeks

July 24: Withdrew cash from bank for office use Shs8,000

July 26: The owner brought into the business Shs.9,000 cash

July 27: Issued a cheque to Babu Traders for amount due

July 28: Sold goods to Kuria worth Shs.5,000 for Shs.3,800 and received payment by

cheque

July 30: Banked all cash and remained with Shs.100 in the cash till

Required; Prepare Furaha Traders three column cash book for the month of July, 2008

5. During the month of March 2010 the petty cashier of Nyangija distributors made the following payment after receiving an imprest of shs12, 000 from the general cashier.

March 3 traveling	3500
March 6 office expenses	1000
March 8 postage	1200
March 15 staff tea	800
March 19 stationery	2000
March 22 office expenses	800

March 24	staff tea	1000
March 26	sundry expenses	700
March 31	F. Benson a creditor	900

Required : Using the analytical columns below prepare a petty cash book of Nyangija distributors

- Traveling
- Office expenses
- Postage
- Stationery
- Staff tea
- Sundry expenses
- Ledger accounts

6. A petty cashier of Mugirango traders operates his petty cash book on an imprest system

of sh. 2500. On 1 February 2009, he had cash in hand of Sh. 500 and was reimbursed the difference by the main cashier to restore his cash float. The following transactions took

place during the same month of February 2009:

- Feb 2nd** paid taxi fare sh.150 and wages sh250
- 4th** Bought five reams of paper for sh25 each and stamps for sh.30
- 7th** Paid wages sh.250 and bought envelopes for sh.40
- 20th** Bought tea for staff sh.70 and paid for water bills sh.56
- 28th** Paid for electricity sh.80 and stamps sh.40

Required: Prepare a petty cash book using the following analysis columns;

- Wages
- Traveling
- Stationery
- Postage

- Miscellaneous

26. SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY

1. Journalize the following transactions which took place in the business of W. Wanjala during the month of June 2009:-

- June 1** Balance B/f from May 2009 were:-
Office furniture shs.50,000 and motor vehicle shs.100,000
- June 2** Purchased office furniture on credit for shs.65,000 from Mwema furniture
- June 10** Sold an old vehicle on credit to Omwami garage for shs.200,000
- June 25.** Discovered that a motor vehicle that had been bought on credit from Kanyere motor for Kshs.750,000, had been recorded in purchases account
- June 28** Sold an old computer to classic academy on credit for ksh. 15,000
- June 29 :** Sold an old tractor whose book value is Kshs. 200,000 for Kshs.250,000
to Goseta

2. Mr. Osodo, a sole trader in Mumias town does not keep complete set of accounting

books. However, the following information was obtained from his general operation book for the year ending 31/12/2009

	Shs.
Debtors balance on 1/1/2009	24000
Bad debts	2000
Creditors balance 1/1/2009	68000
Debtors balance on 31/12/2009	72000

Discount allowed	18000
Creditors balance on 31/12/2009	83600
Returns inwards	5600
Cash paid to creditors	590000
Returns outwards	10200
Cash received from debtors	298000
Discount disallowed	1000
Dishonored cheques	36000
Discount received	6000

Additional information

He also disclosed that he had paid cash purchases amounting to Shs.483400 and received cash sales of Shs.70000 for the year

- Required;**
- i) Prepare total debtors account and total creditors account

 - ii) Calculate total purchases and total sales for the year

3. On 1st June 2009, **Nyamira Traders** had cash in hand shs.87,000 and cash at bank Shs.250,000.

During the month, the following transactions took place:-

2009 June 2:- Cash sales shs.50,000 issued Receipt No.063

3:- Paid salaries and wages shs.101,500 by cheque ; cheque no. 083

6:- Received a cheque for shs.76,800 from Kemunto, after allowing her a cash discount

of 4% issued a receipt No. 064

12:- Settled Omwabo's account of shs.40,000 in cash, having deducted shs.800 cash

discount. Received receipt no. 0656

18:- Withdrew shs.30,000 from bank for office use

21:- Received shs.16,500 cash from Manwari in settlement of his account less shs.660

cash discount. Receipt No. 065

22: - Bought office furniture by cheque shs.85,000. Receipt No. 734

23:- Paid wages Shs.24,000 in cash receipt No. 801

28:- Withdrew shs.5000 cash for private use

30:- Received a cheque for shs.150,000 in respect of cash sales .

Receipt No. 066

Required: Prepare:- (i) A cash receipts journal

(ii) A cash payment journal

4. The following is a trial balance of JAO traders as at 31/12/2009

	Dr (Shs)	Cr (Shs)
Capital		170000
Opening stock	60000	
Equipment at cost	125000	
Purchases	161000	
Sales	208000	
Discounts	2000	8000
Returns	27000	25000
Salaries	20000	
Telephone charges	5000	
Water bills	2100	
Creditors		15100
Debtors	21000	
Electricity expenses	2000	
Insurance paid	1000	
	426000	426000

Additional information

i. Closing stock was valued at Shs.72000

ii. Telephone charges prepaid was Shs.1000 and outstanding water bills was Shs.1300

iii. Depreciation on equipment is 10% p.a on cost

iv. Carriage inwards was Shs.11000 and carriage outwards Shs.10000

Prepare trading and profit loss account for the year ending 31/12/2009

5. During the month of March 2010 the petty cashier of Nyangija distributors made the following payment after receiving an imprest of shs12, 000 from the general cashier.

March 3 traveling	3500
March 6 office expenses	1000
March 8 postage	1200
March 15 staff tea	800
March 19 stationery	2000
March 22 office expenses	800
March 24 staff tea	1000
March 26 sundry expenses	700
March 31 F. Benson a creditor	900

Required: Using the analytical columns below prepare a petty cash book of Nyangija distributors

- Traveling
- Office expenses
- Postage
- Stationery
- Staff tea
- Sundry expenses
- Ledger accounts

6. The following extracted from the books of Mogusii Ltd. 2005

March 1.	Credit purchases from Obwocha Sit 1200 Agwata sh. 3,000 and Nyauamba sh.2,500
March 5	Credit sales to Okero Sit 2,000, Michieka sh.4,300 and Omwenga sh. 1500
March 10	Credit purchases from Onyancha Sh.2700 Obwocha sh 6600 and Ombaki sh.3300

“ 20 Returned goods to Obwocha sh.250 and Onyancha 703

26 Credit sales to Bundi sh.850. Tendu sh.630 and Okero-sh.900

“ 30 Goods werereturnedbyBundish.150andMichiekasitl30

Required: *Enter the above transactions in their relevant day books*

27. FINANCIAL STATEMENTS

1. The following information was extracted from Jaribu traders on 31st December 2009

Stock turnover	5
Mark up	25%
Cost of sales	60,000
Closing stock	8,000

Required: i) Net sales

ii) Average stock

iii) Opening stock

iv) Net purchases

2. The following trial balance was extracted from Vumilia traders as 31st December 2006

Cr	Dr
Capital	
125,000	
Purchases	45,000
Carriage on sales	2,000
Stock	25,000
Sales	
120,000	
Carriage on purchases	1,200
Insurance	5,900
Salaries	12,450

Discount allowed/ Discount received	3,400
1,950	
Debtors/creditors	25,000
15,500	
Bank	14,500
Machinery	<u>128,000</u>
	<u>262,450</u>
<u>262,450</u>	

Additional information:

- closing stock 25,000
- Outstanding salaries 450
- Insurance 900 has been paid in advance
- Depreciate machinery by 10% on cost

Required: i) trading, profit and loss a/c
 ii) Balance sheet

3. The following balance sheet was prepared by the accounts clerk of Mapato traders:-

**Mapato traders
 Balance sheet
 As at 31st dec 2009**

<u>Fixed assets</u>		
Land and building	300 000	capital 422 930
Furniture and fittings	51 500	+net profit <u>220 500</u>
Machinery	140 000	643 430
Motor vehicle	<u>190 000</u>	-drawings <u>175 000</u>
	681 500	468 430
<u>Current assets</u>		<u>long term liabilities</u>
Stock	124 500	mortgage loan 30 000
Debtors	103 650	bank loan <u>400 000</u>
Cash at bank	54 850	430 000
Cash at hand	<u>3650</u>	<u>current liabilities</u>
	<u>286 650</u>	creditors <u>99 730</u>

968 150

968 150

Requirements:

Calculate the following

i) Working capital

ii) Return on capital

iii) Current ratio

iv) Capital employed

v) Borrowed

capital

4. The following information was extracted from books of Chunga Traders for the period ending

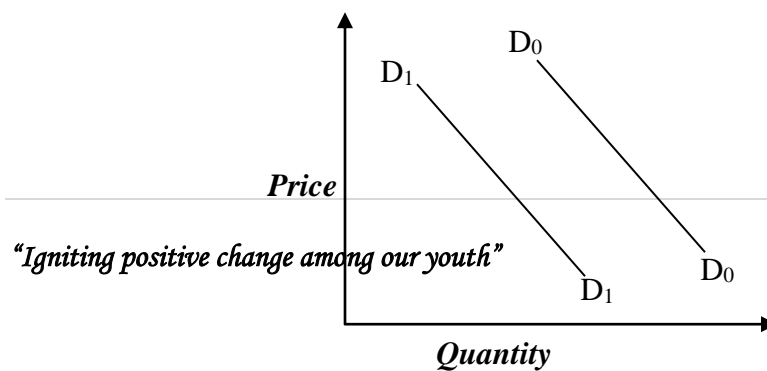
31/12/2000:-

- Fixed assets – 350,000
- Drawings – 50,000
- Creditors – 50,000
- Cash – 60,000
- Discount received 4,000
- Rent – 12,000
- Bank overdraft – 10,000
- Debtors – 20,000
- Stock (31/12/2000)-30,000
- Commission received – 6,000
- Gross profit – 80,000
- Electricity – 3,000
- Stock (11/1/2000) – 50,000
- Salaries – 20,000

(a) **Prepare:-**

(i) Their profit & loss account

5. The following graph shows a shift in demand from D_0D_0 to D_1D_1



(i) State **four** possible reasons for the above shift

(ii) Their balance sheet

5. The following balances were extracted from the books of **Nyamaiya Traders** on 31st May 2009:-

	<i>shs.</i>
Gross profit	400,000
Equipment	900,000
Furniture	500,000
Provision for depreciation on furniture	65,000
Power & lighting	24,000
Commission received	170,000
Stock (31.05.09)	35,000
General expenses	240,00
Debtors	350,000
Provision for bad debts	3,000
Creditors	550,000
Discounts allowed	29,000
Discounts received	40,000
Cash in hand	150,000

Additional information

- (i) Depreciation to be provided as follows: – Equipment 20% on cost
– Furniture 10% on book value
- (ii) Adjust provision for bad debts to shs.3500

(iii) Commission received in advance amounted to shs.10,000

Required: Prepare:- (i) Profit and loss account for the year ended 31st May
2009 (ii) Balance sheet as at 31st May
2009

6. The following trial balance was extracted from the books of Fula Traders on Dec. 31, 2005

**FULA TRADERS
TRIAL BALANCE
AS AT DEC. 31, 2005**

	Dr.	Cr.
	Shs.	Shs.
Sales		600,000
General expenses	60,000	
Rent expenses	10,000	
Commission received		20,000
Motor vehicle	600,000	
Furniture	240,000	
Cash	50,000	
Creditors		180,000
Debtors	120,000	
Purchase	400,000	
Sales returns	20,000	
capital		700,000
	<u>1,500,000</u>	<u>1500,000</u>

Additional information

I. Stock at Dec. 31, 2005 was valued at shs.60,000

II. Depreciation to be provided as follows:

- (a) Motor vehicle 20% per annum on cost
- (b) Furniture 10% per annum on cost

Required:-

(i) Trading profit and loss account for the year ended Dec. 31, 2005

(ii) Balance sheet as at Dec. 31, 2005

7. The following information relates to Joy Traders for the year ended Dec. 31, 2006

Turnover	270,000
Margin	40,000
Rate of stock turnover	6times
Expense	40,000

Calculate:

(i) Gross profit

(ii) Cost of sales

(iii) Net profit

(iv) Average

stock

(v) Mark –up

8. The following information relates to Kipgaa traders for the year 2006:-

	Kshs.
Turnover	270,000
Margin	40%
Rate of turnover	6 times
Expenses	40,000

From the information given above,

Calculate:

(i) Gross profit

(ii) Cost of goods sold

(iii) Average stock

9. (a) Two firms **X** and **Y** engage in similar lines of business had the following records in 2009;

	Firm X	Firm Y
Average stock at cost	shs.8,000	shs.7000
Rate of stock turnover	6.4times	6.5times
Average mark-up	20%	20%
Expenses	shs.5,632	shs.4,186
Capital	shs.30,720	shs.24,570

(a) For each firm, calculate: (i) The cost of sales

(ii) Gross profit

(iii) Rate of

return on capital

(b) Giving a reason, state the firm which is better

10. The following information relates to Ladopharma Chemist as at 30th November 2008

(shs)	Dr (shs)	Cr
Stock (30 th Nov 2007)	23 910	
Capital		30 955
Drawings	8 420	
Bank	3 115	
Cash	295	
Debtors	12 300	
Creditors		9 370
Motor vehicles	4 100	
Equipment	6 250	
Sales		130
900		
Purchases	92 100	
Returns inwards	550	
Carriage inwards	215	
Return outwards		
307		
Carriage outwards	309	
Motor expenses	1 630	
Rent	2 970	
Telephone charges	405	
Wages	12 810	
Insurance	492	
Office expenses	1 377	
Sundry expenses	284	
	<u>171 532</u>	<u> </u>
171,532		
Stock as at 30 th November 2008 was shs	<u>27 475</u>	<u> </u>

Required: prepare

i) The trading, profit and loss account

ii) A balance sheet as at 30th November 2008

11. The following is a trial balance of JAO traders as at 31/12/2009

	Dr (Shs)	Cr (Shs)
Capital		170000
Opening stock	60000	
Equipment at cost	125000	
Purchases	161000	
Sales	208000	
Discounts	2000	8000
Returns	27000	25000
Salaries	20000	
Telephone charges	5000	
Water bills	2100	
Creditors		15100
Debtors	21000	
Electricity expenses	2000	
Insurance paid	1000	
	426000	426000

Additional information

- (i) Closing stock was valued at Shs.72000
- (ii) Telephone charges prepaid was Shs.1000 and outstanding water bills was Shs.1300
- (iii) Depreciation on equipment is 10% p.a on cost
- (iv) Carriage inwards was Shs.11000 and carriage outwards Shs.10000

Prepare trading and profit loss account for the year ending 31/12/2009

12. The following trial balance relates to Jakobura Stores

CR		DR
	Gross profit	
85,000		
	Debtors	95,500
	Motor vehicle	150,000
	Furniture	30,000
	Bank	62,000
	Stock	52,500
	Provision for depreciation on Motor vehicle	
16,000		
	Provision of depreciation on Furniture	
2,620		
	Salaries	64,000
	Building	180,000
	General expenses	45,200
	Creditors	
75,000		
	Commission received	
42,800		
	Equipment	55,200
	Electricity	15,420
	Capital	
<u>528,400</u>		
		<u>749,820</u>
<u>749,820</u>		

Additional information

- (i) Profit margin was 20%
- (ii) Stock as at 1st January was valued at Ksh. 48,000
- (iii) Depreciation was provided as follows:
 - (a) Motor vehicle 25% p.a on cost
 - (b) Furniture 7% p.a on cost
- (iv) On 31st Dec 2006, equipment was valued at Ksh. 48,576 and general expenses outstanding were Ksh. 1,200

(v) A bill of Khs.340 which was paid for a private residence was included in the electricity account .

Required:-. Prepare a trading profit and loss account for the year ended 31st Dec 2006

13. The following information relates to Odongo Traders for the year ended 31.Dec. 2008.

Land	shs.50,000
Capital	shs.94,000
Machinery	shs.20,000
Motor vehicles	shs.30,000
10 year bank loan	shs.20,000
5 year AFC loan	shs.10,000
Stock	shs.10,000
Debtors	shs.6,000
Creditors	shs.6,000
Accrued expenses	shs.2,000
Cash at bank	shs.10,000
Cash in hand	shs.2,000
Drawings	shs.4,000

Required:

- i) A balance sheet as at 31st Dec. 2008
- ii) Calculate -borrowed capital
 - current ratio
 - capital owned

14. Prepare a trading and profit and loss account for the year ended 30th June 2008 and a balance

sheet as at date from the following trial balance;

Bosongo wholesalers		
Trial balance as at 30th June 2008		
Stock on 30/6/2007	400	13,870
Capital and drawings	600	7,000
Purchases and sales	3,500	
Furniture and fittings	2,000	
Motor vehicles	15,000	
Debtors and creditors	800	1,200
Returns	150	200
Discounts	90	80
Rent		100
Insurance	210	
Bank		300
	22,750	22,750

Closing stock shs. 5.00

28. INCOMPLETE RECORDS

1 **Kemoko**, a trader does not keep a complete set of accounting records. A summary of his bank

account for the year ended 31st Dec. 2008 is given below:

Bank account summary

Cash sales	47,500	Balance b/f	30,000
Trade debtors	170,000	Trade creditors	
	250,000		
Commission	65,000	Rent & Rates	5,000
Balance c/f	20,500	Sundry expenses	4,000
		Wages	7,750

	Lighting	
	3,750	
	Insurance	
	2,500	
	<hr/>	<hr/>
	<u>303,000</u>	
	<u>303,000</u>	

The following information was also available:-

	01/01/08	31/12/08
Stock	45,000	27,500
Creditors	100,000	125,000
Debtors	75,000	115,000
Machinery & Equipment	432,000	425,000

Required: -Prepare Kemoko's Trading, profit and loss account for the year-ended 31st Dec. 2008

2. Explain **five** distinctions between statement of Affairs and a balance sheet

29. MONEY AND BANKING

1. Explain **five** characteristic of a monopolistic market.
2. Highlight any **five** modern trends in the Banking industry in Kenya

3. Explain **five** ways in which commercial banks have enhanced the development of business activities in the country
4. Explain **five** ways through which the central bank of Kenya can expand the supply of money in an economy
5. Explain **five** methods of payments offered by commercial Banks in Kenya
6. Explain **five** factors that can lead to a cheque being dishonoured
7. Explain **four** emerging trends in the banking system
8. Banking has played a major role in Kenyan's economic development. Explain **five** current trends in banking sector

30. PUBLIC FINANCE

1. Discuss **five** principles of taxation
2. Outline **five** sources of non- tax public revenue
3. Explain **five** principles of public expenditure
4. Highlight **five** reasons for imposition of tax by the government
5. Discuss **five characteristics** of a good tax system
6. Outline **five** reasons why the Kenya government must impose tax.

31. INFLATION

1. Explain **five** negative effects of inflation to an economy
2. Explain **five** positive inflation effects of inflation to the economy.
3. Explain **five** causes of inflation in an economy
4. Write short notes on the following strains of inflation;
 - i) Mild inflation
 - ii) Hyper inflation
 - iii) Demand-pull inflation
 - iv) Cost push inflation
 - v) Imported inflation

32. INTERNATIONAL TRADE

1. Explain **five** benefits that will accrue to a country due to use of pipeline in transporting oil products
2. Explain **five** advantages that a country may experience from imposing trade restrictions in trading partners.
3. Explain **five** benefits that the Kenyan government desires to achieve by being a member of

- the East African Union
4. Discuss **five** reasons why many countries tend to prefer free trade
 5. Discuss **five** causes of the persistent balance of payment disequilibrium in East African countries
 6. Explain **five** measures that the Government of Kenya may take to control her persistent Balance of payment deficit
 7. Explain **five** advantages of economic integration to a member state.

33. ECONOMIC DEVELOPMENT AND PLANNING

1. Discuss **five** principles of taxation
2. Highlight distinguishing features between developing and developed countries.
3. Explain **five** obstacles in the implementation of development plans in the developing countries
4. Every third world country aspires to develop but it is faced with some obstacles. Explain **five** of such obstacles to economic development
5. Every third world country aspires to develop but it is faced with some obstacles. Explain **five** of such obstacles to economic development

6. Explain **five** factors that have frustrated economic development in a developing country
like Kenya for the last few decades
7. The national budget is drawn before the beginning of every financial year by the government
discuss **five** functions it plays as a planning tool
8. Explain **five** challenges that Kenya is facing in the implementation of her development plans
9. a) Explain **five** changes that may take place when a country is experiencing economic development

MARKING SCHEME SECTION I

SECTION I : PAPER ONE

01- INTRODUCTION TO BUSINESS STUDIES

1. *Importance of business activities:-*

- Provision of goods and services to the society
- Generate profit to improve the standard of living
- Link producers and consumers of goods and services
- Promotes the development of a country through the production and provision of a large and variety of goods

02. BUSINESS AND ITS ENVIRONMENT

1. *Importance of the following type of environment to a business*

- i) Intermediaries-enables the movement of good to customers
- ii) Technological-enhance efficiency in production

- iii) Demographic-provide markets of labour
- iv) Competitors - ensure goods quality of variety of goods are made

- 2.
- Droughts /famine
 - Erratic weather patterns (flooding)
 - Increased temperature
 - Drying of rivers
 - Decreased economic activities

3.

	EFFECT	INTERNAL ENVIRONMENT
(a)		Business structure
(b)		Business structure
(c)		Business structure

4. *Offering several incentives to encourage investments like tax holiday subsidies*

- Provision of credit through government institutions
- Creating a pool of qualified manpower
- Provision of security
- Ensuring there is political stability and good will
- Provision of infrastructure to reduce cost of provision
- Liberalization of marketing

- 5.
- Providing security
 - Working in line with the government policy
 - Organizing a proper working structures
 - Provision of adequate man power
 - Ensuring clean working environment

- 6.
- Farming would otherwise be collecting the environment into useful resources

 - Supplementing existing raw material

- Saving economy's investable funds that could be occurrence be used in producing new products

- Creating jobs
- Saving energy

7. - Air pollution
- Water pollution
- Noise pollution
- Solid waste pollution

8. - Financial resources
- Business culture
- Organizational structure
- Personnel
- Management policies and styles
- Equipment and facilities

9.

<i>Category</i>	<i>Activity of social responsibility</i>
a) Employees	Fair remuneration/pay
b) Customers	Fair pricing
c) Community	Equal opportunity for all
d) Owners	Fair Returns

11. - Irrigation
- Afforestation
- Military training purposes
- Wildlife conservation/ tourism
- Ranching

03. SATISFACTION OF HUMAN WANTS

1. - Low income /poverty/unemployment

- High prices of goods and service
- Poor quality of goods and service
- Political instability
- Poor health of an individual

2. (i) solar energy.

(ii) HEP(Hydro electric power] energy/water power.

(iii) Wind energy.

(iv) Geothermal/steam/geysers.

(v) Wood fuel/fire wood.

(vi) Biogas / biomass.

3. RESOURCE

CLASSIFICATION

1. Limestone

non-renewable

2. Natural rubber

non-renewable

3. Solar energy

renewable

4. Biogas

renewable

5. Rivers

non-renewable

6. Wildlife

renewable

7. Soda ash

renewable

8. Forest

renewable

- 4.
- increase sales
 - prolonged duration of the competition
 - creation of consumer brand loyalty
 - promotion of a company's image
 - cost
 - creation of product awareness

5. - Because resources available for satisfying human wants are limited

- Because human wants vary in urgency and intensity
 - Because there is variation in tastes and preferences of human wants
 - Because human wants are too many to be satisfied at once
- 6.
- When the want does not recur
 - When the want does not change with time
 - When the wants to be satisfied are very few
 - When the resources to satisfy the wants are available
- 7.
- Human wants are insatiable
 - Human wants are repetitive
 - Human wants are habitual
 - Human wants are complementary
 - Human wants are competitive
- 8.
- One cannot do without them
 - They are felt needs
 - They cannot be postponed
 - They are satisfied before secondary wants
 - They recur
9. *Classify the following items into either basic want or secondary want*

<i>ITEM</i>	<i>WANT</i>
Furniture	Secondary want
Medical care	Secondary want
Sausage	Primary want
shelter	Primary want

- 10.
- The wants are habitual
 - Difficulty in making choice

- Resource is scarce
- The wants are unlimited

04 – PRODUCTION

1. i) Direct

ii) Indirect

iii) Indirect

iv) Direct

2. i) Free of All Expenses

ii) Or Nearest Offer

iii) Cash With Order

iv) I Owe You

3. -lack of skilled labour
-inadequate financial resources
-high cost of production
-inadequate land

4. ACTIVITY

a) Carpentry

b) Selling bread to students

c) Warehousing of goods imported

d) Carriage of cargo to the market

UTILITY

form

possession

time

place

5. (i) irrigation.
(ii) Fallowing.
(iii) Land tenure.
(iv) Fertilizer application.
(v) Mechanization.
(vi) Crop rotation.
(v) Pest control.

6.
 - (i) Better quality goods
 - (ii) A variety of goods
 - (iii) Higher production capacity/mass production.
 - (iv) Goods become cheaper.
 - (v) Leads to higher standards of living
 - (vi) Promotes specialization/better skills.
 - (vii) Facilitates exchange.

7.
 - (i) Workers suffer boredom /monotony
 - (ii) Not easy to change career
 - (iii) Reduced employment due to use of machines
 - (iv) Promotes interdependence causing shortages of some goods
 - (v) It hinders creativity/innovation
 - (vi) Brings many people together leading to social problems

8.
 - (a) Form utility-changes raw material to finished goods
 - (b) Place utility-transfer/transporting finished goods/products from produce to consumer

9.
 - Time taken to train
 - Restrictions given by some professions
 - Job security
 - Differences in natural talent
 - Age
 - Level of skills
 - Health
 - Government policy

10.
 - Basic factor of production

- Limited in supply
 - Quality ins not homologous
 - Productivity of land can be improved
 - Size can be improved through reclamation
 - Subject to the law of diminishing returns
- 11.**
- Amount of capital available
 - Different uses in which capital can be put to
 - Skill and knowledge available to operate capital
 - Government policy
 - Time taken to modify
 - Reward offered
- 12.**
- Place utility-transport
 - Form utility-industrial processing/manufacturing
 - Possession utility-exchange/trade
 - Time utility-warehousing/storage
- 13.**
- Specialization
 - Production of surplus goods
 - Better quality goods produced
 - Exchange of goods leading to trade
 - Encourages innovation and invention
- 05. **ENTREPRENEURSHIP****
- 1.** - need to exploit talent

- high market availability
 - growth in awareness
 - improved security
 - improved infrastructure
 - Need to be own boss
 - Availability of source of finance
- 2.
- Profit generation /maximization
 - Creation of employment
 - Provision of goods and services
 - For prestige/enhancing own image
- 3.
- Potential profits
 - Potential market
 - Future growth
 - Acceptance by the community
 - Cost of capital
 - Ability to manage
- 4.
- Inadequate capital
 - Poor working strategies
 - Unfavorable government policies
 - Insecurity in the area
 - Inadequate academic and technical knowledge
 - Inadequate business management knowledge
 - Inadequate demand market
 - Poor record keeping
 - Poor customer relations
 - Large drawings from firm
 - Lack of self discipline and poor moral character

- Poor planning
 - Changes in technology
 - Changes in business environment
- 5.
- To reduce rate of unemployment
 - Equip learners with entrepreneurial skills and knowledge
 - Create informed population on commercial activities
 - Learners to be able to utilize local resources
 - Enable learners to be self reliant
- 6.
- Promotes job creation
 - Promote production of a wide variety of goods
 - Improves infrastructure of a country
 - Promotes healthy competition hence production of high quality goods
 - Enhances full exploitation of a country's resource
 - Promotes industrial development
 - Provides consumer with variety of goods
 - Promotes savings and investments
 - Promotes Kenyanisation/indigenization of trade/encourages participation of local profit in trade

O6. MANAGING A BUSINESS

- 1.
- Provides adequate facilities
 - Ensures proper remuneration
 - offer fringe benefits
 - Ensures proper communication
 - Encourage positive competition
 - Provide recreation facilities to lessen tension at work place
2. (i) provision of good working tools

- (ii) training of workers
 - (iii) ensuring good working relationship
 - (iv) provision of leisure time.
 - (v) Provision of recreational facilities.
 - (vi) Provision of accommodation.
 - (vii) Provision of insurance cover.
3. - Helps in evaluation of business performance
- Assists in performance comparison
 - Helps the business to avoid past mistakes
 - It is instrumental in planning
 - Helps in target setting

07. THE OFFICE

1. - Adding machine

- Cash register
- Calculating machine
- Accounting machine
- Computer
- Money counting machine.

2 -loyal

- able to work for long hours
- qualified in secretarial duties
- good planner
- able to keep secrets
- good communication skills
- good grooming

3. -Properly addressed

- should be dated
 - should be précised
 - Must contain the main objective/massage
 - Be signed
- 4.
- (i) Provide legal advice
 - (ii) Writing minutes of board meetings
 - (iii) Maintains confidential records of the organization
 - (iv) Maintains and updates organizations legal registers
 - (v) Ensures compliance by the organization with legislation or law
 - (vi) Preparation of contracts, leases and other legal documents
 - (vii) Interprets law and legal notices to the directors
- 5.
- Fast/quick
 - Store large amount of information/data
 - Large output
 - Quality output/standard output
 - Save on labour
- 6.
- Operation
 - Easy to supervise
 - Loss expenses on office partition
 - Sharing of equipment
 - Office can be put to various uses (e.g. conference)
- 7.
- To ensure efficient use/prevent misuse
 - Maintain their safe custody
 - For accounting purposes/store keeping records
 - To monitor their movement within the organization
 - Ensure adequate supply at all times
- 8.
- Leads to unemployment

- Hinders creativity and innovativeness
 - Many machines are subject to frequent breakdowns
 - Expensive to acquire, install and maintain
- 9.**
- Cost
 - Speed/urgency
 - Quality
 - Quantity
 - Availability of power
- 10.**
- i) Work flow which refers to the continuous flow of documents and work in a particular direction
 - ii) The arrangement of the office must facilitate ample supervisory of workers
 - iii) Provision should be made for each worker to have enough working space
 - iv) Proximity of workers to the equipment to avoid unnecessary movement
 - v) Office appearance should be pleasant
 - vi) Office arrangement should promote low of communication
 - vii) The type of job and grade
- 11.**
- Use of computers
 - Technological changes in communication
 - More emphasis on customer care service
 - Changing trends in office location and layout
 - Changing trends in office furniture and equipment
 - Changing trends in office procedures and routines
- 12.**
- Distraction of movements of fellow workers
 - Lack of privacy
 - Generally overcrowded
 - Difficult to distinguish workers of different ranks

- Creates difficult in monitoring usage of joint facilities
- Noise from machines.

08. HOME TRADE

1. i)Free of All Expenses

ii)Or Nearest Offer

iii)Cash With Order

iv) I Owe You

2. i)Rack jobbers and drop shippers

- Drop shippers specialize in supplying certain line of products while shippers operate

from offices where they make orders

ii) Specialized and generalized wholesalers

- Specialized deals in one product while generalized deal I specific product in one line

of production

3. -When debtors financial status in a doubt

-When there is fear of delay in payment

-When the amount involved is large

-In case the traders deals in different currencie

4. -Goods brought

- The returns made

-Payment made

-Receipt of cash to date

-Balance outstanding/amount due

-Any discount allowed

5. -Requires a lot of patience

- Involves a lot of movement/difficulties to move incase of poor health
- Carriage involved calls for a lot of care
- Operated under high risk of bad weather
- Limited ability to carry many goods
- High chances of insecurity/theft/fraud

6. (i) High interest rates charged
(ii) Can only be used in selected (stores) businesses
(iii) One might be tempted to overspend

7. (i) Banking

(ii) Insurance
(iii) Transport
(iv) Communication
(v) Advertising.

8. (i) Lack of standard measure of value.
(ii) Indivisibility of commodities.
(iii) Problem of storage.
(iv) Requires double coincidence of wants.
(v) Some commodities are bulky / difficult to carry.
(vi) Lack of unit of account.
(vii) Lack of standard of deferred payment

9.

<i>Transaction</i>	<i>Assets</i>	<i>Capital</i>	<i>Liabilities</i>
(a) Additional investment in cash	increase	increase	No effect
(b) Purchase of stock by credit	increase	No effect	increase

(c) Pre-paid loan in cash	decrease	No effect	decrease
(c) Took a loan to pay another loan	increase	No effect	Increase/decrease

10. . General line wholesalers

- Truck mobile wholesalers
- Rack jobbers
- Cash and carry wholesalers

11. (a) Consignment note and delivery note is: consignment note is used when the supplier

hires the services of a transporter to deliver goods to the buyer while a delivery note

is used when the supplier uses his own transport to deliver goods to the buyer

(b) Credit note and debit note

Credit note is prepared by the seller and issued to the buyer to effect decrease in

invoice value (in case of over charge) while debit note is used to increase the invoice value (correct undercharge)

12.

$$\text{Discount } \frac{3}{100} \times 4000 = \text{Shs.}120$$

$$4000 - 120 = \text{Shs.}3880$$

13. (a) Gives a description of the goods and the prices at which the seller can supply the goods to the buyer
- b) Accompanies the goods and it contains the list of goods delivered
- c) To inform the buyer that goods have been dispatched
- d) To correct an under- charge
13. i) When the seller requests the buyer to make payment of goods before delivery
- ii) When the seller doesn't want to give out goods on credit
- iii) When the importer of goods want to get customs clearance before the goods are sent
- iv) When the seller wants to show the buyer the amount he/she would have to pay for if he/she buys goods on approval
- v) When the seller employs agents to sell goods for him/her.
14. i) Seller enjoys a higher sales turn over
- ii) Seller enjoys higher profits due to interest on hire purchase sales
- iii) Seller can re-posses item incase of default in payments
- iv) Capital from down payments enables the seller to continue in trading
- v) Seller can sell his trade debts to a factor which provides him with working capital
15. - Buyer is able to start using the item before completing all the payment
- The buyer is able to buy expensive goods that may otherwise be unaffordable
 - The buyer is able to plan for the payment of the regular installments
 - The buyer is free to return the goods before completion of payment of goods if dissatisfied
16. -Must be signed by the drawer or creditor
- Must be accepted by the debtor in order for it to be valid

- Must be accepted unconditionally/ willing fully
 - Must bear appropriate revenue stamp
17. - Nature of document e.g. title deed will be always stored
- The policy of the firm
 - Legal requirement
 - Whether or not the transaction to which the document relates is over
18. - Must bear signature of the drawer
- Must be accepted by debts
 - Should be unconditionally accepted
 - Must bear appropriate revenue stamp

19. if 1625 shs=100%

$$\begin{aligned} \text{,,} &= 95\% \\ &= \frac{1625 \times 95}{100} \\ &= 1543.75 \text{ (amount to be paid after quality discount)} \sqrt{1} \end{aligned}$$

If 1543.75 = 100%

$$\begin{aligned} \therefore ? &= 97.5\% \\ &= \frac{1543.75 \times 97.5}{100} \end{aligned}$$

Amount to be paid after cash discount= kshs1505√1

If 100 packets=kshs1505

$$\begin{aligned} \therefore 1 \text{ packet} &= ? \\ &= \frac{1505 \times 1}{100} \sqrt{1} \end{aligned}$$

Price per packet = kshs 15.05√1

09. FORMS OF BUSINESS UNITS

1. - One has to be a member

- Guarantee from fellow members
 - Members salary
 - Members saving /shares
- 2
- lack of political goodwill
 - corruption /insensitive public service
 - fear of transferring ownership into foreign lands
 - Need to keep investment opportunities
- 3.
- Will get advice an area of finances
 - Earn interest on investment
 - Receive loans at low interest rates
 - Receive credit facilities
 - Assisted in times of problems (benorelent)
 - Source of savings
- 4.
- (i) Minor partner
 - (ii) General partner
 - (iii) Active partner
 - (iv) Nominal/ Quasi partner
- 5.
- (i) Will have full control of the business.
 - (ii) No sharing of profits.
 - (iii) Easy decision making.
 - (iv) There are few legal formalities.
 - (v) Top secrecy.
 - (vi) Flexible.
- 6.
- (i) If the partners mutually agree/decide to dissolve it
 - (ii) Incase of death/insanity/bankruptcy of a partner

- (iii) Incase the court orders so
 - (iv) Incase completion of he intended purpose
 - (v) If the business engages in unlawful practices
 - (vi) Incase of retirement /admission of a new partner
 - (vii) Incase of continued disagreements among the partners
7. -Legal procedure is followed during formation
- They are separate legal entities from the owners who formed it
 - Shareholders have limited liability
 - They have perpetual succession
 - They can raise large amount of capital hence large in size
 - Failure of the business does not necessarily refresh the failure of its owners
8. - Memorandum of Association
- Articles of association
 - Declaration
 - Certificate of incorporation
 - Prospectus
 - Trading certificate
9. - Memorandum of Association
- Articles of association
 - Declaration
 - Certificate of incorporation
 - Prospectus
 - Trading certificate
10. - Too much political interference
- Inadequate capital

- Poor management skills
 - Embezzlement of public funds
- 11.**
- i) The rights of each type of share holders eg. Voting rights
 - ii) Methods of calling meetings
 - iii) Rules governing elections of officials in the company
 - iv) Rules regarding preparation and auditing of accounts
 - v) Powers, duties and rights of the directors
- 12.**
- i) She will earn profits
 - ii) She will get better quality goods
 - iii) She will earn interest on capital invested
 - iv) She will enjoy credit facilities
 - v) She will buy goods on fair prices
 - vi) She will be assured of protection against malpractices
- 13.**
- i) They train local people so as to create the necessary man power in the subsidiaries
 - ii) They dominate international market because of their great influences
 - iii) They assist developing countries financially
 - iv) They home a guest influence in international trade
 - v) They posses a lot of capital
- 14.**
- Permanent
 - Temporary/joint venture
 - General partnership (unlimited)
 - Limited partnership
 - Trading partnerships
- 10. GOVERNMENT AND BUSINESS**
- 1. -** To obtain revenue /source of revenue

- Regulating the number of business in any one line of action.
 - Ensuring that traders engage only in those business activity for which they have a license.
 - Controlling illegal business in the country
 - Ensuring that those who engage in professional activities meet the requirement.
- Control the type of goods that should enter or leave the country.

2. -Difficulties to register members into association

- Lack of awareness by consumer
- Lack of funds
- competition

(i) Garbage collection

(ii) Water supply

(iii)Street lights

(iv)Repair of roads

(v) Provision of social services e.g. schools, hospitals

(vi)Recreational facilities e.g sports fields, stadiums e.t.c

(vii) Provision of housing needs

3. - Offering several incentives to encourage investments like tax holiday subsidies

- Provision of credit through government institutions
- Creating a pool of qualified manpower
- Provision of security
- Ensuring there is political stability and good will
- Provision of infrastructure to reduce cost of provision
- Liberalization of marketing

4. -Improve infrastructure especially roads

- Provide security
 - Provide incentives e.g. tax holiday
 - Improve access to finance/provide
 - Reduce bureaucratic requirement for licensing
 - Provide social amenities e.g. schools, hospitals, market skills e.t.c
 - Provide awareness of investment opportunities
5. -Lack of support by the government
- Lack of finance
 - Ignorance of consumers
 - Reluctance of consumers to join these association
 - Lack of initiative from consumers to check on traders performance and report cases on non-compliance
6. i) Lack of adequate finance
- ii) Poor management skills of these local authorities
- iii) Political interference and wrangle
- iv) Poor garbage collection an disposal
- v) Embezzlement of funds
- vi) Corruption
7. - Poor quality goods and services/ damaged goods
- Incorrect weights and measures
 - Poor hygienic conditions
 - Contrabands items/ prohibited goods
 - Hoarding
 - Misleading advertisements
 - Environmental pollution
 - Harmful products
 - Price overcharge
8. - Inadequate funds

- Misappropriation of funds
- Lack of credible leadership
- Lack of technical know- low
- Inadequacy of qualified labor required
- Lack of political will among elected leaders

9. - Regulation
- Training
 - Internal trade promotion
 - Eternal trade promotion
 - Service provisions
 - Creation of enabling environment
 - Consumer protection

11. TRANSPORT

1. - When goods are bulky
- When goods are heavy
 - Where the distance is long
 - When transporting livestock
 - Where railway tracts are laid
2. (i) Increased use of pipelines
(ii) Increased use of trains /Expansion of Runway
(iii) Building dual carriage ways
(iv) Policies that encourage vehicles of larger carrying capacities
(v) Discouraging use of personal vehicles
(vi) Ensure road worthy vehicles
3. (i) It's only limited to water bodies that are large and inaccessible.
(ii) Construction and maintenance of ports is very expensive.
(iii) It is a slow form of transport.
(iv) May suffer from growth of weeds and natural barriers.

- (v) International laws and barriers may block the extent of coverage.
 - (vi) Construction and maintenance of ships is very expensive
- 4.
- They do not follow particular routes as they can go anywhere the client
 - They do not have set timetables for departure or arrival
 - They call at given ports at irregular intervals
 - Their freight charges depend on demand and are not constant
- 5.
- Initial cost of acquiring the containers
 - specialized equipment for handling containers is expensive to buy
 - Volume of goods transported is too small to warrant containerization
 - It requires re-designing of existing ports which is expensive
 - The technology to re-design the existing port is lacking
 - The management skills needed is limited
- 6.
- Delivery of parcels
 - Offering security to money transfer
 - Offering of safe delivery of valuable items e.g. gold
- 7.

<i>LINER</i>	<i>TRAMPS</i>
<ul style="list-style-type: none">- Follow fixed routes- follow a set timetable- changes are fairly constant- owned and controlled by conferences	<ul style="list-style-type: none">- Change notes according to demand- Not set timetable- changes vary with demand- owned by private individuals partnerships/ltd co.

- 8
- When products are urgently required
 - When the product is highly perishable

- When the product is of high value
- When the product is transported over a long distance
- When the customer can afford to pay for freight charges
- Where air transport is the only available means of transport

12. COMMUNICATION

1 - Speed post

- Express delivery
- Post rest ante
- Business reply services

2. -Speed /fast delivery

- Safety/Security
- Direct / door to door delivery
- Proof of delivery
- Proof /evidence of sending
- Insurance-Incase of loss can be compensated
- Personal touch / contact handle customers
- Delivery of a variety of items
- Reliability
- Direct collection

- 3
 - (i) Use of difficult language/unfamiliar language
 - (ii) Age difference between the sender and the receiver
 - (iii) Negative attitude towards the sender of the message
 - (iv) Un-preparedness on the part of the sender
 - (v) Poor timing of the message
 - (v) Cultural differences between the sender and the receiver

4.
 - The sender
 - The channel
 - The message
 - The receiver

5.
 - Verbal/oral
 - Written
 - Audio-visual
 - Audio
 - Visual

6.
 - Where confidentiality is required
 - Where immediate feed back is required
 - Where speed is necessary
 - When it is easier to convince/ persuade

7.
 - Increase in use of calling cards
 - Use of mobile phones
 - Use of email
 - Use of internet
 - Use of intranet
 - Use of cyber cables

13. WAREHOUSING

1. – Storage
 - Preparing good for sale
 - Stabilizes prices
 - Protection of goods/security
 - Holds goods up until custom duty is paid on imported goods

2. --When it is not accessible
 - When it's placed away from the terminal or source of produce
 - When it leads to high operational costs

3. (i) For easy re-exporting.
(ii) For easy inspection of imports.
(iii) To prevent the entry of harmful goods./dangerous goods.
(iv) To prevent exit without legal authority.
(v) For easy collection of custom duties.

4. -Revenue to the government e.g. duty on goods
 - Enable government to create entry of harmful goods
 - Enable government to verify document for goods on transit
 - Enable government to check on quality of goods imported
 - Enables it to inspect type or nature of goods imported
 - Enable if to check entry of illegal goods into the country

5. -If its location is not suitable for client/if it is not accessible to users
 - If it cannot store different types of goods
 - If it doesn't have communication network
 - If it is not well equipped to handle goods/it lacks appropriate facilities
 - If it is not spacious enough to allow easy movement
 - If it doesn't have well trained personnel
 - If it doesn't keep proper records of movement of goods
 - If it doesn't offer necessary protection to goods in it

6. - If the importer is not aware of the arrival of goods

- If the importer is still looking for money to settle dues
 - If goods are yet to be inspected
 - If the importer is still looking for market
- 7.
- Receipt of requisitions
 - Purchasing all goods for the organization
 - Maintaining the suppliers records
 - Managing an effective purchases man power
 - Dispatching goods to various departments
- 8.
- i) Continuous supply of goods for his customers
 - ii) Storing goods whose demand is seasonal
 - iii) Goods are stored awaiting collection
 - iv) Goods can be prepared for sale through breaking bulk, sorting, packing, and blending
 - v) Protecting goods from physical damage, pilferage and adverse wealth condition
 - vi) Relieves retailers of the need to carry large stocks and they can always reorder, these helps
them to start business without too much capital

14. INSURANCE

- 1.
- a – Insure
 - b – Risk
 - c – Premium
 - d - Insurer
- 2.
- i) Utmost good faith-ensures that details offered are up to date and correct for proper
evaluation
 - ii) Indemnity-stresses the understanding that in the event of loss, the insure does
not

benefit/insures does not over compensate

- iii) Contribution-creates understanding to insurers who may have jointly ensured a risk
 - iv) Insurable interest-ensures that insured does not incur losses on property not assured by insurer
3. - Bad debt cover
- Consequential loss
- Workman's compensation
- Personal accident cover
4. -Ignorance on the importance of these policies
-Wide spread poverty/low incomes
--Fear of losing their money because of past experience
-Corruption and embezzlement of funds by insurance company officials resulting in delay of compensations
-Long procedure of claiming
5. (a) Total constructive marine loss: When a ship and/or its cargo are totally damaged but can be retrieved
(b) General average marine loss: This is when some of the cargo are jettisoned into sea deliberately to save the ship and rest of the cargo from sinking

6. - The property or life being insured must be the subject matter of the insurance agreement
 - There must be some property or life that is capable of being insured
 - The relationship between the insured and the property or life must be recognized
 - The insured must stand in relationship with the property or life being insured

7. - Occurrence of a loss must be accidental not deliberate
 - Risk must not violate laws of the country
 - Risk must be pure and not speculate
 - Insured must suffer financial loss
 - The risk must not be catastrophic
 - The possibility of the risk taking place should not be near certainty
 - For any misfortune there must be a large number of people affected

8. - Compensation is guaranteed
 - Losses are shared by the group
 - Funds contributed by the group are large

9.
 - i) A person wishing to acquire a policy must fill in the form
 - ii) The insurance company then assesses the applicant and then calculates the premium to be paid by the insured
 - iii) The insured then pays the first premium to the insurer/ insurance company
 - iv) The insurer then issues a cover note to the insured to show that the contract is now on
 - v) Then finally the insured is issued with a policy document

Note a step must NOT be skipped or confused for another

10. 400,000- true value of property

15. PRODUCT PROMOTION

1.
 - Product advertising.

 - Institution advertising.
 - Competitive advertising.
 - Informative premium demand advertising.

2.
 - Increase sales
 - Prolonged duration of the competition
 - Creation of consumer brand loyalty
 - Promotion a company's image
 - Cost
 - Creation of product awareness

3. *Structural changes experienced in economic development:*
 - Shift from agricultural to manufacturing sector
 - Increased in literacy
 - Increased in skilled manpower
 - Improvement in health facilities
 - Improvement in technology that handle new methods of productive activities

4.
 - Free of charge repair for a specific period
 - Servicing of the equipment at regular intervals free or at a very reasonable rate
 - Availability of spares
 - To provide transport if required

5.
 - i) They undertake all the art works and creative work in the good ie. by suggesting the
 - shape the good should take , then package etc.
 - ii) They advice producers on selling and promotional policies

- iii) They plan advertising campaigns for manufacturers
 - iv) They reserve and pay for space or time for the media on behalf of the trader
 - v) They assist in destroying and packing
6. -Target group who are mostly young people
- Availability of the medium
 - Cost of medium
 - Geographical area to ensure reach ability
 - Speed/ urgency of the promotion
 - Flexibility
 - Physical characteristics of the medium
 - Legal requirement/ Government policy should be complied with
 - Duration of the promotion
7. -Repairs of maintenance
- Technical advice (backing services)
 - Transport
 - Installation
 - Guarantee on availability of spare parts
 - Monitoring of inspection

16. DEMAND AND SUPPLY

1. - Price of the commodity
- Prices of the other related commodities
 - Future expectation of changes in prices
 - Government policy
2. -Decrease in cost of inputs
- Improvement in technology
 - Fall in taxes

- Increase in government subsidy
 - Future expectation of price increase
 - Favorable weather
4. (i) It is a given /inferior good
- (ii) If the price is expected to fall further in future.
- (iii) If the fall in price is as a result of fall in quality
- (iv) If the commodity is getting out of fashion..
5. (i) Decrease in consumers income
- (ii) Unfavourable changes in tastes fashions and preferences of consumers
- (iii) Unfavourable government policies e.g. increase in taxation
- (iv) Increase in price of compliments/decrease in price of the commodity
- (v) Unfavourable terms of sale e.g. short credit periods and lack of discounts
- (vi) Uneven/unfair distribution of income among consumers
- (vii) Decrease in the size of the population
- (viii) Unfavourable seasonal changes
6. - *Unfavourable weather*
- *License in the cost of producing cabbage*
- *Application of poor technology*
- *Increase competition from other substitutes*
- *A shift in the farmers priority to other things*
- *Unfavourable government policy like increase in subsidies etc. (4x1=4mks)*
7. -Presence of close substitutes
- Habit forming commodities
- Durable products

- Necessities
 - If the proportion of income spent on the good is small
 - If it is difficult for consumers to adjust in the short run
- 8.
- Goods of ostentation
 - Inferior goods
 - Expectation of future shortages
 - Necessities
 - Habitual
 - Necessities
 - Expectation of further increases in prices
- 9.
- Where goods are of ostentation/ luxurious goods
 - Increase of Gifted goods
 - Where goods are necessary
 - Where there is expectation of further increase in prices
 - Where goods are inferior in nature
 - Where goods are habitual
 - Where there is an expectation of future shortages

10.

$$\begin{aligned} \text{C.E.D} &= \% \Delta Q_y \\ &\quad \% \Delta P_x \\ \% \Delta Q_y &= \left[\frac{-4000}{15000} \right] \% = -26.66 \\ \% \Delta P_x &= \left[\frac{10}{140} \right] \% = -7.14 \\ \text{C.E.D} &= \frac{-26.66}{-7.14} \\ &= 3.73 \end{aligned}$$

17. THE THEORY OF THE FIRM

1. - A pool of trained manpower from which the trader can recruit skilled labour.
- Other complementary firms are likely to develop alongside his own .

- Firms offering supportive services may develop in the area.
- A trader will benefit from the social amenities present in a localized area.
- A trader can join other traders and work together ,hence taking advantage of

large scale

product.

2.
 - (i) Volume of output /and sales
 - (ii) Number of employees / labour force
 - (iii) Total capital outlay/inputs
 - (iv)Types/level of technology used
 - (v) The size of plant/premises
 - (vi) Type of product

3.
 - (i) provision of cheap/free land in rural areas.

 - (ii) Improving infrastructure in rural areas.
 - (iii) Improving security in rural areas.
 - (iv) Tax rebate/concession

4.
 - (i) There are flexible
 - (ii) They are easy to manage
 - (iii) They require little capital to start
 - (iv) No many risks are involved
 - (v) Few legal formalities are followed

5.
 - Size/extent of the market
 - Nature of the product
 - Flexibility of the firm
 - Simplicity of the organization

- Quick/fast decision maker
 - Rising cost of product
 - Few legal procedures
- 6.
- Buying goods in large quantities
 - Selling goods in large quantities
 - Accessing ready markets for its produce
 - Retaining (widening its market)
 - Selling variety of goods
 - Market referred
 - Advertising
- *

7.

$$\begin{aligned} A &= \text{Total cost} \\ &= \text{TFC} + \text{TVC} \\ &= 300 + 240 = 540/- \\ B &= \text{Average variable cost} \\ &= \frac{\text{Total variable cost}}{\text{Total units produced}} \\ &= \frac{320}{4} = \text{shs. } 80 \\ C &= \text{Average fixed cost} \\ &= \frac{\text{Total fixed cost}}{\text{Total units produced}} \\ &= \frac{300}{6} = \text{shs. } 50 \\ D &= \text{Average cost} \\ &= \text{Total fixed cost} + \text{TVC} \end{aligned}$$

$$=300+720$$

$$=1020= \text{shs. } 170$$

6

8. a) Total fixed costs at output of 50 units

$$\text{Ksh. } =300$$

- b) Average variable costs [AVC]

$$\begin{aligned} \text{AVC} &= \frac{\text{TC} - \text{TFC}}{Q} \\ &= \frac{680 - 300}{50} \\ &\text{Kshs. } 7.60 \end{aligned}$$

- c) Average total costs

$$\begin{aligned} \text{ATC} &= \frac{\text{TC}}{Q} \\ &= \frac{680}{50} \\ &\text{Kshs. } 13.60 \end{aligned}$$

- d) Marginal costs

$$\begin{aligned} \text{MC} &= \frac{\Delta \text{TC}}{\Delta Q} \\ &= \frac{680 - 620}{50 - 40} \\ &= \text{Kshs. } 6.00 \end{aligned}$$

9. - Where the market is small
- Nature of the product e.g. direct service
 - To maintain simplicity of the firm
 - For flexibility purposes
 - For quick decision making
 - To avoid high overheads costs
 - Need to retain control
 - Legal constraints
 - Because of minimal risks faced

- Limited capital

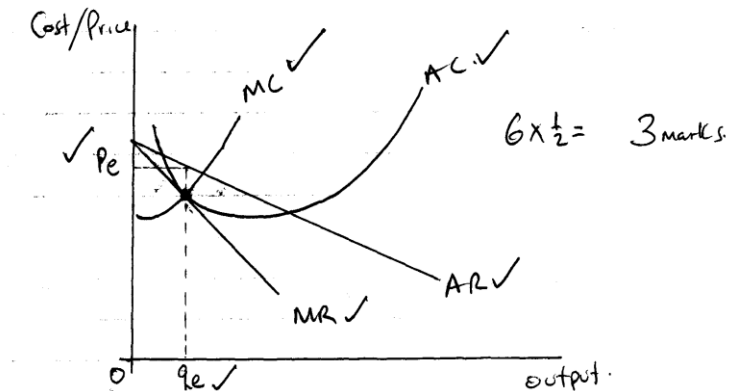
18. PRODUCT MARKETS

1. - To check on the quality of goods produced by monopoly.

- Ensure there are a variety of goods in the market.
- Monopolist may resist emergence of new ideas or technology due to lack of competition.
- Monopolies tend to be inefficient in their operation due to lack of competition.
- The consumers may not enjoy quality good and services because they can only consume what his monopolis produces.
- To control the prices charges by the monopolies
- Make sure monopolies operate at optimum capacity so as not to charge high

prices.

3. Short-run equilibrium of a firm in monopolistic competition



4. - When the product is a necessity
- When the product is the only one in the market
 - When the consumers are not aware of the market changes
 - When the price of the product makes an insignificant figure of the consumers

income

- 5.
 - i) Control of an important input in production
 - ii) Ownership of production rights i.e. patent
 - iii) Internal economies of scale
 - iv) Size of market
 - v) Ownership of a give technology
 - vi) Financial factor
 - vii) Restructure factors

- 6.
 - i) monopolistic market
 - ii)
 - a – marginal cost A/C
 - b – Average cost A/C
 - c – Average revenue A/R
 - d – Marginal revenue M/R

- 7.
 - Establishes size of the market
 - Establishes the most effective modes of promotion
 - Establish existing competition and suitable ways of overcoming it
 - Establishes most suitable prices for a product
 - Establishes most favourable form of quantity of presenting the product

19. CHAIN OF DISTRIBUTION

1. Identify the type of utility created in the following circumstances

<u>ACTIVITY</u>	<u>UTILITY</u>
a) Carpentry	form
b) Selling bread to students	possession
c) Warehousing of goods imported	time
d) Carriage of cargo to the market	place

2.
 - *Reducing transaction between producers and consumers*
 - *Breaking bulk*
 - *Accumulating bulk*
 - *Taking of holding goods*
 - *Providing finance to producers*
 - *Product promotion*
 - *Transporting goods*
 - *Storage goods*

3.
 - Reduces the range of goods offered to the retailers
 - Reduces the cost of goods acquired by retailers
 - Lowers the price of goods because of reduction in the length of distribution

4.
 - Preparing to meet customers/locating prospective customers
 - Opening sale/presenting the product
 - Handling objections
 - Closing of sales

5.
 - Where the commodity is perishable
 - Where the commodity is a service
 - Where the use of the commodity requires demonstration
 - Where the quantity of the commodity is small
 - Where technical advice is required
 - Where immediate feed back is required
 - Where the law requires to be done so

6.
 - i) Brand Kamp/ Exporter - Consumer
 - ii) Exporter / Brand Kamp-Government agent –Wholesaler- Consumer
 - iii) Exporter/ Brand Kamp-Government Agent – Wholesaler- Retail – Consumer
 - iv) Exporter / Brand Kamp-Wholesaler- Consumer

- v) Exporter / Brand Kamp- Import agent – Consumer
- 7.
- Nature of products - perishable
 - Availability of the channel
 - The cost of the channel
 - Channels used by competitors
 - Market concentration not in use area
 - Spread of the risk

20. NATIONAL INCOME

1. – Collection of data of the national income may be inaccurate.
- Changes in per capita income may be due to change in the value of money.
 - Income may be in the hands of only a few.
 - The products produces may not satisfy immediate wants of the people.
 - Increased national income may mean less sleep and more worries.
- 2.
- Savings
 - Investments
 - Foreign trade
 - Taxation (government interference)
- 3.
- Individual talents and personal endowment
 - Inheritance from parents
- 4.
- Differences in natural resource endowment
 - Difference in stock capital equipment
 - Differences in entrepreneurial cultures in the two countries

- Differences in stock of man power
 - Differences in general attitude of people towards work
 - Availability and states of technology
5. - Income approach
- Output approach
 - Expenditure approach
6. - Problem of inaccurate data
- Price fluctuations make it difficult to calculate national income
 - Problem of handling illegal and unrecorded yield income to recipients
 - Transfer payments pose a problem
 - Income disclosures aren't true because people and firms like evading tax
7. i) Problems of valuation due to unavailability/inaccuracy of output figure especially in the
- private section
 - ii) Problem of deciding on the goods/services to include eg. Whether the output of a house wife should be included or not
 - iii) The problem of valuing output in the subsistence sector
 - iv) Problem of frequent changing process
 - v) Problem of valuing government output since many of its services are not sold in the market
 - vi) Problems of differentiating primary inputs from intermediate inputs
 - vii) Valuing illegal activities like drug trafficking.
8. - It shows average standards of living of the people
- It determines the economic development of a country

- It shows the country's network or actual income
 - It is used for economic planning
 - Helps to know the contribution of different sectors of the economy
 - Used to compare economic performance of different countries
 - Used to compare economic performance of a country over the years
9. - When the national income is equitably distributed among the people
-When statistics obtained consider price changes in the economy
-When population size of the country is real and not more projections
-When statistics of output is based essential commodities consumed by the masses/large number of people

21. POPULATION AND EMPLOYMENT

1. i) Census-the actual count of all people living in a certain area
ii) Unemployment-the inability of people who are capable of willing to work to get meaningful
iii) Mortality-the rate of death in every 1000 people
iv) Optimum population-the population level which is equal to the availability resources
2. -Reduces per capita income
-Increased dependency ratio
-Reduces saving and investment
-Leads to unemployment and under employment
-Pressure on social amenities
-Inequitable distribution of income
-Leads to over exploitation of nature resources /environmental degradation

3.
 - High population growth rate
 - Rural-to-urban migration
 - Shortage of capital to start or expand industries
 - Use of capital-intensive methods of production
 - Inappropriate education system
 - Low demand for goods and services hence low income for business
 - Minimum wage laws

4.
 - Increased dependency ratio
 - Reduced savings and investments
 - High unemployment rates
 - Straining of social amenities
 - Straining of natural resources
 - Increased rates of crimes and social evils
 - Low standards of living/ poverty

5.
 - Changes in lifestyle where people prefer small families
 - Political war
 - Natural calamities
 - High infant mortality rates
 - Reduced fertility in women

6.
 - Increase in market demand for good services
 - Adequate labour supply
 - Inspired people to look for new markets
 - Encourage technological advancements

- Enable export of talents

22. DETERMINING THE NET WORTH OF BUSINESS

1. - Additional investment increases capital
 - Net profits increases capital\drawings reduces capital
 - Loss reduces capital
2. Katiba Traders

Balance sheet
As at 31 April 2010

Motor	280,000	Capital	600,000
Furniture	80,000		
Current Assets	<u>290,000</u>	Current liability	<u>50,000</u>
	<u>650,000</u>		<u>650,000</u>

3. Capital=OPC +add +NP-drawing

$$6,000,000=3,500,000+540,000+NP-25,000$$

$$NP= (6,000,000+25,000)-3,500,000+540,000)$$

$$NP=6,025,000-4,040,000=1,985,000$$

4. *Characteristics of Assets;*

- (i) Are source owned and controlled by the business
- (ii) Must have been acquired in the past
- (iii) An item of value that can be measured reliably in monetary items
- (iv) May either be fixed or current

(v) Future economic benefit associated with the net expected benefits to be received

by the business entity

5.	Kshs.
Liabilities	8421
Capital	17,648
Assets	5364
Capital	27,920

6. *Ochomo traders balance sheet as at 30th June, 2008*

Ochomo Traders
Balance sheet
As at 30th June, 2008

Assets	
Shs.	Shs
Premises	Capital
5000√	51000√
Furniture	Long term loan
7000√	20000√
Bicycle	Creditors
3000√	5000√
Stock	
10000√	
Debtors	
2000√	
Cash in hand	76000
4000√	

76000√	
--------	--

23. BUSINESS TRANSACTIONS

1. - Opening capital 13,730

Profit :9000 – 3000 = 6000/-

Additional investment = 50,000/-

Closing capital 62,230/-

Closing capital = opening capital + (profit +addition Investment) - (loss +drawings)

$62,230 = (13,730+6000+50,000) - (\text{drawings})$

$62,230 = 69,730 - D$

$D = 69,730 - 62,230$

Drawings = 7,500/-

- | | | | | |
|----|-------------|---------------|--------|-------------------------|
| 2. | Debit | Ledger | Credit | Ledger |
| | (a) Debtors | Sales/Debtors | Sales | Nominal; general/Ledger |
| | (b) Rent | Nominal | Cash | Cash payment/cash book. |

3. Items affected by transaction:
- Lawn mower and Bank
 - Stock and Creditor Mwangi
 - Debtor and cash in Hand
 - Motor vehicle and capital

4.

Account to be debited	Account to be credited
Salaries	Cash
Cash	Bank
Telephone	Bank
Cash	Sales
Office equipment	Mwala ltd co.

5. (i) Drawings
(ii) Net loss
(iii) Net profit
(iv) Additional investments

6.

ONYONKA TRADERS BALANCE SHEET AS AT 31 ST JAN. 2010				
Machinery	40,000	Capital	140,000	
Debtors	100,000	Add N.P	5,000	145,000
Cash in hand	100,000	Five year/loan		290,000
Cash at bank	205,000	Creditors		30,000
Stock	20,000			
	465,000			465,000

7. *Show how the following transactions may affect the items of balance sheet, stating whether it*

Is an increase , decrease or no effect

Transaction	Assets	Capital	Liabilities
-------------	--------	---------	-------------

(a) Additional investment in cash	increase	increase	No effect
(b) Purchase of stock by credit	increase	No effect	increase
(c) Pre-paid loan in cash	decrease	No effect	decrease
(c) Took a loan to pay another loan	increase	No effect	Increase/decrease

8. Determination of net profit

Initial capital interest = Kshs.120,000

Final capital + Drawings – Net profit = Initial capital

160000 + (2000 x 12months) Net profit = 120000

160,000 + 24000 – (Net Profit) = 1200000

184000 – Net profit = 120000

Net profit = 184000 – 120000

Net profit for the year = 64,000

9.

HAMISI TRADERS BALANCE SHEET AS AT 31 st JAN. 2008			
Capital 600,000 ADD Additional I. <u>47,000</u> 647,000	Fixed Assets Motor van 400,000 Equipment <u>47,000</u> 447,000		
Current liabilities Creditors 400,000 Bank overdraft 300,000 700,000	Current assets Stock 156,000 Debtors 214,000 Cash <u>530,000</u> 900,000		

<u>1,347,000</u>	<u>1,347,000</u>
------------------	------------------

10. Calculate the of Mary Wambui as at 31st Dec,2007

	Shs.
Capital (1.1.2007)	240000✓
Add investment	58000✓
Profit	<u>170000</u> ✓
	<u>228000</u> ✓
	468000✓
Less drawings	<u>82000</u> ✓
Capital on 31 st Dec, 2007	= <u>368000</u> ✓

11. Closing Capital= Opening capital + Additional Capital +profit – drawings✓ 1

$$4,900,000=3,400,000 + 610,780 +x - 25,220$$

$$x= 4,900,000 - 3,400,000 -610,780 + 25220✓ 1$$

$$x= 914,440✓$$

12. The following information relates to Ogello traders as at 31st Dec 2009

$$\text{Closing capital} = \text{O.C} + \text{I} + \text{P-D}✓$$

$$=100,000 +35,000 +40,000-15,000✓$$

24. THE LEDGER

1.

Account	Debit	Credit
---------	-------	--------

Purchases	130,000	
Capital		150,000
Sales		165,000
Debtors	45,000	
Creditors		40,000
Motor Vehicle	120,000	
Stock	50,000	
Cash at Bank	<u>10,000</u>	
	<u>355,000</u>	<u>355,00</u>

2. i) Creditors ledger-to find the total purchase made on credit
ii) Private ledgers-to ascertain the movement of capital in the business/keep confidential accounts
iii) Normal ledger-to record the total expenses or income incurred r received in business

3. Nyatike Traders

Trial Balance
As at 31st Jan/2010

	Dr	Cr
Capital		319,000
Drawings	16,000	
Creditors		20,000
Discount allowed	5,000	
Buildings	250,000	
Return Outwards		6,000

Purchases	<u>74,000</u>	<u>0000</u>
	<u>345,000</u>	<u>345,000</u>

4.

Kebirigo Traders Trial Balance Balance As at 31 st Dec. 2009		
	DR	CR
Buildings	100,000	
Debtors	54,000	
Capital		136,000
Sales		85,000
Purchases	48,000	
Stock	25,400	
Creditors		35,700
General expenses	31,800	
Bank overdraft		2,500
	259,200	259,200

5.

Fixed	250000	
Assets	80000	
Purchases		120000
Sales	22000	
Debtors	60000	
Stock		45000
Creditors		247000

capital	<u>412000</u>	<u>412000</u>
---------	---------------	---------------

6. - Errors of original entry
 - Errors of total commission
 - Errors of complete reversal of entries
 - Compensating errors

7..

	Account	Subsidiary ledger
a)	Return inwards	General Ledger
b)	Discounts received	General Ledger
c)	Drawings	Nominal Ledger
d)	Juma a supplier	Purchases Ledger
e)	Ombichi a distributor	Sales Ledger
f)	Bank	Cash book

8. Capital account

Date	Details	L.F	Amount	Date	Details	LF	Amount
				1.6.2009	cash	CB	100000

Cash account

Date	Details	L.F	Amount	Date	Details	LF	Amount
1.6.2009	Capital	GL	100000	3.6.2009	Furniture	GL	30000
2.6.2009	A Co-operative loan	GL	20000				

Co-operative loan account

Date	Details	L.F	Amount	Date	Details	LF	Amount
				2.6.2009	cash	CB	20000

Furniture account

Date	Details	LF	Amount	Date	Details	LF	Amount
3.6.2009	Bank	CF	40000				
3.6.2009	Cash	CB	30000				

Bank account

Date	Details	LF	Amount	Date	Details	LF	Amount
				3.6.2009	Furniture	GL	40000

9. *Post the transaction into the relevant ledge account*

Dr.	Capital a/c	Cr
w	1.6.2008 cash	120,000
	13.6.2008 furniture	15,000

Dr.	CASH A/C	Cr
1.6.2008 capital	120,000	4..6.2008 bank
28.6.2008 loan	40,000	66000

Dr.	BANK A/C	Cr
4.6.2008 cash	66,000	A

Dr.	FURNITURE A/C	Cr
13.6.2008 capital	15000	A

Dr.	LOAN	Cr
	28.6.2008 cash	40,000

A	
---	--

25. CASH BOOK

- 1 - Balance brought d own cash 10,000 (Dr)
 - Bank 15,000 (Cr)
 - Cash sales amounting to 18,500/sold goods for sh. 18,500 in cash.
 - Banked 12,000 from the cash till

Paid debet in cash sh. 6000

- 2 . -Provides information on balances of cash
 - shows the summary of payments made
 - shows the summary of receipt made
 - shows the summary of discounts received
 - shows the summary of discount allowed
 - Analyzing the cash flow.

3. ***Kiprono’s two column cash book***

Details	follo	Cash	Bank		Date	Details	follo	Cash	Bank
Balance b/d		12,000	35,000		Jan 4	Purchases		5,000	
Furniture		8,000			Jan 5	Drawings		1,500	
Sales			10,000		Jan 6	Purchases		5,000	10,000
						Balance c/d		8,500	35,000
		20,000	45,000					20,000	45,000
Balance b/d		8,500	35,000						

4.

Date	Details	Cash	Bank	Date	Details	Cash	Bank
2/12/04	Sales	30 000		8/12/04	Bank	15 000	
8/12/04	Cash		15 000	10/12/04	Cash		10 000
10/12/04	bank	10 000			Bal b/d	<u>25 000</u>	<u>5 000</u>
		<u>40 000</u>	<u>15 000</u>			<u>40 000</u>	<u>15 000</u>

5. *Cash book for Ondiko Traders*

2008		Cash	Bank	2008		Cash	Bank
March 1	Balance b/d	100000	243000	March 3	Rent	5000	
Mach 1	Sales	14000	30000	March 14	Equipment		37000
March	cash			March 20	Bank	30000	
20				March 31	Drawings/Ondiko	10000	
				March 31	Balance c/d	69000	236000
		114000	27300			114000	273000

6.

JABER TRADERS
TWO COLUMN CASH BOOK AS AT 12TH JUNE 2009

RECEIPTS					PAYMENTS				
Date	Details	Fol	Cash	Bank	Date	Details	Fol	Cash	Bank
June 1	Balance b/d		5000		June 1	Balance b/d			18000
June 7	Sales		6000		June 3	Purchases			4000
June 12	Cash				June 12	Bank	C ₁	7000	
June 12		C ₁		7000	June 12	Balance c/d		<u>4500</u>	
June 13	Balance c/d			<u>15000</u>	June 13			<u>11500</u>	<u>22000</u>
			<u>11,500</u>	<u>22000</u>					
	Balance b/d		<u>4500</u>			Balance b/d			15,000

7. a) Contra entry

- It is a transaction affecting one account twice i.e. on the debit side and credit side

- For instance depositing cash into the bank affecting the cashbook on the debit and credit side

b) Folio column

- It is a column in which the page of an account recorded in a particular ledger is found

8. Sales return journal Laban traders

Date	Details	Credit no	L.F
Feb 2010 4 th	Otang'e		4,000
8 th	Akamba		15,000
15 th	Punchline		6,000
28 th	<u>Viva</u>		<u>9,600</u>
	Total posted to R.I A/C (Dr.)		34,600

9.

Debtors control A/C	
Bal. b/d 113,000 Credit sales 681,300 <u>794,300</u>	Receipts from debtors 651,500 Bad debts 1,700 Discounts allowed 2,600 Bal c/d <u>138,500</u> <u>794,300</u>

Total sales = credit sales + cash sales
 = 681,300 + 80,000 = shs.1,481,300

10. - Receipt
 - Payment voucher
 - Cheque

11. RENT A/C

	Sh		sh.
Prepaid b/d	40,000	Accrued b/d	20,000
Cash	121,200	P&L A/c	108,600
Prepaid c/d	<u>3,400</u>	Accrued c/d	<u>36,000</u>
	<u>164,600</u>		

26. SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY

1. Salary account

Salaries 200 000	Accrued (open) 46 000
	Prepaid (close) 150 000
	Profit loss <u>104 000</u>
200 000	200 000

2 - The property or life being insured must be the subject matter of the insurance agreement

- There must be some property or life that is capable of being insured
- The relationship between the insured and the property or life must be recognized
- The insured must stand in relationship with the property or life being insured

3. Commission received account

Kshs	Kshs
Profit and loss 48000	Balance b/d 12000
Balance c/d 24000	Cash book 60000
72000	72000
	Balance b/d 24000

- 4.
- Sales journal
 - Sales returns/ Returns inwards journal
 - Purchases returns/ returns outwards journal
 - Cash book/ cash receipts and cash payments journal
 - Purchases journal

- General/ journal proper

5.

Dr. Debtors control a/c		Cr.	
Bal b/d	11,000	Bad debts W/O	5000
Dishonoured cheques	2,800	Returns inwards	1600
Credit sales	<u>52,500</u>	Receipts	31,000
		Discount allowed	3,400
		Bal c/d	<u>25,300</u>
	<u>66,300</u>		<u>66,300</u>

27. FINANCIAL STATEMENTS

1. Margin = $\frac{\text{G.P}}{\text{Sales}} = \frac{\text{Sales} - \text{Cost}}{\text{Sales}}$

*

$$\frac{20}{100} S = S - (160,000 + 1800,000 - 200,000)$$

$$\frac{80}{100} S = 1,1760,000$$

$$S = \frac{17600 \times 100}{80}$$

2. *The following balances were extracted from the books of Masai retailers on 14th July 2000*

Prepare the trading account for the period ended 14th July 2000

Masai net trading account for the year ended 14th July 2000

Opening stock	30 000	Sales	1 000 000
Purchases	800	(Less) return inwards	20 000

000			
(less) return	15 000	785 000	Net sales 980 000
G.A.S		815 000	
Closing stock		80 000	
C.O.S		735 000	
Gross profit		245 000	
		980 000	980 000

$$\text{Mark up} = \frac{\text{GP}}{\text{COS}} \times 100 = 20$$

$$\frac{1}{5-1} = \frac{1}{4} \times 25 = \frac{\text{GP}}{980\,000}$$

$$= 25 \times \frac{980\,000}{100}$$

$$= \text{Sh.}245\,000$$

3. Margin;

$$\frac{\text{G.P}}{\text{Net sales}} \times 100$$

$$\frac{90,000}{270,000} \times 100 = 33 \frac{1}{3}$$

$$\text{R.O.S.T.} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

$$= \frac{180000}{115,000}$$

$$= 1.6 \text{ times}$$

4. Average stock 120,000

$$\text{ROSTO} = 3 \text{ times}$$

$$(a) \text{ From ROSTO} = \frac{\text{cost of sales}}{\text{COS}} = \text{COS}$$

$$\begin{aligned} \text{Average stock} &= 120,000 \\ 3 &= \frac{\text{COS}}{120,000} \\ \therefore \text{COS} &= 120,000 \times 3 = 360,000 \end{aligned}$$

(b) From margin, Mark up = $\frac{1}{4-1} = \frac{1}{3}$

$$\begin{aligned} \frac{1}{3} &= \frac{\text{GP}}{\text{COS}} \\ \frac{1}{3} \times 360,000 &= 3\text{GP} = 360,000 \\ \text{GP} &= 120,000 \\ \therefore \text{Gross Profit} &= \text{Shs. } 120,000 \end{aligned}$$

(c) From margin = $\frac{1}{4} = \frac{\text{GP}}{\text{sales}}$
 Sales = 4 x 120,000
 Sales = 480,000

5.

Bondo traders
 Trading account
 For the year ended 31 Dec 2004

Opening	2 000	Sales	56 400
Purchases	<u>46 000</u>		
	48 500		
Less closing stock	<u>1 500</u>		
	49 000		
G P c/d	<u>9 400</u>		
	<u>56 400</u>		<u>56 400</u>

6.

- External borrowing e.g. from IMF and World Bank
- Solicit for foreign grants/donations/aids from donor countries
- Reduce government expenditure through cost-cutting measures
- Sale and lease back of public assets
- Introducing new taxation of selected goods

7.

Half Bilha Traders
Profit and loss Account
For the month ended 30th Sep, 2009

Cost of sales 150000	Net sales	<u>300000</u>
Gross profit c/d 50000		
<u>300000</u>	Gross profit b/d	<u>300000</u> 150000
Expenses	Discount received	6000
Carriage outwards 12000		
Bad debts 30000	Net profit	<u>156000</u> 74000
Wages 25000		
Rent 15000		
Net profit <u>74000</u>		
<u>156,000</u>		

8. (a) Gross profit

$$\text{Mark up} = \frac{\text{G.P}}{\text{cost of sales}} = \frac{2}{3}$$

$$\text{Margin} = \frac{2}{2+3} = \frac{2}{5}$$

$$\text{h.p} = \frac{2}{5} \times 5,400,000 = 2,160,000$$

(b) Cost of sale = sales – G.P

$$5,400,000 - 2,160,000 = 3,240,000$$

(c) Net profit = G.P – Expenses

$$= 2,160,000 - 800,000 = 1,360,000$$

9. *The following information relates to Mandu enterprises limited*

<i>Stock (1.1.2009)</i>	<i>40000</i>
<i>Stock (31.1.2009)</i>	<i>60000</i>
<i>Purchases</i>	<i>500000</i>
<i>Margin</i>	<i>20%</i>

Prepare Mandu Enterprises Limited Trading account for the year ended 31st December, 2009

MANDU ENTERPRISES LIMITED
TRADING AND ACCOUNT
For the period ended 31st Dec, 2009

Dr	Cr
Shs	Shs.
Opening stock	Sales
40000	600000
Add purchases	
<u>500000</u>	
COGAS	
540000	
Less closing stock	
<u>60000</u>	
COGS	
480000	
Gross profit	
<u>20000</u>	<u>600000</u>
<u>600000</u>	

Margin to mark up

20% or $\frac{1}{5} = \frac{1}{5-1} = \frac{1}{4}$

\therefore Gross profit = $\frac{1}{4} \times 480000 = 120,000$

10. a) Working capital

= current assets – current liabilities
= 320000 – 99000 = 221000

b) Return on capital

$$= \frac{\text{NP}}{\text{Capital invested}} \times 100$$

$$= \frac{95000}{525000} \times 100 = 18.09\%$$

11. Mark- up = $\frac{\text{G.P}}{\text{Cos}} \times 100$

$$10\% = \frac{\text{G.P}}{96,000} \times 100$$

$$\text{GP} = 9,600$$

$$\text{Sales} = \text{Cost} + \text{G.P} = 96,000 + 9,600 = 105,600$$

Atis

Trading and loss account

For the month ending 30-6-2008

Opening stock 22,000 Add purchases <u>100,000</u> Co GAS 122,000 Less c.s <u>26,000</u> Cos 96,000 G.P c/d <u>9,600</u> 105,600		Sales 105,600 <u>105,600</u> BAL b/d 9,600
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12.

SHAH TRADERS

Trading account for the period trading 30th June

2010

Opening stock 65000	Sales 280000
Add purchases 190000	Less sales returns (4200)
Less purchases returns (10000)	

180000	275800
Goods available for sale 245000	
Less closing stock 70000	
Cost of sales 175000	
Gross profit c/d 100800	
275800	275800
	Gross profit b/d 100800

13.

Chombo wholesalers
Trading A/C for the year
Ending 31st Dec, 2009

Opening stock 80000		Sales	500000
Add purchases <u>320000</u>			
Goods available for sale 400000			
Less closing stock	<u>40000</u>		500000
Cost of sales 360000		Gross profit b/d	140000
Gross profit c/d	<u>140000</u>		
	<u>500000</u>		

a) Margin = $\frac{\text{G.P}}{\text{sales}} \times 100$
 $= \frac{140000}{500000} \times 100$
 $= 28\%$

b) Current ratio = Current assets : current liabilities
Current asset = 40000 + 140000 = 180000
Current liabilities = 90000
180000 : 90000
2:1

c) Rate of stock turnover = $\frac{\text{cost of sale}}{\text{Average stock}}$

$$= \frac{80000 + 40000}{2} = \frac{360000}{60000} = 6 \text{ times}$$

14. i) Sales for the year

Mark up = $\frac{\text{GP}}{\text{COGS}} \times 100$

$$25 = \frac{100,000}{\text{COGS}} \times 100$$

$$\text{COGS} = \frac{100,000 \times 100}{25}$$

COGS = kshs. 400,000

But sales = COGS + GP

$$= 400,000 + 100,000 = \text{kshs. } 500,000$$

ii) Rate of stock turn over

Rates of stock turn over $\frac{\text{COGS}}{\text{Av}}$

Average stock = $\frac{\text{opening stock} + \text{closing stock}}{2}$

Closing stock = purchases + opening stock - COGS

$$= 400,000 + 40,000 - 400,000 = \text{Kshs. } 40,000$$

28. INCOMPLETE RECORDS

1. Determine the purchase for the year

		Total Creditors acc	
Discount received	12 000	Balance b/d	445 000
Returns outwards	25 000	Credit purchase	1 612 000
Cash paid	1 400 000		
Bal c/d	<u>620 000</u>		
	<u>2 057 000</u>		<u>2 057 000</u>
Credit purchases	1 612 000		

Cash purchase(add) 800 000
 Total purchase 2 412 000

2.

MALEYA TRADERS STATEMENT OF AFFAIRS AS at 31 st December, 2004			
Kshs.		Kshs.	
Assets		Liabilities	
Stock	8,000	Creditors	6,000
Cash at bank	4,000		
Premises	<u>90,000</u>	Capital	<u>96,000</u>
	102,000		<u>102,000</u>

3. ***(a) Statement of affairs 31st Dec. 2009***

RODI TRADERS STATEMENT OF AFFAIRS AS AT 31 ST DEC. 2009			
<u>Assets</u>		<u>Liabilities</u>	
Debtors	30,000	Creditors	50,000
Buildings	870,000	Bank overdraft	80,000
Salaries prepaid	10,000	Rent due	10,000
		Capital	<u>70,000</u>
			<u>910,000</u>

(b) Prepare net profit

closing capital – opening capital
 770,000 – 550,000 = kshs. 22,000

4.

Balance sheet	Statement of affairs
<ul style="list-style-type: none"> • Actual values of items listed • Items listed as fixed long term and short term • Actual presentation of book – keeping 	<ul style="list-style-type: none"> • Values are estimated • Items not listed as long term, fixed or short term • Book keeping equation

equations • Prepaid from complete end year records	employed to determine capital • Prepared from incomplete records
---	---

29. MONEY AND BANKING

1. - when one has a large amount of money with no immediate use
 - Where one has a financial obligation to meet at a future date
 - Where one intends to use it as collation/security.
 - Where a trader wants to earn interest from the fixed deposit account.

2. -Medium of exchange
-Measure of value / unit of account
-Standard of deferred payment
- Store of value

3. (i) They charge higher interest rates
(ii) They require collateral
(iii) Long procedure is followed

4. (i) Lack of standard measure of value.
(ii) Indivisibility of commodities.
(iii) Problem of storage.
(iv) Requires double coincidence of wants.
(v) Some commodities are bulky / difficult to carry.
(vi) Lack of unit of account.
(vii) Lack of standard of deferred payment.

5.
 - (a) Need to hold money to cater for future unforeseen eventualities
 - Precautionary motive
 - (b) Need to have money to cater for daily expenses
 - Transaction motive
 - (c) Need to have money with hope that prices will fall in future in order to purchase more
 - Speculative motive

6.
 - Keeping government accounts/records/ maintain accounts of government departments
 - Manage public debt on behalf of government
 - Financial advisor to the government
 - Guarantee government credits arising from internal borrowing
 - Make local and international financial transactions on behalf of the government

7.
 - It is very fast to withdraw money
 - It minimizes theft and fraud
 - It is easy to deposit money
 - Money transfer is facilitated

8.
 - Currency notes and coins
 - Securities and bonds
 - Demand deposits
 - Time deposits

9.
 - Transaction motive
 - Precautionary motive
 - Speculative motive

10.

Commercial banks	Non- bank commercial institutions
a)provide current accounts	a)Do not provide current accounts
b)provide short term and medium term finance	b)provide medium and long term finance
c)provide loans for unspecified exchange	c)provide loans for specified activity
d)provide foreign exchange transactions	d)do not provide foreign exchange transaction
e) Provide finance for working capital	e) Provide finance for capital development
f) Do not participate capital markets	f) Participate in capital markets

- 11.
- provide short term/long time finance to member nations
 - provide support for debt relief/poverty reduction
 - helps poor member access international capital
 - provide technical service/advice to member nations
 - provide forum for international consultation by countries on monetary issues
 - ensure stability on international monetary system

30. PUBLIC FINANCE

- 1
- Crowding effect
 - Interfere with the ability of people to spend
 - Strings attached/forced to meet conditionality
 - Future incomes are committed hence inadequate funds for development
 - High wastes are likely due to corrupt
- 2.
- i) Principle of equity
 - ii) Principle of diversity
 - iii) Principle of convenience
 - iv) Principle of economy
 - v) Principle of flexibility/elasticity
 - vi) Principle of certainty
 - vii) Principle of social benefit

- viii) Principle of simplicity

- 3.
 - To raise government revenue
 - To control consumption of harmful products
 - To re-distribute income
 - To control the level of imports
 - To influence the allocation of resources/control business activities
 - To control inflation by reducing disposal income/prices

- 4.
 - External borrowing e.g. from IMF and World Bank
 - Solicit for foreign grants/donations/aids from donor countries
 - Reduce government expenditure through cost-cutting measures
 - Sale and lease back of public assets
 - Introducing new taxation of selected goods

- 4.
 - Excise duty
 - estate duty
 - customs duty
 - corporate tax

- 5.
 - Equitability
 - Convenience
 - Elasticity
 - Flexibility
 - Diversity

- 6.
 - Equitable
 - Certain
 - Convenient
 - Elastic
 - Flexible
 - Economic

7. <u>Progressive taxes</u>	<u>Regressive taxes</u>
Progressive taxes are those taxes whose Rate of tax increase with increase in The tax base eg. The income tax as increase, The tax also increases eg. PAYE heavily high	-Regressive taxes are those whose rate of tax payable falls as the tax base increases the binder of the regressive tax falls more On how income earns than on income earners eg. VAT

- 8.
 - o Economical in collection
 - o Tax revenue is certain
 - o Does not affect the price of goods
 - o Brings about redistribution of wealth
 - o Simple to understand
 - o It is elastic
 - o Society is conscious i.e. people are aware that they are paying tax

- 9.
 - . Local a cess
 - Granted of donation by central government
 - Fees for services rendered to public
 - Income from properties of local authorities
 - Income from government properties e.g. parks
 - Rates on land

31. INFLATION

- 1. -Imports will become so expensive
- Income from abroad will dwindled/diminish
- Imported inflation may set in

- Local investment becomes very expensive
2.
 - Reduction in profit due to rise in price and reduced sales volume
 - Wastage of time when for reasonable prices around
 - Decline in standards of living due to decrease purchasing power
 - Loss to creditors
 - Retardation of economic growth as people are reluctant to take risks
 - Adverse effects on the balance of payment as export becomes more expressive leading
 - to a fall in their demand
 - Loss of confidence in monetary system
 3.
 - Increase in money incomes/salaries and wages
 - Lower taxation on personal income
 - General shortages of goods and services
 - Effects of credit creation by commercial banks
 4.
 - Reducing tax on inputs
 - Restricting imports
 - Wage harmonization measures
 - Price harmonization
 5.
 - Encourages investment
 - Creating employment
 - Creates improvement to infrastructure
 - Motivation to work
 - Benefits to both the sellers and debtors

6.
 - Reduction in profits
 - Wastage of time
 - Increases in wages and salaries
 - Decline in standard of living
 - Loss to creditors
 - Retardation of economic growth

7.
 - i) It causes a deficit in the balance of payment
 - ii) It weakens a country's currency hence discouraging savings
 - iii) It discourages investment due to reduced savings
 - iv) It may cause industrial unrest
 - v) It cause decreased standards of living
 - vi) It hampers development plans
 - vii) It leads o uneven distribution of income

32. INTERNATIONAL TRADE

1.
 - i)Free of All Expenses

 - ii)Or Nearest Offer
 - iii)Cash With Order
 - iv) I Owe You

2.
 - Promote communication in the region

 - Promote trade
 - Promote tourism
 - Encourage both human and capital investment.
 - Increases free flow of goods and services in the region
 - Maximum utilization of resources

3. -Encouragement of exports
 - Reduction in export duties
 - Subsidies to export industries
 - Reduction in imports
 - Imposition of new imports duties and enhancement of existing import duties
 - Import quota system
 - Import prohibition

4.
 - (i) Lack of knowledge of foreign markets
 - (ii) Language barrier
 - (iii) Difference in currency
 - (iv) Long distance involved
 - (v) Restrictions and controls imposed by countries
 - (vi) Differences in weights and measurement

5.

	Level
	Custom union
	Economic union
	Free trade area
	Common market

6.
 - (i) Wider market for her export goods
 - (ii) availability of products
 - (iii) Increased mobility of factors of production e.g. labour and capital
 - (iv) Higher quality of products due to specialization and competition
 - (v) Creation of more opportunities
 - (vi) promotes peace with trading partners

- (vii) Cheaper import goods
7. -Indent
- Bill of lading
 - Letter of credit
 - Certificate of origin
8. i) Produce similar products i.e. due to similar climatic conditions
- ii) Poor infrastructure i.e. hinders free flow of goods and services
- iii) Differences in currencies i.e. the exchange rate is varied and needs to be converted
- iv) Port congestion due to increase volume of trade there by slowing down the flow of inputs
and exports
- v) Refugees e.g there is a middle influx of refugees from neighboring countries due to political
instability eg. Rwanda
- vi) Mistrust among the member states i.e. the feeling that one is gaining more than the other

33. ECONOMIC DEVELOPMENT AND PLANNING

1. - In accurate data
- Existence of large subsistence sector.
 - Lack of qualified personnel.
 - Problem of the private sector
 - Reliance on donor funding
 - Lack of domestic resources

- Failure to involve local people in planning
- Natural calamities.

2. *Four obstacles faced by the Kenyan government in realizing its development planning* ;

- Lack of accurate data
- Lack of qualified personnel
- Lack of resources
- Failure to involve stakeholders
- Bureaucracy
- Lack of political will

3. *Indicators of underdevelopment.*

- High level of poverty
- High population growth rate
- Poor diet/malnutrition/poor health
- Dominance of foreign investors in the local economy
- Rural-Urban migration
- Balance of trade deficits
- Unstable political/social institution
- Poor infrastructure
- Unequal distribution of income
- High levels of unemployment
- Low per capital income/low savings
- Problems of dual economy

4. --High level of poverty

-Disparity in income distribution

-Low level of savings and investments

-High population growth rate

-Dominance of subsistence sector

-Problem of unemployment

Under utilization of natural resource

-Dependence on the developed countries

-Low labour productivity

5. - Elimination or reduction of poverty

- Provision of human needs

- Reduction of disparities in income distribution

- Provision of opportunities e.g. employment and self advancement

6. i) It ensures that a country's resources are utilized to the maximum

ii) It helps to prioritize investment decisions

iii) The country is better able to negotiate with donors for foreign aid

iv) It buys about balanced development in the country

v) It ensures that there is more equitable distribution of income

- vi) It ensures economic stability over a long period of time

- 7. - It should be comprehensive
 - It should address problems facing the community
 - Should set targets that are achievable
 - Should be supported by the community
 - Should be prepared based on the available resources
 - Should be economical to prepare, implement and administer

- Should be flexible

SECTION II : PAPER TWO

04 – PRODUCTION

I.

DIRECT PRODUCTION	INDIRECT PRODUCTION
i)small output/production	i)large scale production/output
ii)limited division of labour and specialization	ii)uses/enhances division of labour/specialization
iii)goods/services produced not for sale	iii)goods/services produced are mainly for sale
iv)production of low/poor quality goods	iv)goods/services produced are of high quality
v)uses simple technology	v)employ modern technology
vi)pronounced in developing countries	vi)more pronounced in developed economies
vii)produces limited variety of goods/services	vii)produced wide variety of goods and services
viii)less interdependent among	viii)more interdependent among

producers	producers
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05. ENTERPRENEURSHIP

1. - Creation of employment.
 - Exploitation of resources.
 - Promotion of technology.
 - Promotion of entrepreneur/culture.
 - Formation of capital/joining.
 - Increase of consumers' choice.
 - Development of infrastructure.
 - Foreign exchange earnings and conservation

2. - Creation of employment/jobs by absorbing people who would otherwise be jobless
 - Formation of capital through profits which may be used to expand the business
 - Reducing rural-urban migration as businesses in rural area offer employment opportunities
 - Raising standards of living through receipt of salaries and wages as well as availing a variety of quality goods and services

- Saving on imports as entrepreneurs are able to produce good and services that are substitutes to imports
 - Improving infrastructure through improvement of roads and security by the government
 - Reducing foreign dominance of the economy by increasing the participation of local entrepreneurs in various business activities
 - Making use of local resources which would otherwise be idle or thought to be a waste
 - Promotion of technology through the entrepreneurs creativity and innovation
 - Promotion of entrepreneurial culture by using successful entrepreneurs as role models
3. - Cultural practices that does not allow individuals to be successful
- Teachers do not encourage their student to be entrepreneurs
 - Lack of relevant business courses in schools
 - Lack of role models in the society
 - Peer group influence the way people act
 - Lack of financial and business consultancy institution
 - HIV/AIDS is becoming a de-motivating factor
 - Gender discrimination in many African traditions

4. - Fall in volume of exports – rely on primary/agricultural products usually affected by

draught yielding low production hence low exports hence reduced foreign earning

-Deteriorating terms trade – value of exports are low relative to the value of imports hence pay more than the foreign earned

-Less capital inflow compared to outflow- they usually borrow money from developed countries at repay at high interest rates creating a net capital out flow.

-Devaluation policy – devaluation of local currency makes exports cheaper to foreigners and hence an increase in the cost importation

-Increase in import volume of capital goods and industrial raw materials for development purposes. This increases expenditure on foreign good.

5. - Wrong choice of business: Evaluate your business in terms of acceptability, finance,

time, market e.t.c.

- Availability of finances and inadequate finances: Business take time before they can generate profits. It is then important to have enough money
- Failure to understand the market: You need to understand the market trends e.g. are a product seasonal, target consumers, competitors e.t.c.
- Poor pricing: Not too low as to realize losses and not too high for the target consumers
- Competition: Always try to stay ahead of your competitors by doing the normal things in a different and appealing way e.g. packaging
- Ignoring consumers needs: always strive to satisfy your customers
- Poor location
- Poor planning
- Ineffective or poor marketing
- Poor time management
- Poor record keeping

07. THE OFFICE

1.
 - Easy retrieval of documents
 - Office very tidy
 - Documents safe
 - Documents kept neat
 - Documents kept away from unauthorized persons
 - Saving on space
 - Information of future reference is kept
 - Filed documents used as evidence in cases of dispute

2.
 - Cost of buying the machine if its affordable
 - Availability of spare parts – if they are readily available
 - Durability – consider if it can last long
 - Effect on staff morale – consider staff attitude i.e. Positive /negative
 - Adaptability /extent of use, consider to cope with future changes and development it
 - can serve more than one purpose
 - Service personnel- consider whether there are qualified personnel to service/repair the equipment

3.
 - No close supervision of workers since the supervisor and workers are separated by a wall
 - Because of many walls, a closed office is expensive to build and maintain
 - Since presence of workers is not easy to monitor, absentism is encouraged
 - A lot of time is wasted as workers more from office to office making consultation
 - Encourages laxity in offices due to lack of close supervision
 - Office equipment

4.
 - Information is stored systematically for future reference
 - It provides continuity in records by maintaining safety and security of documents

- It enables one to keep the office tidy and work efficiently
 - It is economical on space and material
 - Presentable output
 - Stores large volumes of information
 - It protects against the problem of documents being misplaced
5. - Cost-critical maintenance and running costs
- Adaptability-able to cope with future changes
 - Possibility of hiring rather than buying-convenience and cost of buying as opposed to hiring
 - Durability the life span of the machine
 - Effect on staff morale-the attitude of staff towards the equipment is threaten their job security
 - Availability of complementary resources-e.g. spare parts and electricity /power availability
 - Availability of manpower-the personnel required to run or operate the equipment ./affordability training costs
 - Security of the equipment -whether the available resources are adequate to offer enough security of the document
 - Accuracy-use should result in neat and presentable work in the office
 - Flexibility-equipment should be able to handle greater and varied work load
 - Prestige- equipment being efficient and effective one portraying a good image to the visitors

09. FORMS OF BUSINESS UNITS

1. - Has limited liability/shareholders debts do not go beyond their contribution
- Separate legal entity/firm and share holders act as different entities
 - Perpetual succession-death of a member does not lead to dissolution
 - Earn dividends/shareholders earn dividends when the firm makes profits
 - Free sale of share/an investors may buy or sell shares as he wishes

- Professional management-can employ highly qualified personnel leading to high profits

2. (i) Working Capital = CA - CL
 = 110,000 – 60,000
 = 50,000

(ii) C. Employed = FA + WC
 = 350,000 + 94,000
 = 444,000
 =====

3.

<i>PUBLIC</i>	<i>LTD</i>
i)Initial capital usually provided by the government	i)Initial capital raised through share
ii)Enacted through legislation by an act of parliament	capital contribution
iii)Managed by board of directors appointed by the government	ii)Established by promotes through
iv)Not profit geared	companies act
v)Profit paid as divided to government	iii)managed by board of directors
	elected by share holders
	iv)operate in order to make profit
	v)profit distributed to share holders
	as dividends

4. - Shareholders contact a broker/agents notifying of intended sale
- Share holders surrender the original share certificate to the broker/agent
 - Share holder sign transfer form
 - Shareholder give the price he expects for the shares
 - The broker/agents verifies ownership of the share/ownership is verified

- The broker/agent gets buyer for the shares
- Shares are sold/paid for

5. (i) Competition - There had been steady rise in the level of competition from commercial banks

which have encroached into the traditional role of the savings and credit

co-operatives. Many micro-finance institutions have also joined the field to

provide the same services as those of SACCO .

(ii) Managerial challenges – Most of the co-operative societies have experienced managerial

which in some cases have nearly cause near collapse of some of the societies

(iii) Delayed remittance – some employers have been delaying remitting members deductions to

the society. This has affected the society's cash flow affecting the society lending programs.

Members may take for long to get the loans as a result.

(iv) HIV/AIDS – The scourge has affected many members. The society spend a lot of money in

assisting the families affected though, for example , offsetting or writing off of loans.

(v) government policy – The government through the Ministry of co-operatives has been

regulating the sector. sometimes the government may design some policies that will affect the

members or society adversely e.g. 1/3 rule

(vi) Political interference - especially during the elections of officials, some politicians support

their friends to be elected

6. - Reduction in government expenditure – Government ceases to have the obligation

of subsidizing losses made by the corporations

- Increased efficiency – This is because privatized firms are subject to completion
- Avoidance of political interference – No room for appoint of unqualified managers on political grounds
- Attract foreign investors
- Increased foreign exchange earnings
- Allowance for wider participation
- Increased innovativeness – carry out research into better methods of

production,

organization and marketing

7. -At least two and a maximum of 50 members for a private company while at least seven

members are required for a public limited company and no maximum

- Private limited companies are not allowed to advertise sale of share where as public limited companies are allowed
- Unlike private limited companies, shares of public limited companies are quoted and can be sold through the stock exchange
- Whereas public limited companies must wait for a certificate of trading to commence, private limited companies are allowed to commence business upon receipt of certificate of incorporation
- Unlike public limited companies which must have at least two directors, private limited companies can be allowed to have only one director
- Whereas there is no age limit for directors of a private limited company, directors of public limited companies must retire at 75 years
- Unlike private limited companies, public limited companies must publish books of

accounts in newspapers

8.
 - To restructure it for more efficiency and effectiveness to generate more profits
 - To eliminate unnecessary positions and reduce the staff in order to achieve economic number and quality
 - In order to improve on quality and quantity to increase customer's choice in terms of g/s available
 - To make it more competitive in service provisions hence lowering of prices to advantage customers
 - To appoint and employ directors without political influence but on merit
 - To improve on accountability of directors sand to managers
 - To make it profit oriented and hence efficiency
 - To improve on customer service

9.
 - Bankrupt
 - Ultra- vires
 - Amalgamation
 - Court order
 - Decision by share holders
 - Completion of intended purpose/ period

10. PUBLIC LTD CO.

PUBLIC

CORPORATION

- i) Formed under companies Act
- ii) Managed by board of Directors directors
Appointed by shareholders.
minister/govt/
- iii) Initial capital contributed by shareholders
the

- Formed by Act of parliament
- Managed by Board of
- Appointed by the
- Parliament
- Initial Capital contributed by

- | | |
|---|---|
| iv) Formed with an aim of making profit providing | Government
Formed with an aim of
Goods/services to the public |
| v) Profits made is shared among shareholders government | Profits made goes to the |

11.

PUBLIC LIMITED COMPANY	PRIVATE LIMITED COMPANY
Formed by a minimum of 7 and no set maximum	Can be formed by between 2-50
Can start business only after getting a certificate of trading	Can start business soon after receiving the certificate of incorporation [Certificate of registration
Can be managed by one or two directors	Managed by a board of directors
Advertises and invites the public to subscribe for its shares	Does not advertise its shares to the public
Shares are freely transferable from one person to another	Restricts transfer of shares. Shareholders can only sell their shares with consent of other share holders

- 12.
- SACCO will enable her to save
 - Profits made by the SACCO will be distributed to her and members as dividends
 - Katura can obtain a loan from the SACCO at low interest rates
 - Incase Katwa dies the outstanding loans are written off
 - Katwa can obtain different types/ categories of loans from the SACCO
 - Loans can easily be obtained as formalities/ procedures involved are few
 - SACCO's offer education to members

10. GOVERNMENT AND BUSSINESS

1. (i) Setting up standards by Kenya Bureau of Standard (KEBS) to ensure that commodities produced and being sold meet the desired qualities and standards.
(ii) Weight and measures act to ensure that equipment used for measuring are correct and accurate
(iii) Licensing to ensure that there is control on the type of business carried out
(iv) Food and drugs act to ensure that producers and traders do not include any substance in the commodities that they sell to the consumers which might have harmful effects on the consumers' health
(v) Trade descriptions Act/ sale of goods act to ensure that a producer or a trader does not cheat the consumers by providing false descriptions of commodities
(vi) Public health Act to ensure that commodities offered for sale are hygienic and of good quality
(vii) Price control to ensure that essential goods and services prices don't go beyond a certain limit
(viii) Rent and Tribunal Act to ensure that tenants are not overcharged by land lords

2. (i) Setting up standards by Kenya Bureau of Standard (KEBS) to ensure that commodities produced and being sold meet the desired qualities and standards.
(ii) Weight and measures act to ensure that equipment used for measuring are correct and accurate

- (iii) Licensing to ensure that there is control on the type of business carried out
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- (v) Price control to ensure that essential goods and services prices don't go beyond a certain limit
- (vi) Rent and Tribunal Act to ensure that tenants are not overcharged by land lords

3. - Regulation – The government regulates business activities through licensing, ensuring standards and legislation
- Training – The government trains business people in various institutions in the country
 - Trade promotion – The government promotes trade by ensuring that there is variety of goods and services traded in locally and internationally. There are measures instituted by the government to promote trade at both domestic and international levels
 - Provision of public utilities – Provides essential services like water, transport, sewerage, power communication e.t.c. which are provided either central government or local authorities
 - Provision of enabling environment – Ensures that there is conducive environment for business activities e.g. by giving subsidies and incentives to

traders, protecting traders and guaranteeing them for loans locally and on international level

4.
 - Provide security
 - Provide basic infrastructure
 - Fair taxation/tax concession
 - Eradicate corruption
 - Control inflation
 - Accessibility to finance
 - Reduce beaurocracy in registration
 - No splitting

5.
 - . Explore and identify new markets for more export opportunities
 - research and analyse markets for exports from their home countries
 - keep statistics of products i.e. volume , packaging sizes and methods of manufacturing
 - attend meetings seminars and workshops on trade patterns of the trading countries/on behalf of exporters
 - publish and advertise their country's exports in business journals of magazines
 - select buyers ,agents and distributors of the home country's exports
 - inform traders of their home countries of the standards required for exports

11. TRANSPORT

1.
 - (i) Road damage has due to reduced heavy tankers on roads.
 - (ii) Reduces road accident as congestion to tankers on roads has reduced
 - (iii) Environmental pollution has reduced as pipes do not emit gases/smoke from tankers
has reduced.

- (iv) Cost of handling oil has reduced since few workers are employed.
 - (v) Large volumes of oil are transported within a very short time.
 - (vi) Ensures regular supply of oil hence reducing shortage.
 - (vii) Pilferages of oil has reduced since pipe are very hard to break.
Cheap to maintain the pipes after construction.
Pipes are not easily affected by poor weather as they are permanently fixed
- 2.
- In case the goods transported are heavy and bulky
 - In case goods require security because cases of theft and accidents are minimal
 - Rail transport is cheap and economical over long distance
 - Railway stations have warehouses to store goods before they are collected by owners
 - In case the trader wants to make advance planning for movement of goods because trains follow regular time table
 - Railway stations have many cargo handling facilities for loading and offloading /saves time
 - Railway authorities have their own motor vehicle delivery service from their railway station
- 3.
- Nature of production and its value
 - The nature of the market for goods in question
 - Distance separating producers
 - Cost of transport
 - In availability of intermediaries
 - Resources and size of the firm
 - Availability of the channel
 - Government policy
 - Competitors
 - Nature of the manufacture
- 4.
- After the initial cost of establishment the cost of operation is relatively low

- Economical for transporting heavy and bulky goods over along distance
 - Trains carry a large volume of goods and a large number of goods
 - Trains have special facilities for carrying special type of goods e.g. gas, petrol, and vehicles
 - They enable the transporters to plan for the transport of his/ her goods coz they follow a scheduled fixed timetable
 - They are relatively secure as cases of theft and accidents are rare
 - Can deliver goods up to the customers premises i.e. shunting services are available
5. - It is environmental friendly/ reduces pollution / causes less pollution as there is no emission
of waste gases
- Operating costs are low running costs / less administrative costs as it requires less / little
labour
 - It is a faster mode because it is not affected by congestion / not affected by weather
 - It is not prone to accidents / reduces road accidents as it is mostly underground / as no
interruption with other traffic
 - It reduces the number of tankers/ congestion on the roads and thus minimizing damage of the
roads
 - Problem of arranging for return load do not arise as pipeline is one way (flow from the
source of destination) as there is permanent connection between the source and destination
 - It is a relatively secure mode of transport in relation to these / pilferage/ as it is easy to

monitor

-Large volumes of oil will be transported within a given time

- It is easy to construct / the cost is only incurred once

- It has low maintenance cost / easy to maintain as the expenses of maintaining the way/ unit of

carriage are minimized

-Shortage of oil are reduced, as there is continuous flow

- Time saving for road users as there is less congestion / less traffic / jam / fewer tankers

on the road

12. COMMUNICATION

1 -Faster communication

- Can be used to remit/transfer of money

- Can send written messages

- They are portable

- Accessible for 24hrs /continuous

- You can access internet from anywhere

- You can use for alteration

2. (i) Better Performance – Goods & objectives will be known hence workers will work towards

achieving them.

(ii) Efficiency – Workers are able to increase productivity when communication is appropriate.

(iii) Better management - The information will be used for better planning / control.

(Easy

decision making).

(iv) Proper use of resources – Thus redeeming time and effort wastage.

(v) Improved customer relations – The firm will be able to establish customer needs /eliminating customer dissatisfaction.

- (vi) Coordination – Irrespective of distance /would thus enhancing teamwork.
3.
 - May be difficult to interpret in the absence of written or spoken word
 - May require additional or specialized skills of comprehension and interpretation
 - Expensive way of communication as it needs some skills
 - There is no feed back
 - Limited coverage as it serves small audience who are accessible
 - Meaning of some symbols may not be understood

 4.
 - It is portable hence convenient
 - Has short message services
 - Can be used for other purposes e.g. calculator
 - Can be used anywhere when there is network
 - Affordable/ cheap
 - Can be used for strong information

 5.
 - Lack of common language for both sender and the receiver
 - Use of technical /difference language-which receiver may not fully understand
 - Wide age gap between the receivers and sender
 - Poor timing-when one may not be ready to receive the message
 - Use of incorrect/inappropriate means-leading to distortion of the message
 - Negative attitudes-of one of the two communication parties
 - Several messages passed through few or one channel
 - Poor listening skills-one of the parties failing to listen properly
 - Bad weather-means being used is affected by bad weather
 - Difference in social status of the communicating parties-and are not considered to each other positions

- Unavailability /ineffective infrastructure e.g. land lines/optic cable for cheap internet connections
- Distraction by noise, light smell etc (mention 1mk, explain 1mk, otherwise 2mks)

13. WAREHOUSING

1. (i) Ensuring proper/adequate handling equipments to handle goods safely/easily.
(ii) Ensuring that staff /workers/ management are well trained/motivated hence improving performance.
(iii) Providing sufficient loading/offloading area/space to avoid congestion/delays.
(iv) Ensures regulate security towards theft of goods/safety of personnel.
(v) Ensure that there are adequate /Proper storage facilities to cater for special / different types of goods.
(vi) Ensure proper file record keeping to monitor movement.
(vii) Ensure safety measures/ take care of pests / fire/ water to avoid damage/losses.
(viii) Ensure proper use of space/arrangement of goods to allow easy movement of goods.
(ix) Ensure that public health requirements are met for smooth operations.
(x) Use requirement for smooth running.
(xi) Adequate communication facilities for effective communication.
(xii) Adequate transport/better road to move goods.

14. INSURANCE

1. (i) Where the policy has elapsed due to non-payment of premiums
(ii) Where the occurrence of the risk was not accidental
(iii) Where the insured had no insurable interest in the property insured
(iv) Where the insurer fails to make a formal claim for compensation

- (v) Where the cause of the loss has no close relationship with the risk insured
Where the insured failed to disclose all the relevant material facts about the subject
insured and he/she is proved
2. - Identification of insures
 - Filling in the proposal form
 - Inspection of the subject matter and calculation of premiums
 - Payment of the first premium upon which a binder is issued
 - Issuance of the actual policy by the insurer

 3. - Saving – The payment of premiums is a kind of saving to the policy holder
 - Security – The policy is security for both the assured and beneficiaries
 - The holder can secure a loan from the insurer without having to pledge for further security
 - Interest/ Bonuses – The policy earns interest or bonuses on the paid up premium
 - Investment – The holder may want to invest more by buying shares in the company
 - Can use the matured amount after the stated period to invest

 4. - Insurable interest : Insurable interests exists where due to a risk occurring a person is bound
 - to suffer financial loss. A person has insurable interest in his or her own life and property but

not in that of his or her mere friend

- Indemnity: It is the restoration of the insured who suffers loss to his former financial position

he or she was before the loss occurred

- Utmost good faith: (“Uberrima fidei”)

Obligation to both the insurer and the insured to disclose all the relevant material facts relating

to the insurance contract

- Proximate cause: The cause of the loss for which a claim for compensation is made should

have direct or fairly close connection with the actual or real risk insured against

- Contribution: In case one insures with two or more insurance companies to cover the same

risk, the different insurance companies will share proportionately. When it comes to

compensating the insured for the loss arising from the occurrence of the risk.

N.B In case of

life assurance policies each insurance company will for instance in the case of a bodily injury

compensate the insured as per its contract with him or her

- Subrogation: Once the insurer has indemnified the insured fully as a result, the insurer

acquires all the rights the insured had in the destroyed property

15. PRODUCT PROMOTION

1.
 - Helps to widen a firm's market and increase sales.
 - Helps to explain the use of products to customers
 - Helps to uniform customers new products available in the firm.
 - Helps to retain customers and market
 - Helps to counter or correct wrong information about its products.
 - Attends to customers complaints or grievances.
 - Inform customers changes in prices of its products.

2.
 - When a trader has improved the quality of his products
 - When a trader wants to enter new market.
 - When there is stiff competition on the market
 - When the trader wants to retain his existing customers
 - When the trader wants to improve his sales volume.

3.
 - (i) Availability of a wide variety of goods and services to choose from.
 - (ii) Individual consumers tastes & preferences will be catered for.
 - (iii) Consumers are likely to get high quality goods/services due to competition.
 - (iv) Consumers are likely to get goods at competitive prices/lower prices.
 - (v) Aggressive advertisement improves consumer awareness about goods and services.

4.
 - (i) Can explain the details about the products/demonstrate.
 - (ii) Immediate feedback/answers to questions hence clear doubts.
 - (iii) Collect information regarding the demand for the product (market condition).
 - (iv) Can get immediate orders/contacts from customers.
 - (v) Persuade/convince customers to buy a product.
 - (vi) Direct personal contact/personal touch with customers hence improving customer relationship

- (vii) Can be able to make prompt decisions.
 - (viii) Can have foods tested/examined for purposes of comparing with those of rivals.
5. Circumstances under which personal selling would be the most appropriate
- (i) When launching anew product as it requires a lot of awareness creation; persuasion and convincing
 - (ii) When a product is tailored to meet customers specifications since customer have varying tastes and preferences
 - (iii) When demonstration is required especially in technical goods whose operations need to be explained
 - (iv) When the value of the product is high in order to avoid the risk of losing the item if other methods are used
 - (v) When the organization can afford to finance the sales force since the cost of maintaining the team can be very high
 - (vi) Where the market is concentrated in one area as the cost of accessing the market is less
- 6.
- o Attendance at the exhibition might have been low
 - o People who attend the exhibition may not have been the potential buyers
 - o The quality of the goods might not have been impressive compared to those of the competitors
 - o The prices of the products might have been too high
 - o People attending the exhibition may not have been convinced due to poor salesmanship
 - o The economic situation of those attending the trade fair might not have been favourable
7. - Displays – traders neatly arrange their goods to attract potential customers

- Discounts /allowance – price concessions and reductions which makes price of goods relatively cheaper
 - Free gifts /bonus – inducements given to buyers who purchase upto a given quantity of specific value
 - Credit facilities – These involves giving customers goods on credit so that they pay later
 - shows and exhibitions – where producers take their products to shows and exhibitions
 - After sales services – providing extra services to buyers after they have bought goods
e.g. – transportation, installation, repairs, maintenance
- 8 - The newspapers may not be read/ reach in all where the customers are found/ may not be read/ reach all customers
- Not all potential customers are able to read (illiterate)
 - The newspapers may be written in a language/ medium that is not familiar to (many) customers e.g. the blind
 - It is expensive to buy newspapers space for advertising/ it is expensive to advertise in newspapers
 - Not many/ all people (actually) buy/ afford newspapers/ (especially people in low income brackets). Newspapers are expensive to buy
 - Newspapers are not able to discriminate between the intended target group and others/

newspapers are read even by non-targeted group / the general readership of the newspapers

may lead to waste of advert

- Newspapers have short life span easily discarded

16. DEMAND AND SUPPLY

1. -Price of other related products might have gone high

- Favourable government policies like subsidies
- Introduction of new advanced or appropriate technology
- When producer expects the price of the product to go low in future
- When natural factors have favoured production e.g. good rainfall
- When the goods that are produced seasonally have reacted part of supply on the market
- Entry of new firms in the industry

2. *Using well labeled diagram, explain how excess demand and excess supply can be*

Experienced in the market

-“Excess demand” means quantities demanded by customers are more than quantities that

suppliers are able to supply in the market.

- If price is put at P1, which is above equilibrium price, there would be excess supply in the

market. To clear the excess supply, sellers will be compelled to lower their prices

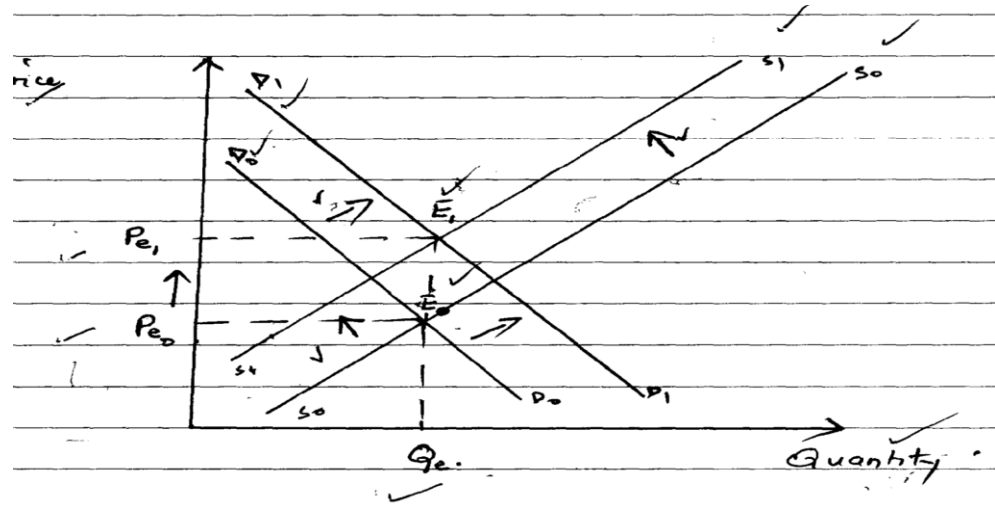
towards equilibrium.

- If the price is set at P2 which is below the equilibrium price, there would be excess demand.

The buyers would be forced to increase their prices towards the equilibrium price in order to

attract more supply

3. *Effects of an increase on demand and a proportionate decrease in supply on equilibrium price and equilibrium quantity*



Original equilibrium E_0

Original demand curve D_0D_0

Original supply curve S_0S_0

Original equilibrium price and quantity curve P_{e0} and Q_e

With an increase in demand, demand curve D_0D_0 shifts outwards to D_1D_1

Appropriate decrease in supply makes the supply curve S_0S_0 , shifts inwards

The new equilibrium position is at point E_1 he $s_1S_1 = D_1D_1$ with equilibrium quantity remains the same at Q_e and equilibrium price moves form P_{e0} to P_{e1}

17. THE THEORY OF THE FIRM

1. - When the finished products are bulky /heavy hence easy to transport to nearby markets.

- When the finished products are perishable/fragile to avoid breakage e.g eggs
- When the government policy requires firms to locate at the market.
- When they offer personal services to the customers.
- When the market and raw materials are found in one place.

- When the firm wants to have a full control of the market.
 - When a firm wants to reduce the cost of transporting/distributing finished products to the market.
- 2.
- Reduced effects of occurrence of war
 - Provision of employment opportunities in rural area
 - Reduces rural urban migration
 - Encourages balanced regional development
 - Market for locally produced raw materials
- 3.
- Lack of enough capital /small scale required small capital to start
 - Limited size of market
 - Nature of goods and services
 - Government policy
 - Small scale firms are easy to manage
 - Need for personal freedom
 - Need to be self-employed
- 5.
- (i) The number of employees- For example, large firms are usually associated with the
- employment of large number of workers who will adopt the concept of division of labour
- (ii) Volume of output i.e. the size of a firm is assessed by the volume of its output. For this
- reason, a firm with high outputs is considered to be large
- (iii) Capital invested – i.e. the size of a firm can be determined according to capital invested.
- The larger the capital the firm in terms of assets the larger the firm is

(iv) Floor area i.e. a firm with large floor area covered by premises is said to be relatively large

(v) Production methods- For example i.e. specialization and division and division of labour is

largely associated with big firms. However, technology levels may also be incorporated here

(vi) Markets – For example, a firm with many branches all over the country can be used to be

big because it serves so many customers

(v) Sales volume/turnover- the amount of sales that a firm within a given period of time

determines the size of the firms

6. Factors determining the decision of a firm on what goods and services to produce;

- Whether the firm is product or market- oriented. Those that concentrate on the functions and quantities of a product are product- oriented while those that produce products that are meant to meet consumer needs are said to be market – oriented
- Level of completion – Firms should come up with products which consumers prefer in order to survive in a competitive market
- Level of technology – New inventions and innovations result in new products or improved products
- Financial viability – The cost of production and the expected returns should be considered to determine whether the product will be viable or not
- Management Role- The management of a firm has the responsibility to determine what to produce

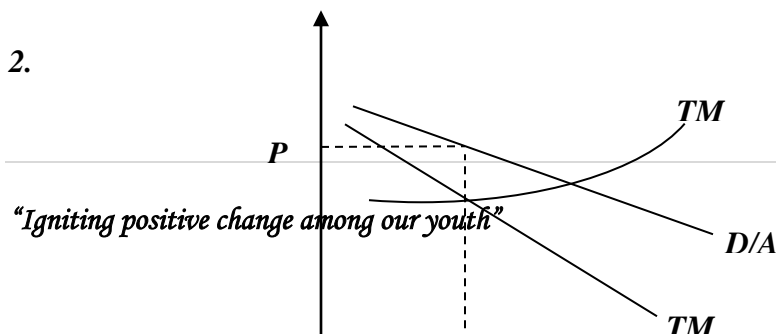
7. Five circumstances under which a firm may be located near the source of raw materials ;
- i) Where the raw material is bulky as compared to the final product
 - ii) Where the raw materials are perishable/ required while still fresh
 - iii) Where the raw materials are located near the product for the finished product
 - iv) Where the government policy requires that such firms be located at the raw materials source to reduce pollution
 - v) Where the raw materials are fragile
 - vi) Where the firm wants to ensure continuous production
 - vii) Where other firms pose a very high /stiff competition for the material
8. Outline any five reasons that account for the popularity of small scale retails in Kenya
- they required little capital to start /easy to raise
 - have few legal formalities to abide by during formation
 - are highly flexible -may change from one form to another depending in profitable
 - low government taxes-enabling them earn high profits
 - have low risks/losses to bear in case of theft, fire outbreak etc
 - have ready market-most of them located in densely populated areas/close to the customers
 - have permanent market due to consumer loyalty brought about by close contact with customers
 - sell fast moving goods hence no dead stock
9. *Where the demand for the product is low than the firm serving the market would be small*

- The size of the firm may be limited where initial investments requires would be very large and
 - the firm may lack such funds
- The firm may also lack key factors of production such as land expansion and would thus
 - remain small
- The nature of the product may also limit the size of the firm especially where such a firm
 - offers personal services e.g. hair dressing and law firms
- The owner of the firm may wish to keep his firm small in order to retain control and
 - independence
- The owner of the firm may wish to remain small so as to maintain flexibility in order to take
 - advantage of any new opportunities
- Where the laws that restrict growth, then the firm would have to remain small
- Need for small capital

18. PRODUCT MARKETS

1. Characteristic of a monopolistic market

- One producer/supplier
- many buyers on the market
- product has no substitute
- no free entry into the market by suppliers
- The producer determines the price on the market.



The cartel will produce where TMC of all the firms in the industry are equal to the TMR hence produce at OQ° and sell at OP°

3.

PERFECT COMPETITION	MONOPOLISTIC COMPETITION
a. Sellers deal in homogeneous product	- Sellers deal in differentiated products
b. are not involved in promotion of products	- Incur heavy expenses in promotion of products
c. it's a price taker	- it's a price setter/giver
d. large number of sellers	- large number of sellers operating independently
e. activities of one firm does not influence the activities of other firms	

4. *a) How a monopolist enjoy supernormal profit in both short run and long run*

- When a monopoly decides on quantities to produce, consumer will decide the price to buy. When the quantity is increased the price falls and vice versa
- Profit is maximized Q when $MR = MC$ and $P = AC = MC = MR$
- Due to increased demand, equilibrium output is sold at X instead of P hence enjoying a super normal profit

5. *Five distinctions between perfect competition and monopolistic firms*

PERFECT COMPETITION	MONOPOLISTIC
i) firms sell homogenous and identical products	i) firms sell similar but differentiated products
ii) firms are prize takers	ii) firms have their own pieces
iii) firms demand curve is perfectly elastic	iii) firms have normal demand curve heavy expenditure on advertisement

iv)no heavy expenditures on advertising	iv)firms operate excess capacity in the long run
v)no excess capacity in the long run	v)price higher than marginal cost
vi)price equals to marginal cost	

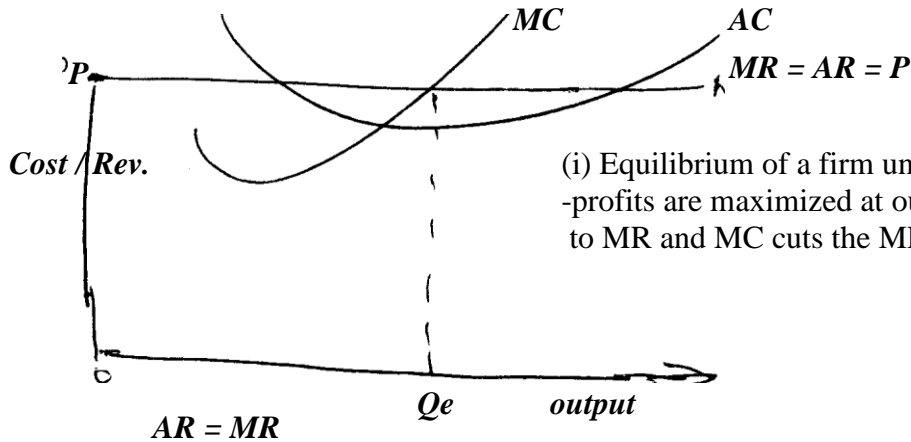
A. The firm will be at equilibrium when profits are maximized. This happens at the point where

$MR = MC$ and MC curve cuts MR curve from below

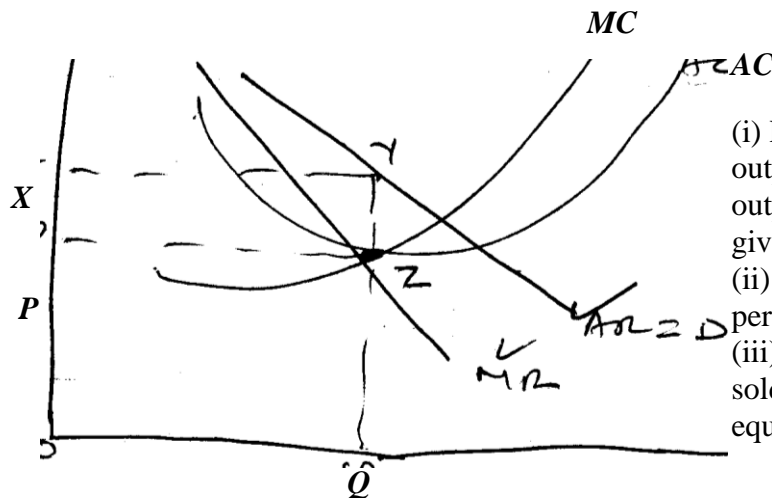
- Profits are maximized at level of output OQ and price determined by the demand curve

AR at price OP

- At this Quantity [OQe] and price [OPe] the firm is making supernormal profits



AR is higher than MR



19. CHAIN OF DISTRIBUTION

1. Possible effects that would result if wholesalers were eliminate:

- (i) Manufactures would set-up distribution centers depots or warehouses which are additional costs to manufacturers
- (ii) The cost of distribution may be increased and the subsequent increase passed on to consumers in form of higher prices

- (iii) The retailers would have to go to manufacturers which is an additional cost to retailers
- (iv) The producers would have to break the bulk because retailers may not be able to buy in large quantities.
- (v) Manufacturers may be required to extend credit facilities to retailers, which require additional financial capital
- (vi) Due to additional functions to producers, it will reduce their specialisation in production
- (vii) Prices may fluctuate due to unsteady flow of goods

2. *Factors to be considered in choosing a particular channel of distribution*

- Where customers are few, the manufacturer may use its own sales force and for a large number of customers, the manufacturer would use intermediaries

(ii) Geographic concentration of the market/Nature of the market

Where the market is centralized in a few geographical areas, direct distribution is okay. However, the seller would use intermediaries in less concentrated markets.

(iii) Order size – It is economically feasible to sell directly to customers who can buy their goods in large quantities. The producers would use intermediaries to sell to customers who buy in small quantities

(iv) Unit value of the product – Products of high unit value can be distributed directly to the customers due to higher risks they are likely to be exposed to if longer channels of distribution were used

(v) Perishability of the product – Products that are subject to physical or fashion, perishable must be sold through short, fast channels hence such goods mostly go directly to the customers

(vi) Technical nature of the product – Goods of highly technical nature are normally sold directly to the customers as the seller ought to provide considerable pre-sales and after sales service

- (vii) Financial resources – A producer who is financially strong can afford to distribute directly to consumers
- (viii) The intermediaries- Different intermediaries perform different functions, hence a firm should select the channel that would be convenient to it.
- (ix) Competitors – A firm wishing to have its produce compete directly with that of a competitor, would select a channel that the competitor uses and vice versa
- (x) Environmental factors – For example the government laws and regulations may prohibit manufacturers or their own outlets from selling directly to consumers i.e. appointments of the independent distributors may be called for.

3. Circumstances under which a producer sells directly to retailers:-

- Where retailers have their own transport facilities
 - Where the government policy required that
 - If the commodity is perishable and should take the shortest time to reach the retailer
 - Where the retailers are closer to the producers
 - Where there are large scale retailers capable of buying in bulk from the producer.
 - Where the producer has his own retail outlets
 - Where the producer would want to keep down prices
 - Where the goods are technical in nature hence require technical advice
 - Where the retailers have adequate storage facilities
- 4.
- Nature of production and its value
 - The nature of the market for goods in question
 - Distance separating producers
 - Cost of transport
 - In availability of intermediaries
 - Resources and size of the firm
 - Availability of the channel

- Government policy
- Competitors
- Nature of the manufacture

5. *Six circumstances a manufacturer may prefer to sell goods directly to consumers;*

- Where goods are expensive for middle men to stock
- Where goods are technical in nature and producer may want to have direct contact with consumers
- Where producer has his own retail outlets and are distributed
- Where the market is localized and producer is close to consumers
- Where goods are perishable and producer wants to deliver them fast to consumers
- Where the goods are produced according to customers specifications or special goods
- Where the producer requires immediate/direct feed back and the costs are cheap
- Where producer is producing a small output hence no need for middle men
- Where the producer wants to maximize profits by by-passing for middlemen
- Where the goods are in very low demand e.g. demand for planes /ships
- Where has enough/adequate storage –for safety of goods to facilitate continuous production
- Where goods do not require bulk breaking –hence does not incur cost/burden of breaking bulk
- Where it is a government policy to distribute directly to consumers e.g. subsidized maize flour by NCPB

20. NATIONAL INCOME

1. *Uses of national income statistics to an economy;*

- i. Use to measure rate of economic growth of a country. When output figures are high it means productivity has improved.
- ii. Helps the government to plan its economy since it provides useful information required by planners.
- iii. Used to compare the standards of living of people in a country. By comparing the per capita figures.
- iv. Help the country to know the size and contribution of various sectors to national income hence can take appropriate measures to improve them.
- v. Shows the progress of the of the economy over a given period by comparing national income statistics over given period.

2. *Factors that contribute to this disparity in income distribution*

- Disparity in natural resources endowment
- Inheritance
- Corruption
- Disparity in access to education
- Differences in individual and personal talents
- Nepotism is rampantly used in security good job opportunity
- People get wealth through illegal means /robbery

3. *Five limitations of using per capita income as a measure of the standard of living in a country ;*

- Inaccurate national income data-if the national income statistics are inaccurate then the per capita income will also be wrong
- inaccurate population data-if the population data is understated or overstated, then the per capita income will be relatively high or low respectively

- In equitability in income distribution-although the per capita income figure might appear to be high, the income could be in the hands of a few people
- Changes in the value of money over time-although the per capita income might appear to be high, the rate of inflation could also be very high
- Inappropriate application of national income. The per capita income might appear to be high but most of the income might have been used in away that did not benefit the public
- Effect on peoples health-high per capita income in a country could have been achieved at the expense of peoples health
- Effect of leisure-high per capita income could have been achieved at the expense of leisure
- Non marketed output-the per capita income might appear to be low but there could be a lot of output in the subsistence sector that has not been accounted for
- The per capita income may not account for the negative impact on the environment when that income was being generate

4. Five problems that are encountered in measuring National income in your country

- Determining what to include and what not to include e.g. illegal activities/non marketed production activities to be included
- How is subsistence production and non-marketed production activities to be valued
- Inadequate/inaccurate data as all production activities may be valued
- Lack of qualified personnel to collect and compile data
- Lack of adequate resources to finance the gathering of relevant information
- Danger of double counting where there are transfer payment e.g. students, grants, pension, where the value of intermediate goods are involved
- Problem using market price where indirect taxes and subsidies have to be taken care of
- Appreciation in the value of assets over the years

- Problem of estimating depreciation when calculation met national income.

5. *(a) Limitations of using per capita income to compare standards of living for people in different countries (1mk naming, otherwise 2mks)*

- Inequality in income distribution – Per capita income in one country may be high but in the hands of every few people while another country may have lower per capita income but evenly distributed
- Inappropriate application of national income per capita income in one country may be high but used in a way that does not benefit citizens while in another country it may be used to finance project that benefit the masses directly
- Effects on people's health
- High per capita income in one country could be achieved at the expense of people's health and unconstructive working conditions.
- Different interpretations of national income one country may interpret per capita income as GDP while another country as NNP at factor product
- Non-marketed output - A country heavily relying on subsistence sector of un-marketed output compared with another.
- Price structure – This may be different in different countries e.g. food stuffs may be cheaper in one country compared to another
- Use of different currencies – The values of different countries cannot be accurately through exchange rates/change in values of money
- - Different tastes, lifestyles and cultures in different countries
- Different in government expenditure from revenue collected in different countries
- Different levels and sizes of subsistence sector
- Inaccurate data collection used in the calculating of national income
- Different political system and ideologies which influence the outcome at national income

6. *Reasons as to why a high national income may not necessarily mean better welfare for the*

citizens of a country

- Uneven income distribution - Where too much of it is in the hands of few citizens and too little for many citizens
- Incorrect statistics – Incorrect statistics could have been used thus getting a wrong and exaggerated value of national income
- No leisure –High income might have been as a result of overworking labour force or even working under difficult circumstances
- The income might have been realized through activities that might have been detrimental to the environment or health of the workers
- Illegal activities – The income might be arising from illegal activities
- High inflation rate – The high income might have been consumed by high levels of inflation hence retarding the purchasing power of citizens

5. a) i) *GNP per capital of the economy*

$$\begin{aligned} \text{GNP} &= C + G + I + X - M \\ &= 624000 + 416000 + 300000 + 250000 - 210000 \\ &= \text{Kshs. } \frac{1380000}{40} \quad \begin{array}{l} \text{Million} \\ \text{Million People} \end{array} \\ &= \text{Kshs.34000} \end{aligned}$$

ii) *Limitations of using GNP per calite in measuring the standard of living in a country*

- National income and wealth is never equally distributed among residents of a country
- Material welfare of people cannot be measured on mathematical scale in the same way as per capital GNP
- Wants and tastes of living people in a country are never exactly the same
- Prices of products in different parts of the country do vary leading to different costs of living

- The purchasing power of people is sometimes lowered through taxes and increased through subsidies
- Sometimes an increase in quality of output is achieved through a decrease in product quality
- Sometimes arise in production is realized through stressful, dangerous and unpleasant working conditions

6. - Determining what to include and what not to indulge e.g. DO – IT YOURSELF SERVICES

and illegal activities. Are non- marketed production activities to be included

-How is subsistence production and other non- marked production activities may not be valued

- Inadequate and accurate data as well as all production activities may not be recorded

- Lack of qualified personnel to collect and compile data

- Lack of adequate resources to finance the gathering of relevant information

- Danger of double counting where there are transfer payments such as student's grants and

pension or where the value of intermediate goods is involved

- Problem of using market prices where indirect taxes and subsidies have to be taken care of

- Appreciation in the value of assets over the years

- Problem of estimating depreciation when calculating Net National Income

21. POPULATION AND EMPLOYMENT

1. *Circumstances under which a high population growth may be desirable*

- A large population provides increased market for goods and services
- It creates a large pool of labour
- It leads to maximum utilization of resource
- It results to high consumption which encourages investment
- Labour becomes cheaper
- Encourages research and invention
- Export promotion
- For defensive purposes

2. *Shortcomings of self employment*

- Possible loss of invested funds
- Long hours of working
- Uncertain income
- Routine chores

3. *Five implications of an ageing population in a country ;*

- Low labour supply/shortage of labour/manpower
- High dependency burden-as many are 65 years and above or as economic population-will shoulder a bigger burden
- Strains on the availability resource to cater for the welfare of the aged e.g. health and homes for the aged
- Underdevelopment-where some resources are not fully exploited
- Low standards of living/low per capita income since national income spread over a large non-productive population
- Production of consumer goods to meet need of the agents at the expense of producer goods
- Less progressive growth of the economy-as old people tend to be conservative/resistant to change

- Reduced labour mobility since most are weak and affected by old-age diseases like diabetes ,high blood pressure etc

4. - To encourage employment creation in the private sectors ;

- By adopting policies which encourage the use of labour intensive methods of production

- Improvement of the education system to make it more appropriate to the employment needs of the economy

-By diversification of economic activities – workers can diversify their economic activities in

order to take care of structural and seasonal unemployment

- Delocalization policy to establish industries in different parts of the country

- Use of government expenditure to increase size of the economy

- Attracting both foreign and domestic investment by creating an enabling environment

- Land reforms measures to stimulate economic activities in the agricultural sector

- Promotion of self – employment in the formal (jua kali) sector through incentives e.g. credit

incentives, low taxes and subsidies

- Proper utilization of natural resources will create employment opportunities for those

involved in their utilization

24. THE LEDGER

1.	Dr. Cash A/c	Cr	Dr.	Capital A/c
	Cr.			

Jan. Capital 100,000
100,000

Jan. Purchases 20,000

Jan. Cash

March Bank 60,000

June Drawings 10,000

Dr.	Purchases	Cr.
Jan. cash		20,000
May Creditor		70,000

Dr.	Sales	Cr.
Feb. Debtors	30,000	
(S.R) 50,000		

Dr.	Debtors	Cr.
Feb. Sales 30,000		April. R. Inwards

Dr.	Bank	Cr.
March cash		60,000

R. Inwards(S.R)	
April Debtors	50,000

Creditors	
May Purchases	70,000

Drawings	
June capital	10,000

2.

Dr *Capital Account*
Cr

<i>Date</i>	<i>Details</i>	<i>Amount</i>	<i>Date</i>	<i>Details</i>	<i>Amount</i>
5/4/07	Bal c/d	80000	1/4/07	Cash	80000
			5/4/07	Bal b/d	

Dr *Cash Account*
Cr

<i>Date</i>	<i>Details</i>	<i>Amount</i>	<i>Date</i>	<i>Details</i>	<i>Amount</i>
1/4/07	Capital	80000	2/4/07	Stationery	4000
			3/4/07	Bank	50000
			5/4/07	Postage	60
			5/4/07	stamps	<u>25940</u>
5/4/07	Bal b/d	<u>80000</u>		Bal c/d	<u>80000</u>

		25940			
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Dr Stationery Account
Cr

Date	Details	Amount	Date	Details	Amount
2/4/07	Cash	<u>4000</u>	5/4/07	Bal c/d	<u>4000</u>
5/4/07	Bal b/	<u>4000</u>			

Dr Bank Account
Cr

Date	Details	Amount	Date	Details	Amount
3/4/07	Cash	<u>50000</u>	5/4/07	Bal c/d	<u>50000</u>
5/4/07	Bal b/d	50000			

Dr Motor vehicle Account Cr

Date	Details	Amount	Date	Details	Amount
4/4/07	Lucy motors	<u>250000</u>	5/4/07	Bal c/d	<u>250000</u>
5/4/07	Bal b/d	<u>250000</u>			

Dr Lucy Motors Account Cr

Date	Details	Amount	Date	Details	Amount
5/4/07	Bal c/d	<u>250000</u>	4/4/07	Motor vehicle	<u>250000</u>
			5/4/07	Bal b/d	250000

Dr Postage Account / Exp accounts
Cr

Date	Details	Amount	Date	Details	Amount
5/4/07	Cash	<u>60</u>	5/4/07	Bal c/d	<u>60</u>
5/4/07	Bal b/d	60			

May

Trial balance As at 5/4/2007

Account	Dr (Shs.)	Cr (Shs.)
Capital		80000
Cash	25940	
Stationery	4000	
Bank	50000	
Motor vehicle	250000	
Lucy motors		250000
Postage	60	
	<u>330000</u>	<u>330000</u>

3.

Dr. CAPITAL A/C		Cr.
Dec. 31 Bal. b/d	<u>160,000</u>	Dec. 1 A/C <u>160,000</u>
		Jan Bal b/d <u>160,000</u>

Dr. Cash A/C		Cr.
Dec. 1 Capital	160,000	Dec. 2 Purchase 120,000
3 sales	126,000	4 electricity 1,000
5 Rent	37,500	6 comm. 6,000
	<u> </u>	7 Bal c/d <u>196,500</u>
	<u>323,500</u>	<u>323,500</u>
Jan 1 bal. b/d	196,500	

Dr. PURCHASE A/C		Cr.
Dec. 2 Cash	<u>120,000</u>	Dec. 30 Bal b/d <u>120,000</u>
Jan. 1 Bal b/d	120,000	<u> </u>

Dr. SALES A/C		Cr.
Dec. 30 Bal. b/d	<u>126,000</u>	Nov. 3 Cash <u>126,000</u>
	<u> </u>	Jan. 1 Bal b/d <u>126,000</u>

Dr. ELECTRICITY A/C		Cr.
Dec. 4 Cash	<u>1,000</u>	Dec. 30 Bal c/d <u>1,000</u>
Jan. 1 Bal b/d	1,000	<u> </u>

Dr. RENT A/C		Cr.
Dec. 30 Bal. c/d	<u>37,570</u>	Dec. 5 Cash <u>37,500</u>
	<u> </u>	Jan. 1 Bal b/d <u>37,500</u>

Dr. DISCOUNT A/C		Cr.
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Dec. 6 Cash <u>6,000</u> Bal b/d 6,000	Dec. 30 Bal c/d <u>6,000</u>
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25.

NDHIWA TRADERS		
Trial balance as at 31 st Dec. 2008		
<u>Title of Accounts</u>	<u>Debit</u>	<u>Credit</u>
Capital		160,000
Cash	196,500	
Purchases	120,000	
Sales		126,000
Electricity	1,000	
Rent		37,500
discount	<u>6,000</u>	
	<u>323,500</u>	<u>323,500</u>

CASH BOOK

1.

Date	Details	L.F	Dis allowed	Cash	Bank	Date	Details	L.F	Dis paid	Cash	Bank
1/3/07	Bal			87,000	250,000	3/3/07	Salaries				101,500
2/3/07	Sales			60,000		13/3/07	Furniture				86,000
7/3/07	Henry		4,000		76,000	17/3/07	Marita		8,000	34,200	
20/3/07	Sales			165,000		22/3/07	Wages			25,000	
24/3/07	Bank			32,000		24/3/07	Cash				32,000
29/3/07	Alvin		1,000	<u>16,000</u>		25/3/07	Drawing			4,000	
31/3/07	Cash				<u>272,800</u>	31/3/07	Bank			272,800	
							Bal c/d			<u>24,000</u>	<u>379,300</u>
	Balb/		5,000	<u>360,000</u>	<u>598,800</u>					<u>360,000</u>	<u>598,800</u>
				24,000	379,300						

2.

Date	Part	F	Amount	Date	Part	Total	Tel	OFF	Trav	Off
------	------	---	--------	------	------	-------	-----	-----	------	-----

						F		& post	stat	exp	exp
July 1	Bank	CB1	4000	July 1	Tax hire		250			250	
				1	Office cleaning		130				130
				1	Postage		210				
					String Parcel		100	210			100
				2	Tel bill		900	100			
					Envelopes		150	900	150		
				2	Photo paper		500		500		
				3	Bus fare		500			500	
					Tell call		50				
				3	Window cream		250	50			250
				4	Bus fare		200			200	
					Total		3340		650	950	480
				4	Bal c/d		<u>660</u>	<u>1260</u>			
							4000				
8	Bal c/d	4000			Off statio		400		400		
				5	Post stam		210				
					Tel bill		950	210			
				5	Train fare		600	950	600	600	
					Taxi fare		250			250	
				6	Off clean		150				150
					Writing p		600				
					Off duster				300		
				6	Total		3460		850	850	450
					Bal c/d		<u>540</u>	<u>1160</u>			
				7			<u>4000</u>				
				8							
				9							
				9							
				10							
				10							
				11							
				12							

				12							
				13							

3.

MUMJI ENTERPRISES

PETTY CASH BOOK AS AT

Receipt	Date	Details	Total payments	Traveling	Wages	Stationary	Post	Tea	Misc
7000	1/6	Bal b/d							
33 000	1/6	reimb							
	1/6	wages	5 500		5500				
	1/6	bus fare	1250	1250					
	1/6	sugar	220					220	
	1/6	stamps	150				150		
	2/6	stat	5000			5000			
	3/6	postage	200						
	4/6	leaves	80						
	4/6	expenses	2000						2000
	5/6	coffee	340					340	
	5/6	milk	800					800	

4.

FURAHA TRADERS

CASH BOOK

DATE	PARTICULARS	D.A	CASH	BANK	DATE	PARTICULARS	D.R	CASH	BANK
------	-------------	-----	------	------	------	-------------	-----	------	------

2008					2008				
July 1	Balance b/d		16520	19847	July 5	Transport			2000
10	Cash			15000	6	Kerio traders	200		9800
12	Sales	240		11760	10	Bank		15000	
16	Kuria	125		2375	14	Drawing		3000	
24	Bank		8000		24	Cash			8000
26	Capital		9000		27	Babu traders	1650		14850
28	Sales	1200	3800		30	Bank ©		18320	
30	Cash ©			18320		Balance c/d		1000	32652
		1565	<u>37320</u>	<u>67302</u>				1850	37320
	Balance b/d		<u>1000</u>	<u>32652</u>					67302

5. *During the month of March 2010 the petty cashier of Nyangija distributors made the following payment after receiving an imprest of shs12, 000 from the general cashier.*

receipts	date	details	total	travel	Office exp	Staff tea	stationery	postage	sundry	Ledger a/c
12,000	March 1	Cash								
		Travelling	3500	3500						
		Office exp	1000		1000					
	3	Postage	1200					1200		
		Staff tea	800			800				
	6	Stationery	2000				2000			
		Office exp	800		800					
	8	Staff tea	1000			1000				
		Sundry	700						700	
	15	exp Benson	900							900
	19									
			11,900	<u>3500</u>	<u>1800</u>	<u>1800</u>	<u>2000</u>	<u>1200</u>	<u>700</u>	<u>900</u>
	March 31	Bal c/d	100							
<u>12,000</u>			<u>12,000</u>							
100		Bal b/d								

6.

PETTY CASH BOOK

Receipts	Date	Details	Voucher No.	Total	Wages	Traveling	Stationery	Postage	Miscellaneous
500	2009	Bal b/d							
2000	Feb 1	Cash							
	" 1	Taxi fare		150		150			
	"2	Wages		250	250				
	"2	Reams of paper		125			125		
	"4	Stamps		30	250			30	
	"4	Wages		250					
	"7	Wages		40					
	"7	Envelope		70			40		70
	"20	Staff tea		56					56
	"20	Water bill		80					80
	"28	Electricity		40				40	
	"28	Stamps		1091	500	150	165	70	206
				1409					
2500	"28	Bal c/f		2500					

26. SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY

1. the general journal

Date	Particulars	Folios	Dr(sh)	Cr (sh)
2009 June	Furniture A/C	G.L	50,000	
	Motor vehicle	G.L	100,000	
	(A record of opening balance of assets)			
2009 June 2	Furniture A/C	G.L	65,000	
	Mwema furniture Ltd	G.L		65,000
	(Being a record of office furniture bought on credit from Mwema furniture Ltd)			
2009 June 10	Omwami garage A/C	G.L	200,000	200,000
	C Motor vehicle A/C	G.L		
	(being a record of credit sale of motor vehicle to			

2009 June 25	Omwami garage) Motor vehicle A/C Purchases (Being a correction of an error of principle)	G.L	750,000	750,000
2009 June 28	Classic academy A/C Computer office Equipment A/C (Being a record of the computer to classic academy)	G.L	15,000	15,000
2009 June 29	Goseta farm A/C Tractor A/C Train on disposal of old tractor (Being a record of old tractor to Goseta farms at a profit)	G.L	250,000	200,000 50,000

2.

TOTAL DEBTORS ACCOUNT

<i>DR</i>	<i>CR</i>
Balance b/d 24000	Bad debts 2000
Discount disallowed 1000	Discounts allowed 18000
Dishonored cheque 36000	Returns inwards 5600
Credit sales 334600	Cash 298000
<u>395600</u>	Bal c/d <u>72000</u>
Balance b/d 72000	<u>395600</u>
Total sales = cash sales + credit sale = 700000 + 334600 = Shs.1,034,600	

--	--

3.

TOTAL CREDITORS ACCOUNT

<i>DR</i>	<i>CR</i>
Returns outwards 10200	Balance c/d 68000
Cash 590000	Credit purchases 621800
Discounts received 6000	
Balance c/d <u>83600</u>	<u>689800</u>
<u>689800</u>	Balance b/d 83600

Total purchases = cash purchases + credit purchases
 =483400 + 621800= Shs.1,105,200

4.

Cash receipt journal

<i>Date</i> <i>2009</i>	<i>particulars</i>	<i>Receipt number</i>	<i>Ledger folio</i>	<i>Discount allowed</i>	<i>cash</i>	<i>Bank</i>
June 2	sales	063			50 000 ✓	✓
6	Kemunto	064	C	3 200 ✓	✓	76 800
18	Bank			✓	30 000 ✓	
21	Manwori	065		660	16 500	
30	Sales	066		✓	✓	150 000 ✓
				<u>3860</u>	<u>96 500</u>	<u>226 800</u>

5. Cash payment journal

<i>Date</i> <i>2009</i>	<i>particulars</i>	<i>Receipt</i> <i>number</i>	<i>Ledges</i> <i>folio</i>	<i>Discount</i> <i>received</i>	<i>cash</i>	<i>bank</i>
June 3	Salary	083			✓	101 500 ✓
12	&wages	0656		800 ✓	39 200	✓
18	Omwabo		C			30 000 ✓
22	Cash	734				85 000 ✓
23	Furniture	801			24 000	
26	Wages			✓	<u>5</u> ✓	✓
	drawings			<u>800</u>	<u>000</u> ✓	<u>216 500</u>
					<u>68 200</u>	

6.

JAO TRADERS

TRADING AND PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDING 31/12/2008

DR		CR	
Opening stock	60000	Sales	
Add purchases	161000	208000	
Add carriage	<u>11000</u>	Less returns in	
	172000	<u>27000</u>	
Less returns out	(25000)		
147000			181,000
G.A.F.S			
207000			
Less closing stock			
(72000)			
Cost of sales			
135000			
Gross profit c/d			

<u>46000</u>		<u>181000</u>
<u>181000</u>		
		Gross profit
Expenses		46000
Discount allowed		Discount rec
2000		8000
Salaries		Net loss c/d
20000		800
Tel charges	5000	
Less prepaid	1000	
4000		
Water bills	2100	
Add accrued	1300	
3300		
Electricity expenses		
2000		<u>54800</u>
Carriage out		
10000		
Insurance paid	1000	
Dep on equil ($\frac{10}{100} \times 125000$)	12500	
<u>54800</u>		
Net loss b/d	800	

7. *During the month of March 2010 the petty cashier of Nyangija distributors made the following payment after receiving an imprest of shs12, 000 from the general cashier.*

<i>Receipts</i>	<i>Date</i>	<i>Details</i>	<i>Total</i>	<i>Travel</i>	<i>Office Exp</i>	<i>Staff Tea</i>	<i>Stationery</i>	<i>Postage</i>	<i>Sundry</i>	<i>Ledger a/c</i>
12,000	March 1	Cash								
	3	Traveling	3500	3500						
	6	Office exp	1000		1000					
	8	Postage	1200					1200		
	15	Staff tea	800			800				
	19	Stationery	2000				2000			
	22	Office exp	800		800					
	24	Staff tea	1000			1000				
	26	Sundry exp	700						700	
	31	Benson	900							900
			11,900	<u>3500</u>	<u>1800</u>	<u>1800</u>	<u>2000</u>	<u>1200</u>	<u>700</u>	<u>900</u>
	March 31	Bal c/d	100							
<u>12,000</u>			<u>12,000</u>							
100		Bal b/d								

8.

PURCHASES JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005	Obwocha			1200
March 1	Agwata			3000
“ “	Nyanamba			2500
1	Onyancha			2700

“	“	Obwocha			6600
1		Ombaki			3300
“	“				19300
10					
“	“				
10					
“	“				
10					

SALES JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005	Okero			2000
March 5	Micheka			4300
“	“			1500
5	Bundi			850
“	“			630
5	Okero			900
“	“			10180

PURCHASE RETURNS JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005 March 20	Obwocha			250
“	“			700
20	Onyancha			950

SALES RETURNS JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005 March	Bundi			150
30	Michieka			130
“	“			280
30				

27. FINANCIAL STATEMENTS

1. *Mark up* = GP

Cost of sales

$$\frac{1}{4} = \frac{GP}{60,000}$$

$$60,000$$

$$4GP = 60,000$$

$$GP = 15,000.$$

i) *Net sales = Cost of sales + gross profit*

$$60,000 + 15,000 = 75,000$$

ii) *Average stock : stock turn = cost of sales*

Av. stock

$$\frac{5}{1} = \frac{60,000}{AV}$$

AV

$$5AV = 60,000$$

$$AV = 12,000$$

iii) *Opening stock .*

$$AV = \frac{op.st + cl.stock}{2}$$

2

$$24,000 = 8000 + op\ stock$$

$$Op.stock = 16,000$$

iv) *Cost of sales*

$$op.st + p - cls$$

$$60,000 = 16,000 + p - 8000$$

$$Purchases = 42,000$$

2.

Vumilia Traders
Trading, profit and loss account
For the year ending 31st December 2006.

Opening Stock	25,000	Sales
120,000		
Add. Purchases	<u>45,000</u>	
	70,000	
Add. Carriage on purchases	<u>1,200</u>	

Cost of good sold	71,200	
Less. Closing stock	25,000	
Cost of sales	46,200	
Gross profit c/d	<u>73,800</u>	
	<u>120,000</u>	
<u>120,000</u>		
Expenses		
Carriage on sales	2,000	Gross profit b/d
73,800		
Discount allowed/	3,400	Add: Dis received
1,950		
Insurance paid	5,900	
Less Prepaid	900	
	5,000	
Salaries	12,450	
ADD Outstanding salaries 450		
	12,900	
Machinery	12,800	
Total Expenses	36,100	
Net profit c/d	<u>39,630</u>	
	<u>75,730</u>	
<u>75,730</u>		

Vumilia Traders
Balance sheet
AS AT 31st December 2006

Machinery	128,000	Capital
125,000		
LESS Deprec	12,800	Add. Net Profit
39,630		
	115,200	
164,630		
Stock	25,000	
Insurance prepaid	900	
Debtors	25,000	creditors
15,500		
Bank	14,500	outstanding salaries
450		

180,600

180,600

3.

Mapato Traders
Balance sheet
As at 31st dec 2009

Fixed assets

Land and building 300 000
Furniture and fittings 51 500
Machinery 140 000
Motor vehicle 190 000
681 500

capital 422 930
+net profit 220 500
643 430
-drawings 175 000
468 430

Current assets

Stock 124 500
Debtors 103 650
Cash at bank 54 850
Cash at hand 3650

long term liabilities

mortgage loan 30 000
bank loan 400 000
430 000

current liabilities

creditors 99 730

286 650

968 150

968 150

i) Working capital

Working capital=current assets-current liabilities

CA=stock+ debtors+ cash in hand+ cash at bank

=124500 +103650 +54850 +3650 =sh 286650

CL=creditors=99720

∴ W.C=286650-99720 = sh 186,920

ii) Return on capital

Return on capital = $\frac{\text{net profit}}{\text{Capital invested}} \times 100$

Capital invested

= $\frac{220500}{422930} \times 100$

422930

= 52%

iii) Current ratio

iv) Capital employed

Capital employed = capital owned + long liability

= 468430 + 400000 = 868430

Or

= fixed assets + working capital

= 481500 + 186930 = 868,430

v) Borrowed capital

Borrowed capital = long term liabilities

= mortgage loans + bank loan

= 300000 + 100000 = sh 400000

Chunga Traders

Profit & Loss A/C

For the Period Ending 31/12/2000

	Kshs		Kshs
Salary	20,000	Gross profit	80,000
Rent	12,000	Discount received	4,000
Electricity	3,000	Commission received	6,000

Net Profit	55,000	
	<u> </u>	<u> </u>
	90,000	90,000
	<u> </u>	<u> </u>

Chunga Traders

Balance Sheet

As At 31/12/2000

	Kshs.		Kshs.
Fixed Assts	350,000	Capital -	395,000
		+ Net Profit	55,000
Cash	60,000	- Drawings	50,000
Debtors	20,000	Closing Stock	400,000
Stock	30,000	Bank overdraft	10,000
		Creditors	50,000
	<u> </u>		<u> </u>
	460,000		460,000
	<u> </u>		<u> </u>

(i) *Working Capital = CA - CL*

$$= 110,000 - 60,000 = 50,000$$

(ii) *C. Employed = FA + WC*

$$= 350,000 + 94,000 = 444,000$$

5.

<p>Nyamaiya Traders</p> <p>Profit & Loss Account for the year ended 31st May 2009</p>
--

Depreciation: Equipment	180,000	Gross profit	400,000
Furniture	43,500	Commission received	170,000
Power & lightning	24,000	Less: Advance	10,000 160,000
General expenses	240,000	Discounts received	40,000
Increase in provision for bad debts	500		
Discounts allowed	29,000		
Net profit c/f	83,000		
	600,000		600,000

Nyamaiya Traders	
Balance sheet as at 31 st May 2009	
<u>Fixed assets</u>	Capital 1,000,000
Equipment 900,000	ADD: net profit <u>83,000</u> 1,083,000
LESS: Depreciation <u>180,000</u>	
720,000	<u>Current liabilities</u>
Furniture 500,000	Advance commission received 10,000
LESS: Depreciation <u>108,500</u>	Creditors 550,000
391,500	
<u>Current Assets</u>	
Stock	
35,000	
Debtors 350,000	
LESS: Provision <u>3,500</u>	
346,500	

5 5

GP = Shs.108,000

(ii) Cost of goods sold = sales – cost of goods sold

Cost of sales = 270,000 – 108,000

Cost of sales = shs.162,000

(iii) Net profit = Gross profit – Expenses

Cost of sales = 108,000 – 40,000

N.P = Shs.68,000

(iv) Average stock

Rate of stock turnover = $\frac{\text{cost of sales}}{\text{Average stock}}$

$$6 = \frac{162,000}{\text{A.S}}$$

$$\text{A.S} = \frac{162,000}{6}$$

A.S = shs.27,000

8. a) (i) **Cost of sales**

$$\text{R.O.S.T.O} = \frac{\text{G.O.S}}{\text{A.S}}$$

Firm x

$$6.4 = \frac{\text{COS}}{\text{AV}} \quad \text{_____} \quad 6.4 = \frac{\text{COS}}{8000}$$

$$\text{COS} = 8000 \times 6.4 = \text{Shs.51,200}$$

Firm y

$$6.5 = \frac{\text{COS}}{7000}$$

$$\text{COS} = 7000 \times 6.5 = 45,500$$

ii) Gross profit

Mark up = $\frac{\text{Gross profit}}{\text{Cost of sales}}$

Firm X

$$\frac{20}{100} = \frac{\text{G.P}}{51,200}$$

$$\text{G.P} = \frac{20 \times 51200}{100}$$

100

G.P = 10,240

<u>130,350</u>	
Carriage outwards	
309	
Moor expenses	
1,630	<u>41,907</u>
Rent	
2,970	
Telephone charge	
405	
Wages	
12,810	
Insurance	
492	
Office expenses	
1,377	
Sundry expenses	
284	
Net profit c/d	
<u>21,630</u>	
<u>41,907</u>	

Net loss b/d	
800	

11. The following trial balance relates to JOKOBURA STORES

DR

CR

JAKOBURA TRADERS

PROFIT AND LOSS A/C FOR THE YEAR ENDED 31/12/006

	SHS	SHS		SHS	SHS
Opening stock		48 000	sales		425 000
purchases		344 500			
Cost of goods available for sales		392 500			
Less closing stock		52 500			
Costs of goods sold		340 000			
Gross profit c/d		85 000			
		425 000			425 000
salaries	45200		Gross profit b/d	85 000	
Add general expanses accrued	1200	46 400	commission	42 800	
electricity	15240				
Less drawing	340	15 080			
depreciation					
Motor vehicles 150000x25/100		37 500			
Furniture 30000x7/100		2 100			
Equipment(55200-48576)		6624			

Net profit c/d		20096			
		127 800		127800	

12. The following information relates to Odongo Traders for the year ended 31.Dec 2008.

i) A balance sheet as at 31st Dec. 2008

Odongo traders
Balance sheet as at 31st Dec 2008

<p>F.A</p> <p>Land 50,000</p> <p>Machinery 20,000</p> <p>M/vehicles <u>30,000</u> 100000</p> <p>Current assets</p> <p>Stock 10,000</p> <p>Debtors 6,000</p> <p>Cash at bank 10,000</p> <p>Cash at hand <u>2,000</u> 28,000</p> <p style="text-align: right;"><u>128,000</u></p>	<p>Capital 94,000</p> <p>Less drawings <u>4000</u></p> <p style="text-align: right;">90,000</p> <p><u>Long term liabilities</u></p> <p>10yrs loan 20,000</p> <p>5yrs AFC loan <u>10,000</u></p> <p style="text-align: right;">30,000</p> <p><u>Short term loan</u></p> <p>Creditors 6000</p> <p>Expense occurred <u>2,000</u>√ <u>8,000</u></p> <p style="text-align: right;"><u>128,000</u></p>
--	---

ii) calculate-Borrowed capital = long term liabilities

$$= 20,000+10,000$$

$$= \underline{30,000} \quad \text{-current ratio}$$

Current assets : current liabilities

$$28,000:8000$$

$$28:8$$

$$7:2 \quad \text{-capital owned}$$

$$C =A-L$$

$$= 128,000 - 38,000 = 90,000$$

Or

Capital-drawings

$$94,000 - 4,000 = \underline{90,000}$$

13.

BOSONGO WHOLESALERS

Trading, profit and loss

Account

For the year ended 30th June 2008

	SHS	SHS		SHS
SHS			400	Sales
7000	Opening stock			
Add purchases	3500		Less sales returns	<u>150</u>
6850				
Less purchases returns	<u>200</u>	<u>3300</u>		
		<u>3700</u>		
Less closing stock		500		
Cost of sales		3200		
Gross profit c/f		<u>3650</u>		
6850		6850		
Discount allowed		90	Gross profit b/f	
3650				
Insurance		210	Discount received	
80				
Net profit c/f		<u>3530</u>	Rent received	
<u>100</u>				

3830

3830

BOSONGO WHOLESALERS

Balance sheet As at 30th June 2008

<u>Fixed assets</u>	SHS	SHS		SHS
SHS			2000	Capital
13870				
Motor vehicles	15000	17000	Add N.P	<u>3530</u>
				17400
<u>Current assets</u>			Less drawings	600
16800				
Stock	500			
Debtors	800	1300	<u>Current liabilities</u>	
			Creditors	1200
			Bank overdraft	<u>300</u>
<u>1500</u>				
		18300		
18300				

28. INCOMPLETE RECORDS

I. Working:

Trade debtors account			
Balance b/f	75,000	Receipts	170,000
Credit sales	210,000	Balance c/f	115,000
	285,000		285,000

Total sales = credit + cash sales
= 210,000 + 47500 = 257500

Trade creditors account			
Payments	250,000	Balance c/f	100,000
balance c/f	125,000	purchases	275,000
375,000		375,000	

Kemoko Traders			
Trading and loss account for the period ended 31/12/2008			
Opening stock	45,000	Sales (W1)	257,500
Add: Purchases (Wii)	<u>275,000</u>	Gross loss c/f	35,000
Cost of good available	320,000		
Less: Closing stock	<u>27,500</u>		
Cost of goods sold	<u>292500</u>		<u>29500</u>
Gross loss b/f	35,000		<u>65,000</u>
Rent & rates	5,000	Commission received	65,000
Sundry expenses	4,000		
Wages	7,750		
Lighting	3,750		
Insurance	2,500		
Net profit c/f	7,000		
	65,000		65,000

2. *Five distinctions between statement of Affairs and a balance sheet ;*

Balance sheet	Statement of affairs
i)Prepared from accounting records of double entry ii)prepared to determine the financial position iii)Prepared from accurate records of trial balance iv)Relates to both small and big bossiness which keep accurate records	i)Preps red from single entry ii)Prepared mainly t get the capital iii)Prepared mainly from estimates of incomplete records iv)Relates mostly to small business which do not keep complete records

29. MONEY AND BANKING

1. *Characteristic of a monopolistic market*

- One producer/supplier
- many buyers on the market
- product has no substitute
- no free entry into the market by suppliers
- The producer determines the price on the market.

2. *Modern trends in banking:*

- Internal Banking.
- ATM
- Telephone Banking.
- Investment – person, secure, mortgages, stocks/shows etc.
- More support for community projects e.g. payment of school fees (Equity/Co-op)
- Savings and credit co-operatives assuring more banking roles e.g. front office services.

3. *Ways in which commercial banks have enhanced the development of business activities in the country;*

- Act as a referee to business which intend to get credit facilities
- Give advisory services to business people on investment/expansion possibilities

- Guarantee payment for overseas suppliers by issuing letter of credit
- Facilitates payment among business inform of cash/cheque/credit transfer/standing orders.
- They offer safe custody /safe keeping of money
- Offer credit facilities /lending money through saving/current fixed deposit
- Acting as a trusted execution of wills in management of proportional of deceased persons
/beneficial
- Agent of stock exchange /companies they assist traders to buy shares
- Custodians of valuable items like land title deeds certificates wills e.t.c.
- Availing foreign currency to importers thus assisting in international trade

4. *Ways through which central bank of Kenya can expand supply of money in an economy;*

- Open market operation- central bank can buy securities in OMO to increase money supply
- Reducing lending interest rate – central bank lends money to commercial banks at reduced rate, commercial banks will also lend money to customers at reduced rate hence increasing money supply
- Cash/ liquidity ratio requirement- central bank reduces ratio of deposits held by commercial banks, money available for lending by commercial bank will increase thereby increasing money supply
- Compulsory de[posit requirements- central bank reduces the commercial bank compulsory deposit with it, commercial banks will have more money to lend hence increasing money supply
- Directives and requests- central bank instructs commercial banks to reduce their lending rates, there will e an increase in money supply in an economy
- Selective credit control – central bank removes the restriction on the sectors, commercial banks will lend out more money

5. *Five methods of payments offered by commercial Banks in Kenya ;*

- i) Cheque- Instruct to the bank to make payment to the named person
- ii) Standing orders- Instruct to make a periodic payment of a specific amount to a named person until instructed otherwise
- iii) Credit transfer-Payment of several people by use of one cheque
- iv) Credit cards- Issued by a bank to a client to make purchases without necessarily any cash
- v) Travelers cheques- Used majorly by business men who travel a lot to make payments outside
- vi) Bankers cheque/Boundary- It's a cheque written on another to make payment on another the payment is guaranteed

6. *Five factors that lead to a cheque being dishonoured are;*

- When there are alterations on the cheque which are not countersigned by the drawer
- When the signature on the cheque differs from the drawers specimen signature held by the drawer
- If the cheque is dirty or torn
- If there are insufficient funds in the drawers bank account at the time of cashing the cheque
- If the amount in words differs from the amount in figures
- If the cheque is stale i.e. the cheque is presented for payment after six months since the date of issue

- If the cheque is post dated i.e. the cheque being presented for payment earlier than the cheque date
- If the account holder is dead and the bank is aware of the fact
- If the drawer instructs the bank not to pay that particular cheque

- If the cheque contains errors which need to be paid across the counter
- If the drawer becomes bankrupt or insane i.e. the drawer has lost contractual capacity

7. *Four emerging trends in the banking system are ;*

- late hour banking –e.g. executive banking after the normal banking hours
- acting as agents of stock exchange /brokers –through which new shares can be sold to the public or customers buying shares through them
- issue of credit cards-allowing customers obtain goods and services without paying for them in cash
- Establishment of new accounts e.g. salary account, jumbo junior accounts different from the traditional ones
- abolition of bank account monthly charges e.g. ledge fees and minimum deposits in some accounts
- use of ATMS-enabling banks offer services round the clock
- networking of branches-enabling clients carry some banking transactions in any branch
- E-banking-customers carrying out banking transactions by use of computers
- M-banking-customers carrying transactions using mobile phones e.g. salary alerts, deposits alerts, payment of bills, transfer of money e.g. Mpesa
- Easy credit facilities e.g. unsecured loans
- Customer service/care departments-offering personalized advice to customers
- Liberalization of foreign exchange dealings by licensing forex bureaus for customers to get foreign exchange
- Provision of banking services by micro-finance institutions e.g. KWFT, faulu Kenya, through their front office service activities (FOSA)

8. - Use of ATMS, which have enabled banks to offer banking services to clients round the clock
- Networking of branches: which enables clients to carry out banking transactions in any branch of the bank
- E – banking where customers are able to carry out some banking transactions in any branch of computers on – line
- M – banking, where customers can carry out some transactions by use of mobile phones e.g. salary deposits alerts, airtime top – up, statement and cheque book ordering e.t.c.
- Introduction of a variety of products to attract such as easier credit facilities i.e. unsecured loans
- Customer care departments that offer personalized services advice to the banks clients
- Use of credits cards which can be used to make withdrawals from ATMs and some can debit cards to make purchases i.e. supermarkets
- Relaxation on some of the conditions relating to operations of account e.g. removal of restrictions on minimum opening and operating balances and number of withdrawals for saving account

30. PUBLIC FINANCE

1. Principles of taxation ;

Evasion.-It should be difficult to avoid paying the tax other wise it might not achieve

its objectives.

Simplicity-It should be easy to understand in terms of amount and methods of payment

or else people will resist to pay.

Flexibility- The system should change with changes in economic situation or else it might not

meet desired targets/revenue required.

Equality/fairness-The system should be fair to all otherwise it might over burden some

members of the society.

Convenience -The time and mode of payment should be friendly to the tax payer hence

avoiding complains/resistance to pay

Productivity- The system should generate greater revenue to the government for it to be

justified and enable the government finance project.

2. Sources of non –tax public revenue;

- (i) Impulses from public corporative/government businesses.
- (ii) Fines & penalties imposed on peoples found breaking the law.
- (iii) Fee from direct services.
- (iv) Escheats
- (v) Income from government properties e.g. parks/land e.t.c
- (vi) Loan repayments /interest earned from government owned financial institutions.

3. Five principles of public expenditure:

- Optimum social benefits – majority of people are able to derive maximum benefits
- Sanctions – should be approved by relevant authority
- Proper financial management
- Economical – incurred in the most economical way to avoid wastage
- Flexibility–certain degree of elasticity to enable it be increased /decreased as need arises

4. *Five reasons for imposition of tax by the government*

- i) Through tax the government is able to control input of goods/improve balance of payment deficit
- ii) Through tax the government is able to underestimate income by taxing those who earn high money and those earning less low
- iii) Through tax the government is able to ensure even regional development in a country
- iv) The government taxes to earn revenue as a source of its income
- v) It enables the government to maintain price stability by i.e. taxing less to influence aggregate demand in the country hence influencing the price level

5. *Five characteristics of a good tax system ;*

- Equitable-tax burden should be distributed among tax payers according to the ability to pay
- Economy-collection and administrative costs should not exceed tax revenue collected
- Certainty-tax one is expected to pay should be clearly defined
- Convenience-collection and payment should not be cumbersome
- Flexibility-capable of being revised or change in line to changing economic circumstances

- Diversity-should be wide/variety of taxes to able to net a broad spectrum of the society
 - Elasticity-able to respond appropriately to change in national income
 - Simplicity-simple to understand
6. - Revenue is raised through taxation which is used to cover general costs of administration of
- the government and provision of public goods and services to its citizens
 - The government can use taxation to discourage consumption of certain products e.g. beer or cigarettes by levying heavy tax
 - It can be used as a way of protecting infant and strategic domestic industries in the country
 - from cut throat competition by foreign industries – using high tax on foreigners
 - Reduce inequality in income distribution. This is done by taxing the rich and using the finances to benefit the poor by offering goods/ services
 - Control inflation. Taxation reduces money supply through reduction of people's disposable income thereby controlling inflation
 - Correcting balance of payments. High taxation on imports may discourage importation thus
 - Increase balance of payments
 - Helping locate business e.g. high tax on business located in urban areas would make entrepreneurs locate their businesses in rural areas where tax is less

31. INFLATION

1. *Negative effects of inflation to an economy.*

- i. People lose confidence in local currency as it is difficult to use in transaction when it loses value very fast.
- ii. Hinders implementation of development plans since the cost of projects increases.
- iii. Leads to unfair distribution of income as the rich become richer than the poorer.
- iv. Lead to low standard of living /poverty as people find it difficult to get basic need due to high cost of living.
- v. Discourages savings/investments since people fear their money will lose value/as they have less disposable incomes.
- vi. Leads to balance of payment deficits as imports are highly demanded than exports.
- vii. Hinders implementation of development plans since the cost of projects increases
- viii. Encourages social evils as people resort to bad /immoral practices to get money.
- ix. Discourage lending and borrowing this is due
- x. will lose when their money loses value.

2. *(a) Effects of positive inflation to the economy*

- Debtors will pay less
- Sellers will buy commodities at low prices
- Motivation to work
- Increase in investment
- High profits due to high prices
- Increased job opportunities resource use

b) Reasons why the government may adopt the delocalization policy of locating industry

- Reduced effects of occurrence of war
- Provision of employment opportunities in rural area
- Reduces rural urban migration
- Encourages balanced regional development
- Market for locally produced raw materials
- Locals are able to access goods easily

3. *Five causes of inflation in an economy;*

- Increase in government expenditure making more money available to people which increase aggregate demand leading to an upward pressure on prices
 - Excessive credit creation by commercial banks increase money supply and hence purchasing ability leading to inflation
 - Increase in money income which increase purchasing power causing an upward pressure on price of goods and services
 - Shortage of goods and services leading to excessive demand hence pulling the prices of commodities upwards
 - Cramour for increase in wages and salaries which will be reflected in the increased prices of commodities
 - Increase in indirect taxes (e.g. VAT) which make firms to increase their prices
 - Increase in profit margins by management and shareholders leading to an increase in prices
 - Increase in cost of inputs(e.g. raw material)causes the price of finished goods to be high
- Reduction in subsidies leading to an increase in cost of production which will be reflected in an increase in the price of the commodities

4. Mild inflation - A type of inflation where the general prices of goods and services increase

slowly at a single digit rate of less than 10%

Hyper inflation - It is a situation whereby the general prices of goods and services are

extremely high whereby the rate is in thousands and millions percent per year

Demand pull inflation - Comes about when there is excessive demand for goods and services in

the economy causing rise in prices

- In this situation there is too much money in the economy chasing very few goods and services

Cost push inflation - It results from an increase in the total production costs of goods and

services leading to an increase in prices of commodities

-It is the high costs of production that pushes the prices of goods and services up

Imported inflation - It results from trading with foreigners whereby prices of foreign goods

affect domestic prices

- High prices of foreign goods [imported goods] increases domestic prices of goods due to domestic demand

32. INTERNATIONAL TRADE

1. *Benefits of transporting oil products by pipeline ;*

- i. Road damage has due to reduced heavy tankers on roads.
- ii. Reduces road accident as congestion to tankers on roads has reduced
- iii. Environmental pollution has reduced as pipes do not emit gases/smoke from tankers has reduced.
- iv. Cost of handling oil has reduced since few workers are employed.
- v. Large volumes of oil are transported within a very short time.
- vi. Ensures regular supply of oil hence reducing shortage.
- vii. Pilferages of oil has reduced since pipe are very hard to break.

viii. Cheap to maintain the pipes after construction.

ix. *Pipes are not easily affected by poor weather as they are permanently fixed.*

2. Advantages that a country may experience from imposing trade restrictions in trading partners:

- Retaliation by other trading countries leading to reduction in exports
 - Reduced exchange earning due to reduced exports
 - Shrinking markets due to reduced volume of trade
 - Curtailed transfer of technology/low output/poor quality
 - Limited variety of products which restricts consume choice
 - Poor international relation leading to conflicts/friction
 - Leads to increased unemployment due to reduced trading activities
 - Low involvement due to limited trading opportunities
 - May worsen balance of payment as a result of reduce volume of exports
 - Reduced competition leading to low quality services
-
- A wider market for its product enabling the firms in the region to produce to their full capacity
 - Specialization where it will concentrate on production of goods and services that it can produce cheaply and efficiently.
 - High quality and cheap products will be produced because of specialization and competition among member countries
 - It will promote peace among people of the involved countries as they interact and co-operate among each other
 - It will enjoy common bargaining front with non-member countries bringing about better terms of trade
 - Development of industries will be coordinated to have a balanced development and avoid unnecessary duplication
 - Employment creation since factors of production will be freely mobile within the member countries

3. *Five reasons why many countries tend to prefer free trade*

- Enable a country to enjoy quality goods and service due to increased competition
- Allow specialization/countries tend to specialize in what they can produce best.
- Allow them access wide variety of goods/services
- Allow wider market for goods /services produced
- Free movement of factors of production from country to country.
- Allow creation of many job opportunities for investment in different countries
- Countries enjoy cheaper goods/services
- Allow free flow of new technology ideas and skills among different countries
- Promote peace and understanding among countries

4. *Causes of persistence balance of payment disequilibrium in East Africa*

- Fall in volume of exports – rely on primary/agricultural products usually affected by draught yielding low production hence low exports hence reduced foreign earning
- Deteriorating terms trade – value of exports are low relative to the value of imports hence pay more than the foreign earned
- Less capital inflow compared to outflow- they usually borrow money from developed countries at repay at high interest rates creating a net capital out flow.
- Devaluation policy – devaluation of local currency makes exports cheaper to foreigners and hence an increase in the cost importation
- Increase in import volume of capital goods and industrial raw materials for development purposes. This increases expenditure on foreign good.

5. *Five measures that the Government of Kenya may take to control her persistent Balance of payment deficit ;*

- i) Increasing the volume of exports ie. by giving incentives to traders so that they can produce more output
 - ii) Reducing the level of input ie. By using restrictive measures such as input duties total ban etc
 - iii) By diversifying the rate of exports of the country so that when some fail others can still sell in the world market
 - iv) Through Devaluation of the country's currency- this makes the exports cheaper and hence more competitive in the market
 - v) By negotiating for foreign debt reduction
 - vi) By adding value to the exports
6. - A wider market is created for goods and services produced in the region
- Countries are able to specialize in the production of those goods and services they are best endowed
 - Promotion of peace and understanding among member countries due to integration
 - Higher quality goods and services are produced due to competition
 - People have access to a wider variety of goods and services which satisfy different consumer needs
 - Creation of employment for individuals living within the region
 - Increased economic bargaining power in trading activities by the countries forming the trading block
 - Increased production of goods as a result of people engaging in different business activities
 - Improvement of infrastructure in the region due to increased economic activities
 - Establishment of common services e.g. railway ports authorities and research agencies to avoid duplication

33. ECONOMIC DEVELOPMENT AND PLANNING

1. Principles of taxation;

Evasion.-It should be difficult to avoid paying the tax other wise it might not achieve its objectives.

Simplicity- It should be easy to understand in terms of amount and methods of payment or else people will resist to pay.

Flexibility -The system should change with changes in economic situation or else it might not meet desired targets/revenue required.

Equality/fairness

The system should be fair to all otherwise it might over burden some members of the society.

Convenience-The time and mode of payment should be friendly to the tax payer hence avoiding complains/resistance to pay

Productivity- The system should generate greater revenue to the government for it to be justified and enable the government finance project.

2. Distinguishing features between developing and developed countries.

DEVELOPING COUNTRIES	DEVELOPED COUNTRIES
-Low level of outland and per capita income	-High level of output and per capita
-Major foreign exchange is from agriculture	-Major foreign exchange is from industrial sector
-unequal distribution of income and wealth	-Relatively more equal distribution of income and wealth
-Low level of mechanization	-High level in mechanization
-High level of unemployment	-Low level of unemployment
-High population growth rate	-Relatively low or moderate population growth rate

3. (a) Obstacles in implementations development plans

- (i) Personal – Lacking adequate and skilled manpower capable of implementing plans
appropriately.
- (ii) Long/cumbersome procedure for decision making which limits the ability to plan.
- (iii) Costs – High cost of implementation causing delay.
- (iv) Data - Lack of sufficient data.
- (v) Resources - Lack of sufficient resources which leads to realization of the targets
- (vi) Rigidity - Proposed of powers may be followed strictly making it difficult for the plan to be
fitted to changes in economic conditions.

4. *Obstacles to economic development;*

- Low natural resource endowments which form the basis of a country's production capacity e.g. fertile land, favourable climate e.t.c
- Inadequate capital hampering exploitation of resources, industrialization and creation of employment opportunities.
- Poor technology leading to low productivity
- Poor human resource endowment whereby manpower is composed of unskilled labour who are less productive
- Unfavourable political institutions where the government is corrupt and authoritarian scaring away investors
- Unfavourable social institutions where the traditional society is conservative and lacks innovativeness

5. *Factors that have turned to frustrate economic developments in a country like Kenya are;*

- (i) Lack of inducement of invest

Investment in an economy may be lowered by lack of effective demand for goods and services which means the market is small. Growth in national income will therefore be below, leading to lack of development

(ii) Lack of social infrastructure

- For example, when road and communication networks which link the various parts of a country are lacking, it becomes difficult to do business and hence economic growth is limited.

(iii) Lumpiness or indivisibility of capital/inadequate capital

The capital required for production may be large in terms of machinery and equipment and may also not be divisible into small quantities or sizes. Lack of such capital hampers production leading to low economic growth and thus slow development

(iv) Inability to save/low per capita income

-When, the level of saving in the country is low then investment will also be low. This means that the level of national income is low and hence low income per capita is realized.

(v) Rapid population growth

When population is rising faster than incomes then development goals may not be realized since the country will still have a low level per-capita income and also low standard of living

(vi) Resource limitations

Production is hampered by the limited supply of resources e.g. minerals. This results into low income and health low living standards and eventually affecting a country's economic development.

(vii) Use of inappropriate technology

Production is hampered by the limited supply of resources e.g. minerals. This results into low income and health low living standards and eventually affecting a country's economic development

(vii) Use of inappropriate technology

The country technology that does not fit in with the local operations. This is reduced productivity and hence low economic development.

(viii) Attitudes and beliefs

For example some communities have a negative attitude towards some activities in the country e.g. jua kali sector. The negative attitudes and beliefs will therefore hinder economic development

(ix) Corruption and embezzlement of funds

- Some funds for certain projects that could easily spur a rapid economic growth are misappropriated by government employees.

(x) Lack of political will

- The government is reluctant to implement certain projects

(xi) Copying effect

- The rich people in LDCs tend to copy the consumption pattern of the rich people in DCs hence reducing their savings capacities arising from low levels of incomes in LDCs

(xii) Low natural resource endowment

(xiii) Low human resource endowment

6. *Functions of the national budget as a tool of planning;*

- Outlining government expenditure – It details the various expenditure programmes the government plans to undertake over a given period of time
- Outlining government revenue – It gives details of the various sources of revenue for the government to finance its activities
- Enabling government planning – The government uses the budget to plan for various activities and programmes that lead to economic growth and development
- Introducing changes in taxation – The various taxes to be applied, the tax rate and the mode of application of the taxes are outlined in the budget
- Regulating money supply – It outlines the monetary systems to be instituted by the government to regulate money supply in the economy

- Stimulating economic activities – It is used to increase government expenditure in the economy which will spur economic activities in the country

7. Challenges that Kenya is facing in the implementation of her development plans ;

- i) Lack of domestic workers ie. skilled labour, machines etc to implement the plans
- ii) Continuous reliance on donor funding which at times fail to be remitted
- iii) Natural calamity ie. the country may suffer from calamities like drought, floods etc which draw funds that were not planned for
- iv) Lack of co-operate and co-ordinate between executive parties ie. ministry of finance and planning
- v) Failure to involve local people hence making the plan to lack support from the local people as they view it to be imposed on them by few people at the top
- vi) Lack of political will ie. Where political crisis is an obstacle to the achievement of the vision

8. - Shift from agricultural to manufacturing sectors
- Reduction in illiteracy
 - Increase in skilled man power
 - Improvement in health facilities
 - High level of technology and entrepreneurial ability
 - Reduced unemployment due to increased industrialization
 - Reduced infant mortality rate
 - Improved life expectancy
 - Increase and improvement of institutions that impart new methods of productive economic activities

INTRODUCTION TO BUSINESS STUDIES

PAST KCSE PAPER 1

1. Highlight four ways in which business studies is useful to a community. (4mks)

SATISFACTION OF HUMAN WANTS.

1. Classify each of the following goods as either producer or consumer (3mks)

Good	Classification
a) Factory	
b) Privates car	
c) Iron ore	
d) Tools	
e) Exercise books	
f) Clothing	

2. Outline three characteristics of basic human wants. (3mks)
3. Outline four measures that may be taken to conserve forests in Kenya (4mks)
4. State four ways in which natural resources may be of benefit to a country. (4mks)
5. Give four reasons why a consumer should satisfy basic wants before secondary wants.

(4mks)

6. Kenya relies heavily on oil as a source of energy. State four reasons why the country should develop alternative sources of energy. (4mks)
7. State four reasons why consumers have to make a choice between competing needs. (4mks)
8. State four characteristics of human wants. (4mks)
9. State three basic wants that individuals in a society have (3mks)
10. Highlight four disadvantages of mining as an economic activity (4mks)
11. State four reasons why a government may decide to control the exploitation of its natural resources. (4mks)
12. State whether each of the following activities would satisfy basic or secondary needs. (4mks)

Activities	Basic / Secondary
a) Buying clothes for the family	
b) Transporting farm produce	
c) Providing food for school children	
d) Entertaining a guest	

13. Outline four ways in which commerce satisfies human wants,(4mks)

PRODUCTION

PAST KCSE PAPER 1

1. Classify each of the following production activities as either primary or tertiary.

(3mk)

Activity	Level of production
a) Digging clay soil	
b) Constructing a bridge	
c) Selling in shop	
d) Making tea	
e) Transporting medicine	
f) Growing vegetables	

2. Outline four reasons why production in the substance sector is usually low. (4mks)
3. Name four commercial services which are useful to the manufacturer. (4mks)
4. Outline four reasons why a multinational company may prefer setting up a production unit in a developing country instead of exporting finished goods to the country. (4mks)
5. Classify each of the following activities as either primary, secondary or tertiary. (4mks)

Activity	Classification
a) Planting maize	
b) Grinding maize	

- c) Selling maize
- d) Harvesting maize

6. State the meaning of the following terms. (4mks)

Consumer goods

Producer goods

7. Name the factor that each of the following resources relate to (5mks)

Resource	Factor of production
a) Manager	
b) Vehicle	
c) Cotton	
d) Water	
e) Owner	

8. Outline three characteristics of direct production. (4mks)

9. Outline four factors that may account for predominant direct production (4mks)

10. List four functions of entrepreneurs as a factor of production (4mks)

11. State four roles of an entrepreneur in production. (4mks)

PAST KCSE PAPER 2

- 1. Highlight five ways in which an Entrepreneur contributes to the production of goods.
- 2. Explain five ways in which large scale organization are able to reduce their costs of production. (10mks)

OFFICE

PAST KCSE PAPER 1

1. State three reasons why office documents should be filed. (3mks)
2. Outline four duties of an office manager. (4mks)
3. The following are types of office equipment. Paper, fax machine, telex and telephone. In the table below, match each equipment with its appropriate function. (4mks)

Function	Equipment
a) Sending and receiving written messages	
b) Sending and receiving verbal messages	
c) Sending and receiving copies of messages	
d) Sending messages one way only.	

4. List four qualities of an office messenger. (4mks)
5. State four factors that determine the period for which documents should be stored. (4mks)
6. In the space provided name the office equipment used to perform each of the following tasks.

Functions	Equipment
a) Printing stamp impression on envelopes	
b) Cutting paper into required sizes	
c) Pinning papers together	
d) Recording, processing, sorting & retrieving information	

7. Outline four function of an office (4mks)
8. Outline four functions of the office in an organization (4mks)

HOME TRADE

PAST KCSE

1. Highlight four factors that may contribute towards the growth of business in the country. (4mks)
2. State four uses of an invoice for a seller of goods. (4mks)

FORMS OF BUSINESS

PAST KCSE PAPER 1

1. Highlight four advantages of large – scale business organization. (4mks)
2. In the spaces provided, indicate by writing true or false whether each of the following statements is true or false about articles of association of a company. (5mks)

Statement	True / false
a) It contains the activities the company is engaged in	
b) Indicates the procedures to be followed in calling meetings	
c) It contains details of election procedures	
d) It indicates the liabilities of the shareholder	
e) It contains the rights of each shareholders	

3. State five advantages of sole proprietorship form of business (5mk)
4. Outline four benefits that Kenya may derive from multi – national operating in the country. (4mks)
5. State four advantages of a partnership over a sole –proprietorship. (4mks)
6. Highlight benefits an investor gets by buying debentures. (4mks)
7. Highlight four benefits of joining a savings and credit co – operative society. (4mks)
8. State four advantages of a hawker over a shopkeeper. (4mks)
9. Highlight four factors that may have hindered the growth of co-operative movements in Kenya. (4mks)

10. In the spaces provided below, indicate with a tick whether each of the following statements related to preferences or ordinary shared. (3mks)

Statement	preference shares	Ordinary Shares
a) Represent ownership		
b) Rate of divided is fixed		
c) Has voting rights		
d) Considered first in liquidation		
e) Redeemable		
f) May be cumulative		

11. Outline four features of a sole proprietorship form of business organization (4mks)

12. Outline four advantages of large business organizations. (4mks)

13. Outline four features of trade credit as a source of finance (4mks)

14. State four reasons why a government may find it necessary to nationalize some industries. (4mks)

15. In the spaces provided name the type of business organization described by each of the following features.

Description	Business Org
a) Each member has only one role	
b) The business enjoys perpetual succession	
c) Each member may act on behalf of the business	

- d) Formed by an Act of parliament
16. Outline four measures that can be taken to improve efficiency of parastatals in Kenya
(4mks)
17. Outline four ways in which a savings and credit co – operative society can raise capital.
(4mks)
18. Outline four features of a private company (4mks)
19. Outline four features of a private company (4mks)
20. List four sources of short – term finance for a business enterprise (4mks)
21. Highlight four disadvantages of cartels to consumers. (4mks)
22. Give five benefits of expanding a business (5mks)
23. Give four benefits of operating a small scale business over a large scale. (4mks)

PAST KCSE PAPER 2

1. Explain five principles under which cooperative societies should be managed (10mks)
2. Explain five problems that farmers encounter when they sell their produce through marketing boards. (10mks)
3. Explain five sources of short term finances available to a business organization. (10mks)
4. Currently the government of Kenya is involved in privatizing public corporations. Explain five reasons that could make the government retain some of the corporations. (10mks)
5. Describe five disadvantages of running a business as a sole proprietor (10mks)
6. A group of businessmen from town x have formed a cartel. What reason could have led them to take such an action (10mks)

7. Explain five reasons why a public limited company may prefer to raise finance through issue of ordinary shares instead of debentures. (10mks)
8. Outline the differences between a private limited company and a public corporation (10mks)
9. In what ways do multinational corporations differ from locally owned firms.(10mks)
10. Discuss the factors that may influence the growth of a business unit. (12mks)
11. Explain the factors that make it difficult for many Kenyan to purchase houses through building societies. (6mks)
12. Explain the six benefits that may account to a business organization which expands the scale of its operation. (12mks)
13. Draw five differences between public limited company and a partnership form of a business. (10mks)
14. Describe the problems associated with a sole proprietorship form a business (10mks)
15. Explain six benefits that a company would get by raising capital through sale of ordinary shares (12mks)
16. Wafula who recently retired would like to invest his retirement benefits in either of tow business options. Explain five factors that Wafula should consider in choosing the business to invest. (10mks)
17. Outline 4 reasons why the government may decide to nationalize some business enterprises. (10mks)

GOVERNMENT AND BUSINESS

KCSE PAST PAPER 1

1. State four ways in which the Kenya Government protects consumers (4mks)
2. Give three disadvantages of railway transport in Kenya (3mks)
3. State four ways in which a government may regulate business activities (4mks)
4. Outline four reasons why a government may find it necessary to protect consumers. (4mks)
5. Outline four reasons why the government participates in business protection. (4mks)
6. Highlight four limitations of using consumer initiated methods in consumer unfair business practices by traders. (4mks)
7. State four reasons why a government may want to be involved in commercial activities (4mks)
8. State four reasons why a government may want to be involved in commercial activities (4mks)
9. Give four functions of the Kenya external trade authority. (4mks)

KCSE PAST PAPER 2

1. Explain in the business malpractice that consumer need to be protected against by the government. (10mks)
2. Explains six functions of marketing boards in Kenya (12mks)
3. Outline five measures that the government of Kenya has put in place to protect consumers from unscrupulous business practices. (10mks)
4. Explain 5 reasons why consumers need protection against malpractices by some traders. (10mks)

5. Outline 5 circumstances under which the government may find it necessary to nationalize an industry. (10mks)
6. Explain 5 problems that farmers may face when they sell their produce through marketing boards. (10mks)
7. Explain how the Kenya national chamber of commerce and Industry (KNCCI) promotes development of businesses activities in Kenya. (10mks)
8. Discuss the problems faced by KETA (10mks)

TRANSPORT

KCSE PAST PAER 1

1. State four circumstances under which a businessman would choose to transport goods by air? (4mks)
2. Outline four reasons why a school in Kisumu may prefer to transport its sixty students to a music festival in Nairobi by train rather than by bus. (4mks)
3. Give five reasons why a manufacturing firm would be located in an area well served by good road network. (4mks)
4. Outline four limitations of containerization. (4mks)
5. State four reasons why road transport is popular in Kenya. (4mks)
6. State four ways in which the nature of goods would influence the choice of transport. (4mks)
7. Outline four reasons why a transporter of goods from Mombassa to Nairobi may prefer rail transport to road transport. (4mks)
8. State the unit of carriage for each of the following modes of transport. (5mks)

Mode of transport	Units of carriage
a) Portage	
b) Sea	
c) Road	
d) Cartage	
e) Air	

9. List four ways in which transport promotes growth of trade. (4mks)

10. State four reasons why road transport is popular in Kenya. (4mks)
11. Give 3 disadvantages of railway transport in Kenya. (4mks)
12. List 4 disadvantages of using containers to transport goods. (4mks)

KCSE PAST QUESTIONS PAPER 2

1. Explain five reasons that may account for continued use of hand carts as a mode of transport in Kenya. (12mks)
2. The oil pipeline has recently been extended from Nairobi to western Kenya. Explain five benefits that may be accounted to the country from the extension. (10mks)
3. Explain five ways in which an efficient road transport system may promote trade within a country. (10mks)
4. Discuss five factors that have hindered the expansion of railway transport in Kenya. (10mks)
5. Explain five features of an efficient transport system (8mks)
6. Explain the advantages of pipeline as a mode of transporting oil products. (12mks)
7. Outline five factors that should be considered when choosing a means of transport. (10mks)
8. Explain six advantages of containerization as a mode of transport. (10mks)
9. Discuss six factors that may discourage the use of pipeline as a means of transporting petroleum products in a country. (12mks)
10. Discuss 5 circumstances under which a trader may choose to transport goods by rail. (10mks)

COMMUNICATION

1. Outline four reasons why a business person may prefer written communication to verbal communication. (5mks)
2. State five services offered by the post office. (5mks)
3. State four advantages of verbal communication. (4mks)
4. Highlight four advantages of using telex as a means of communication. (4mks)
5. State four features of effective communication. (4mks)
6. State four reasons why the post office is still popular as a means of sending letters. (4mks)
7. Give four reasons why a person would send a message by mail rather than by telephone. (4mks)
8. Highlight four factors that may limit the use of telephone as a means of communication in Kenya. (4mks)
9. State four problems that may interfere with the effectiveness of face to face communication. (4mks)

WAREHOUSING

PAST KCSE QUESTIONS PAPER 1

1. Outline four features of a bonded warehouse (4mks)
2. Highlight four ways in which a warehouse is useful to a trader. (4mks)
3. List three advantages of warehousing to a manufacturer. (3mks)
4. Outline four benefits that consumers get from a warehousing (4mks)
5. Outline four factors that a trader would consider in locating a warehouse. (4mks)
6. State four benefits that a government gets from a bonded warehouse. (4mks)
7. State four features of a bonded warehouse (5mks)
8. State four advantages of public warehouse to retailers. (4mks)
9. the table below contains descriptions relating to some types of warehouse. In the space provided, write the type of warehouse to which each description refers.

Description	Type
a) Used to store exports and imports	
b) Anybody can rent spaces in it for storing goods temporarily.	
c) Operated for the owner's exclusion use.	
d) Owned and operated by manufacturers and farmers.	

10. In which four ways are consumers likely to suffer in a situation where there is no warehousing?

INSURANCE

PAST KCSE QUESTIONS – PAPER 1

1. Describe the procedures that should be followed when taking an insurance policy. (10mks)
2. Explain four ways in which the insurance industry promotes the growth of business enterprises. (5mks)
3. Explain four ways in which the insurance industry contributes to the development of Kenya's economy. (10mks)
4. Discuss various insurance policies under which an insurance company would not compensate the insured in the event of the loss. (10mks)
5. Discuss various insurance policies that the owner of a supermarket may find it useful for the business. (12mks)
6. Explain four benefits of the 'pooling of risks' to an insurance company. (8mks)
7. Explain the factors that may make it necessary for an insurance company re-ensure.
8. Explain the meaning of the following terms as used in insurance (10mks)
 - i) Uberrimae fidei
 - ii) Indemnity
 - iii) Third party motor vehicle insurance
 - iv) Contribution.
 - v) Subrogation
9. Discuss four circumstances under which an insurance contract may be terminated. (8mks)

10. Explain five benefits that could be enjoyed by a person who decided to take out an endowment policy. (10mks)

PRODUCT PROMOTION

PAST KCSE QUESTIONS – PAPER 1

1. The follow are types of advertising

- Product advertising
- Competitive advertising
- Information advertising
- Institutional advertising

In the table below, match each type with its appropriate description. (4mks)

Description

Type

- a) Create awareness about a product
 - b) Promotes the name of the manufacturer
 - c) Persuades a particular brand of a product
 - d) Promotes a particular brand of a product
2. State four ways in which consumer’s benefits from advertising by business people. (4mks)
3. Give three reasons why manufacturer may offer after sales services to his customers. (3mks)
4. Outline four steps involved in personal selling process. (4mks)
5. State four circumstances under which a trader would advertise his products over the radio instead of the television. (4mks)

6. Identify four disadvantages of advertising through television in Kenya. (4mks)
7. List four disadvantages of advertising through television in Kenya. (4mks)
8. Highlight four limitations of after sales services as a method of promoting products.
9. Outline the advantages of after sales services as a method of sales promotion to a customer. (4mks)
10. Highlight three reasons why traders may engage in sales promotion. (3mks)
11. State four advantages of personal selling method of promoting sales. (4mks)

PAST KCSE QUESTIONS – PAPER 2

1. Abdullah, a manufacturer, exhibited his goods in a local trade shows. However his sales did not increase significantly thereafter. Outline five reasons that may have led to lack of significant sales increase. (10mks)
2. Describe the procedures involved in personal selling methods of sales promotion. (10mks)
3. Outline five ways of attracting customers that traders may put into use. (10mks)
4. Explain five benefits that a trader would get by advertising his goods through the radio. (10mks)
5. Explain the reasons why the firms with popular products find it necessary to continually advertise the same products. (10mks)
6. A multinational company is planning to launch its products in the local Kenyan market. Highlight the factors that should be considered by the company when choosing the appropriate media through which to advertise the products. (10mks)
7. Explain the role of a sales department in a business firm (10mks)

8. What are the benefits accruing to a seller who uses personal selling methods to promote her products. (10mks)
9. Advertising in the newspaper is one way of promoting sales of goods. Highlight five limitations of advertising goods in newspapers. (10mks)

DEMAND AND SUPPLY

PAST KCSE QUESTIONS PAPER 1

1. Indicate by writing a demand or supply whether each of the following factors influence demand or supply of a commodity. (5mks)
- a) Changes in the prices of inputs
 - b) Change in tastes and preferences.
 - c) Changes in technology
 - d) Changes in incomes
 - e) Changes on the price of other related products.
2. State the law relating to each of the following.
- a) Demand
 - b) Supply
 - c) Demand and supply
3. In each of the following cases, indicate whether the supply will increase, decrease or remain constant.
- a) If the demand for coffee rises, the supply of tea is likely to
 - b) If the prices of cars fall, the supply of petrol is likely to
 - c) if the demand for beef increases the supply of wool is likely to

4. State four factors that may cause an increase in the supply of a product. (4mks)

5. Outline four factors that may cause a decrease in the quantity demand for a product.

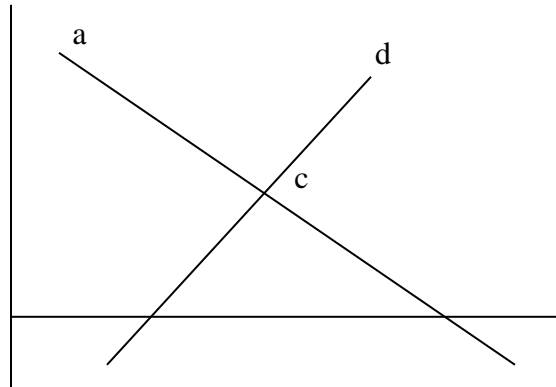
(4mks)

6. Draw a demand curve based on the demand schedule below

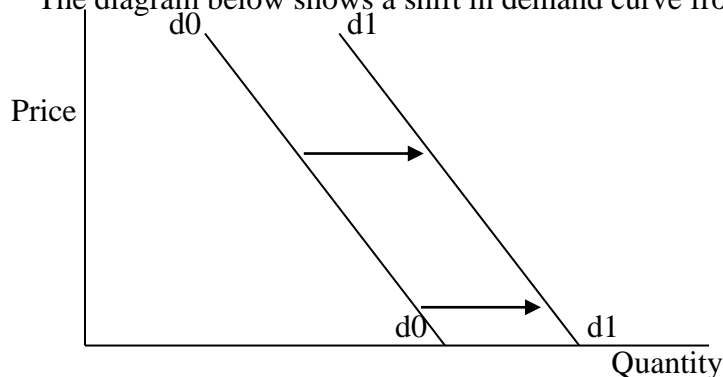
Price (Sh)	Quantity demanded
5	100
10	50
20	25
25	5

(4mks)

7. The following diagrams represent demand and supply of a product. (5mks)



- a) Labels the cover (a) and (b)
 - b) State what is represented by point (c)
 - c) On the diagram, indicate equilibrium price (PE) and equilibrium quantity (QF).
8. State four factors that may lead to an increase in market supply of a product. (4mks)
9. The diagram below shows a shift in demand curve from d_0 to d_1 .



Identify four factors that have made the demand curve to shift from d_0d_0 to d_1d_1

11. The table below illustrates the demand and supply of commodity.

Price	Quantity demanded kg Kg per month	Quantity kg per month
15.00	80	20
20.00	70	30
25.00	60	40
30.00	50	50
35.00	40	60
40.00	30	70

From the table above, state

- The nature of the demand for the commodity
- The nature of the supply of the commodity
- The equilibrium price
- The equilibrium quantity.

PAST KCSE QUESTION –PAPER 2

- Outline four ways in which the price of goods and services can be determined in the market other than through the forces of demand and supply curve.

THEORY OF THE FIRM

PAST KCSE QUESTIONS PAPER 1

1. State disadvantages of concentrating industries in one area within a country. (4mks)
2. Highlight four circumstances under which a firm would be located near the market for its product. (4 marks)
3. Outline four ways in which land influences the location of industries. (4 marks)
4. State four circumstances under which a firm would be located near the market for its products. (4 marks)
5. State four advantages of locating a firm near the source of raw materials. (4 marks)
6. Identify four problems that tend to limit the growth of small –scale retail business in rural Kenya. (4 marks)
7. Highlight four measures a government may take to attract firms to an area. (4 marks)
8. State four disadvantages of locating a business away from other related business. (4 marks)
9. State four disadvantages of delocalization of industries to a country. (4 marks)
10. State four factors which influence the location of business enterprises. (4 marks)
11. State four measures that local authority could take in order to attract investors to locate their industries within its boundaries. (4 marks)

PAST K. C. S. E QUESTIONS – PAPER 2

1. Outline five benefits that country would get by encouraging businessmen to locate new industries in rural areas. (10 marks)
2. Discuss the factors that have led to the survival of small scale retailers despite competition from supermarkets. (10 marks)
3. Discuss the economic benefits to a community that may result from the concentration of industries in an area. (10 marks)
4. Explain five circumstances that may influence a firm to locate its operations near the source of raw materials. (10 marks)
5. Explain five measures that a government may take to encourage establishment of industries in rural areas. (10 marks)
6. Highlight five advantages of having a business enterprises located in an area. (10 marks)

NET WORTH OF A BUSINESS

PAST KCSE QUESTIONS – PAPER 1

1. The following table contains information relating to a business A, B, C, and D. Determine the figures represented by W, X and Y.

Business	Assets	Capital	Liabilities
A	620,000	W	230,000
B	X	400,000	120,000
C	800,000	500,000	Y

2. In the spaces provided, indicate with a (+) or (-) the effects of each one of the following transactions on the assets, Liabilities or capital (4 marks)

	Assets	Liabilities	Capital
a Bought furniture on credit			
b. Paid creditors by cash			
c. withdrew cash for personal use			
d. Converted a personal car for business use			

3. The following relate to business A, B and C. For each of the business determine the

missing figures: M, N, and P

Business	Assets	Capital	Liabilities
A	30,000	m	12,000
B	n	16,000	13,000
C	60,000	48,000	p

4. For each of the following types of accounts, state in the spaces provided whether you debit or credit increase or decrease the account. (3 marks)

Type of account	To increase	To decrease
a Asset account		
b Liability account		
c Capital		

5. In the table below, determine the missing fig. X, Y and Z for each of business Q, R and S. –

Business	Assets	Capital	Liabilities
Q	250,000	X	120,000
R	Y	1,500,000	Z
S	600,000	100,000	400,000

(3 marks)

6. The following information relates to business A, B, C and D.

Business	Assets	Liabilities	Capital
A	500,000	x	300,000
B	Y	800,000	1,200,000
C	300,000	120,000	z
D	700,000	t	500,000

Determine figure represented by X, Y, Z and T. (4 marks)

BUSINESS TRANSACTIONS

PAST K.C.S.E QUESTION ON THE TOPIC

1. State the term that best fit each of the following description
- i. Money brought into the business by owner_____
 - ii. Goods bought for resale_____
 - iii. Money borrowed by the owner of business. (4mks)
2. For each of the following transactions, indicate with a tick in the spaces provided whether the following business transaction will increase, decrease or have no effect on the balance sheet

Transaction	Effects on the balance Sheet		
	Increase	Decrease	No effect
a) investing more cash in the business			
b) paying creditors in cash			
c) Buying a piece of furniture in cash			

3. In the spaces provided, indicate with a (x) whether each of the following transactions

will increase, decrease or have no effect in the balance sheet.

(4 marks)

Transaction	Increase	Decrease	No effect
a. buying stock in cash			
b. Depositing extra cash into Business account			
c. Drawing cash for personal use			
d. Buying stock on credit			

THE LEDGER

PAST QUESTIONS – PAPER

1. The following trial balance of Onyati was incorrectly prepared in 30th June 1995. Prepare the correct Trial Balance.

	Dr.	Cr.
Capital	99,600	30,520
Debtors		
Creditors	25,670	80,000
Motor vehicles		
Cash	2,500	
Stock	140,250	110,520

2. prepare a trial balance from the following balances extracted from the books of San enterprises on 30th April, 1995

	Shs
Capital	947,000

Cash	74,000	
Premises	870,000	
Debtors	36,520	
Creditors	45,300	
Stock	12,250	(4 marks)

3. The following account balances were obtained from the books of Kiboko Traders on 30th June 1999.

Motor vehicle	240,000
Current liabilities	440,000
Land + building	200,000
Current assets	420,000
Furniture	60,000
Capital	480,000

Prepare a trial balance for Kiboko traders as at 30th June 1999.

4. The following balances were extracted from the books of Dipa traders as at 31st December 2000.

Buildings	100,000
Debtors	54,000
Capital	136,000
Sales	85,000
Purchases	48,000
Stock Jan 2000	25,500
Creditors	37,500
General expenses	31,800

Bank overdrafts 2,500

Prepare a trial balance as at 31 December 2000 (5 mks)

5. The following balances were obtained from the books of Rah Traders

	Shs.
Opening stock	50, 000
Sales	360,000
Gross profit	25% of sales
Closing stock	70,000

Calculate

- a) Cost of goods sold
- b) Rate of stock turnover (5 marks)

6. Enter each of the following transactions relating to Jokin Traders in the relevant 'T' A/c

- i. Deposited cash in hand shs. 5,000 into bank
- ii. Bought a motor vehicle on credit on for 250,000 from Raji Traders
- iii. Paid salaries sh. 2, 400 by cheque (3 marks)

7. Balance the following ledger accounts. (5 marks)

Dr.	Cash Account		Cr.
	Shs		Shs
Balance b/d	45700	Salaries	4800
Sales	35000	purchases	2000

Dr.	Capital Account		Cr.
	Sh.		Shs
		Balance	20700

Dr.	Salaries Account	Cr.
	Sh	sh
Cash	4800	

Dr	Capital Account	Cr.
	Shs	Shs
Balance	2000	
Cash	2000	

Dr.	Sales Account	Cr.
	Sh.	Sh.
		Balance b/d 45700
		Cash 35000

8. For each of the following transactions state the account to be debited and credited.

(4 marks)

Transactions	A/c debited	A/c credited
i. paid a creditor from private source		
ii. proprietorship brought in cash from private sources		
iii. Bought goods and paid by cheque		
iv. Proprietor withdrew cash for personal use		

9. Record the following transactions in ledger accounts.

- a) Received Ksh. 20,000 cash in respect of rent paid
- b) Purchased goods worth 30,000 on credit from crown traders.

THE CASH BOOK

PAST KCSE QUESTIONS

1. State the meaning of the following terms used in a cash book

- v. Contra entry
- vi. Folio column

2. The following is an extract of a cash book from Ramo traders

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
1/1	Balc/d	2500	4500	2/1	stat	520	
5/1	Sales	1200		3/1	Wages		2400
10/1	Cash		1500	10/1	Bank	1500	

- i. Determine the balances carried down on 10th Jan 1996 (1 mk)
 - ii. Give the name of the transaction on 10th Jan 1996 (1 mk)
3. Enter the following transactions as in the cash Book of Temple Traders Below (4 mks)

March 5 Cash 30,000

March 10 paid a creditor Kshs 7,500 by cheque

March 20 received 5,000 in cash

March 15 deposited 12,500 into bank

March 28 Paid wages 2,400 in cash

Date	particulars	Cash	Bank	Date	Particulars	Cash	Bank
------	-------------	------	------	------	-------------	------	------

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4. State four uses of two column cash book (4 mks)

5. For each of the following types of account indicate by writing Dr. or Cr.

The side of record for increase and decrease

Type of A/c	Increase	Decrease
Asset		
Capital		
Revenue		
Expense		

6. the following is an extract of a cashbook of Maisha traders

Date 1998	Particulars	Cash	Bank	Date 1998	Particulars	Cash	Bank
1/7	Bal b/d	-	-	2/7	Salary		20000
	Sales	8000		10/7	Purchases		19000
	Kamau		16000	12/7	Rent	5000	
	Sales		20000	12/7	Stationary	6000	
				30/7	Bal c/d	11000	43000

Determine the opening balances on 1.7..98

7. On July 1999 Kahawa Traders has Kshs 6,000 cash in hand, a bank overdraft of Kshs 2,000.

During the month the following transactions took place

- a) Received cheque from debtors totaling to Kshs 80,000
- b) Paid telephone bills 1,200 cash
- c) Withdrew Kshs 16,000 from bank for office use. Enter the above information in Kahawa traders cashbook given below and balance it off

Kahawa Traders

Cash Book

For the month of July 1999

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank

8. On 1 March, 2001, Mingi traders had Ksh. 13,200 in cash and bank balances of Sh 56,000.

The following transaction took place during the month.

2001 2 Cash sales sh. 12,000

12 paid a creditor sh. 8,200

27 received a cheque for sh. 4,500 from debtors

31 paid rent 7,500 in cash

Record the above information in a two column cash book and balance it off. (4 mks)

9. Outline the uses of two column cash book (4 mks)

10. The following is an extract of a cash book.

Date 2002	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
2/5	Bal	W	X	6/5	Wages		60000
12/5	Sales	20000		18/5	Purchases		30000
20/5		50000		22/5	Rent	6000	150000
28/5	Sales		120000	30/5	Bal c/d	Y	

Determine the figures represented by W, X, Y,Z

(4 mks)

CHAIN OF DISTRIBUTION

PAST QUESTIONS – PAPER 1

1. Outline four benefits that customers get from small – scale retailers. (4 mks)
2. Highlight four benefits that accrue to a customer who buys directly from a manufacturer (4 mks)
3. Name four channels the a manufacturer would use to distribute his goods to the Customer (4 mks)
4. Highlight four factors that should be considered in choosing a method of distributing agricultural produce (4 mks)
5. Give disadvantages of long chain of distribution of goods to a buyer (4 mks)
6. State four benefits to a large consumer who buys directly from the producer. (4 mks)
7. Outline four benefits to a large consumer who buys directly from the producer. (4 mks)

8. Highlight four circumstances under which a manufacturer may prefer to sell goods directly to the consumers (4 mks)

PAST KCSE QUESTIONS – PAPER 2

1. Describe five circumstances under which a producer would sell his goods to his consumers (10 mks)
2. Zango manufacturers who have been selling their products directly as retailers have decided to distribute the products through wholesalers. Explain five benefits that Zango manufacturers may get from these new arrangements. (10 mks)
3. Describe five channels that can be used to distribute locally manufactured goods (10 mks)
4. Explain four factors that may be considered in determining the appropriate channel for distributing goods (10 mks)
5. Discuss circumstances under which a wholesaler becomes essential in the chain of distribution (10 mks)
6. Explain the channel of distribution for imported goods (10 mks)
7. Kabu manufacturers have decided to distribute their goods through wholesalers. Discuss five benefits that would account to Kabu manufacturers (10 mks)

FINANCIAL STATEMENTS

PAST KCSE QUESTIONS – PAPER 1

1. (a) The following is an extract of balances from the books of Otwa traders as at 31st

October 1994

Accrued rent	4,000
Cash in hand	7,500
Trade creditors	3,000
Stock	4,000
Bank overdraft	6,000
Prepaid insurance	1,400
Trade debtors	2,600

Prepare a statement showing working capital (5 mks)

- b) The capital account of Nyota traders showed a balance of Kshs 50,000 as at 1st July 1994. For the year 30th June 1995, the following information was available.
- i) Proprietor brought in a personal car worth 80,000 for the business use
- ii) Net profit amounted Kshs 64, 000. The proprietor withdrew 32,000 from the business for personal use. Prepare the capital account at 30th June 1995
2. The following account balances were extracted from the books of Sawato traders on 30th September 1995.

Purchases	190,550
Opening stock	35,500
Closing stock	25,000

Sales 256,050

Sales return 4,800

Calculate

i. Cost of goods sold (5 mks)

ii) Percentage of gross profit and net profit

3. The following account balances were extracted from the books of Kitu traders on 30th

November 1995

Machinery 250,000

Debtor 62,000

Creditors 46,000

Stock 12,680

Cash in hand 1,500

Cash at bank 15,000

Determine the capital as at 30th November 1995

4. The following balance sheet relates to Jambo Traders

Jambo traders balance sheet as at 30th June 1995

Calculate Jambo Traders current ratio (5 mks)

LIABILITIES

Capital 127,000

Bank

Overdrafts 12,000

Creditors 25,000

164,000

ASSETS

Machines 90,000

Stock 20,000

Debtors 32,000

Cash in hand 22,000

164,000

5. During the month of July 1995 Kungu made sales worth Kshs.60,000. His margin on sales was 20%, calculate;
- a) The cost of goods sold
 - b) The gross profit
6. For each of the following transactions indicate with a tick the effect on capital. (4 mks)

Transaction	Increase	Decrease	No Effects
(i) Withdrew cash for personal use			
(ii) Used personal savings to buy stock			
(iii) Paid a creditor by cheque			
(iv) Bought office furniture in cash			

7. The following balances were extracted from the books of Waso traders on 30th October 1995.

Cash	20, 520
Bank	160,230
Premises	800,000
Debtors	40,000
Creditors	62,000
2 year loan	40,000
Stock	2,500

Prepare a balance sheet (5 marks)

8. The following information was extracted from the books of Kwaso traders on 31st August 1997.

Gross profit	130,800
Carriage of sales	4,700

Commission received	8,000
General expenses	18,200
Insurance	4,000

Prepare a profit and loss A/C (5 marks)

9. The balance sheet of Moba Enterprises for the year ended 30th June 1996 is given below.

Moba enterprises sheet as at 30th June 1996.

Calculate the return on

- a. Capital invested

	Sh	sh	sh
Capital	1,200,000		
N.p	240,000	1,440,000	
	<hr/>		
		F.A	1,400,000
			74,000
C.A			
C.L			
Creditors	3,400		
	<hr/>		
	1,474,000		1,474,000
	<hr/>		<hr/>

(5 marks)

10. The following account balances were extracted from the books of Kiboko enterprises on 30th June 1997.

Opening stock	65,000
Sales	280,000
Purchases	190,000

Purchases returns 10,000

Sales returns 4,200

Closing stock was Kshs. 70,000 as at 30th June 1997. Prepare the trading a/c for period ended 30th June 1997. (4 marks)

11. The following information was extracted from the books of Peshau Traders as at April 1998

Cost of goods sold 65,000

General expenses 280,000

Capital for the period was 20% 10,000

Calculate rate of net profit to capital (5 marks)

12. State four uses of balance sheet for business organizations. (4 marks)

13. The following information relates to Mali traders for the year ended 31st Dec 1998.

Capital 1.198 250,000

Additional investment 68,000

Drawing 92,000

Profit 180,000

Calculate the capital of Mali traders as at 31st Dec 1998 (4 marks)

14. The following information was obtained from the books of Kina Traders on 30th June 1998

Opening stock 8,000

Purchases bank 53,000

Sales 62,900

Return outwards 2,700

Closing stock 12,700

Prepare Kina Traders balance a/c for the year ended 30th June 1998 (5 marks)

15. The following balances were obtained from the books of Rah traders

Opening stock	50,000
Sales	360,000
Gross profit	25% of sales

Calculate

- a) Cost of goods
- b) Rate of stock turnover (5 marks)

16. Cumvi Traders had a capital of sh 180,000 as at 31.12.1998

Additional information

- a) during the year the owner converted her private car worth 90,000 for business use
- b) Goods worth sh. 50,000 were taken from the business for her own use
- c) Net profit for the year was sh 140,000

Calculate capital as at 31 Dec. 1999 (3 marks)

17. The following figures obtained from the records of Buka Enterprises for the year ended 30th June 2000

Sales	500,000
Cost of goods sold	280,000

Calculate the gross margin (4 marks)

18. The following transactions relates to Tajira Traders for the month of January 2001

Jan 1 started business with Kshs. 20,000 in cash

Deposited 15,000 from cash till into a business Bank account

Bought goods on credit from Wema traders for 6,000

Bought furniture by cheque sh 3,000

Prepare a balance sheet as at 31st January 2001

19. The following balances were extracted from the books of Vuno Traders for the year ended 31st March 2001

Gross profit	186,200
Carriage outwards	13,500
Rent received	34,300
Office expenses	19,600
Salaries	57,000

Prepare a profit and loss for the year ended 31st March 2001 (5 marks)

20. Ngoma traders had the following transactions

Feb. 2 bought goods costing sh 400,000 from Maiyo traders sh. 650,000 by cheque as a part of payment for goods received. Received the above transaction in the account below and balance it off. (5 marks)

Dr		Maiyo traders A/C		Cr	
Date	Details	Kshs	Date	Details	Kshs

-
21. The following information was extracted from the books of Mutua for the period ended 30th June 2001.

Opening stock	2,000
Purchases	8,500
Closing stock.	2,500

Sales 10,000

Required:

- a) The trading Account for the period ended 30th June 2001
- b) Calculation of the mark up (5 marks)

22. Below is a balance sheet of Lela Traders as at 31st Dec 2001

Lela traders.

Balance sheet as at 31st Dec 2001

Capital 1.1 2001	78,000	F.A	87,800
Add net profit	42,000	C.A	55,200
	120,000	C.L	23,000
	143,000		143,000

Calculate

- a) Correct ratio
- b) Return on capital

PAST KCSE QUESTIONS-PAPER 2

1. The following Trial balance was prepared from the books of Paka Traders as at 31st December 1995.

Trial balance December 31st 1995

	Dr.	Cr.
	Kshs	Kshs
Sales		900,000
Purchases	600,000	
Returns inwards	80,000	
Returns outwards		20,000
Carriage in		40,000
Carriage out	3,000	
Stock (Jan)	100,000	
Rent	60,000	
Creditors	170,000	
Debtors	120,000	
Interest expenses	18,000	
General expenses	7,000	
Capital	<u>178,000</u>	
	1,268,000	
Creditors		240,000
	<u>6,226,000</u>	<u>6,226,000</u>

Additional information

Stock as at 31st December was 100,000

- i. prepare Trading, profit and Loss account for the period ended 31 December 1999
- ii. calculate return on capital, current ratio and debtor's ratio (10 marks)

5. The following is a balance sheet of Bambu traders as at 31st December 2000

Bambu Traders

Balance sheet as at 31st December 2000

- a) Sales during the year amounted to Kshs 2,000,000
- b) Stock on 1 January 2000 was Kshs. 100,000
- c) Gross profit margin was 20%

Calculate

- i) Current ratio
- ii) Gross profit mark up
- iii) Rate of stock turnover

6. The following trial balance was extracted from the books of Maringo traders on 31st December 2001

Maringo traders Trial Balance as at 31st December 2001

Gross Profit		380,000
Closing stock	274,000	
Capital		259,000
Drawings	83,000	
Creditors		93,000
Premises	103,000	
Debtors	123,000	
Cash at bank	33,000	
Bank loan (1 yr)		50,000
General expenses	54,000	

Commission received		20,000
Wages and salaries	132,000	
	802,000	802,000

Prepare

- a) Profit and loss Account for the year ended 31st December 2001
 - b) Balance Sheet as at 31st December 2001 (12 mks)
7. the following information was extracted from the books of Sarai Traders for the year ended

30 April 2003

Sales	480,000
Opening stock (1.5.02)	80,000

Gross profit is calculated at 25%

- i) Prepare a trading account for the period ended 30 April 2003
 - ii) Calculate the rate of stock turn over (10 mks)
8. The following balances were extracted from the Tango traders as at 31st December 2004

Motor vehicle	80,000
Plant and machinery	70,000
Loan from Bank	60,000
Stock	25,000
Debtors	30,000
Creditors	15,000
Bank	20,000

Prepare a balance sheet for Tango Traders as at 1st December 2004. (5 mks)

9. The following information refers to tea traders for the year ended 31/12/04

Sales	800,000
-------	---------

Expenses	10,000
Commission received	15,000
Purchases	700,000
Opening stock	250,000
Margin	20%

Prepare trading, profit & loss a/c for the year ended 31/12/04

10. (1) The following balances were extracted from books of Motop Traders for the year ended 31/12/2004

Rent	48,000
Lighting	7,200
Water	9,220
Salaries	75,000
Commission received	8,500
Discount allowed	4,600
Discount received	8,500
Gross profit	320,000
General Expenses	98,000
Stock	5,250
Motor Vehicle	2,300,000
Furniture & equipment	650,000
Debtors	270,000
Creditors	396,400
Bank	200,000
Cash	50,000

Capital 3,000,000

Prepare:

Profit and loss a/c for the year ended 31/12/2004

Balance sheet as at 31/12/2003 (4 ½ mks)

PUBLIC FINANCE

KCSE PAST QUESTIONS- PAPER 2

1. Highlight five reasons why budgeting is important to a business organization (10 mks)
2. Discuss the reasons why a business organization may prepare a budget (10 mks)
3. Discuss the various classes of taxes (10 mks)
4. Outline the disadvantages of direct taxes (10 mks)
5. Explain any 5 principles of public expenditures (10 mks)
6. Discuss the importance of a budget as a tool of control (10 mks)
7. Highlight any five features that a government should consider when deciding on a good tax system (10 mks)

MONEY AND BANKING

PAST KCSE QUESTIONS PAPER 1

- A. State how a credit transfer is used as a means of transferring money through the commercial banks (3 mks)
- B. Highlight four advantages of using a telegraphic money order as a means of remitting money through the post office. (4 mks)
- C. state four limitations of barter trade (4 mks)
- D. In the spaces provide below indicate with a tick whether each of the following statements is true or false about commercial banks (5 marks)

	True	False
- Accept deposits from the members of the public		
- Provides safe custody for the valuables		
- Issues currency for the use in the country		
- Controls money supply in the country		
- Lends more to the public		

- E. List four characteristics of money (4 mks)
- F. State four methods that central bank may use to control credit (4 mks)
- G. List four functions of development (4 mks)
- H. highlight four reasons why loans advanced by commercial bank in Kenya may not appeal to many people (4 mks)
- I. Give four disadvantages of barter trade (4 mks)

- J. State four banking services that the central bank of Kenya provides to the government
(4 mks)
- K. Wambua intends to import a car from Dubai which costs Kshs. 20, 0000 Dirams. If 4 Dirams = 1 Us Dollar and Kshs 70 = 1 Dollar, calculate the amount in Kenya shillings that Wambua will pay for the car.
- L. Highlight 4 functions of the Central Bank of Kenya
- M. Given below is the first stage in the historical development of money list the next four stages in their order of occurrence
(4 mks)

PAST KCSE QUESTIONS – PAER 2

1. Explain five in which banks contribute to the development of Kenya
(10 mks)
2. Outline five reasons why banks currently account is popular with traders
(10 mks)
3. Explain service offered to commercial banks by the central bank of Kenya
(10 mks)
4. In what ways of the functions of commercial bank differ with those of non- bank financial institutions
(10 mks)
5. Explain five ways in which central bank of Kenya may control the supply of money in the country
(10 mks)
6. Describe methods which may be used by commercial banks to advance money to Customers.
7. A businessman wishes to obtain a loan from a commercial bank. Highlight the conditions that he should satisfy before the bank can grant him the loan
(10 mks)
8. Explain five services that the central bank of Kenya offers to commercial banks
(10 mks)
9. Explain four disadvantages of using a bank overdraft as a source of finances
(8 mks)

10. Describe four ways in which a non-bank financial institutions differ from the commercial banks (8 mks)
11. Discuss five reasons why business people prefer to operate bank current accounts
12. Outline the benefits that bank customer gets from operating a current account (10 mks)
13. Explain the 5 services offered by a commercial banks to their customers (10 mks)

INTERNATIONAL TRADE

PAST KCSE QUESTIONS PAPER 1

1. Outline four benefits that Kenya derives by being a member of preferential Trade Area PTA (4 mks)
2. Give four reasons why it may be necessary for a country to control imports (4 mks)
3. State four benefits that a country may derive from participating in international trade (4 mks)
4. State four methods of controlling imports (4 mks)
5. State four measures that Kenya may take to promote her exports (4 mks)
6. State four factors that may limit the success of trade agreements among African countries (4 mks)
7. State in the spaces provided below, state the business document to which each of the following statements relates (4 mks)

Statement	Document
A. Informs the buyer when goods were dispatched and by what means	
B. A request by seller for payment in advance	
C. Used to correct under undercharge in an invoice	
D. Shows details of the transactions between seller and buyer during a	

given period

8. Highlights four problems a country by participating in international trade (4 mks)
9. Outline four circumstances under which a proforma invoice may be used (4 mks)
10. Explain the following terms as used in international trade
 - a. LOCO
 - b. F.O.R
 - c. F.A.S
 - d. Bill of Landing
11. State three functions of departments of international trade in the ministry of commerce and industry (3 mks)
12. Country X has recorded a surplus balance of payments from its foreign trade. Outline four ways in which the country can spend these surplus earnings (4 mks)
13. List four benefits that a country derive from engaging in international trade (4 mks)

KCSE QUESTIONS – PAPER 2

1. Explain five ways in which a country benefits by participating in international trade (10 mks)
2. Outline five transactions which are recorded in balance of payment account of a country (10 mks)
3. Explain five measures that a country may take to promote her exports (10 mks)
4. Explain the meaning and significance in each of the following terms as used of the following terms as used in foreign trade. Terms of trade, balance of payment, exchange rate, balance of trade and common market. (10 mks)

5. Explain the significance of each of the following documents as used international trade. Bill of lading, proforma invoice, indent, letter of credit
6. Country X has obtained a surplus in its balance of payment. Explain the factors that could have contributed to this surplus (10 mks)
7. Explain six problems being faced by the Kenya External Trade Authority (KETA) (12 mks)
8. Explain the factors that may lead to deteriorating terms of trade for a country (10 mks)
9. Outline five functions of Kenya external Trade Authority (KETA) (10 mks)
10. Highlight five benefit that Kenya gets from trading with other countries (10 mks)
11. The domestic currency of a certain country has been depreciating over time. Highlight five disadvantages of the depreciation of the country (10 mks)
12. Highlight five ways in which a bill of lading is useful to an importer of goods (10 mks)

MARKING SCHEMES

INTRODUCTION TO BUSINESS STUDIES

1.

- Enable trade to take place
- Bridges the gap between the producer and consumer through transport
- Informs consumers about good and services available i.e. where they can be found, their prices.
- Uses etc
- Provide storage facilities/ warehouse
- Provides safe places for keeping money, opportunity for borrowing banking
- Protects trade against risk though insurance

SATISFACTION OF HUMAN WANTS

1.

Goods	Classification
Factory	Producer
Private car	Consumer
Iron ore	Producer
Tools	Producers
Exercise books	Consumer
Clothing	Consumer

2.– They are essential for survival

- They cannot be permanently satisfied
- They are universal

3. 1996. – Avoiding indiscriminate felling of trees

- Planting more trees
- protecting forests areas from human settlements
- Developing alternative sources of energy to reduce reliance as wood fuel
- Educate the public the importance of forest conservations

4.– Their exploitation creates employment

- Provides raw materials for industries
- They are used to generate income for a country/ foreign income
- They are basic factors for sustenance of a life e.g. irrigation schemes

- Provides means of transport

5.– They are essential for survival

- The consumer has limited sources

- They cannot be postponed

- They are self needs

6.– Fluctuating oil prices

- No oil in Kenya/ reduce importation

- Availability of cheaper energy

- Reduce pollution/ environmental friendly

- High cost of production of fuel

7. - Unlimited needs/wide variety

- Different tastes/ preferences/ fashion

- Difference prices of goods

- Government policy on goods

- Limited sources

8.– unlimited number

- can be satisfied as long as one has the means
- They are complementary
- Compose with one another
- Vary in urgency and intensity
- They are insatiable

9.– Food

- Clothing
- Shelter

10.– It may lead to pollution

- May endanger lives due to landslides
- Over reliance on mining may lead the country into economic problems
- When price fluctuate
- Mines get exhausted

11.– Reasons prevent misuse of resources

- To protect environmental degradation
- To conserve resources
- To control production activities which require natural resources
- Promote tourism

12.. There is exchange hence one is able to acquire what they do not have i.e.

Possession utility

- Goods are stored until when needed through warehousing hence time utility is created
- Goods are taken to where required through transportation hence place utility is created
- Through the process of production goods are converted to the right form in which the

consumers can use them to satisfy his wants hence form utility is created.

PRODUCTION

Paper 1

1.

Activity	Level of production
Digging clay soil	Primary
Construction of a bridge	Secondary
Selling of a shop	Secondary
Growing vegetables	Primary
Transportation of medicine	Tertiary

2. - Does not involve exchange and therefore no surplus production

- There is limited use of modern technology

- There is use of economic resources/ capital

3. - warehousing

- Transport

- Advertising

- Insurance

- Communication

4. - Take advantage of cheap labour in the country

- avoid paying tax on the goods that would otherwise be imports

- To take advantages of suitable raw materials in the country

- To make products cheaper hence more sales

- To make transport cheaper
- 5.
 - secondary
 - Tertiary
 - Primary
- 6.
 - Consumer goods are demanded for final or direct use by the buyer
 - Producer goods demanded for production of other good
- 7.

Resources	Factor of production
Manager	Labour
Vehicle	Capital
Cotton	Land
Water	Land
Owner	Entrepreneur

- 8.
 - Productivity usually on small scale
 - Usually for own consumption
 - Production is not for the market
 - Use simple method of production
 - Low quality
- 9.
 - Identifies viable business opportunity
 - Combine the other factors of production
 - Provides capital required to carry out production
 - Employs and rewards other factors of production
 - He bears all the risks and losses

- enjoys the profits
- He makes all the decisions on the business
- He controls and manages the business

Paper 2

1. - Identifies viable business opportunities
 - Provides guidelines on how production should be organized/ take/ place/
Coordinate
 - Provides the capital necessary to carry on production
 - Hirea/ rewards all other factors of production
 - Bears all the risks/ incurs losses/ enjoys all profits
 - Decides how/ where/ when / what to invest the business
 - Provides/ avails/ assembles/ marshals other factors of production
2. - Large quantities
 - They buy in bulk, hence they get a good quantity discount, hence reduce their purchase expenses
 - Transport costs
 - They buy in bulk, hence they transport they goods at once, which reduces on transport costs.
 - Skilled manpower
 - They are able to employ skilled personnel, who provides quality management reduce on losses, and hence maximize profits
 - Use of machinery

- They are able to afford machinery which in turn reduce on labour costs, hence reducing production costs

Research

- They are able to carry out research, hence producing quality products and with the least wastage, hence reducing on production cost.

OFFICE

PAST K.C.S.E QUESTIONS

1.
 - So that they can be protected from damage
 - So that information can be retrieved easily when needed
 - So that the office can be tidy
 - So that reference can be done in future
 - Plans for the operations of an office
 - Coordinating the operations of an office
 - Reports the operations of an office to the general manager of the business organizations
 - Organizes the operations of an office
- 3.

Function	Equipment
Sending and receiving written messages	Telex
Sending and receiving verbal messages	Telephone

Sending and receiving copies of documents	Fax Machines
Sending and receiving one way only	Pager

4.
 - Leadership
 - Sound
 - Judgment
 - Methodical
 - Strong character
 - Discipline
 - Polite
 - Forward looking
 - Communicative
5.
 - Availability of storage spaces
 - Cost of storage
 - Information contained in the document
 - need for future references
 - Purpose of documents
- 6.

2002 Office task	Equipment
Printing stamps impression and envelopes	Franking machine
Cutting papers into required sides	Franking machine
Pinning papers together	Stapler
Recording processing, storing, retrieving info	Computer

7. - Receiving Information

- Sending out information
 - Processing information
 - Reprographic purposes
 - Filing documents for future reference
 - Safeguarding organizations assets
 - Recording information
 - Offer administrative facilities
8. - mailing
- Processing information
 - Reprographic purposes
 - Recording information

HOME TRADE

PAST KCSE QUESTIONS

1.
 - Production of surplus goods and services
 - Development of money and banking
 - Development technology
 - Differences in resources endowment between different countries as areas within the country.
 - Political stability
 - Government policy
 - Skilled manpower
2.
 - It is used for future reference

- It acts as an evidence of transactions and reminds the debtors of the debt.
- He can use to pursue the debtors in case he refuses to settle the debts
- can use it borrow some money for the business as a security

FORMS OF BUSINESS UNITS

Answers Paper 1

1.
 - Obtains discount because of bulk buying
 - Able to advertise
 - Incurs low costs of production
 - Offers better management because of specialization
 - Allows diversification in order to reduce risks
 - Able to cater for staff welfare
 - Large output due to many channels
- 2.

Statement	True/ false
a) Contains the activities the company is engaged in	False
b) Indicates the process to be followed in calling meetings	True
c) Contains details of electron procedures	True
d) Indicate the liabilities of the shareholders	False
e) Contains the rights of each shareholder	true

3. – usually requires capital to start
 - Decision making is faster
 - Profit earned are not shared
 - Flexible
 - Enjoy secrecy
4. – Increase employment opportunities
 - Transfer of technology
 - Increase government revenue from licenses and taxes
 - Development of infrastructure
 - Creation of international understanding
5. – A partnership may be able to raise more capital than a sole proprietorship
 - A partnership may be able to use the abilities of all the partners while a sole proprietor has to rely on ideas alone
 - The partners may share losses when they occur while the sole proprietor suffers sole losses alone
 - Some partners may have limited liability while the sole proprietor has Unlimited liabilities.
 - The ability to share work
6. – used for long term activities

- can raise large amount
 - Can be bought back
 - Less cost of raising
 - Interest paid on remaining balances
 - Lenders of money do not have voting rights
7. – Promotes saving habits
- Obtains cheap loans
 - Assistance during problems
 - Financial advice
 - Invest on behalf of members limits for banking facilities
 - Payment dividends
8. - He does not require as much capital to start the business
- Operating costs are much lower than those of a shopkeeper
 - He is closer contact with his customers
 - He is more flexible in making business decisions
 - Able to go where customers are
 - Price is not fixed
 - Sells in cash so no bad debts
9. - Lack of adequate skilled administration
- Low income of existing and potential cooperative members
 - Inadequate collateral to borrow loans
 - Undue interference with the movement by government – by- government functionaries
 - Delayed transfer of members’ contribution by employees
- 10.

Statement	References shares	Ordinary Share
a) Represents ownership		x
b) Rate of dividend is fixed	x	
c) Has voting rights		x
d) Considered first in liquidation	x	
e) Redeemable	x	
f) May be cumulative	x	

11. - Easy to form
- Flexible in terms of business activities
 - Quick decision making
 - uses family labour
 - Usually no division of labour
 - enjoy business secrets
 - Owned by one person
12. - able to get discounts due to bulk purchases
- Able to establish its own retail outlet to promote its products
 - Can afford to hire qualified manpower and hire machines
 - Could enjoy low cost of production due to spreading of costs over large Outputs
 - Able to spread risks
 - Easier to raise capital
13. - It is short – term credit facility
- Practiced by traders only
 - Period for which the credit is given varies from 30 days for home trade and 60 – 90 days for

- foreign trade
 - Does not require a down payment
 - Credit attracts no interest if paid within agreed period
 - Buyer takes ownership of goods immediately
 - Usually paid one
 - ensures continuous supply of stock
14. – Need to protect consumers from high prices charged on poor quality
- Products provided by private producer
 - need to avoid foreign control over an industry
 - Change in political ideology
 - Need to provide less profitable but essential services
 - need to collect revenue
15. – each member has only one vote- cooperative
- The business enjoys perpetual succession- companies
 - Each member may act on behalf of the business- partnership
 - Formed by parliament – public corporation
16. – Organizing training
- Employment of qualified staff
 - Enforcement of law to punish errant staff
 - Control errant staff
 - Reducing of undue influence by the government
 - Motivate staff
 - restructuring them to make them competitive
17. – Loans

- Member contributes in buying shares
 - Membership
 - Retained profit
 - Interest on loans to members
 - Rent income
18. - Sell similar goods
- Their members decide on share of the market
 - Member from rules on which to operate
 - are made up of competing firms
 - The members next to fit prices of goods sold
19. – It is a minimum membership of 2 people
- Its shares are not freely transferable
 - Entry to membership is not free
 - It has limited liability
 - Has a separate legal entity
 - Maximum membership of 50 people
20. – Promissory note
- Trade credit
 - Bank overdraft
 - Retained earnings
 - Factory
 - Personal Savings
 - Relatives
 - Bill of exchange

- When quantities are small
- 21. - May result in a monopolistic situation
 - May lead to production on inferior good due to lack of competition
 - Prices of goods may be artificially kept high
 - They may restrict entry of other firms thus limiting consumer choice
 - Leads for shortages
 - Deny customers bargaining scale
- 22. - One enjoys economics of scale
 - One can get money from long – term sources as the business can offer security
 - One enjoys large profit margin
 - One can be able to employ skilled labour
 - One can afford to advertise his commodities
- 23. - easy to raise capital to start the business
 - The business is highly flexible
 - Quick decision- making
 - Requires less legal procedures during formation
 - Able to keep top business secrets
 - Does not have too much government control
 - Exposed to fewer risks due to their small sizes
 - They are not heavily taxed compared to big companies

KCSE PAST QUESTIONS PAPER 2

1. (i) Open and voluntary membership

“Igniting positive change among our youth”

Members wishing to join cooperative societies do so on voluntary basis and can leave at will.

They are however, expected to meet basic requirements before they can join.

(ii) **Educator for members**

Support for educational activities with movement/aimed to foster cooperative principles at all levels to encourage membership and teaching

(iii) **The principle of democratic control**

The administration of cooperatives is entrusted to a committee elected by members on the basis of one man one vote.

(iv) **Affiliation co-operation**

Primary co-operative societies should be affiliate/ co-operate/ others/ secondary apex societies/ all levels

(v) **Interest on capital**

Limited interest on capital should be allowed/ predetermined on capital but based on a fixed rate bid down by rule

(vi) **Principle of political neutrality**

Cooperatives are supposed to be non- partisan politically/ non politically

(vii) **Payment on dividends/ share of profits**

Profits made is shared among the members according to their contribution prorate basis

2. (i) **payments**

Farmers usually get their payments after a long time after they deliver their produce/ delayed payments

(ii) **Deductions**

Boards usually makes deductions from the payments they make to farmers at times without explaining why such deductions are made/ unfair deductions.

(iii) **Bureaucracy/ procedure**

The procedure that farmers have to follow in delivery of their produce getting payments is sometimes cumbersome and time wasting.

(iv) **Collecting of produce**

Sometimes collection of produce (from collection centers) delayed leading to deterioration of produce quality/ unnecessary losses.

(v) **Differentiation**

Lack of distinction between quality of produce from different areas may disadvantage those farmers who produce high quality produce.

(vi) **Pricing**

Farmers have to say no in the determination of prices/ prices are fixed by a board but the board may not reflect the true market price

(vii) **Corruption/ embezzlement/ fraud**

Farmers loose money via dishonest deed e.g. cheating in weight, recording etc.

(ix) **Management**

Political interference may affect adversely the running of the boards

3. - Overdrafts are current account holders

- Hire purchase of goods
- Bills of exchange / promissory notes/ trade bills can be sold instead of
- waiting for them to mature
- Issue of post dated cheques
- Trade credit
- Retained earnings
- Short term bank loans

- Discounting of invoices
 - Taxation money
 - Sale and lease back
 - Leasing of property
 - Provision for depreciation
 - Proposed dividends
4. – To curb monopolistic practices
- To provide goods and services the private sector is unable to provide
 - To create job opportunities
 - For security purposes e.g. dealing with firearms
 - To allow local participation/ minimize foreign participation
5. – To avoid excessive competition among themselves
- To share the market demand in the areas/ regions selling
 - To determine the output/ quota for each member
 - To influence the price charged on products
 - To lobby for policies better to them/ protect their interest
 - To set modules/ standards improve in quality
7. -Debentures are units in loans which must be paid by a public company unlike ordinary shares
- Ordinary shareholders are paid in fixed rate of interest
 - Failure to pay debenture rates leads to company being declared bankrupt unlike payment of share dividends
 - Debenture interest must be paid by a public company unlike ordinary shares

- In the event of a company winding up, it is obliged to pay debentures first while shares may come last
- Raising money through require no security while debentures may require a security
- Securing finance through debentures is more expensive than though ordinary shares
- Debentures reduce the borrowing power of a company while shares enhance.
- Dividends can be converted to bonus shares while it is not possible with debentures

8.

Public corporation

- formed by an act of parliament
- Initially financed by the government
- B.O.D nominated by government
- Political influence eminent
- Losses subsidized by government
- Profits go to the government
- Auditing is done by the government auditors
- Performs specific functions

Private limited company

- Under registrar of companies cap 486
- Financed by shareholders
- Directors nominated by shareholders
- No political influence
- May lead to collapse of company
- Profits go to the shareholders

- Decision to wind up rests on the individual/ shareholders
 - Auditing is done by private auditors
 - Performs various functions
9. (i) access to interest free resources in the host country
- (ii) Have access to both local and international market
- (iii) They are foreign owned while others are locally owned
- (iv) They are government by both the local regulations as well as those of other countries where they operate
- (v) Because of their large reserves of resources multinational can undertake very high- risk investment
- (iv) Multinational co- operations repatriates much of their profits back to their countries of origin.
10. -Inadequate capital: with adequate, the business growth will be hindered
- Extended demand: if market is wide, the firm will grow, if small the growth will be limited
 - Infrastructure: with adequate infrastructure, a firm will grow; if poor the growth will be limited.
 - Technology efficient technology enhance growth inefficient technology will hinder growth
 - Competition: stiff competition will limit growth less competition will allow growth
 - Management: inefficient management will hinder growth, efficient will lead to growth
 - Government policy: government policy may lack a hinder growth e. g taxation
 - Water: availability will enhance growth, lack will hinder growth
11. - High installments which many Kenyans cannot afford discouraged many

Kenyans

- High interest rates charged on loans discourages many Kenyans. Low incomes of a majority of Kenyans not to afford
- Many Kenyans are unaware of services offered by building societies which make them not to seek finance.
- Poor saving habits of many Kenyans are not able to raise discourage Kenyans.
- Long procedure or acquiring loans, discouraging many Kenyans from purchasing houses.
- Cheaper Sources finances from other sources e.g SACCO, which are not attractive.
- Accessible. Most societies are not accessible to many Kenyans as they are in urban areas.
- Loan condition. Many societies have rigid conditions which Kenyans cannot meet.

12. - The firm will be able to enjoy marketing economics due to large volumes

of sales

- The firm will be able to enjoy financing economies such as easy credit/ availability of collateral
- Production economies- the firm will be able to access large quantities that attract quantity discount.
- The firm will be able to spread risk by diversifying operations
- The business can afford modern machinery
- Business can acquire new skills for more effective production
- Can provide staff welfare facilities for improved performance
- Division of labour- different people are assigned different task according to ability.

13. - Liability of members in PLC is limited while in partnership of PLC is not Limited

- Membership of PLC cannot act as agent on behalf of the business while partner's act as agents for partnership.

- Maximum partnership of PLC is not limited while partnership form of business has limited maximum number of partners
- (Entry) accept any entity form legal) are considered as legal entities/ own property in their own name)
- (Regulations) PLC are regulated by M.O and A.O. While partnerships are regulated by agreement.
- Transfer of phases allowed in PLC while it is restricted in partnership
- PLC have a minimum of no.7 while partnership has a minimum of 2
- PLC are managed by elected board of directors while partnership are managed by partners themselves
- PLC raise capital by sale of share/ debentures while partnership raise capital through contribution by partners
- PLCs acquired certificate of incorporation to start operating while partnership does not require a registration certificates.

14.

Kiambu Enterprises

Petty Cash Voucher

Receipt K	Date 200	Details	Inv. N	Total K	Travel K	Postage K	Stationery K	Office E	Ledger A	Folio
1200	Jan 1	Bal b/f								
	Jan 2	Fare	1	200	200					
	Jan 2	Stamps	2	100		100				
	Jan 3	Off. Exp	3	240			60	240		
	Jan 3	Envelopes	4	60						
	Jan 4	Cleaning	5	80			140	80		
	Jan 6	Stationary	6	140						
	Jan 6	Munyua	7	130					130	
	Jan 6	Taxi	8	160	160					
		Registratio	8	40		40				
				1150	360	140	200	320	130	

Ledger A/C

Dr.

Cash A/C

Cr.

Date	Details	Kshs	Date	Details	Kshs
	2006			Petty Cash	575
	Jan 7				

Dr.			Traveling A/C			Cr.		
Date	Details	Kshs	Date	Details	Kshs			
2006								
7/1	petty Cash	360						

Dr.			Postage A/C			Cr.		
Date	Details	Kshs	Date	Details	Kshs			
2006								
7/1	Petty Cash	140						

Dr.			Office Expenses A/C			Cr.		
Date	Details	Kshs	Date	Details	Kshs			
2006								
7/1	Petty cash	320						

Dr.			Munyua A/C			Cr.		
Date	Details	Kshs	Date	Details	Kshs			

2006

7/1 Petty cash 130

15.– It acquires permanent capital as ordinary shares are not redeemable

- It is obliged to pay dividend to ordinary share holders therefore no pressure
- from share holders to pay dividends
- It is not obliged to pay dividend to ordinary shareholders therefore no pressure from share holders to pay dividends
- Rate of dividends an ordinary shareholders not fixed as it is determined by the realized profits
- Ploughing back instead of distributed them
- The ordinary shareholders are paid last
- No security requirements- the company will not be required to pledge

16. - Competition – he should choose a business where there is no stiff competition so as to reduce running cost like the advertising, hence maximizing profits

- Viability – he should choose a business that has fewer risks so as to secure his investments
- Market- he should choose a business that he knows that his goods are going to get market
- Profitability – she should invest in a business where he will get more profit so that he will be able to meet all the costs of running his business and at the same time get profits.

17.– As a way of protecting the consumer against private monopoly

- If there has been wasteful competition by several private companies, the government may nationalize the entire industry.
- If the private company was irregularly acquired by private investors from the government.
- If the activity carried out by the private company should have national benefit but not individual benefit e.g mining
- If the firm has relied on government subsidy for so long
- To prevent foreign dominion in the key sector of the economy
- To provide essential services as affordable prices
- To create sources of governments revenues
- To create job opportunities
- For security purposes especially if the business is dealing with sensitive goods like areas.

GOVERNMENT AND BUSINESS

ANSWERS PAPER 1

- Ensuring that correct use of weights and measures
 - Ensuring that goods meet the required standard
 - Ensuring that expired goods are not sold
 - Ensuring that goods are handled hygienically
 - Protected against misleading
 - Ensuring correct prices for some goods
 - Consumer education
2. – It is expensive over short distances
- It is not flexible i.e. cannot offer door to door services
 - Goods may be damaged
 - It is not readily or widely available
3. 1996 – Though licensing
- By offering advisory services
 - Though taxation trading guidelines
 - Though trading guidelines
 - Registration
4. – Consumers are weak because they act individually
- Business people left on their own may lower standards of a quality of their Products
 - Consumers do not always know their rights, educates consumers on their rights
 - Safeguards against poor measures
 - Safeguards against poor construction

- Safeguards against poor health standards

5. – Earn profit

- Invest where private sector cannot raise capital to start
- Invest in areas of national interest
- Provide cheap services to citizens
- Employment to citizen
- provide seminar
- It is unprofitable for private sector

6. – Lack of adequate support by government

- Lack of sufficient information from consumer protection bodies
- Ignorance on the part of consumer about the rights
- Lack of initiative as the part of consumers
- Lack of capital to sponsor their programme

7. – Boycott those trades who exploit them buy from other

- Form consumer organization
- Form vigilant organization
- Go to court
- Complain though press
- Report to the authorities
- Promote consumer education

8. - To generate income

- To create confidence in the economy and attract foreigner
- We venture into business where individuals are not willing to invest due to low

profit margins

- To provide essential goods and services

9. – Expansion and diversification of exports

- Expansion and diversification of foreign markets
- Development of bilateral and multilateral trade agreement
- providing information to Kenya producers on the available selling opportunities in foreign countries
- Educating and advising exporters on trade regulations and commercial practices in other countries
- arranging courses and seminars for business people and relevant government officials to inform them on how to promote exporters

GOVERNMENT & BUSINESS

PAPER 2 ANSWERS PAST KCSE QUESTIONS –

1. – The business malpractices that consumers need to be protected against by the government

- Overpricing / overcharging fees
- False measurements / weight/ volumes/ capacity
- Sub standard goods/ poor services
- Running business under unhygienic conditions
- Misleading advertisement
- Dealing in illegal/ hazard goods/ services
- Unsafe premises
- Hoarding of goods
- Unfair repossession of goods
- Monopolistic practices
- Breach of contracts

2. – Offer storage facilities to producers, selling/ acts as selling agents sells on producers behalf.

- Collects transport produces from producers to their store
- Carries out research for better methods of production as how to improve production
- Provide credit/ loans to producers
- Control quality production to attract better prices by supervision of production activities
- Stabilization of production income through buffer stocks
- Price stabilization by use of stabilization of funds
- Quantity control through licensing
- Education to producers through workshops, extension officers etc

- Processing of produce in preparation produce before marketing
 - Ensuring steady supply of goods by installing surplus during shortages
 - Buying produce from producers, thus ensuring producer of a ready market.
 - By ensuring that the consumers are provided with goods and services hence no hoarding
 - By ensuring that there is no over charging of the consumers by the business people.
3. – By providing the consumers with essential goods and services
- By putting up weights and measures act in order to check on the measurements and weight (Kenya Bureau of standards)
 - By licensing to ensure that the businesses offer the services they are competent with
4. – Ensure consumers are not exploited against harmful goods or poor health standards
- To safeguard consumers get quality goods in time hence no hoarding
 - To ensure that consumers get quality goods
 - To educate consumers on their rights
 - To safeguard consumers against poor measure of goods i.e. size and weight.
 - To safeguard against unfair rents by landlords through rent tribunal
 - To safeguard against poorly constructed buildings
5. – Where a monopoly producers exploits the public the government may wish to protect the consumers through nationalizing it.
- Where an industry of national importance's threatened with collapse
 - Where the foreigner control the industry and the government would like the locals to control
 - Where an industry deals with state security i.e sensitive industries
 - Where the industry is strategic for national development
 - Where other measures of controlling the industry are ineffective, the government could opt to

nationalize it

- Where there is a change in political ideology
- Where competition is wasteful the government may opt to nationalize so as to operate it efficiently.
- Where the industry provides essential goods

6. – Delayed payments

- Unexplained deductions which lower their prices
- Delayed collection of produce which leads to deterioration of the quality of Produce
- Long and cumbersome procedures to follow when delivering produce and getting payments
- Lack of distinction between quality of produce from different areas may disadvantage those farmers who produce high quality products

7. - Participates in national shows/ trade fairs within or outside the country.

- Collects/ disseminates valuable information relating to all aspects of business for members
 - Acts as a link between the business community and the government
 - Conduct conference/ course/ seminar for its members thus providing the right discussion on matters of common interest.
 - Marketing for their members goods / serving orders to their members
 - Interpret government regulations to business for the benefits of business people
 - Assists in processing and issuing certificates of origin in foreign trade i.e. to those who want to export
 - Poor infrastructure which discourages / hampers operations of investors
 - High rate of taxation that discourages investors and makes local goods less competitive
 - Insecurity that discourages investors/ tourists

- Corruption which may add extra costs to projects / investments
- Shortage of water may discourage investors
- Inadequate funds that makes it difficult for KETA to carry out its functions

TRANSPORT

Answers paper 1

1. – Where goods are urgently needed
 - Where goods are of high value to justify high freight costs
 - Where goods are profitable and so require short term transportation
 - Where security is necessary
 - Where other alternative means of transport are not available
2. – Travel by train is relatively cheaper than travel by bus
 - It is more comfortable to travel by train over long distances than by bus
 - Travel is more reliable form of travel than bus
 - Travel by train has convenient features as catering and toilet facilities
3. – To facilities easy delivery of raw materials
 - To ease workers movement to and from work
 - To facilitate movement of finished goods
 - To gain easy access to auxiliary services like banks, post office e.t.c
 - reduced cost of transport
4. – Containers are expensive
 - Special vessels and tanks are required to transport the containers
 - Special harbour are also required to anchor the special vessels

- Special loading and off loading facilities are required
 - LCL less containers load
5. – Available in most parts of the country
- Flexibility to variety of vehicles
 - Flexibility of routes
 - Flexible over short distances
 - Flexibility in schedules
- 6.–If goods are perishable a fast and appropriate means is required
- If goods are fragile, a smooth means of transport is required
 - If goods are highly valued, a safe and secure means is required
 - If goods are urgently required, a faster means is used
 - If goods are bulky an appropriate means will be used
7. – Transport by rail is cheaper than road transport
- Where goods to be transported are bulky
 - Rail transport tend to have regular time schedule
 - Where goods are urgently required, a faster means is used
 - If goods are bulky an appropriate means will be used
8. - Human beings
- Ships
 - Motor vehicle
 - Carts
 - Air crafts
- 9.–Assist in the distribution of finished goods
- Aids in the transport of labour to the industries

- Movement (transport) of raw materials to the industries
 - Create utility of place and time of the goods
 - Facilitates faster exchanges.
10. - Widening the market because goods are transported from areas of surplus to areas of scarcity.
- Increase specialization as producers concentrate on the production hence high quality products.
 - Ensures production in large scale thereby enables the producers to benefit from economies of scale.
 - Ensures a variety for the consumer because goods are transported to all parts of the country.
 - Transport enables producers to take goods to consumers thus creating place utility.
 - Through trade many people get employed and earn an income to buy goods and services thus promoting trade.
11. - Expensive and uneconomical over short distances
- Slow means of transport.
 - Does not offer door to door services
 - Not readily or widely available
 - Frequent handling of goods as they change from one wagon to another may damage the goods.
 - In Kenya it is provided by parastatals hence not efficient due to lack of profit motive.
 - Expensive to construct and maintain railway network.
12. - Containers are expensive to construct
- Requires special equipment for loading and off loading which are very expensive
 - Not suitable for irregular shaped goods
 - Container vessels require special terminus

- It is capital intensive hence not suitable for countries suffering from unemployment
- Does not require small quantities because in case of less than container load, the goods are likely to be mixed up contaminated or misplaced.

PAST KCSE ANSWERS PAPER 2

1. - The mode is relatively cheap, compares to other mode
 - The mode requires little capital and therefore attracts small scale investors
 - It does not require special skills to operate handcarts
 - The mode does not necessarily require a road and can be used where there are no roads
 - Handcarts do not require special terminus
 - Suitable over short distances
 - Suitable for small goods
 - Cheaper to operate
2. - Larger volume of oil will be transported within given time. Road accidents should be minimized, as there would be fewer tankers on the road.
 - Road damage will be minimized due to fewer tankers
 - Delays/ shortage of fuel to Western Kenya will be reduced as pipeline give continues supply.
 - Environmental pollution from heavy tankers will be minimized
 - Pilferage of fuel will be reduced as it is difficult to steal oil from the pipeline.
 - Traveling between Nairobi and Western Kenya takes shorter time due to reduced congestion of the road
 - Reduced costs of transportation oil
3. - Goods will be transported easily to the market
 - Buyers/ Sellers will be able to move from one market to another

- Goods will be transported from areas of excess to areas with shortages
- It will be able to open many areas of trade
- It will lead to time saving due to fewer delays hence cheaper goods
- It will enable producers to specialize what they can produce better.
- Constant availability of goods and services

4. – High costs: Railway construction is an expensive venture, requiring huge investments. These are not affordable.

- Existence of road network: there exists relatively wide network/ competition from other modes of transport
- Poor management: The railway transportation sub- sector has been poorly run, hence stagnation
- Lack of modern technology: modern technology required for efficient railway system is absent in Kenya, can only be imported.
- Little government commitment: The government has committed its resources more on other forms of transport.
- Lack of flexibility: inability to render door to door services
- Speed: Its relatively low speed renders its inappropriate for carrying certain goods.
- Lack of competition: Railway enjoys protected position making it impossible to operate.
- Low industries base: this has led to low demand for railway services.

5. - Time keeping: A transport system not able to keep time soon loses the confidence of the users should be reliable with regards to time.

- Flexibility: In regard to timing/ loading and unloading points are important to user

- Speed: This critical especially on transporting perishables. An efficient transport system should be reliable with regards to time.

- Safety. This is all for vessels damages to any of them leads to heavy loss
- Cost: this should be reasonable
- Qualified personnel: An efficient transport system should be managed by qualified personnel.

6. – It is environmental friendly

- Operating costs are low
- It is fast mode because there is no congestion, not affected by weather
- It is less prone to accident
- It reduces the number of tankers on the roads and thus minimizing damage on the roads
- Its relatively secure mode of transport in relation to theft.
- Large volumes of oil can be transported within a given time
- Low maintenance cost.

7. - Nature of goods: different types of goods e.g. perishable calls for specific modes of transport

- Transport costs: transporter usually choose means that are affordable for their goods
- Value of goods: goods of highly quality choose means that are affordable for their goods
- Terminals convenient for loading
- Availability: transporters are influenced by the means available
- Distance to be covered: roads are suitable for short distance while railways- suitable for long distance
- Urgency: goods urgently required calls for faster means of transport
- Reliability- Choose a means that will deliver the goods as required

8. - Less/ minimal damage of goods to the containers are strong and also minimize damage due to change of weather

- Large quantities of goods can be transported: if properly arranged in containers

- Safety of goods is enhanced since containers due to use of hands
- It is easy to load and off load containers due to use of hands
- Low insurance premiums: due to reduced risks of theft damage
- Handling reduced: costs are reduced due to use of modern technology

9. - Lack of technology: If a country lacks technology for the installation of pipes

- Lack of capital: the country might lack adequate capital for the installation of pipeline.
- Nature of products if the country does not have oil then no need for existence of pipeline transport
- Other means of transport if there are other cheaper means of transporting oil that are available then the pipeline transport can be used
- Terrain: If the terrain is rugged and hence will cause heavy machine to pump the petroleum, it may discourage use of pipeline.

10. – In case the goods transported are bulky

- Where goods transported are heavy
- In case goods require security because cases of theft and accident are minimal in railway transport
- In case of large quantities because it has large carrying capacity
- Railway transport is cheap and economical over long distances
- Railways stations have warehouses to store goods before they are collected by owners
- In case the trader wants to make advance planned for movement of goods because train follow regular timetables
- Railway stations have many cargo handling facilities for loading and off loading of goods hence saves time.

- Railway authorities have their own motor vehicle delivery services from their railway stations, this helps in connecting the traders to other terminus

COMMUNICATION

Paper 1

1. – Can be re- read again for better understanding

- Can be used for reference purposes
- can be reproduced by photocopying when necessary
- Can be used as evidence in law
- can be used for a confidential purpose

2. – Sale of postage stamps

- Mail services
- Parcel deliveries
- Remittance services
- Business reply services
- Telex
- Fax services
- Saving and investment

3. – Cheap

- Can explain fully
- Best to demonstrate
- Can be immediate feedback
- Learn the desired impression

- Fast in short distance
 - Used to communicate to many at once
 - Used where other forms are not available
4. – Message automatically printed at the recipient teller machine even in the absence of receiver
- Teller provides direct link between user all over the world
 - Immediate feedback can be received from each end
 - The printed message can be stored for future reference
 - Message is transmitted fast
5. – Language used must be understood
- Language must be simple and clean
 - It must be free from interference
 - it must be free from distortion
 - Both sender and receiver must have positive attitude
 - Medium use should be appropriate
 - Information overload should be avoided
6. – Relatively cheap
- Lack of alternative means in some areas
 - Widely available
 - Relative fast
 - Offers a variety of means of sending letter
7. - Where evidence is required
- Where future reference is needed
 - Where message is as confidential nature
 - Whose message is not urgent

- Where message should be disorder
 - Where more people are to be reached
 - Cheaper
 - Mail service is widely spread
8. - It is costly
- It has limited confidentiality
 - Not accessible in some parts of the country
 - The system is prone to breakdown
 - It is costly to maintain
 - Equipment is expensive
 - Prone to congestion
 - Government policy
9. - If there is noise
- Negative attitude between the two parties
 - Language barrier
 - Lack of concentration

WAREHOUSING

KCSE Questions

1. - Goods can be bounded till duty is paid
 - Goods are released on production of release warrant
 - Charges are made on all goods stored in the warehouse
 - Goods can be sold while under bond
 - Goods can be inspected, re- parked, blended, branded, labeled etc while in the warehousing
 - Goods can be re- exported while under bond
 - They are guarded by customs officials
 - They are owned by the government
 - They are used for imported/ exported goods
2. - storage of goods until they are needed
 - Protection of goods from vagaries of weather.
 - Protection of goods from pilferage
 - Provides room for bulk breaking, packing and blending
3. – Allow continuity of production
 - The manufacturer is able to ensure continuous sale of its produce to the market
 - Warehousing provides protection for the goods while awaiting sales
 - Provides security against theft
 - can prepare goods for sale
 - Enables manufactures to look for market
4. – Consumers are assured of a steady supply of goods
 - They are assured of quality goods

- They are assured of steady supply of goods
 - They are assured of stable prices
 - They get goods in convenient quantities
 - Consumers are able to choose the right goods when they are braided, blended etc
 - Consumers are able to get a variety of goods
5. – The location should be ideal in terms of accessibility
- Availability of suitable land
 - Near the point of sale market
 - Near adequate security
 - Government policy
 - Cost of building
6. – is able to control the city of harmful goods
- Is able to verify documents for goods on transit
 - is able to monitors the flow of imports into the country
 - is able to inspect goods
7. – Owners of the warehouse enter into agreement
- Usually located at points of entry
 - guarded by customer officer
 - Owned by individuals
 - Dutiable goods kept there are not released until duty is paid
 - They are large in size
 - Goods can be inspected
 - Goods can be prepared for sale
 - Goods are kept there for a fixed period of time

- Only for imported goods
8. – Retailers can rent space to store their goods
- Retailers have a place to break
 - Goods can sell stored while in public warehouse
 - Goods are insured against damage caused by fire, theft etc.
 - Protects against adverse weather conditions
 - Ensure continuous supply of good
9. – Bonded
- Public
 - Private
 - Producers
10. – They will have constant supply of goods
- The price of goods will not be stable
 - They are likely to receive defeat goods as there would be no inspection
 - They are likely to have varieties of and also small quantities of goods

INSURANCE

1.
 - The person intending to buy the policy applies by filling a proposal form.
 - The insurance company studies the details of the proposal to confirm whether the details given are correct.
 - The insurance company issues a cover note
 - Insurance certificate is issued, outlining details of the agreement between two parties and the conditions that accompany the agreement.
2.
 - Insurance industry mobilizes savings which the business community borrows to start / run and give loans to policy holders for business use.
 - The insurance company studies the details of the proposal to confirm whether the details given are correct.
 - The industry creates confidence among the business community which enables them to take risk
 - The various policies provided by the industry can be used as security to obtain bank loans for business use.
 - The industry provides compensation to the business that can suit their purposes.
 - They invest in building/ other securities which are used by business community
 - Underwriting insurance companies will undertake the share capital under subsection.
3.
 - government: the government collects revenue by taxing the insurance industries and uses this revenue to provide public services.
 - Creation of employment: there are many people employed in the insurance industry.
 - Creating confidence: the industry encourages businessmen to take risks of investing.

- Investment funds: monies collected by insurance companies are made available to investors as loans in various sectors of the economy.
 - Compensation: Compensation offered by the insurance industry enables the economy to continue developing.
 - Encourages saving: mobilizing long term savings from the members of the public.
 - Direct providing: can be used to secure loans loss prevention encourage the insured.
4. – When insured had no insurable interest in the property destroyed as he will not suffer any financial loss.
- When the insured did not disclose all the relevant facts.
 - When the property has been destroyed by an act of God, as the risks are not insured when the loss was caused by an insurable e.g. act of God/earthquake.
 - When the policy was not in force at the time of loss insured when the insured purposely causes the loss.
 - When the insurance company is insolvent, hence unable to its financial obligation.
 - Lat claim where insured fails to claim within stipulation period.
 - Improper procedures where the insured fails to follow laid down procedure when claiming.
5. –Theft/burglary: to protect the owner from losses that may be made through theft/burglary.
- Fidelity guaranteed: to cover losses suffered through worker's dishonesty
 - Workman's compensation: this is to assist the workers who may be injured in the business.
 - Fire: to compensate the owner for losses arising from fire.
 - Motor vehicle: to cover business vehicles in case of accident
 - Medical cover policy: insurance will compensate for medical claims of the employees.

- Personal accident cover: insures accident to the owner of the supermarket in the course of his duty.
 - Good/cash on transit: insures against losses of goods/cash while on transit
 - Plates glass policy: insures against breakages caused by closure of business temporary.
 - Sprinkler leakage policy: covers accidental damage caused by accidental leakages of sprinklers.
6. - Enables compensation of few sufferers, hence business continuity. Reduced burden per person as it is shared by all the insured.
- Idle funds in case no one suffers or only a few people, company can invest to earn income
 - Probability of all covered risks occurring is minimal if there are many people in the pool.
7. - value of property: when the value of property is great
- High risk of loss: when chances of loss through insured risks covered
 - Number of risks covered: when insurance company has insured many different risks.
 - Spread of risk to share liability in the event of loss, safeguard the financial position
 - Government policy: government may require an insurance company to reinsure
 - Create client confidence: client confidence: clients will have confidence as they are assured of compensation hence attracts more customers.
8. - Uberrimae fidei: Contract of utmost good faith on insurance where the client is required to furnish the insurer with all the details regarding the risk to be covered.
- Indemnity: this is a principle where insured is restored to the original financial position before the loss occurred.
 - Third party motor vehicle insurance: covers damages suffered by persons other than the owner.

- Subrogation –Once an insured is fully compensated for loss suffered, the insured is not supposed to gain out of the loss.
- 9.
- When the insured has not acted utmost good faith and is discovered hence making the contract invalid.
 - When the risk insured has occurred and compensation paid this bringing an end to the contract
 - On maturity of the contract, this signifying the end of the policy agreement.
 - If the insured decided to discontinue the contract making the contract no longer tenable.
 - When a court of law order termination of the contract this rendering its will and void
 - When the insurance company is finally wound up
 - Due to failure to review the contract this leading to lapse of policy.
 - Where the insured ceases to have insurable interest in the property incase property is sold.
- 10.
- savings: endowment policy is a way of saving, after which one will get compensation either on the expiry or his death.
 - Security: the endowment policy is a way of saving, after which one will get compensation either on the expiry or his death.
 - Security: the endowment policy can be used as a security for finance.
 - In case the contract expires before the insured dies, he enjoys his compensation
 - Other benefits: he can get loan for medical or education purposes.

PRODUCT PROMOTIONS

1.

Description	Type
Create awareness about a product	Informative
Promotes the name of the manufacturer	Institutional
Persuades the consumers to buy a product	persuasive/competitive
Promotes a particular brand of a product	product

2.
 - The potential customer is made aware of availability of a commodity
 - The consumer is advised on how to use the advertised goods.
 - The potential consumer is made aware of the prices of advertised good
 - Leads to mass production hence lower prices
3.
 - To show customers how to handle sophisticated products.
 - To keep track of the performance of the products
 - To improve corporate image
 - To generate addition income from the sale, spare parts and provision of services.
 - To attend more customers
 - To retain existing customers
4.
 - Presale preparation as part of sale person e.g. dressing
 - Locating potential
 - Pre-approach to individual buyers
 - Sale presentation or demonstration
 - Closing in the sales signing out the contract
 - post sale activities involved e.g. installation

5.
 - Where a large audience is targeted for teaching at the same time.
 - Where the target group is too low income to afford TV
 - Where it is cheaper to advertise through radio than television
 - Where visual impression are not necessary
 - Need to use the local languages
6.
 - Generally affected by a fall in the demand or products
 - Most shoppers prefer buying from shops which stock a variety.
 - A fall in supply may lead to the closure of the business
 - It is monotonous
 - Stiff competition from those offering services
 - Lack of innovativeness
7.
 - It is expensive
 - Has limited coverage.
 - Once advert is made it is not easy to change
 - Cannot be referred to buy the target group at their own convenience
 - Lack of variety of languages.
8.
 - A trader incurs extra expenses, which might reduce profit.
 - Prices for product charged are higher due to high expenses
 - Maintenance may require employment of specialists
 - May encourage careless handling of the product
 - Customers are tied down to one trade for maintenance services who may not be offering best services.
9.
 - Consumers are assisted with technical advice on how to use the items
 - Consumers may be assisted with installation cost of the product

- Enhance good relationship between the buyer and sellers
 - Where an item has a major technical breakdown, it can easily be replaced at no extract cost
 - Transportation of goods
10. - To increase sales volume for particular products
- To inform customers about new products
 - To persuade existing and potential customers to buy their products
 - Transportation of goods
11. – The sales person are able to win confidence of the buyers
- Demonstration is possible
 - Information can be gotten from the customer as pertain to the product.
 - More sales and publicity of goods is possible

ANSWERS PAPER 2

1.
 - Attendance at the exhibition might have been low
 - People attending the exhibition may not have been impressive
 - The pricing of the goods might have been beyond the reach of potential customers.
 - The product might have not have been culturally accepted.
 - The economic environment might not have been conducive.
 - There might have been other similar goods
 - People attending the exhibition were not convinced
 - Terms of sale were not attractive.
2.
 - Establish customer contact
 - arousing interest in the product
 - Creation of preference for the product
 - Making a proposal for sale.
3.
 - Attractive displays, trade fairs and exhibition goods should be displayed in such a way that customers are attracted to some and look at them.
 - Credit facilities: traders may offer credit facilities to some of their customers.
 - Good customers relations/personal selling: traders should be friendly, honesty and courteous to customers.
 - After sales services: traders may offer after sales services to their customers.
 - Free samples/ gift: free samples/gifts may attract customers
 - Variety of goods: trades may keep different types of goods to satisfy the various needs to customers.
 - Organizing prize winning competition
 - Maintaining cleanliness of the premises.

4. – The trader will reach many people/wide coverage/ audience because many people listen to the radio. Radio covers wide geographical area.
 - Both literate and illiterate people will get the message as it only requires listening it does not require reading/ writing
 - The advertisement can attract/ appeal /lure people by incorporating some form of entertainment / Music short plays
 - The trader can choose the time to advertise to reach a particular group
 - Advertisement can be repeated several times to reach more people/ those who missed to hear later advertisements
 - Radios can reach even the blind who can hear only.
5. - To bring to notice of new consumers the existence of a product
 - To increase demand/ market so as to justify mass production leads to economies of sales
 - To educate customers on use of products
 - To announce the price of the products
 - To maintain customer loyalty
 - To cope with competition
 - To correct any misleading information about the product
 - To alert customers of imitation
 - To remind consumers of availability of the products
 - To maintain image name reputation of the product.
6. - Type of product (some products are best advertised through the appropriate media i.e sophisticated equipment is best advertised through technical journals).
 - Nature of market segments e.g. age, sex, culture and status
 - The size of the area to be covered.

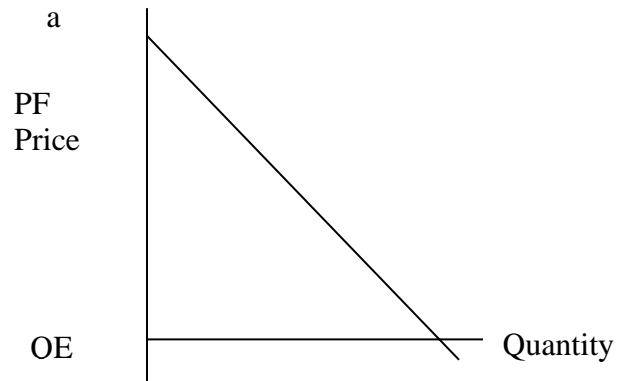
- The cost of the medium
 - Availability of the medium can only advertise through media that is available.
7. – selling good/ services to customers
- Gives the seller an opportunity to explain the details
 - Receiving orders for goods
 - Evaluating the credit worthiness of the customers
 - Processing orders of goods and services
 - Handling complaints from customers
 - Giving advice to customers.
8. - Enables the seller to have goods tested
- Gives the seller an opportunity to explain the details
 - The seller is able to provide immediate feedback, clear doubts raised by customers
 - The seller may be able to have direct personal contacts with the buyers.
9. - Only those who can read that can get the advertisement
- It is expensive and therefore not many people can afford it
 - The advert does not last long., a day or so and then it is disposed off
 - No demonstration is possible when using the newspaper
 - Advertising through the newspaper is quite expensive.

DEMAND AND SUPPLY

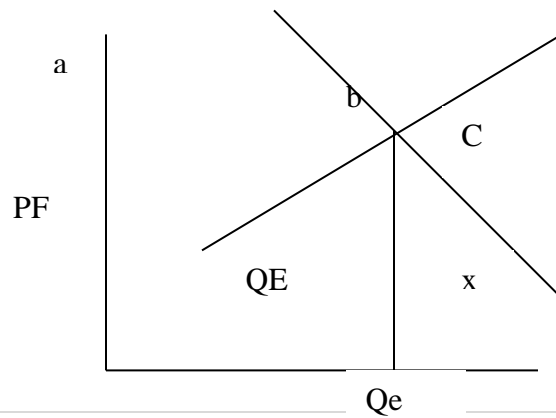
1. - Changes in the prices of inputs-supply
 - Changes in tastes and preferences – demand
 - Changes in technology – supply
 - Changes in outcomes- demand
 - Changes in the prices of other related goods-demand
2. - Demand - it states that the demand will be high when the prices are low
 - Supply - It states that the supply will be high when the demands are high
 - Demand and supply- It states that the demand and supply will be at equilibrium of the supply and demand curve meet.
3. - supply of tea fails
 - Supply of petrol fails
 - Supply of wool decreases.
4. - Reduced taxation of production
 - Favorable weather conditions
 - Reduced costs of production
 - Increased price of product.
 - Increase in demand
 - Increase in production
 - Specialization
 - Government policy
 - Future expectations.
5. –increase in the price of the product

- Negative taste towards the product
- Decrease in the prices of complementary goods
- Increase in quantity of the product
- Depending on the season
- fall income
- Decrease in population.

6.



7



- a) Demand curve
 - b) Supply curve
 - Point C is the point of equilibrium supply (quantity) and price.
 - Equilibrium price (PE) and equilibrium quantity (EQ)
8. - Increase in the price of the product
- Fall in the cost of production
 - Availability of cheap credit
 - Government policy.
 - Decrease in prices
 - When the demand is high
 - Future expected fall in price
9. - Future expectation in the increase of price
- Increase in price of complementary goods
 - Increase in population
 - Positive taste towards the product

.

PAST KCSE QUESTIONS ANSWERS – PAPER 2

1. -Through bargaining/ haggling between the sellers and buyers.
- Through government price controls (fixing prices by the government)
 - Through auctioneering where different potential suppliers submit their quotations.
 - Through tendering where different potential suppliers submit their quotations.
 - Taxation / subsidy may change prices

THEORY OF THE FIRM

1. – Leads to congestion
 - Cause pollution
 - Increase social evils
 - Leads to widespread unemployment
 - Can lead to economic depression during times of war, calamities
2. –Where the firm is producing perishable products
 - Where the firm is producing fragile products
 - Where the raw materials are cheaper to transport than final products.
 - Where the market for the produce is concentrated in the area.
3. - Cost of land
 - Availability of room for expansion
 - Government policy on land utilization
 - The nature of the land
 - Proximity, auxiliary services
 - Convenience
 - Get exact value of his money
 - Receive genuine goods directly from manufacturer
 - Cheap
4. - Get services for 24 hours
 - Require fast service
 - Convenience / Next To A Person
 - Receive genuine / first class goods directly from manufacturer

- Cheap/doesn't require labour.
- 5.
 - Reduce transport cost
 - Get quality raw materials
 - Enhance continuous production
 - Avoid wastage of raw materials
 - Reduce its cost of production.
- 6.
 - Lack of capital
 - Competition techniques
 - Lack of market
 - Expensive
 - Poor management
 - Poor infrastrure
 - Lack of commercial services.
- 7.
 - Provide business incentives
 - Provide credit facilities to investors
 - Provide land act reasonable cost
 - Transport
 - Communication
 - Health cases.
- 8.
 - Difficult to acquire relevant labour
 - Difficult to exchange ideas
 - Difficult to get raw materials
 - Lack of competition lead to low quality
 - Difficult to get market

- Difficult in exchanging technology.
- 9.
 - Government subsidy and incentive reduce
 - Difficult to attract professionals.
 - Security
 - Government may have to raise taxes on other areas to cover the short fall and thus burden the public.
 - Specialized service may not be land required that when firms are concentrated in one place.
- 10.
 - Availability of market
 - Availability of water and power
 - Security
 - Communication
 - Cost of land
 - Government policy.
- 11.
 - Provide cheap labour
 - Provide efficient communication
 - Reduce the rate of taxation
 - Give subsidies

PAST KCSE QUESTIONS ANSWERS – PAPER 2

1.
 - The country will achieve balanced economic development
 - Creation of job opportunities in all regions of the country
 - Reducing rural / urban migration
 - Technology transfer to rural areas

- Location of industries in rural will lead to infrastructural development.
 - May lead to establishment of subsidiary
 - May lead to expanded utilization of resources
 - May lead to even distribution of social amenities
 - May achieve a more even distribution of income between regions.
- 2.
- Personalized services: small scale retailers provide personalized services and are therefore able to attract and retain customers which are not offered by supermarkets.
 - accessibility of small scale retailers / convenience of locating small scale retailers are conveniently in urban centres.
 - Credit facilities small scale retailers offer credit facilities to some of their customers which are not available to specific customer needs.
 - Adaptation to specific customer needs small scale retailers easily adapt to the specific client. They can sell goods in small units than the supermarkets.
 - Running costs of small scale retailers are little and this makes it easier for them to survive unlike small markets which require huge capital to operate.
 - Management: Small scale businesses the risks involved are low while in supermarkets are great.
 - Starting/ initial capital starting small scale retailers a suitable for people form of low income.
 - Flexibility- it is easier for small scale retailers to change from one form of business to another location than its is for supermarkets.
- 3.
- Employment is generated for the benefit of the members of the community.
 - Members if the community tends to be willing to learn skills required by the industries.
 - Leads to emergence of auxiliary service industry i.e. back insurance

- Improve standards of living are likely to be experienced in the area due to rise of income.
 - Infrastructure is likely to arise to serve the community
 - Industries dealing in by products are likely to arise and the community would use the by
 - products
 - Leads to development of complementary industries / auxiliary industry
 - Leads to establishment of improved social services
 - Leads to introduction of modern technology which the community can utilize.
 - Provides wide market for the local produced goods
 - May lead to exploitation of local resources which would otherwise be idle.
4. - Where the raw materials are bulky
- Handling costs of raw materials as the movement to the firm will be minimal.
 - Where raw materials are highly perishable
 - Where the competition of raw materials is high to ensure access
 - Where the government policy requires / gives incentives that industry set up near sources of raw materials.
 - Product of the market is concentrated near the source of raw materials.
5. – Improve transport system to facilitate easy movement of goods and people through industries.
- Tax reduction: industries in rural areas from paying certain taxes to reduce the cost of production, enabling them to sell more competitive prices.
 - Facilitate access to cheap credit for industries in rural areas/provision of loans at low interest avail finance at affordable rates.
 - Provide land for putting up industries in rural areas at reduced rates.
 - Provide training/ educational facilities in rural areas foe development of labour.

- Subsidizing the cost of production of the industries in the rural areas by melting point of the cost of production.
 - Provide power for running the industries
 - Provide communication services to enable industries
 - Provide water for running the industry
 - Provide social amenities of those working in the industry
 - Provide security to safeguard property for investors
 - Setting up service industry to serve the other industries of banks insurance etc.
 - Reducing license fees thus reducing the cost of establishing.
6. – Labour: When industries are closely located, a pool of labour both skilled and unskilled is availed.
- Market: The industries attract large population that offer market for the products produced in the industry.
- Infrastructure: roads, railway usually develop in the area with concentrated industries.
 - Communication: by locating of industries in one area leads to development of telephone among others.
 - Security: when industries are closely related, these are few security problems experienced as compared to the dispersed industries.

NET WORTH OF A BUSINESS

1. – Assets = Capital – liabilities

(a) Capital = 620,000 – 230,000

 = 390,900

(b) Assets = 400,000 + 120,000

 = 520,000

(c) Liabilities = 800,000 – 500,000

 = 300,000

2.

	Asset	Liability	Capital
a) Bought furniture	+	+	
b) Paid creditors on cash	-	-	
c) Withdraw cash for personal use	-	-	-
d) Converted a personal car for personal use	+		+

3. - M - Kshs 18,000

 - N – Kshs 29,000

 - P Kshs 12,000

4.

Type of account	To increase	To Decrease
a) Asset A/C	Debit	Credit
b) Liability A/C	Credit	Debt
c) Capital A/C	Credit	Debt

5. - X = Kshs 30,000

- Y =Kshs 1,900,00

- Z = Kshs 500,000

6. - X = Kshs. 200,000

- Y = Kshs. 2,000,000

- Z = Kshs. 180,000

- T = Kshs 200,000

BUSINESS TRANSACTIONS

1.

Description	Term
▪ Money bought into business by owner	Capital
▪ Goods bought for resale	Stock

▪ Money withdrawn by the owner for private use	Drawings
▪ Money borrowed by the owner of the business	Loan

- 2.
- Increase
 - Decrease
 - No effect

3.

Transaction	Increase	Decrease	No effect
▪ Buying stock in cash			x
▪ Depositing extra cash into business a/c	x		
▪ Drawing cash for private use			x
▪ Buying stock on credit			x

THE LEDGER

PAST KCSE QUESTION – PAPER 1

1.	Dr.	Cr.
Capital		99,600
Debtors	30,620	
Creditors		25,000
Motor vehicle	80,000	
Cash	12,250	
Stock	125,270	125,270

2.

San Enterprises

Trial Balance

As at 31.4. 1995

Dr

Cr.

Capital		947, 470
Cash	74,000	
Premises	870,000	
Debtors	36, 520	
Creditors		45,300
Stock	2, 250	
	<hr/>	
	992,770	992,770

3. Kiboko traders

Trial Balance

	Dr.	Cr.
Motor vehicle	240,000	
Current liabilities		440,000
Land and building	200,000	
Current assets	420,000	
Furniture	60,000	
Capital		480,000
Total	920,000	920,000

4. Dipa Traders

Trial balance as at 31st December 2000

	Dr.	Cr.
Buildings	100,000	
Debtors	54,000	
Capital		136,000
Sales		85,000
Bank overdrafts	2,500	
Purchases	85,000	
Stock		25,400
Creditors		35,700

General expenses 31,800

259,200

259,200

5.

ii. Cost of sales = sales – Gross profit

$$= 360,000 - \frac{25}{100} \times 360,000$$
$$= 270,000$$

b) Rate of stock turnover = $\frac{\text{Cost of Sales}}{\text{Average Stock}}$

$$= \frac{270,000}{\frac{(50,000 + 70,000)}{2}}$$
$$= \frac{270,000}{60,000}$$
$$= 4.5 \text{ times}$$

6.

Dr.	Cash A/C	Cr.
	Bank	5,000

Dr.	Bank A/C	Cr.

Bal c/d	<u>20,700</u>	Bal	<u>20,700</u>
Bal c/d 20,700	<u>20,700</u>	Bal c/d	<u>20,700</u>

Dr	Salaries A.C		Cr.
Cash	<u>8,000</u>	Bal. c. d	<u>8,000</u>
Bal c/d	<u>8,000</u>		<u>8,000</u>

Dr.	Purchases A/c		Cr
Bal <u>20,000</u>		Bal c/d	22,000
Cash	<u>22,000</u>		<u>22,000</u>
Bal. c/f	22,000		

Dr	Purchase A/c		Cr
Bal.	<u>80,000</u>	Bal. c/d	
45,000		Cash	
35,000			80,000

Bal. c/f 80,000 Bal. b/f 80,000

- 8.
- | | |
|-------------|--------------|
| A/C debited | A/C credited |
| Creditors | Capital |
| Cash | Capital |
| Purchases | Bank |
| Drawings | Cash |

9.

Dr.	Cash Account	Cr
		Kshs. 20,000

Dr.	Rent Account	Cr
Kshs 20,000		

Dr.	Purchases Account	Cr
<hr/>		
Kshs 30,000		

Dr.	Cash Account	Cr
<hr/>		
		Kshs. 30,000

THE CASH BOOK

1. - Contra entry – a transaction that affects both the cash account and the bank account

Folio column – Reference page on the relevant account

2. (i) Balance c/d (ii) Contra entry

Cash Kshs 1,680 = 1,680

Bank Kshs 3,600

- 3.

Temple trader

Cash Boom

Date	Details	Cash 000	Bank 000	Date	Detail	Cash 000	Bank 000
95 Mar				95 Mar			
5	Sales	30	12.5	10			
15	Cash	5	12.5		Creditors		7.5
20	Cash	35		15	Bank		
	Bal	20.1	5	28	Wages	12.5	
	b/d			31	Bal	2.4	5
						20.1	12.5

- 4.

- Separate it with other accounts

- Quick determination of work flow
- Combine cash and bank accounts
- Easy reference and double entry transactions

5. Increase Decrease

 Dr Cr

 Cr Dr

 Cr Dr

 Dr Cr

6.

Opening balances

Cash 22,000 – 8,000

= 14,000

Bank 63,000 – 36,000

= 27,700

7. Cash book for the month of July, 1999

Date	Details	Bank	Cash	Date	Details	Bank	cash
July				July			
1999				1999			
1	Bal b/d	6,000		1	Bal b/d		2,000
18	Debtors		80,000	22	Tel. Bills	200	
28		16,000		28	Cash		1,600
	Totals	22,000		31	Bal b/d	20,800	62,000
	Bal b/d	20,800				22,000	80,000

8.

Date	Details	Bank	Cash	Date	Details	Bank	Cash
1/3							
1	Bal b/d	13,200	56,000	15/3	Creditor		
2	Sales		12,000	31/3	Rent	7,500	8,200
27	Debtors		24,500	31/3	Bal c/d	17,700	
		25,200	80,500			25,200	72,300
1/4	Bal b/d	17,700	72,300				80,500

Z= 240,000

9. – To relieve the general ledger of many records that appear
- To make it easy to refer to bank and cash balances
 - To record receipts and payments of cash in hand and at bank

10. W – 40,000
- X 70,000
- Y – 54,000

CHAIN OF DISTRIBUTION

1. – Enjoys credit facilities
 - Provide variety of goods
 - Goods are brought closer to customers
 - They store goods for the consumers.
 - Consumers can make special order for goods.
 - Enjoy personal attention from them
 - Stabilization of prices.
2. – Consumer is likely to get after sales services
 - Consumer is likely to get technical advice of how to use the goods
 - Consumer is likely to get the goods at relatively low prices
 - Manufactures may arrange the fiancé of the consumers.
 - Consumer is assured that what he is buying is genuine.
3. –Manufacturer – consumers
 - Manufacturer – retailers – consumers
 - Manufacture – agent – retailers – consumers.
4. –Nature of the produce
 - Availability of middlemen
 - Government policy on the distribution.
 - Cost of the produce
 - Distance between the producer and the consumer
5. – Increased price
 - Like hood of delay

- Changes of damage to goods due to handling
 - Feedback to the manufacturer
 - Perishable goods may go bad
6. -They may be bought at lower prices
- They may be provided with transport
 - They may receive cash
 - They may be given goods on credit
 - They have a chance to select quality goods
 - They are likely to get goods to ones specifications.
7. -Linkage – wholesalers act as a link between the producers and the retailers.
- Storage – offers storage facilities to the producers.
 - Breaking bulk – buys in large quantities from producers and sells them into smaller quantities to retailers.
 - Transportation – wholesalers helps in transporting goods from producers to retailers.
8. - When goods are perishable
- When the manufacturers is financially strong to open up retail outside
 - When the manufacturers wishes to take charge of he marketing of the produce.
 - When the manufacturer wishes to have direct contact with the consumer.
 - When the market for the product is limited
 - When there is inefficient infrastructure.

PAPER 2 ANSWERS.

1. - Where goods are expensive for middlemen (cannot afford to stock them)

- Where goods are of technical nature and the producer may want to have direct contact with the customer.
 - Where goods are perishable (and producer wants to deliver them fast to have direct contact with the customer.
 - Where goods are perishable (and producer wants to deliver them fast to the consumer)
 - where goods are perishable (and producer has his own retail outlets
 - Where the market is localized in terms of geographical location / where the producer is close to customers.
 - where the goods are produced according to consumers specifications/ special goods
 - where the producer requires immediate feedback
2. - AZango will provide with information regarding the market for their goods
- The wholesalers will break on behalf of the manufacturers.
 - Zango will sell his stock faster as wholesalers buy in bulk
 - The manufacturer's supply of goods will be stabilized as wholesalers regulates the supply
 - Zango will be relieved of various risks relating to goods to fall in price, demand, non-profitable but essential services.
3. - from manufacture through own retail outlets to consumers'
- Manufacturers sell direct to consumers
 - From manufacturer though wholesalers through independent retailers to consumers.
 - From manufacturers through wholesalers through independent retailers to consumers.
 - From manaufacturere through wholesalers to consumers.
4. – The nature of goods where perishable a direct channel to consumers is more preferred.

- Size of the market where the market is large, if the consumers are concentrated in one area.
 - Costs where the cost of marketing and distribution are high manufacturers will dispose goods through intermediaries.
 - Lack of facilities / skills where the producer lacks facilities he will call upon intermediaries.
 - Government policy. If the government policy prohibits /required use of a certain channel then it has to be followed.
 - Nature of market depending on consumer's preferences / taste it may require a personal attention of the producer.
 - Competition: Where competition is high manufacturer may have to be closer to the consumer.
 - Bulkiness: If the quantity is large along channel is used and vice versa.
 - Technical goods need to be sold direct to consumer in order to provide necessary information.
 - Profitability where producer wants to maximize profit.
5. – Where market is spread out for the producer to reach the consumer
- Where the producer does not have adequate capital to set up own distribution points.
 - Management problems: Where it becomes difficult to manage producer's distribution outlets.
 - Poor infrastructure: making it difficult to distribute goods.
 - Government policy: Which may separate the functions which can be by the wholesaler.
 - Where the producer lacks transport facilities which can be provided to advertise
 - Where the producer wants to get information about the market he will use the wholesaler.
6. – Foreign producer local consumer.

- Foreign producer foreign agent / exporter local consumer
 - Foreign producer local agents / importers local consumer
 - Foreign producer's foreign agent local agent / import merchant local wholesaler.
 - Local retailer local consumer
 - Foreign producer local retailers local consumers
 - Foreign producer local retailers local consumers
 - Foreign producer's foreign agent local agent / local wholesaler
 - Local consumer.
7. – Kabu manufacturing will be provided with information regarding the market for their goods.
- The wholesalers will break bulk on behalf of the manufacturers Kabu manufacturers will sell his stock faster as wholesalers buy in bulk.
 - Kabu will be relieved of transport of goods
 - The manufacturers supply of goods will be stabilized as wholesalers regulate the supply.
 - Kabu will be provided with storage facilities
 - Kabu will be relieved of various risks relating to goods to fall in price.

FINANCIAL STATEMENTS.

1. A) Tamwe Traders

		Trading A/c	
		For the period ended 31 st Dec 1994	
Opening stock	9,000	Sales – 100 x 28,000	112,000
Add Purchases	81,000		<u>25</u>
Sales	+90,000		
Less c. stock	- 6,000		
	84,000		
G.profit	28,000		
	<u>112,000</u>		<u>112,000</u>

2. Otwa Traders Statement of W.Capital

As at 31st Dec. 1994

Current Asset

Stock	4,000	
Trade debtors	2,600	
Prepaid insurance	1,400	
Cash at hand	7,500	15,500

Less current liabilities

Bank overdraft	6,000	
----------------	-------	--

Trade debtors	3,000	
Accrued red	4,000	13,000

b) Working capital 2,500

Capital A/C

Drawing	32,000	Bal B/d	50,000
Bal. c/d	162,000	Motor Vehicle	80,000
		Net profit	64,000
	-		
	194,000		194,000
		Bal B/d	162,000

2. i) Cost of goods sold

Opening stock + purchases – closing stock

$$35,500 + 190,550 - 25,000$$

$$= 201,050$$

$$= 201,050$$

ii) Percentage of gross profit to net sales

Net sales = Sales – Sales returns

$$251,250 = 256,050 - 4,800$$

G.P. = Net sales – cost of goods

$$50,200 = 251,250 - 201,050$$

$$50,200 \times 100 = 20\%$$

$$\frac{50,200}{251,250}$$

3. – Capital = total assets – total liabilities

$$\begin{aligned} &= 250,000 + 12,680 + 620,500 + 15,500 + 1,500 - 46,520 \\ &= 314,660 - 46,520 \\ &= \text{Kshs. } 295,160 \end{aligned}$$

4.

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Stock + debtors + cash at hand

Bank overdraft + creditors

$$20,000 + 32,000 + 22,000$$

$$\frac{12,000 + 25,000}{74,000}$$

$$74,000$$

$$\frac{37,000}{74,000}$$

$$= 2:1$$

5. – Cost of goods sold

$$\text{Goods sold} = \text{sales} - \text{margin}$$

$$= 60,000 - (20 \times 60,000) = 48,000$$

$$\frac{48,000}{60,000}$$

b) The gross profit

$$\text{G.P.} = 60,000 \times 20 = 12,000$$

$$\frac{12,000}{60,000}$$

7. Waso Traders

Balance sheet as at 30th October 1995

Assets		Capital & Liabilities	
	Shs.		Shs.
Cash	2,500	Creditors	62,500
Debtors	40,000	LTL	
Bank	160,230	2 year loan	40,000
Cash	20,530	Capital	920,750
Premises	800,000		
	1,023,250		1,023,250

8. -Kwaso Traders

Profit & Loss Account

As at 31.8 .97

Expenses			
Carriage on sale	4,700	G.P	130,800
G. Exp.	18,200	Comm. Rec.	8,000
Insurance	4,000		
N, P. b/d	111,900		

138,800

138,800

N.p/c/d

111,900

9. a) $\frac{240}{1,200,000} \times 100 = 20\%$

b) $\frac{240,000}{1,440,000} \times 100 = 16.6\%$

Capital invested N.P x 100/CL

$$240,000 \times 100 = 20\% = 120,000$$

Capital employed = CE=FA + WC

$$240,000 \times 100$$

Capital employed = CE=FA+ WC

$$240,000 \times 100$$

$$1,440,000$$

$$= WC. CA -CL$$

$$74,000 - 34,000 = 40,000 = 16.6 \%$$

$$C.E = 1,400,000 + 40,000$$

$$= 1,440,000 \text{ or } 17\%$$

10. – Kiboko Enterprises

Trading A/C

For the year ended 30th June 1997

Opening Stock	65,000	Sales	280,000
Purchases	190,000	Less Sales	
Less P			
Returns 10,000	180,000	R/ns.	4,200
Goods available	245,000		275,800
Gross profit	100,800	Closing stock	
			70, 000
	345,800		345,800

11. Rate of net profit to capital

Cost of sales

Convert margins to mark ups

Convert margins to mark ups

Convert % to fraction

$$20/100 = 1/5$$

$$\text{Mark up} - 1/5 = 1/4$$

Convert 1/4 into % = 25%

$$\underline{\text{G.P}} \times \underline{25} \times 345,200$$

Sales 100

General expenses 59, 800

NP = GP – General expenses

NP = 185,800 - 9,800 = 26,000

Return on capital $\frac{26,000}{1,300,000} \times 100$

1,300, 000

= 2 %

12. – Shows asset owned a business
- shows what a business owes
 - shows the sources of finance to a business
 - shows the liquidity of the business
 - shows the net worth of the business
 - Can be used to borrow money
 - Helps in decision making

13. – If a capital as at 1/1/98 is 250,000
- Add additional capital 68,000 = 318, 000
 - Capital as at 31/12/1998
 - = 406,000

14.

Opening stock	8,000	Sales	62,900
Add purchases	53,000		
Less R.O	2,700		50,300

Goods Available for sale	58,300		
Less Closing Stock	12,700		
Cost of sales		45,600	
Gross profit	b/d	<u>17,300</u>	
		<u>62,900</u>	<u>62,900</u>

15. a) cost of sale

= sales – gross profit

= 360 – (25 x 360,000)

100

= 360,000 – 90,000

= 270,000

b) Rate of stock turn over

= Cost of sales

Average stock

=270,000

=[50,000 + 70,000]

2

= 270,000

60,000

= 4.5 times

16. Capital = initial capital + net profit + additional investment – drawings

$$= 180,000 + 140,000 + 90,000 - 50,000$$

$$= 410,000 - 50,000$$

$$= 360,000$$

17. Gross profit = sales - cost of sales

$$= 500,000 - 280,000$$

$$= 220,000$$

$$\text{Gross margin} = \frac{220,000}{500,000} \times 100$$

$$= 44\%$$

18.

TAJIRA TRADERS

Balance sheet as at 31st January 2001

Capital	20,000	Furniture	3,000
Mema traders	6,000	Stock	6,000
		Bank	12,000
		Cash	5,000
	26,000		26,000

19.

Vuno Traders

Profit and loss account for the year ended 31st March 2001.

Discount allowed	7,400	Gross profit	186,200
Carriage outward	13,000	Rent received	34,300

Office expenses	19,600	
Salaries	57,000	
Net profit	123,000	
	<u>220,500</u>	<u>220,500</u>

Paper 2

1. Paka Traders

Trading Profit and Loss Account

As at 31 December 1995

Dr	Kshs	Cr.	Kshs
Opening Stock	100,000	Sales	900,000
Purchases	600,000	Purchases returns	20,000
Sales Returns	80,000		
Transportation in	40,000		
	820,000		
Closing Stock (135,000)			
G.P.c/d	235,000		
	920,000		
Expenses			
Carriage out	3,000		
Rent	60,000		
Interest Expenses	18,000		

General Expenses	7,000		
N.P.C/d	147,000		
	235,000		235,000
	N.P.B b/d	147,000	

2. G.P = Margins – Sales
- $40\% * 270,000 = \text{Kshs } 108,000$
- (ii) C.O.S = Sales- GP
- $270,000 - 108,000 = 162,000$
- (iii) Net Profit = GP – Expenses
- $\text{Net Profit} = 108,000 - 40,000 = 68.000$
- (iv) Average stock = cost of goods sold
- Rate of turnover
- $= \frac{162,000}{6} = 27,000$

6

3. (i) Solo Traders

Profit and loss Account for the year ended 31 December 1998

Dr	Kshs	Cr.	Kshs
Salaries	40,000	Gross profit	80,000
General expenses	18,000	Comm. Income	35,800
Discount	5,500		
Insurance	4,800		

Net profit	<u>47,500</u>	
	<u>115,800</u>	<u>115,800</u>

(ii) Solo Traders

Balance Sheet As at 31 December 1998

Dr	Kshs	Cr	Kshs
<hr/>			
F. Asset			
Buildings	250,000	Capital	400,000
Equipment	180,0000	Net profit	47,500
Furniture	17,000		
C. Assets			
Stock	25,000	Creditors	90,000
Debtors	<u>65,500</u>		
	<u>537,500</u>		<u>537,500</u>

4. (i) Yohana Traders

Profit and loss Account

Dr.	Kshs	Cr.	Kshs
Opening Stock		Sales	4,000,000
Purchases	2,600,000		
Sales return	40,000		
	2,640,000		
Closing stock	(100,000)		

GP c/d	1,460,000		4,000,000
	4,000,000		
Expenses		GP c/d	1,460,000
	N.P b/d		922,000

(ii) Return on capital = net profit x 100

$$\frac{\text{Net - capital}}{(950,000 + 922,000) - 80,000} = 33.02\%$$
$$\frac{922,000 \times 100}{(950,000 + 922,000) - 80,000} = 33.02\%$$

$$\text{Current ratio} = \frac{\text{CA}}{\text{CL}} = \frac{32,000}{240,000} = 2.22:1$$

Debtors ratio = $\frac{\text{Debtors}}{\text{Net Sales}} \times 365 \text{ days}$

$$\frac{300,000 \times 365}{3,96,000} = 27.65 \text{ days}$$

5. (i) Current ratio = CA = 650,000 = 1:1

$$\text{CL} = 650,000$$

(ii) GP mark up

$$\text{GP} = 20\% \times 2,000,000 = 400,000$$

$$\text{COS} = 2,000,000 - 400,000 = 1,600,000$$

$$\text{GP mark up} = \frac{400,000}{1,600,000} \times 100 = 25\%$$

$$1,600,000$$

(iii) Rate of stock turnover = C.O.S

Average stock

$$= \text{Average stock} = \frac{\text{Opening stock} + \text{closing stock}}$$

2

$$= \frac{1,600,000}{150,000} = 10.66$$

150,000

6.

(i) Maringo Traders

Profit and loss account as at 31 December 2001

Dr	Kshs	Cr.	Kshs
Salaries expense	132,000	Gross profit	380,000
General expense	54,000	Comm. Received	20,000
N.P.c/d	<u>214,000</u>		
	<u>400,000</u>		<u>400,000</u>

N.P. c/f 214, 000

(ii) Maringo Traders

Balance Sheet As at 31 December 2001

Dr	Kshs	Cr.	Kshs
Premises	103,000	Capital	259,000
		Net profit	214,000
		Drawings	(83,000)
C. Assets		C. Liabilities	
Stock	274,000	Creditors	93,000
Debtors	123,000	B loan	50,000
Cash at bank	<u>33,000</u>		
	<u>533,000</u>		<u>533,000</u>

7. $G.P = 25 \times 480,000 = 120,000$

$C.O.S = Sales - GP$

$480,000 - 20,000 = 360,000$

$Purchases = C.O.S + closing\ stock - opening\ stock$

$= 360,000 + 120,000 - 80,000 = 400,000$

(ii) Sarai Traders

Trading Account As at 30th April 2003

Dr	Kshs	Cr.	Kshs
Opening stock	80,000	Sales	480,000
Purchases	400,000		
	480,000		
Closing stock	(120,000)		
	360,000		
N.P c/d	120,000		
	480,000		480,000

(ii) Rate of stock turnover = $\frac{\text{C.O.S}}{\text{Average stock}}$

Average stock = $\frac{80,000 + 120,000}{2} = 100,000$

2

C.O.S = 360,000

Rate of Stock turnover = $\frac{360,000}{100,000} = 3.55$

Tangao Traders

Balance Sheet

As at December 2004

Fixed Assets		Capital = A- 1	
Motor vehicle	80,000	(255,000	150,000
		75,000)	
Plant & Machinery	70,000		
Current Assets			
		L.T.L	
Stock	25,000	Loan from Bank	60,000
Debtors	30,000	Current Liabilities	
Bank	20,000	Creditors	15,000
	<u>225,000</u>		<u>225,000</u>

9

Tea Traders

Trading, Profit & Loss Account

For the year ending 31/12/04

	Kshs	Kshs
Opening Stock	25,000	Sales 800,000
Add purchases	700,000	
Goods Available	725,000	
Closing stock	85,000	
Cost of sales ($20/100 \times 800,000$)	640,000	
Gross Profit	160,000	
	800,000	800,000

10. Molop Traders

Profit and loss Account for the year ending 31/12/04

Expenses	48,000	Gross Profit	320,000
Lighting	7,200	Commission received	9,870
Water	9,220	Discount received	8,500
Salaries	72,500		
Discount Allowed	4,600		
General expenses	98,000		
Net Profit	338,370		338,370

Molop Traders

Balance sheet as at 31/12/04

Fixed assets	Kshs	Kshs	Kshs
Furniture	650,000	Capital	3,000,000
Motor vehicle	2,300,000	Add profit	98,890
			3, 098,850
		Current liabilities	
<hr/>			
Current assets			
Stock	25,250		
Debtors	270,000	Creditors	396,400
Bank	200,000		
Cash	50,000		
	3,495, 250		3,495, 290

- Enable the organization to have a forward looking approach
- Create staff motivation/ coordination if all are involved
- It is required by lenders of finance/ conditions e.t.c

MONEY AND BANKING

PAST KCSE

1. - One cheque is drawn by customer showing total amount payable to number of people
 - A list of individual names, their account numbers and total amount Payable
 - The bank then makes payments to individual account

2. - It is faster means of sending money
 - The sender can be compensated in case the money is lost
 - It is faster way of sending money
 - It is a convenient way of sending money
 - It can be easily traced when it gets lost

3. - Involve double coincidence of wants
 - Some items cannot be conveniently divided into smaller units
 - Some goods are too heavy
 - Difficult to determine fair rate of exchange

Statement	True	False
(a) Accepts deposits from members of public	x	
(b) Provides safe custody for valuables	x	

- (c) Issues currency for use in the country x
- (d) Controls money supply in the country x
- (e) Lends money to the members of the public x

5. - Divisibility

- Portability

- Malleability

- Acceptability

- Homogeneity

- Stability

- Durability

6. – Bank rate

- Open market operation

- Reserve ration

- Credit rationing

- Moral persuasion

- Selective control

- Compulsory deposit

- Special instruction

- Margin requirement

7. - Mobilize long term saving

- Provide long term loans
 - Provide investment opportunities
 - Provide working capital to the public limited companies by investing in Shares
 - Provide education on investment opportunities that they offer guaranteeing loan from external source
- 8.
- High rate of interest charged on these loans
 - Poor profits as a result of poor economy
 - Individuals and firms may have cheaper source of loans
 - Involve lengthy formalities
 - Many people fear the consequences of failing to pay the loans
 - Many people do not have recognized property that they can offer as security for loans
- 9.
- Lack of measure of value
 - Some commodities are indivisible
 - Requires double coincidence of wants
 - Some commodities are difficult to carry
 - Problems of storage
 - Lack of standard deferred payment
 - Lack of unit of account
- 10.
- Accept government deposits for safe keeping
 - Issues currency on behalf of government
 - Arranges and pays public debt on behalf of the government
 - Advises government

11. Car Costs 20,000 dirams

4 dirams = 1 US dollar

Amount of Kshs paid

20,000 = 5,000 US dollars

4

Amount paid = Kshs 350,000

12. – issuing of currency

- Banker to the government

- Banker to controller commercial

- Lender of last resort

- Controlling credit

- Management of foreign exchange reserves

- Implementing government monetary policy

- Management of public debts

13. - Barter to commodity

- Commodity to metallic coinage

- Metallic to paper money (notes)

- Paper to representative money e.g. cheques

- Representative to plastic money e.g. credit cards.

PAPER 2 ANSWERS

1. - Providing capital to existing new business

- They carry feasibility studies for potential investors

- They provide advisory services on how to set up and ran invest projects
 - They support investments in areas which would otherwise not be financed by other financial institutions due to risks involved
 - They generate revenue to the government to pay taxes or dividends to the government
 - Create employment opportunities
 - Mobilization of savings investments
2. - The traders can withdraw money at any time without notice
- Cheques are used for payments instead of cash
 - Traders can arrange for overdrafts facilities with the management of the Bank
 - The bank can pay on behalf of the trades such as standing orders
 - There is no minimum balance required in the account
 - Purchases can be made post dated cheques
4. - Accepting deposits from commercial bank
- Advice commercial banks on financial matters
 - Supervises the operations to commercial banks
 - Facilitates the clearing of cheques
 - Gives loans to commercial banks operations
 - Sale of foreign currency
5. - commercial banks give short term discounting bill while NBF don't
- Commercial banks give loans for a variety of purposes
 - Commercial banks offer current facilities NBF do not offer such Services, commercial banks issues cheques

- Commercial banks clear cheques through the clearing houses while NBFIs do not
- Commercial banks provide means of payments NBFIs don't
- Commercial banks exchange foreign currency NBFIs don't
- Commercial banks provide locker facilities]

6. - Bank rates.

This is the rate at which the central bank lends to commercial banks. It can be varied to encourage or discourage credit/ raising/ lowering bank rate

- Open market operation

The central bank may sell or buy securities in the market. Selling securities reduces the money supply (for lending)

- Special deposits/ compulsory deposits/ minimum reserve requirements

The central bank requires other financial institutions to have a certain percentage of deposits deposited in the central bank which can be varied to encourage / discourage credits

- Cash ratio/ liquidity ratio

The ratio of cash/ deposits may be varied to control money supply credit which can be increased to reduce money supply/ can be decreased to increase money supply.

- Moral persuasion/ Liquid assets persuasion

The central bank may appeal/ request/ persuade/ restrain leading/ credit rationing. The commercial banks may be required by the central bank to approve loans only for special types of projects e.g. agriculture, manufacturing e.t.c

- Direct action/ directive/ instructions

Central banks can use its authority to direct/instruct the financial Institutions to lend more/ less/ apply credit squeeze/ credit expansion margins requirements.

7.
 - Overdraft facilities – A customer who operates a current account with a commercial bank may require the bank to allow him overdraft his account
 - Discounting of bills of exchange/ promissory note may request a commercial bank to discount to pay the bill note before maturity
 - Formal loans- an individual can apply to commercial bank for a personal loan
 - Plastic money – Credit card holders may present such cards and have credit advanced to them by commercial bank
 - Treasury bills- banks advance to the government on exchange of the bill/bond
8.
 - Collateral security valued by appointed valuers
 - Account from leading bank at least six months old
 - Bank statements for the last six months busy account to determine credit Worthiness
 - Quarantine to be followed in case of default
 - Intended purpose of the loan
 - Agreement on the repayment
 - Appraisal fee/ charge to determine credit worthiness by a bank
9.
 - Accepts deposits for safekeeping
 - Licensing the operations of commercial banks
 - Supervision of banking operations
 - Provide clearing houses facilities for cheque
 - Giving commercial banks, loans as the tender of the last resort
 - provides advisory services, banking economic matters
 - Central bank is a source of currency for commercial bank operations
 - Buying and selling foreign currency from commercial banks

- Acts as a mediators for commercial banks in case of dispute between them
 - It repatriates excess foreign currency on behalf of commercial banks
 - Statutory management during financial crisis
- 10.
- It is an expensive source of finance as the interest charges are very high
 - Frequent use of overdraft use of overdraft could be sign of poor management hence it make it difficult to obtain credit. Bank may recall the overdraft any time
 - Overdraft are not easily available unless one is well known
 - Interest repayment cannot be planned for with certainty
 - Limited access- overdrafts is only given to current account holders only
 - Security – the lenders may require security/ property pledge
 - Limited amount are hence unsuitable for long term financing
 - Repayment patterns are unplanned hence any deposits made in the account are assumed to be repaying the overdraft
 - Short repayment period which affects the cash flow of firm adversely
- 11.
- They do not provide current account (facilities) while commercial banks provide the facilities. In commercial banks current A/C holders use cheques/ commercial bank issues cheques while NBFIs don't
 - They provide long term loans while commercial banks provide short term loan while commercial provide short term loan / overdraft / discounting bills of exchange NBFIs don't
 - Non- bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/ supervised/ banking act.
 - The NBFIs lend money for specific purpose/ specific sector while commercial bank provides general finance

- Commercial bank credit while NBIF don't create credit
 - Commercial bank means of payment / transfer of money while NBFIs don't
 - Commercial bank exchange foreign currency while NBFI don't
 - Commercial bank provides safe (for later bankers) while NBFI don't
 - Commercial bank gives letters of credit in IT while NBFI don't
 - Commercial bank provides lockers facilities/ safe custody for valuables while NBFIs don't
- 12.
- pay creditors cheques, hence safety and does not have to go to the bank
 - They can get bank overdraft facility when they do not have enough cash
 - They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account
 - They can withdraw large sums of money without notice convenient for business
 - They can make withdraws as many times as they wish thus enabling them to access money when needed.
 - They can give post dated cheques if need arises, thus enabling them to be aware of their bank balances
 - one can withdraw large sums of money without notice, which is convenient for the business
 - One can get bank overdraft facility when one does not have enough cash
 - One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the accounts
 - Safety is enhance as one pay creditors using a cheque and does not have to go to the bank
- 13
- One can give post dated cheques if need arises, thus enabling clearing of debts at a

future date.

- One can make withdrawals as many times as they wish thus enabling them to access money when needed
 - One can get issues of regular statements thus enabling them to be aware of their bank balances.
 - One can withdraw large sums of money without notice, which convenient for the business.
 - One can get bank overdraft facility when one does not have enough cash.
 - One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
 - Safety is enhanced as one pay creditors using a cheque and does not have to go to the bank.
13. - Safe keeping of valuables items. Commercial bank acts as custodian of valuable item for the clients such as wills, title deeds, jewellery etc.
- They lend money to their clients in form of loans, overdrafts or discounting bills of exchange and promissory notes.
 - They receive money deposits from their clients commercial banks operate 3 types of accounts for this purpose namely savings, current and fixed deposit account.
 - They facilitate transfer of money through cheques, credit transfers standing orders etc.
 - They advice their clients on financial and investment matters.
 - They facilitate international payments through letters of credit.
 - They act as management trustees of properties of business of deceased clients.

- They act as referees for their clients during a credit status inquiring.

INTERNATIONAL TRADE.

1.
 - Obtains loan from PTA
 - Obtains wide market for goods
 - Obtain loan from PTA bank
 - Promotes understanding between states
 - Promotes understanding between states
 - Reduced customs duty.
 - Obtains goods cheaply
 - She can get goods that she cannot produce
 - There is need for foreign exchange when importing goods from PTA members.
2.
 - To protect infant factories

- To avoid dumping
 - To correct balance of payment deficit
 - To raise revenue
 - To protect existing local industries.
3. – Earn foreign exchange
- Access a wide market
 - Country can get what it doesn't produce
 - Promote good international relations
 - Wide variety goods
 - Create employment
 - Country can be assisted during calamities
 - Improve living standards
 - Leads to competition hence high quality goods.
4. - Tariffs on imports
- Subsidies to control local producers
 - Exchange control
 - Quotas
 - Total ban
 - Long import producers
 - Administration
5. - Exporters to be export compensation
- Exporters to be paid export compensation as an incentive
 - allow waivers for customs duty on raw materials meant for production of export
 - Negotiate for preferential treatment of Kenya products abroad

- Government subsidy on some expenses
 - Establishing advisory bodies
 - Customs drawbacks
 - Revaluations of Kenya shillings
 - Simplicity of export procedures
 - Export guarantee schemes
 - Exporters producing high quality goods
 - sponsor exhibition for Kenyan goods abroad
6. – Lack of good will
- Similar products
 - Bureaucracy.
 - Difference in heights and measures
 - Political
 - Language barrier
 - Cultural difference.

7.

Statements	Documents
- Informs buyers when goods dispatched	
And by what means	Advise note
- A request by seller for payment in advance	Pro-forma invoice
- Used to correct an undercharge in an invoice	Debit note
- Shows details in the transaction between a seller	
And a buyer during a given period of time	Statement of account

8. - Causes exhaustion of non-renewable resources

- Threat to growth of local industry due to importation of cheaper and better goods
 - Importance of goods that have adverse effect on citizens, like consumption of harmful imported products
 - Erosion of cultural value due to coping of undesired foreign habits
 - Police blackmail due to political difference
 - Increased inflation due to importation of expensive goods
 - May lead to dumping when local market is flooded with cheap goods.
9. – When goods are sent on an agent to show selling prices
- When the seller doesn't want to give credit to the buyer
 - When payment for goods is required in advance
 - When the importer want written clearance before goods are sent
 - When goods are sent to a trader
 - When answering an inquiry letter
 - When the consignee of goods wishes to determine profitability before selling
10. – LOCO - Price of goods whenever they are laying (transport, packing expenses met by importer)
- FOR – price paid cover transport and loading for rail
 - FAS –(Free alongside ship) price paid is for transport up to alongside ship.
 - Bill of lading- documents that are given particular of goods to be shipped by a consignor to the consignee. It includes price of consignment. A document of title.
11. – Protection of consumer against exploitation (high prices and low quality)
- Carry out market research on distribution of essential goods and services
 - Promotion and development of internal trade.

- Acts as a mediator for commercial banks in case of dispute between them.
 - It repatriates excess foreign currency on behalf of commercial banks.
 - Statutory management during financial crisis.
- 10 – it is an expensive source of finance as the interest charges are very high
- Frequent use of overdraft could be a sign of poor management hence it make it difficult to obtain credit. Bank may recall the overdraft any time
 - Overdrafts are not easily available unless one is well known.
 - Interest repayment cannot be planned hence for with certainty.
 - Limited access – overdrafts is only given to current account holders only.
 - Security – the lenders may require security/property pledge.
 - Limited amount are hence unsuitable for long term financing.
 - Repayment patterns are unplanned hence any deposits made in the account are assumed to be repaying the overdraft.
 - Short repayment period which affects the cash flow of firm adversely.
11. – They do not provide current account (facilities) while commercial banks provide the facilities. In commercial banks current a/c holders use cheques/commercial banks issue cheques while NBFIs don't.
- They provide long term loans while commercial banks provide short term loans/overdrafts/discounting bills of exchange NBFIs don't.
 - Non-bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/supervised/banking act.

- The NBFIs lend money for specific purpose/specific sector while commercial bank provides general finance.
 - Commercial bank credit while NBFIs don't create credit.
 - Commercial bank means of payment/transfer of money while NBFIs don't.
 - Commercial bank exchange foreign currency while NBFIs don't.
 - Commercial bank provides safe (for later bankers) while NBFIs don't.
 - Commercial banks give letters of credit in IT while NBFIs don't.
 - Commercial bank provides locker facilities/safe custody for valuables while NBFIs don't.
12. – Pay creditors using cheques, hence safety and does not have to go to the bank.
- They can get bank overdraft facility when they do not have enough cash.
 - They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
 - Controlling and licensing of business
 - Controlling business rent through rent tribunals.
 - Advise business people on better production and business management through seminars, workshops, journalism etc.
 - Give loans to businessmen
12. - Increasing volume of imports.
- Initiating or completing
 - Development project in the country
 - Increasing the amount by which it services foreign countries
 - Enables a country to obtain what she does not produce.
 - Enables consumers in the trading countries to obtain a variety of goods and services

- Enables a country to obtain goods more cheaply than it can produce
- Provides revenue to the government through taxes.
- Enables a country to fully exploit the resources due to widened market
- Promotes competition between imports and locally produced goods and this improves quality of goods produced.

PAPER 2

1. – The country is able to export surplus goods
 - The country is able to buy what it does not produce
 - The country is able to earn foreign exchange.
 - Consumers in the country enjoy a variety of goods
 - The country is able to acquire technology from other countries
 - Country's citizens may acquire/ learn positive habits lifestyle
 - It enables a country to specialize in fields where it is best suited
 - Promotes healthy competition among local and foreign manufacturers
 - A country is able to get goods even during times of calamities e.g floods
 - It creates employment opportunities for citizens.
 - It generates revenue through taxes.

2. – It records tangibles/ visible exports.
 - It records tangible/visible exports
 - It records non tangible/visible imports.
 - It records non tangible imports services.
 - Inflow of loans/grant by foreign government.

- Inflow of private capital
 - Out flow of loans by a government to other countries
 - Monetary movement form IMF/ world Bank
- 3.
- By participation in international trade fairs
 - By using her commercial attaches to promote countries of accreditation
 - By subsidizing production of export / giving boundaries through export compensation.
 - By diversifying her export/ relying on different products
 - By entering into (bilateral) trade agreement
 - By lowering duties on imported raw materials meant for export/customs drawback
 - Lending/ making finance available for export producers
 - Reduce bureaucracy in licensing of export trade
 - By establishing EPZ
- 4.
- Terms of trade: the rate at which exports on one country exchanges with imports.
ToT = Price index of exports determines whether the trade between one country and another is favorable.
 - Balance of payment: the difference between both capital and current exports and imports of a country. If the value of exports is higher, the country experiences a surplus and vice versa. It determines whether a country is experiencing surplus in I
 - Exchange rate: rate at which a country's currency exchanges with another. This rate determines the value of exports and imports/ shows its indication of a country's economic strength.

- Balance trade: the difference between the value of a country's visible tangible imports and its value of exports is higher than imports.
 - Determines whether a country is experiencing surplus/ deficit trade
 - Common market: an agreement between countries that allow free movement of goods and factors of production. This allows mobilization of resources/ trade without restriction.
5. – Bill of lading: it is a document used in transporting goods by ship. It enables the holder to take possession of goods. It entitles the holder to take possession to goods imported.
- Performa invoice- a document sent in advance of goods being exported.
 - Indent- an order placed with agent of exporter. It is used to assist the exporter of agent to know where to buy goods. It used to assist the agent to select on exporters.
 - Letter of credit – an official letter from a bank allowing another bank in foreign country to pay an exporter on behalf of the importer.
6. – Highlight earnings from exports than payments than payments for imports
- Low importation by citizens
 - Increased prices of export
 - Through same quality bought
 - Receipts in forms of capital transfer from abroad
 - Restricted importation.
 - Improved economy/raised gross domestic products
7. –
- Poor infrastructure which discourages investors makes local goods less competition
 - High production costs which may make local products expensive
 - Insecurity: may discourage investors/discourage tourism

- Corruption / embezzlement of funds which may add to extra costs to project
 - Shortages of energy may hamper the operations of the investors
 - Inadequate funds may make it difficult for KETA to achieve its aims
 - Political interference which hinders the smooth running of KETA
 - Competition from other countries which makes it difficult for the Kenyan goods to sell.
- 8.
- High prices of imports. Lower prices exports compared to countries exports.
 - Advice/fall in exchange rates / depreciation of local currency which makes the imports expensive
 - Appreciation of foreign currency which makes imports more expensive
 - Low / fall in demand for country's exports more expensive
 - Competition (from similar products of other countries in the same market which leads to decrease hence lower export prices
 - Devaluation of local currency thus making imports more expensive making exports cheaper
- 9.
- Carries out sales promotion for Kenyan goods into foreign markets
 - Provides advisory services to Kenyan exporters
 - Publishes business journals in imports
 - Advises Kenyan manufacturers on the right specifications of goods acceptable in the world markets.
 - Trains/ arranges seminar/ courses on foreign trade.
 - Assists in diversification of exports
 - Assists in finding markets abroad.
 - Play role in multilateral trade agreements

- Arrange for export credit guarantee scheme for exporters
- 10. – Kenyans can buy/ import variety of goods from other countries
 - Kenya is able to export her surplus
 - Kenya can export her human labour/ technology
 - Kenya gets foreign exchange
 - International understanding between Kenya and her trading partners
 - During the time of calamity, Kenya can get assistance from other countries
 - Kenya is likely to specialize
 - Kenya can import goods that it does not produce
 - Kenya can import skills
 - Kenya can import capital
 - Create employment
 - Leads to improved standards of living in technology for Kenya
 - Government earns revenue
 - Improved quality of goods.
- 11. – Market imports to the country
 - It can be inflationary
 - It can lead to low earnings from exports
 - Can lead to high costs of bank credit
 - May discourage investments in the country
 - May lead to deteriorating terms of trade.
- 12. – He uses it as a document for future reference.
 - He uses the bill of lading to countercheck his goods on arrival
 - He can use it to get money for clearing, once the goods have come

- He can use it as a proof of business transaction
- He can use the bill to claim compensation in case all the goods indicated do not reach him.

565/1

BUSINESS STUDIES

PAPER 1

2 HOURS

1. State four advantages of operating a partnership form of business. (4mks)
 - a)
 - b)
 - c)
 - d)

2. Outline four risks against which a shopkeeper may insure. (4mks)
 - a)
 - b)
 - c)
 - d)

3. Give four ways in which a government may participate in the operations of a state corporation. (4mks)
 - a)
 - b)
 - c)
 - d)

4. Outline four considerations that a seller should take into account before giving credit to a new customer. (4mks)

- a)
- b)
- c)
- d)

5. The table below shows some of the occupations in production. Indicate the level of production associated with each of the occupations. (4mks)

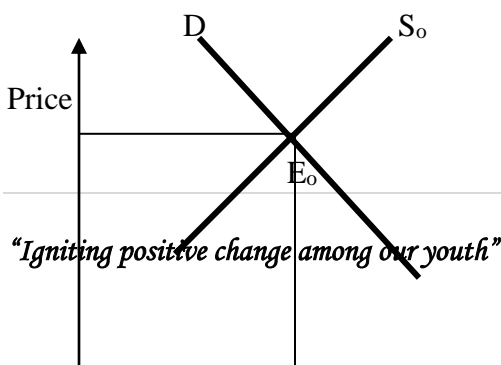
Occupation	Level of production
a) Mining	_____
b) Oil refining	_____
c) Insurance	_____
d) Teaching	_____

6. What are the advantages of personal selling as a method of sales promotion? (4mks)

- a)
- b)
- c)
- d)

7. The diagram below shows the demand and supply curves of a certain commodity and the corresponding equilibrium price (P_o) and quantity (Q_o). On the diagram, show the new equilibrium quantity and price as a result of an increase in the supply of the commodity.

(4mks)



P_o

8. Give four assumptions that are associated with perfect competitor. (4mks)

- a)
- b)
- c)
- d)

9. List four types of unemployment in an economy and give the cause for each. (4mks)

- a)
- b)
- c)
- d)

10. What benefits may accrue to manufacturing firm that uses modern technology? (4mks)

- a)
- b)
- c)
- d)

11. Highlight four benefits of using electronic filing system. (4mks)

- a)
- b)
- c)
- d)

12. State four social responsibilities that a manufacturing firm should have on the community. (4mks)

- a)
- b)
- c)
- d)

13. What factors may encourage entrepreneurship in Kenya (4mks)

- a)
- b)
- c)
- d)

14. Highlight four characteristics of economic resources. (4mks)

- a)
- b)
- c)
- d)

15. Give four reasons why one would prefer a letter to a telephone to send a message. (4mks)

- a)
- b)
- c)
- d)

16. State the effect of each of the following transactions on the balance sheet by writing increase, or decrease or no effect in each case.

Transaction	Effect
-------------	--------

- a) Bought machinery on credit _____
- b) Withdrew cash from the business for person use _____
- c) Purchased stock in cash _____
- d) Paid outstanding loan by cheque. _____

17. The following balances were extracted from the books of Chebi Traders for the month ended 31 March 2005.

	Sh.
Sales	420,000
Purchases	240,000
Motor Van	300,000
Equipment	120,000
Debtors	80,000
Creditors	40,000
Expenses	160,000
Capital	440,000

Prepare trial balance of Chebi Traders for the month ended 31 March 2005. (4mks)

18. The following balances were extracted from the books of Chombo Wholesalers for the year ended 31 Dec 2005.

	Shs.
Sales	500,000
Purchases	320,000
Opening stock(1.1.2005)	80,000
Closing 31.12.2005	40,000
Debtors	140,000
Creditors	90,000

Calculate

- a) margin
 - b) Current ratio
 - c) Rate of stock turnover (4mks)
19. Outline four benefits of direct taxation to the government. (4mks)
- a)
 - b)
 - c)

- d)
20. State four factors that may cause inflation in an economy. (4mks).
- a)
- b)
- c)
- d)
21. Outline four ways that the World Bank may use to assist developing countries to improve their economy. (4mks)
- a)
- b)
- c)
- d)
22. State four problems that a planner may encounter in development planning. (4mks)
- a)
- b)
- c).....
- d).....

565/2

BUSINESS STUDIES

Paper 2

2 ½ hours

1. a) Explain five factors that may influence the level of national income of a country .
(10 marks)

 b) Over the years southern Star has grown into a large business enterprise. Explain
 five diseconomies of scale which it may experience. (10 marks)

2. a) Explain four ways that a government can use to finance a budget deficit.
(8 marks)

(b) The following trial balance was extracted from the books of Fula Traders on 31st December 2005.

Fula Traders		
Trial Balance		
as at 31.12. 2005		
	Dr.	Cr.
	Sh.	Sh.
Sales		600,000
General Expenses	60,000	
Rent expense	10,000	
Commission Received		20,000
Motor Vehicle	600,000	
Furniture	240,000	
Cash	50,000	
Creditors		180,000
Debtors	120,000	
Purchases	400,000	
Sales Returns	20,000	
Capital		700,000
	<u>1, 500,000</u>	<u>1,500,000</u>

Additional information

- Stock on 31 December 2005 was valued at sh. 60,000

- Depreciation to be provided for as follows:

Motor Vehicle 20% p.a on Cost

Furniture 10% p.a on cost

Prepare:

- i) Trading, profit and Loss Account for the year ended 31 December 2005.
 - ii) Balance Sheet as at 31 December 2005. (12 marks)
-
- 3 a) Explain five benefits that may accrue to a community that is involved in trading activities. (10 marks)
 - b) Outline five benefits that a Savings and Credit Co-operative society (SACCO) provides to its members. (10 marks)
-
- 4 a) Musi Enterprises are considering to market their imported products direct to consumers. Outline five reasons that may be influencing them to make this decision. (10 marks)
 - b) Explain five disadvantages that a country may experience from imposing trade restrictions on trading partners. (10 marks)
-
5. a) Outline five factors that may limit the use of containers as a method of transporting goods in a developing country. (10 marks)
 - b) Using a diagram, explain how a monopolist firm determines its output. (10 marks)

6. a) Explain four functions of money. (8 marks)

b) Cheru Traders does not keep a complete set of books of accounts. The following information was extracted from her books of accounts.

	1.1.05	31.12.05
	Sh.	Sh.
Stock	920,000	1,200,000
Debtors	400,000	540,000
Creditors	800,000	950,000

During the year, cash received from debtors was sh. 1,400,000 while cash paid to creditors amounted to sh. 2,000,000. Cash sales were for Sh. 250,000 while cash purchases amounted to sh. 320,000. Carriage inwards was for sh. 46,000.

Other relevant information.

- Returns inwards were Sh. 42,000.
- Cheru had taken goods amounting to sh. 50,000 for personal use.

i) Determine total sales.

ii) Determine total purchases.

iii) Prepare Trading Account for the period ended 31 December 2005.

BUSINESS STUDIES MARKING SCHEME P1

1. Advantages of operating a partnership from business.

- (a) There is possibility of raising more capital
- (b) Partners bring in different talents and skills/ specialization
- (C) Partners can share the work load
- (d) Where losses occur, partners share them
- (e) Decisions are discussed by partners before implementation/ better decision
- (f) Few legal requirements/easier to start

2. Risks against which a shopkeeper may insure

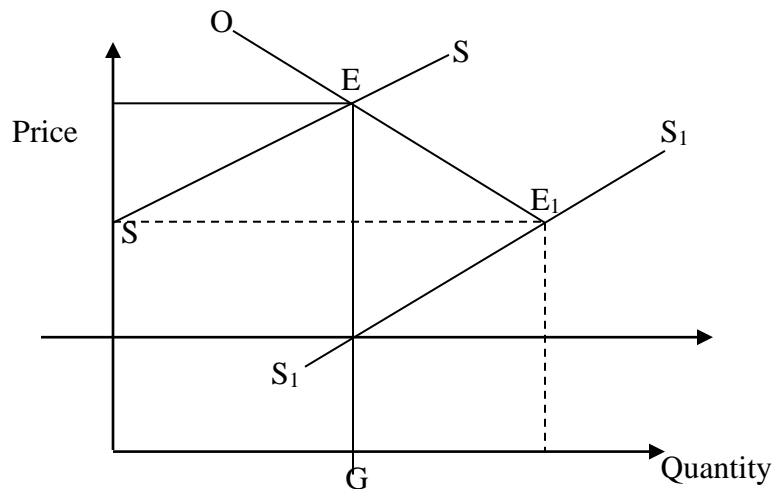
- (a) Occupational hazards for employees- risk against possible harm on employees on duty/workman's compensation
- (b) fire-loss of property due to fire
- (c) Theft and burglary- loss of property due to break- ins
- (d) Goods on transit.

3. Ways in which a government can participate in the operations of a state corporation.

- (a) Appointing the board of directors
- (b) Availing financial support

- (c) Supervision of the activities of the corporation
 - (d) Providing policy guidelines
 - (e) Auditing the accounts
 - (f) Facilitating training
 - (g) Providing legal advise
4. Considerations that a seller should take into account be fore giving credit to a new customer.
- (a) Reliability- check if the customer is an honest per son who can honour the debt as agreed/character
 - (b) Ability to pay – find out if the customer is an honest per son who can honour credit.
 - (c) Capital- check whether the customer has assets that can cover all his liabilities
 - (d) Collateral- checks whether the customer has resources to repay the credit to make sure that credit is covered.
 - (e) Prevailing economic conditions-consider if the status of the economic climate is healthy to warrant giving the credit
 - (f) Credit period
 - (g) Amount of stock available
5. Levels of production
- (a) Levels of production
 - (b) Secondary
 - (C) Tertiary
6. Advantages of personal selling.

- (a) Creates goods relationship between customers and seller
- (b) The seller has a chance to explain finer details of the product
- (c) The seller can collect information regarding the demand of the product
- (d) Seller can persuade the customer to buy the product
- (e) Full knowledge of the product
- (f) Ability to tailor the product according to customers needs
- (g) Capable of targeting a specific group.



8. Assumptions associated with perfect competition

- (a) Large number of seller and buyers exist in the market
- (b) Production of identical (homogeneous) products by different firms.
- (c) There is no government interference
- (d) There is free entry and exist from the industry
- (e) Uniformity of buyers and sellers

9. (a) Cyclical employment due to relatively low general demand for goods and service

- (b) Structural unemployment due to technological unemployment
 - (c) Seasonal unemployment-due to relatively low demand for labour at certain times of the year
 - (d) Frictional unemployment due to time lags i.e time taken in changing jobs
 - (e) Involuntary unemployment – wanting jobs at prevailing wages and cannot get them.
10. Benefits to manufacturer who uses modern technology
- (a) Increase level of output
 - (b) Improvement of service delivery
 - (c) Saving on production time
 - (d) Standardization of products
 - (e) Lower production of waste
 - (f) Reduction of waste
 - (g) Better quality goods.
11. Benefits of electronic filing
- (a) Easy access
 - (b) Reduction of labor costs
 - (c) Less storage facilities
 - (d) Update with ease
 - (e) Less paper work
 - (f) Environmental friendly
 - (g) Use of network

- (h) Less time taken
- (i) It is safe
- (j) Production safety

12. Social responsibilities of manufacturing firm

- (a) Participation in community programmers
- (b) Applying appropriate waste disposal management
- (C) Providing affordable products to the community
- (d) Conservation of the environment
- (e) Community development
- (f) Provision of employment
- (g) To engage family members in employment
- (h) Positive cultural practice
- (i) Encouragement from family members and friend
- (j) Availability of infrastructure
- (k) Availability of market
- (l) Hobbies interests and talents
- (m) Modern technology

13. Factors that encourage entrepreneurship in Kenya

- (a) Use of relevant business curriculum in learning institutions/vocational training
- (b) Government support in development of entrepreneurs/ subsidies
- (c) Existence of models in entrepreneurship/ role models
- (e) Access to business finance /capital

- (f) Need for a job
14. Some characteristics of economic resources
- (a) Scarcity
 - (b) Have monetary value
 - (c) Are unevenly distributed
 - (d) Are capable of alternative uses
 - (e) Can be combined in various proportions
 - (f) Have utility usefulness
15. Reasons why one would prefer a letter to telephone to send a message
- (a) Provides evidence
 - (b) Can be filed for future reference
 - (c) Relatively cheap
 - (d) Appropriate for complex messages
 - (e) Appropriate for confidential information
16. (a) Increase
- (b) Decrease
 - (c) Not effect
 - (d) Decrease
17. Chebi traders

Trial balance as at 31 st march 2005

Sh.

Sh.

Sales		240,000	
Purchases	240,000		
Motor Van	300,000		
Equipment	120,000		
Debtors	80,000		
Creditors		440,000	
Expenses	160,000		
Capital		440,000	
Sales	<u>900,000</u>	<u>900,000</u>	8x ¹ / ₂ = (4 marks)

18. (a) $\text{Margin} = \frac{\text{G.P}}{\text{Sales}} \times 100 = \frac{500,000 - (320,000 - 80,000 - 40,000)}{500,000}$

$= \frac{140,000}{500,000} \times 100 = 28\% \text{ Or } 28$

(b) Current ratio = $\frac{\text{CA}}{\text{CL}} = \frac{180,000}{90,000} = 2:1$

(c) Rate of stock turnover = $\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{360,000}{80,000 + 40,000}$

= 3 times (4 marks)

19. (a) The tax collected at source and hence predictable
(b) It is simple to administer.
(c) The tax has a wide base and therefore more is collected.
(d) A small change in tax rate is not easily felt by the taxpayer.
20. (a) Increase money supply unaccompanied by proportionate increase in the output of goods and services.
(b) Increase in government expenditure.
(c) Abnormal speculation and hoarding goods to create artificial shortages hence raising prices of goods.
(d) Uncontrolled increase in costs of productions.
(e) Increase in profit margin.
(f) Reduction in subsidy.
21. a) Providing finances to reduce budgetary deficits
b) Provide loans for development projects.
c) Provide finance to correct and adverse balance of payment.
d) Provide technical expertise to support development.
22. a) Lack of adequate information.

- b) Bureaucratic rigidities.
 - c) Inadequate political good will.
 - d) Inadequate financial resources.
 - e) Inadequate human resource.
- 23.
- a) He needs only a small amount of capital.
 - b) He gives personal attention to customers.
 - c) His operations can be flexible.
 - d) Outlet is easy to manage
 - e) There is legal requirement.
 - f) He does not have to share profits with anyone
 - g) Maintains business
- 24.
- a) 0
 - b) 200
 - c) 1,200
 - d) 2,200

25.

Wanji traders

Balance sheet

As at 30th June 2005

	Sh.	Sh.		Sh.
Machinery		450,000	Capital	550,000

Stock	60,000		5 year loan	270,000
Debtors	120,000		Creditors	60,000
Bank	180,000			
Cash	70,000	430,000		
	<hr/>	<hr/>		<hr/>
		880,000		880,000
		<hr/> <hr/>		<hr/> <hr/>

BUSINESS STUDIES MARKING SCHEME P2

- i) - Human resources / labour / working population / manpower
 - A country with skilled /(highly) trained / large manpower can produce quality/quantity goods/services / can generate high income.
 - A country with unskilled / or untrained / small manpower can produce low quality / quantity goods / services can generate low income.
- ii) Natural resources / land ./ gifts of nature / accept gift of nature
 - a country endowed with natural resources can produce more good / services / can generate income.
 - A Country not well endowed with natural resources may produce less goods /services / can generate less income.
- iii) (Level of) technology
 - High level of technology may produce low quality / quantity of goods / services / generate high income.
 - Low level of technology may produce low quality / quantity goods / services / generate low income.
- iv) Capital (equipment) / man – made resources / accept if manmade resources e.g. infrastructure buildings.
 - Availability of capital / manmade resources (goods) makes production easy / preserves production (resulting in increased natural income) / may generate high income.
 - Lack of capital / or makes production different / reduces production / may generate low income.
- v) Foreign investment

- Investments from abroad may increase natural income to the country / increase production of goods / services / investments abroad may increase national income.
 - Reduction of foreign investment may reduce production of goods / services / income.
- Vi) Good governance / political stability
- Production of goods / services / investments / income increase as a result of good governance / political stability creates confidence in investors.
 - Poor governance / political instability reduces savings / investment / damages / investment / reduce incomes / production of goods / services.
- vii) Culture / entrepreneurship
- Culture that encourages hard / work / entrepreneurship reduces production of goods / services / may generate low income.
 - Culture that encourages hard / work / entrepreneurship reduces production of goods / services / may generate low income.

Financing a budget deficit

- i) (Inflationary financing) Borrowing from the central bank through overdrafts / short term loans / accept use of examples to explain.
- ii) Borrowing from international money markets / agencies / financial institutions / non-banking financial institutions such as IBRD / IMF / World Bank / PBR / provides funds / revenue for government / accept use of examples.
- iii) Borrowing from capital markets such as ICDC / insurance companies / AFC / NPCK / procedure by selling bonds.

- iv) Borrowing from domestic money markets such as commercial banks / selling treasury bills and / bonds / promissory notes / I.O.U.
- v) Borrowing from other countries / multilateral / Bilateral borrowing through loans / buying goods / services on credit.
- vi) Borrowing from members of the public by selling treasury bills / bonds/ promissory notes.
- vii) Grants / donations / from donor countries / finances / individuals.
- viii) Printing more currencies
- ix) Imposing conditions / new / taxation in related goods / services / increased government revenue / raise funds.

2(b)

FAULA TRADERS

TRADING, PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 ST DECEMBER, 2005

Purchases	400,000	Sales	600,000
Less closing stock	60,000	Less sales returns	20,000
Cost of sales	340,000		
Gross profit C/D	240,000		
	580,000		
	<hr/>		<hr/>
	580,000		580,000
	<hr/>		<hr/>

General expenses	60,000	Gross profit	240,000
Depreciation – motor vehicle	120,000		
-furniture	24,000		
Rent expenses	10,000		
Net profit	46,000		
	<hr/>		<hr/>
			260,000
	<hr/>		<hr/>
	260,000		
	<hr/>		<hr/>

(14 x ½) = 7 marks)

2b)

FAULA TRADERS

TRADING AND LOSS ACCOUNT ENDED 31 – 12 – 2005

Purchase	400,000	Sales	600,000
Sales returns	20,000	Closing stock	60,000
Gross profit C/D	240,000		
	<hr/>		<hr/>
			660,000
	<hr/>		<hr/>
	660,000		
	<hr/>		<hr/>

(7 X ½ = 3 ½ marks)

FAULA TRADERS

TRADING, PROFITS AND ACCOUNT FOR THE YEAR ENDED 31.12.2005

Sales	600,000	
Less return inwards	20,000	
Less cost of goods sold		580,000
Purchases	400,000	
Less closing stock	60,000	
Cost of sales		340,000
Gross profit C/D		<u>240,000</u>
Add commission		20,000
		<u>260,000</u>
Less expense		
<u>General expenses</u>	60,000	
Less depreciation	120,000	
Furniture	20,000	
Rent expenses	10,000	<u>24,000</u>
Net profit		46,000

FAULA TRADERS
BALANCE SHEET
AS AT 31.12.2005

Motor vehicle	600,000		Capital	700,000
Less depreciation	120,000	480,000	Add net profit	46,000
	<hr/>			746,000
Furniture	240,000			
Less depreciation	24,000	206,000	Creditors	180,000
	<hr/>			
<u>Current asset s</u>				
Stock	60,000			
Debts	120,000			
Cash	50,000	230,000		
		<hr/>		<hr/>
		926,000		926,000
		<hr/>		<hr/>

N.B

If a candidate writes motor vehicle 480,000 and not motor vehicle less depreciation 2 ticks.

If a candidate writes furniture 216,000 and not furniture less depreciation 2 ticks.

If a candidate gets wrong net profit but correctly transfers accept.

If a candidate writes the figure for capital 740,000 give a tick

Foreign terms substitute e.g. General in Balance sheet. (10 x ½ = 5mks)

FAULA TRADERS

BALANCE SHEET AS AT 31.12.2005

Fixed assets

Motor vehicle	600,000	480,000
Less depreciation	120,000	
Furniture	240,000	216,000
Less depreciation	24,000	<u>696,000</u>

Add current Assets

Stock	60,000	
Debtors	120,000	
Cash	50,000	
	<u>230,000</u>	

Less Current Liabilities

Creditors	180,000	
Working capital		50,000

Capital employed	<u>746,000</u>
------------------	----------------

Financed by

Cash	700,000	
Add net profit	46,000	
Capital employed		<u>746,000</u>

(10 x ½ = 5 Marks)

Alternative

FAULA TRADERS

BALANCE SHEET AS AT 31/12.2005

Capital	700,000	
Add net profit	46,000	746,000

Represented by:

Fixed assets	Motor Vehicle	600,000	
	Less depreciation	120,000	480,000
	Furniture	240,000	
	Less depreciation	24,000	216,000
			696,000

Add current assets	Stock	60,000	
	Debtors	120,000	
	Cash	50,000	
			230,000

Less current liabilities	180,000
Creditors	50,000
Working capital	740,000
Capital employed	

(10 x ½ = 5 marks)

3 (a) BENEFITS OF A COMMUNITY INVOLVED IN BUSINESS ACTIVITIES

- i. There will be an opportunity to utilize available resources that would otherwise have stayed idle/the community will be able to utilize idle resources.
- ii. There will creation of employment for those engaged in trading activities/ various/different trading action
- iii. Trade will also lead to expanded / wide markets for goods / services (produced)
- iv. Variety of goods/services (for exchange will be available giving people a choice/to satisfy different consumer needs.
- v. Growing/increased income/earning of income to purchase/continue more goods/services
- vi. New business/more business opportunities (will be started as people's needs continue to increase/more business opportunities to provide support services/other services.
- vii. Increased production of goods/services making more goods/services available to the community/when these meet consumer needs.
- viii. Entrances specialization/division of labour/improve quality of goods due to exchange of goods/services/which leads to quality goods/services.

- ix. Improved technology due to exchange of ideas/skills, machinery, employment.
- x. Poorer/understanding due to interdependence/interaction.
- xi. Sale/disposal of surplus goods/services to minimize wastage.
- xii. Factors goods/services they don't produce by buying them from others.
- xiii. Improved infrastructure e.g. roads, amenities, railways e.t.c.

3 (b)

- i. Encourage members/help to save (big making regular contribution)
- ii. Provide loan facilities to members based on member's contribution.
- iii. Members receive dividends based on their shares/they give dividends to their members.
- iv. Members are educated/advised on cooperative activities/their rights/their obligations.
- v. Some SACCOS have front office banking facilities/front office services for their members.
- vi. They give interest to their members.
- vii. They charge low interest on loans.
- viii. They insure member's contributions/members loans are written off on death.
- ix. They give loans on easy terms/conditions.
- x. Members savings/new contribution is doubled upon death of a member.

4 (a)

- i. It may be that the goods are produced according to customer specifications
- ii. The firm may be having their own retail outlet/distribution facilities.
- iii. The market may be localized/near (in terms of geographical location).
- iv. The goods may be expensive and middlemen cannot be able to stock them.
- v. The goods may be of a technical nature/require after sales services.

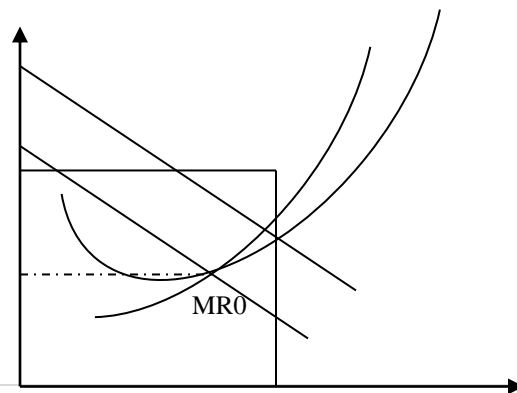
- vi. The goods may be perishable (and the firm may want to deliver them fast to the consumer).
- vii. The firm may want to have direct contact with customers/get immediate feedback/create good impression.
- viii. Where customers order for goods direct from the trader/firm
- ix. If there are no middlemen
- x. Where government policy requires goods to be sold directly to consumers.
- xi. Where the goods imported are in small quantities.
- xii. Where the size of the market is small.
- xiii. Where the firm would maximize profits by selling directly to consumers.
- xiv. When there is stiff competition.
- xv. Where the rest of distributors time in middlemen make the price of products high/expensive

4 (b)

- i. Retaliation by other trading partners/countries leading to reduction in exports.
- ii. Low/foreign exchange earnings due to reduced exports.
- iii. Curtailed transfer of technology/factors of production that may lead to poor quality production/low quality of products/low output.
- iv. Lack of variety of/limited products which restricts consumers' choice.
- v. Poor international relations which may lead to conflicts among consumers/may not get assistance in times of calamity/needs.
- vi. Leads to increased unemployment due to reduced trading activities.
- vii. May suffer balance of payment as a result of reduced income of exports.
- viii. Reduced competition leading to low quality goods/services/inefficient firms/exploitation of consumers.

5 (a) Limitation of use of containers

- i. Specialized equipment which are expensive. The method calls for specialized equipment for handling goods which are lacking/expensive to buy/use/maintain.
Accept examples of specialized equipment e.g. handling and offloading machines.
- ii. Organization personnel/talents/training/operational/management skills needed for the method may be lacking/training may be expensive.
- iii. Volume of business may not be large enough/warrant the heavy investment/volume of business may be low.
- iv. Initial capital needed for the system/not easily available/expensive.
- v. The method requires re-degrading of existing ports/reconstructing part which is quite expensive.
- vi. Use of medium technology which is limited/lacing/not readily available/limited medium technology (in a developing country) which may slow the rate of processing goods.
- vii. General resistances to change by stakeholders/interested/affected parties of people generally resist change.



- The monopolist will produce at a point where $MRO = MC$ at point B
- CD/OQ is the quantity produced while $(f,$ is the point which the monopolist is willing to sell.

6(a) Functions of money

- Used / serves as a medium of exchange. Money can be exchanged for goods/services removing the problem of barter/ can be used to buy goods/ serves as it is generally accepted as a medium of exchange.
- Measure of value: Value of goods / services can be compared / estimated / determined/ calculated / assigned.
- Store of value: value of goods / services can be stored in form of goods / services are recorded in terms of money.
- Standard of deferred payments / money assist of conduct business on credit / where payment are made later.
- Unit of account. Values of goods /services are recorded on term of money.

6(b) Determine total sales

(i) Debtors control allows

Opening balance	400,000	Receipts/cash	1,400,000
Credit Sales	1,582,000	Returns inwards	42,000
		Balance c/d	540,000
	<u>1,982,000</u>		<u>1,982,000</u>

= Credit sales + cash sales

Therefore total sales = 1,982,000 + 250,000 = 1,832

(7x1/2 = 3 1/2 marks)

(ii) Determine total purchases

Creditors Control account

Payments/cash	200,000	Balance b/d	800,000
Balance C/D	950,000	Credit Purchases	2,150,00
	<u>2,950,000</u>		<u>2,950,00</u>

Total purchases = Credit purchase + cash purchases

= 2,150,000 + 320,000

= 2,470,000

CHERU TRADERS**TRADING ACCOUNT FOR THE PERIOD ENDED 31.12 2005**

Opening stock	920,000	Sales	1,532,000
Purchases	2,470,000	Less returns	40,000
Add carriage inwards	46,000		<u>1,790,000</u>
Total purchases	2,516,000	Gross loss	396,000
Less drawings	50,000		
	<u>2,466,000</u>		
Net purchases	3,386,000		
Less closing stock	1,200,000		
	<u>2,186,000</u>		<u>2,186,000</u>

6. (c) alternative I

Receipt/ cash from debtors	1,400,000
Add returns inwards	42,000
Add closing balance of debtors	540,000
	1,982,000
Less opening balance of debtors	400,000
Credit sales	1,582,000

Total sales = Kshs. 582, 000+ 250,000

= Kshs. 1,832,000

(7x1/2 =3 ½ marks)

Alternative II

Payment/Cash to creditors	200,000
---------------------------	---------

Add closing balance of creditors	950,000
----------------------------------	---------

	<u>2,950,000</u>
--	------------------

Less Opening balance of creditors	80,000
-----------------------------------	--------

Credit purchases	<u><u>2,150,000</u></u>
------------------	-------------------------

Total Purchases = 21,500+ 320,000= Ksh. 2, 470,00

(6 x ½ =3 marks)

Alternative III

Total sales

Cash receipts	1,400,000
---------------	-----------

Add return inwards	42,000
--------------------	--------

Closing balance of debtors	54,000
----------------------------	--------

Less opening balance of debtors	40,000	140,000
---------------------------------	--------	---------

Credit sales	<u> </u>	<u>1, 582,000</u>
--------------	-----------------------------	-------------------

Add cash sales		250,000
----------------	--	---------

1,832,000

(7x ½ = 3 ½ marks)

Total purchases

Cash payments		2,000,000
Add closing balance of creditors	950,000	
Less opening balance of creditors	80,000	150,000
Credit purchases		2,150,000
Add cash purchases		320,000

Total purchases		<u>2, 470, 000</u>

(6X ½ = 3 MARKS)

565/1

BUSINESS STUDIES

PAPER 1

2 HOURS

1. State four types of complaints that a consumer organization may receive from consumers.

(4 marks)

- (a)
- (b)
- (c)
- (d)

2. The following terms relate to communication: vertical, horizontal, formal and informal.

Write the appropriate term of communication associated with each of the following statements.

	Statement	Terms
(a)	A manager gives instructions to a supervisor in division	
(b)	Rumours going around that the most disciplined workers will be rewarded.	
(c)	A manager issues a general circular to the employees	
(d)	Prefects discussing discipline in their school	

3. Outline three features of a Re – insurance company

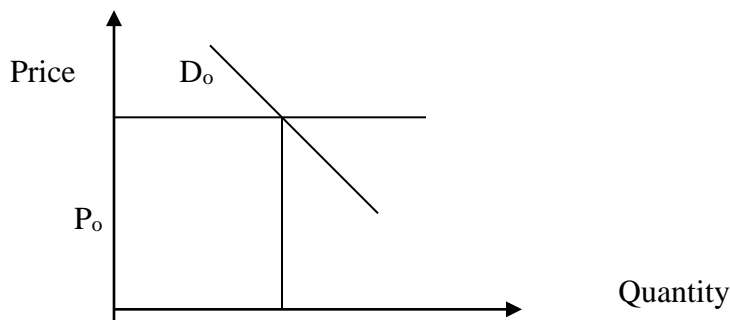
- a)
-

- b)
-
- c)
-

4. A firm wishes to introduce a new product into the market. Outline four factors that should be considered in choosing an appropriate medium for promotion.

- a)
-
- b)
-
- c)
-

5. The diagram below shows the current demand for petrol.



- a) What is the effect of a fall in the price of cars on demand for petrol? (2mks)
.....
.....
- b) Draw a new demand curve on the diagram above to show the effect of a fall in price or cars. (2mks)

6. State four ways in which production activities may negatively impact on community health.

- a)
-
- b)
-
- c)
-
- d)

7. Outline four negative effects of an ageing population to an economy. (4mks)

- a)
- b)
- c)
- d)

8. The following are some of the accounts available to customers in the Kenyan banking industry: Current account, savings account and Fixed deposit account. Give the account that corresponds to each of the descriptions given below. (4mks)

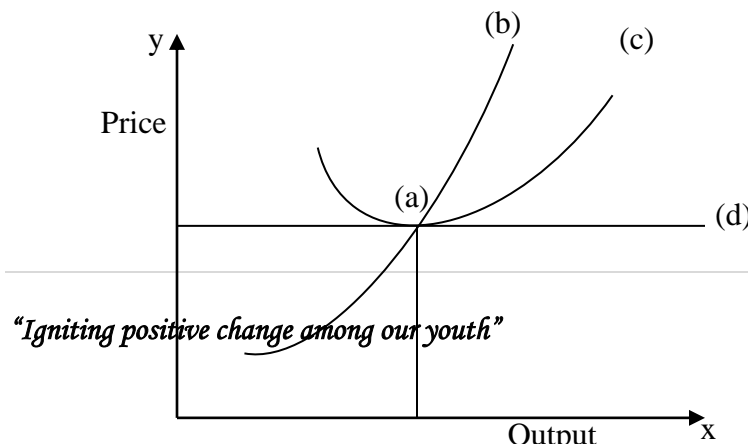
	Description	Type of Account
(a)	Account holders require to deposit a specific initial amount as well as maintain a minimum balance	
(b)	Account holder may deposit and withdraw money whenever they want without maintaining a minimum balance	

(c)	Banks pay interest on the deposit at comparatively rates.	
(d)	Money may be deposited at any time and interest earned if a specified balance is maintained	

9. The following are some of the documents used in home trade: Cash sale receipt, catalogue, invoice and statement of account. Match each document with the appropriate description provided in the table below.

	Description	Document
(a)	Shows details of goods offered for sale.	
(b)	Give quantity, unit price and total amount to b	
(c)	Shows transactions since the date of last statem	
(d)	Shows description of goods bought, prices and amount paid.	

10. The following diagram represents equilibrium position of a firm under perfect competition.



Label the parts represented by the letters a,b,c, and d

- a)
- b)
- c)
- d)

11. State four circumstances under which air transport may be used to ferry goods (4mks)

- a)
- b)
- c)
- d)

12. On 1 January 2006, Mzalendo Traders sh.180000 in cash and sh.170000 at bank.

During the month, the following transactions took place:

2006

January 10 paid ABM Traders sh.25, 000 by cheque less sh.1000 Cash discount.

16 Sold goods for sh. 14,000 cash, less 5% discount

--	--	--	--	--	--	--	--	--	--

13. Outline four benefits to a business that uses its own warehouse. (4mks)

- a)
- b)
- c)
- d)

14. Identify the book of original entry used in recording each of the following transactions of Soya Traders. (4mks)

	Transaction	Book of original entry
(a)	Sold goods on credit to Wanjau for sh.20,000	
(b)	Bought goods on credit from Saipei Traders for 1000.	
(c)	A chieng returned goods worth sh.6000	
(d)	Soya returned goods worth sh.11000 to Nzome	

15. The following information related to Kerubo Traders for the year ended 31 December, 2006.

	Sh.
Opening stock	24,000
Carriage on sales	12,000

Purchases	370,000
Sales	442,500
Closing stock	40,000

Other expenses 10% on Gross profit.

Prepare Trading profit and Loss Account for the year ended 31 December, 2006. (5mks)

.....

.....

.....

.....

.....

16. The average consumer price for a500g container of cooking fat for various years is shown in the table below.

year	Consumer price Kshs.	Consumer price Index
2000	47	100
2001	53	-
2002	62	-
2003	74	-

Calculate the consumer price index using year 2000 as the base year (3mks)

17. State four ways that may be used to control the amount of money in circulation by the central Bank of Kenya.

a)

.....

b)

.....

c)

.....

d)

.....

18. Outline four differences between a good and a service. (4mks)

a)

b)

c)

d)

19. Highlight four factors that could influence mobility of capital as a factor of production.

(4mks)

a)

b)

c)

d)

20. State four advantages of an open office layout to an organization. (4mks)

a)

b)

c)

d)

21. Highlight four ways in which the running of public corporations may be improved. (4mks)

a)

- b)
 - c)
22. State four reasons why countries may decide to trade with each other. (4mks)
- a)
 - b)
 - c)
 - d)
23. Outline four benefits that accrue to a customer who uses automated teller machine (ATM) banking service. (4mks)
- a)
 - b)
 - c)
 - d)
24. State four factors that could hasten the economic development of a country. (4mks)
- a)
 - b)
25. Outline four elements that may comprise the external environment of a business. (4mks)
- a)
 - b)

565/2

Business studies

Paper 2

2 ½ hours.

1. a) Explain six reasons why a new business may fail (12mks)
- b) Explain four advantages of transaction business through e-commerce. (8mks)
2. a) Explain six sources of government revenue for development expenditure. (12mks)
- b) Karani does not keep a complete set of accounting records. During the year ended 30 June 2006, the following balances were extracted from the books of accounts.

	Sh.
Stock	140,000
Land and buildings	500,000
Cash in hand	2500,000
Cash at bank	120,000
Credit	240,000
Long term loan	1400.000
Plant and machinery	600,000

Additional information:

- Karani drew sh. 140,000 from the business for private use.

- Opening capital was sh.2000 000 as at 1 July 2005
 - Additional capital during the year was sh.120,000.
-
- i) Prepare statement of affairs for the year ended 30 june 2006
 - ii) Determine profit or loss for the year ended 30 june 2006
3. a) explain five ways in which the Agriculture Finance Corporation(AFC)
- b) Explain five factors that could affect the quantities of cabbages supplied in a market. (10mks)
- 4 a) Explain five strategies that a small – scale firm could adopt to expand so as to enjoy economies of scale. (10mks)
- b) Explain five benefits that could accrue to a customer who buys goods from a departmental store. (10mks)
5. a) Discuss five reasons why less developed countries are reluctant in implementing free trade agreement. (10mks)
- b) Draw a diagram to show how equilibrium price and output are determined under-monopoly. (10mks)
6. a) Explain five features that you would consider in establishing a warehouse for imported goods. (10mks)
- b) The following trial balance was prepared from the books of Mugambi Traders for the year ended 31 December 2005

Mugambi Traders

Trial Balance

	Dr	Cr
	Kshs	Kshs
Land and buildings	500,000	
Capital		940,000
Plant & Machinery	200,000	
Motor Vehicles	300,000	
10 year bank loan		200,000
3 year ICDC loan		100,000
Stock	100,000	
Debtors	60,000	
Creditors		60,000
Accrued expenses		20,000
Cash at Bank	100,000	
Cash in hand	20,000	
Drawings	40,000	
	<hr/>	<hr/>
	<u>1,320,000</u>	<u>1320,000</u>

Prepare

(i) A balance sheet for the year ended 31 December 2005

(ii) Determine

- Working capital
- Capital employed
- Borrowed capital

(10 marks)

ANSWERS TO QUESTIONS KCSE PAPER 1

1. Complains that may be received from consumers include the following

- a) poor quality of goods and services/ damaged
- b) incorrect weight and measures
- c) unfair pricing
- d) poor hygienic conditions
- e) Expired goods
- f) Non- compliance to building regulations
- g) Contra- band items. Prohibited goods
- h) Harmful goods
- i) Hording
- j) Misleading advertisement
- k) Environmental pollution
- l) Technological sides effects
- m) Breach of contract

2. Solutions are

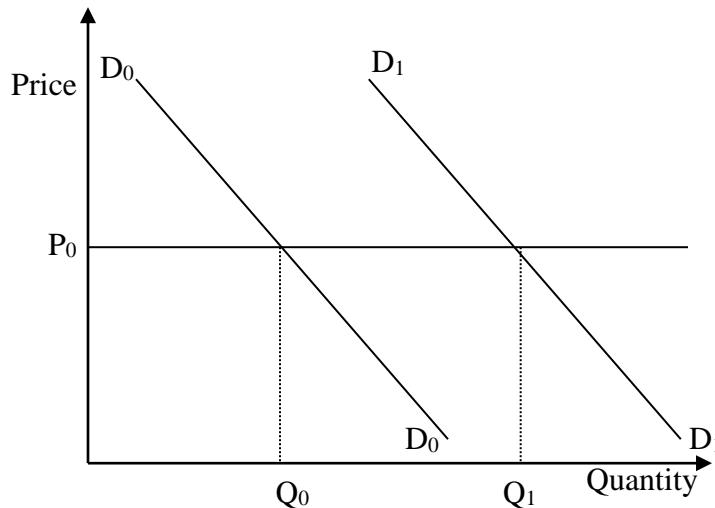
- i. Vertical
- ii. Informal
- iii. Formal
- iv. Horizontal

3. Features of a re- insurance company are

1. Commands large financial resources

2. Re- Insurance companies are empowered by law to insurance companies
 3. Government has a stake in re- insurance company
 4. Re- insurance company only deals with corporate insurance clients
 5. Guarantees compensation
4. Factors to consider include
- a) Target group so as to reach the intended group
 - b) Availability of the medium – convenient to use only to medium that is available
 - c) Cost of medium – saving in method used should be considered
 - d) Reachability- How well the medium reaches the target
 - e) Time of promotion – medium that can reach many intended group
 - f) Medium used by competition – Find the strengths and weakness to improve on
 - g) Speed/ urgency
 - h) Flexible
 - i) Quality of the medium
 - j) Physical characteristics of the medium
 - k) Legal requirement/ government policy
 - l) Nature of the product
 - m) Duration of the promotion

5. a) More cars will be demanded and this would increase the demand for petrol at the same time



- b) More petrol will be demanded as show by curve D_1D_2

6. Negative effects of production on community health

- a) Air pollution cause airborne diseases
- b) Water pollution causes water borne diseases
- c) Congestion – Congestion created as more people come to look for work (job)
- d) Noise – pollution – causing haring facilities- demand for health facilities increase
- e) Solid waste pollution – causing many diseases
- f) Environmental degradation- This may lead to health problems
- g) Social evils e.g immorality
- h) Occupational hazards
- i) Unhealthy production
- j) Global warming

7. Negative effects of an ageing population to an economy include

- a) Deficiency of an economically active labour/ low labour supply
- b) Increase in welfare costs
- c) Need to import labour that affects the foreign exchange reserves
- d) Dependency ratio increases
- e) Rigidity to change
- f) Fall in old for goods and services required by the youth
- g) Less progressive/ low savings and low investments

8. Account to match the descriptions is

- a) Savings account
- b) Current account
- c) Fixed deposit account
- d) Savings account

9. Documents for the descriptions are

- a) Catalogue
- b) Invoice
- c) Statements of account
- d) Cash sale receipt

10. Parts represented by letters are

- a) Equilibrium point/ $MC = MR$
- b) Marginal cost curve/ MC
- c) Average cost curve / AC
- d) Marginal revenue = average revenue = Price = Demand

11. Circumstances include where

- a) Urgency is important
- b) Goods are perishable
- c) Goods are of high value/ expensive goods
- d) Goods are to transported over long distances
- e) Fragile goods
- f) Where other means cannot be used
- g) Where safety is crucial
- h) Affordability

12.**MZALENDO TRADERS**

Cash book

For the month of January 2006

Date	Particulars	Discount	Bash	Bank	Date	Particulars	Discount	Cash	Bank
		Allowed	Kshs	Kshs	2006		Received	Kshs	Kshs
Jan-01	Balance		18000	17000	Jan 10	ABM Tra	1000		
16	Sales	700	13300	26100	31	Bank (c)		26100	
31	Cash (c)					Bal c/d		5200	172100
		700	31300	19610			1000	31300	196100

13. Benefits to a business for using its own warehouse include

- a) The business maintains a continuous supply of goods
- b) Customers are retained as they are sure of getting the goods on demand

- c) Goods are safe from theft
- d) Savings increases for not renting storage facilities
- e) Goods can be processed in the warehouse
- f) Can be tailored to suit ones specifications
- g) Can be conveniently located
- h) More secure front damage
- i) Space is guaranteed

14. Books of original entry

- a) Sales journal/ debtors journal/ day book
- b) Purchase journal/ creditors journal
- c) Sales return journal/ returns inward journal
- d) Purchases returns journal/ returns outward journal

15.

Kerubo Traders

Trading, Profit and Loss Account

	Kshs		Kshs
Opening	24,000	Sales	442,500
Stock			
Purchases	<u>370,000</u>		
	394,000		
Less: Closing Stock	<u>40,000</u>		
Cost of Goods sold	354,000		
Gross profit	<u>88,500</u>		

	<u>442,500</u>		<u>442,500</u>
Carriage in	12,000	Gross Profit b/d	88,500
Sales Expenses Others	8,850		
Net profit	<u>67,650</u>		
	<u>88,500</u>		<u>88,500</u>

16. Consumer price index for years 2001, 2002 and 2003

Year	Consumer Price Index (Cpi)
1. 2001	$\frac{53}{47} \times 100 = 112.77$
2. 2002	$\frac{62}{47} \times 100 = 131.91$
3. 2003	$\frac{74}{47} \times 100 = 157.45$

17. Central Bank of Kenya control amount of money in circulation by:

- Instructing commercial banks to only lend in priority areas/ selective credit control
- Practicing domestic borrowing/ open market operations
- Increasing interest rates on loans advanced by commercial banks/ bank rate increases
- Requirement that commercial banks maintain a cash ration
- Liquidity ratio

- f) Special/ compulsory deposits
- g) Margin requirements (higher/ lower collateral requirements)

18. Differences between a good and a service include

A good	A Service
a) Goods are tangible	Intangible
b) Quality can be standardized	Quality varies
c) Goods can be stored	Services cannot be stored
d) Goods can be separated from owner/ prov	Services cannot be separated from owner/ provider
e) Goods paid for ownership	Services paid for experience
f) Not always perishable	Always/ highly perishable

19. Factors that may influence mobility of capital include

- a) Different uses in which capital can be put to/ degree of specialization
- b) Amount of capital available
- c) Skills of knowledge available to operate capital

- d) Government policy
- e) Government goodwill (support)
- f) Time taken to modify
- g) Reward offered
- h) Security in the new location
- i) Nature of capital (fixed or liquid)
- j) Cost of moving the capital
- k) Time the capital has been in the current use
- l) Infrastructure

20. Advantages of an open office layout to an organization include

- b) Supervision enhanced
- c) Resources are evenly shared
- d) Saving on space
- e) Cheaper to construct/ easier to construct
- f) Inter- personal relationship
- g) Workflow made easy
- h) Services delivery enhanced

21. Four ways in which the running of a public corporation may be improved include

- b) Ensuring that appointment for senior and technical posts are done on merit
- c) Exercising the supervisory role of the government
- d) Continuous training of staff for development
- e) Setting performance targets to be achieved

- f) Establishing incentive system for motivation
- g) Creating public awareness
- h) Restructuring the corporations (retrenching)
- i) Reduce policy interference
- j) Reducing monopolistic tendencies

22. Reasons why countries may want to trade with each other is to

- a) Exchange their surpluses
- b) Acquire goods/ they are unable to produce
- c) Enhance international relations
- d) Acquire much needed foreign exchange
- e) Exchange skills and knowledge of producing certain goods
- f) Acquire a variety of goods/ services
- g) Acquire quality goods
- h) When its cheaper to import
- i) Create employment
- j) Exploit resources optimally as there is
- k) Enhance factors mobility
- l) Wider market

23. Benefits if using Automated Teller Machines (ATMs) include)

- a) Saves time
- b) Withdrawing any time
- c) Conveniently placed
- d) Access to account balances / extra information
- e) Can pay utility bills

- f) Deposits any time
- g) Since ATM cards can be used to buy goods/ services
- h) Cheaper to operate
- i) Safer to use
- j) Highly portable
- k) Withdrawals can be done for one else behalf

24. Factors hasten economic development in a country include

- a) Industrialization
- b) Infrastructure/ social amenities
- c) Research and developing / planning
- d) Education and training
- e) Use of modern technology/ capital
- f) Good medical facilities
- g) Good governance/ government goodwill
- h) Economic endowed / natural resources
- i) Presence of a strong entrepreneurial culture

25. Elements that may comprise external environmental of a business include

- a) Political
- b) Economical
- c) Social- cultural
- d) Technological
- e) Legal structure
- f) Customers
- g) Intermediaries

- h) Geographical
- i) Demographical
- j) Supplies of raw materials
- k) Competition

BUSINESS STUDIES MARKING SCHEMES PAPER 2

- i) Inadequate capital/ lack of funds- initial/ operation capital may be inadequate to sustain/ run/ expand due to lack of collateral/ security
Accept examples of running cost as explanation
- ii) Poor inappropriate marketing/ strategies/ leading to low sales/ fewer customers/
Accept examples of poor marketing strategies as naming alternative naming; lack of proper planning in marketing.
- iii) Unfair/ stiff competition
Alternative: Competition may be too high for the new business – which business is unable to cope with/withstanding / access market/inputs
- iv) Inadequate/ lack of poor/ inefficient management skills
The business may have insufficient skills to operate/ manager
Accept examples of poor management as explanation
- v) Lack of inadequate manpower
The business may not have enough manpower to operate/ manage
- vi) Lack /inadequate modern technology/inappropriate technology. This may lead to less quantity/ quality goods/ services
- vii) Unfriendly / poor management policies. May be the government policies are unfavourable to the growth/ explosion of business
Accept examples of unfavourable government policies like high taxes as explanation
- viii) Inadequate/ lack of market due to low income of buyers/ customers/ cultural practices/ beliefs
- ix) Poor pricing which might make the produce/ services too expensive to attract buyers/ too cheap to sustain the business

- x) Inappropriate product/ business for the intended market/
Accept explanation of inappropriate products/ business as explanation.
 - xi) Political instability/ insecurity that may hinder smooth running of the business
 - xii) Poor/ inadequate infrastructure which may hinder access the market/ inputs/
Explain poor infrastructure as naming.
 - xiii) Lack of planning to accommodate future changes.
 - xiv) Misallocation/misappropriation of resources leading to wastages/ misuse of resources.
 - xv) Poor customer relation/ care leading to loss of market.
 - xvi) Poor time management which may cause loss of business opportunities/ inability to accomplish tasks
- (b) (i) Facilities access to large markets/ worldwide/ global since many countries/ regions are connected to the internal/ online website.
- (ii) Large and small business can transact business through internet without discrimination/ restriction/ as there are no restrictions/ discriminations in the use of internet.
- (iii) A fast/ quick way of doing business through the internet thereby saving time/ facilitating urgent transactions.
- iv) Reduces paper work/ number of business transactions since many dealings are online/ making transactions less cumbersome
- v) Cheap way/ saves on cost of sending/ receiving/ storing business information products/ services
- vi) One can access other/ different business information from internet which can enhance the running of the business.

2.
 - i. Taxation – Government levies different types of taxes on goods/ services from raising revenue/ on incomes
 - ii. Rent/ rates/ lease income/ hiring charges received from government property such as land/buildings
 - iii. Sales of assets – this includes assets like shares/ buildings/ vehicles
 - iv. Loans – These are received from development partners/ international lenders/ world bank/I.M.F/local lenders
 - v. Dividends/ profits – received from government investment/ business
 - vi. Licenses/ fees – licenses for operating business/ fees for government services
 - vii. Loyalties – generated by a country's resources such as forests/ minerals. National parks
 - viii. Grants/donation/ gifts – from the development partners/ other well wishers
 - ix. Loans repayments/ interests on loans given out by the government agencies
 - x. Fines/ penalties imposed by courts/ government agencies

b) i) Karani Statements Affairs

As at 30/06/2006

Fixed Assets	Kshs	Kshs	Kshs	Kshs
Land and Building	2,500,000		Capital	2,660,000
Motor vehicles	500,000		Long term loan	1,400,000
Plant and machinery	600,000	3,600,000	Current Liabilities	
Current Assets			Creditors	120,000
Stock		140,000		
Debtors		80,000		
Cash at Bank		240,000		
Cash in Hand		120,000		
		<u>4180,000</u>		<u>4180,000</u>

ii) Determination of profit and loss

Ending/ final capital = beginning capital + Net profit + additional capital less drawings

$$2,660,000 = 2000,000 + NP + 120,000 - 140,000$$

$$= 1,980,000 + NP$$

$$2,660,000 - 1,980,000 = NP$$

$$NP = 680,000$$

Alternative final capital = 2,660,000 - Drawings (140,000)

= 2, 800,000 – Initial K (2,000,000)

= 800,000 = additional K (^20,000)

= 680,000

3. a)

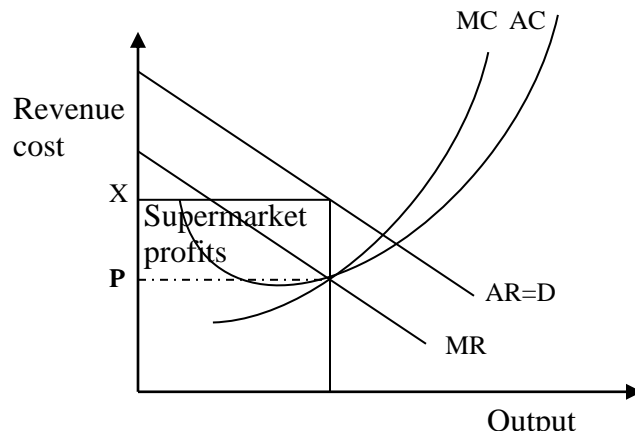
- i) Loans/ credit – give loans/ credit to farmers for crop/ livestock production/ farm development/ on easy terms/ specific purposes.
 - ii) Training/education – organize training courses/ seminars/ workshops for farmers on farm management/
 - iii) Advisory services- on farm management/agricultural improvement
 - iv) Create employment – facilitate employment by stimulating growth in agricultural improvement.
 - v) Improving production - more / variety of products are produced / of improved quality/ by financing/ carrying out research in agriculture
 - vi) Improved income by facilities growth in agricultural industry.
 - vii) Earning foreign exchange through increased exports of agricultural goods
 - viii) Generates government revenue through interests and on loans.
 - ix) Channel for donor funds to finance agricultural projects
- b)
- i) **Technology**- modern methods may increase the production of cabbages/ poor methods may decrease the production of cabbage.
 - ii) **Price of cabbages**- The higher the price more is supplied. Supplied, the lower the price the lower is supplied.

- iii) **Government policy-** favourable, unfavourable policies-favourable policies may increase the supply of cabbages/unfavourable government policies may decrease the supply of related product decreases the supply of cabbages
 - v) **Price of other/related commodities/related commodities affect the supply-**if prices of related products increase the supply of cabbages may decrease/ if prices of related product decrease the supply of cabbage may increase.
 - vi) **Natural factors/seasonal/climatic-**favourable factors lead to increase in supply of cabbages/unfavourable natural/seasonal/climatic factors may lead to decrease in supply of cabbage.
 - vii) **Skills/training of farmers-**Better skills/training leads to increase in supply of cabbage/poor/ skills/ training leads to low supply of cabbages
 - viii) **Cost of production-**High cost of production leads to a decrease in supply of cabbages/low costs leads to increase in supply of cabbages.
 - ix) **Expected future changes in price of cabbages-**Expected future increase in demand leads to increase in supply of cabbages/expected future decrease leads to decrease in supply of cabbages.
 - x) **Availability of inputs for cabbage production-** if inputs are available more may be supplied/ if available less will be supplied.
 - xi) **Decisions of cabbage producers-** in case of decision to produce more than there will be increase in supply/ in case of decision to produce less there will be a decrease/supply of cabbages
- 4 a) i) Entering into suitable vertical integration/amalgamation/merger with firms at different stages of production/*accept exps as explanation with firms at some level of production.*

- ii) Diversification/variety of products in order to capture to wider market/increase market share.
 - iii) Buying/acquiring other similar businesses to widen the scope of activities
 - iv) Secure loans/credit to expand its capital base.
 - v) Arrange for franchising, by acquiring rights to produce/selling goods under a name of another company
 - vi) Expand the markets to increase the volume of sales.
 - vii) Adopting appropriate technology to increase quantity/quality
 - viii) Ploughing back profits to finance its operation
 - ix) Forming cartels with similar businesses.
- b) i) Access to specialized goods from relevant department/shops/since each shop stocks/sells particular types of goods
- ii) Personal attention to customers as they have access to relevant staff
 - iii) Access to auxiliary/after sale services which may be readily available within the store.
 - iv) One can save time by shopping under one roof
 - v) Prices of goods are relatively low enabling a customer to save/buying
 - vi) One can access variety of goods under one roof.
 - vii) Use of debit/credit /credit cards relieving customers the bother of carrying cash/purchase goods with cash.
 - viii) Access to a new products/ information which he/she may not be aware
- 5 a) i) Avoid unfair competition from developed countries with superior products as it may/could lead to loss of market for their products.
- ii) Prevent dumping of inferior goods by developed countries which may have adverse

effects on the economy.

- iii) To safeguard local employment this may suffer due to free entry of imports.
 - iv) Reduce balance of payments deficits; as a result of payment for imports exceeding receipts form exports.
 - v) Safeguard against government revenue otherwise earned through taxation of exports/imports.
 - vi) Safeguard against government revenue otherwise earned through taxation of exports/imports.
 - vii) Avoid erosion of cultural values arising from unrestricted interruption in free trade
 - viii) Avoid over exploitation of resources which may be depleted/exhausted due to increase demand in free trade.
 - ix) Avoid imported inflation which may be caused by inflow of highly priced imports.
 - x) Prevent entry of harmful goods/ services which may have adverse effects on the health of the people/accept examples if harmful goods as explanation.
- c) Determine determination of equilibrium price and output under monopoly.



- 6 a) i) Handling facilities/equipments- the warehouse should be equipped with modern/necessary/appropriate equipment for ease of operation.
- ii) Security/safely for protecting goods from theft/damage by weather /to ensure safely of personnel.
- iii) Building design/structures-the design has to conform to international/acceptable standards to handle imported goods.
- iv) Management personnel – these should be properly trained/have relevant skills/enough to handle the goods.
- v) Proximity/nearness to point of entry-this included ports, border points for ease of clearance.
- vi) Existence of basic infrastructure such as good roads/power communication to enhance smooth operations of the warehouse.
- vii) Compliance to legal requirement/government policy. All relevant legal requirements have to be met to operate smoothly/avoid conflict with law enforcers
- viii) Storage facilitates/equipments-appropriate for the type of goods to be handled/involved
- ix) Documentation/recording system for proper stock control/to monitor inflow/outflow of goods.

Mugambi traders**Balance sheet****As at 31st December 2005**

	Shs		Shs	Shs
Fixed assets				
Land and building		Capital	940,000	
Land and Machinery	200,000	Less Drawings	40,000	900,000
Motor Vehicle	300,000	10 year bank loan	<u>200,000</u>	
Current assets stock	100,000	3 years ICDC loan	100,000	300,000
Debtors	60,000	Current liabilities		
Cash at Bank	100,000	Creditors	60,000	
Cash in Hand	20,000	Accrued Expenses	20,000	80,000
	<u>1,280,000</u>		<u> </u>	<u>1,280,000</u>
	<u><u> </u></u>			<u><u> </u></u>

ii) a) working Capital –CA-Cl =(280, 000-80,000)=200,000

Capital (1,280,000-80,000)=1,200,000

Employed (total equity and liabilities less current liabilities or
total fixed assets plus working capital)

CE=FA+WC=1,000,000+200,000

Alternative CE= Capital borrowed=long term liabilities

= 900,000+ 300,000=1,200,000

iii. Borrowed capital = 10 years loan 200,000+3 year ICDC Loan

$$100,000=300,000$$

Alternative Borrowed capital=long term liabilities

$$(200,000 -100,000)=300,000$$