

## MARKING SCHEME

### 1. (a) Circumstances that can cause a business to succeed in their activities

- Where there is proper location of the business convenient for its operations.i.e Availability of customers.
- Where there is favourable government policies it encourages growth and investment.
- Where there is political stability and security thus creates certainty and confidence to entrepreneurs.
- Where there is fair competition to enable business access markets for its goods and services
- Where there is use of modern technology in production of goods and services promoting qualityproduction.
- Where there is adequate capital to run and expand the business.
- Where there is availability of skilled and adequate labor matched to their job specialization
- Where there is good customer relationship and care to attract and retain clients.
- Where there is availability of good infrastructure for business to access its market and inputs.
- Where there is proper marketing plans to increase sales. **5 well explained points= 10mks**

### (b) Problems facing the savings and credit cooperative societies in Kenya

- Loan defaulting by members as some leave employment due to terminal illness,sacking andpersonal reasons.
- Lack of management skills among members leading to poor management of societies.
  - Corruption and embezzlement of funds by official
  - Poor investment decisions by some officials leading to losses.
  - Stiff competition from commercial banks and micro financial institutions.
  - Late remittance of members contributions by employers.
  - High demand for loans against the receipts from monthly contributions.
  - Retrenchment of workers by both government and private sector has led to financial problemsto the society. **5 well explained points= 10mks**

### 2. (a) Indicators of a good tax system

- a)Equity;  
Tax burden should be distributed among the tax payers according to their ability to pay
- b) Economy;  
Collection and administrative cost of the tax should not exceed tax revenue collected
- c) Flexibility;  
Tax system should be capable of being revised or changed in line with the changing economicconditions.
- d) Diversity;  
Different types of tax so that tax burden is on different groups of the society.

e)Elasticity;  
Tax revenue should be capable of responding appropriately to changes in national income.

f) Simplicity;  
The tax system should be understood by tax payers and the collectors.This motivates them to pay tax.

g)certain;  
The one expected to pay should be clearly aware of how much he/she is paying. The tax collector/government should also be aware of how much it is supposed to collect from tax.  
**5 well explained points= 10mks**

**(b) Procedure an insured must take when making an insurance claim (10mks)**

- Notification of the insurer by the insured that the risk insured against has occurred.
- Filling a claim form. The insured is issued with a claim form to fill in giving details of the risk based on the principle of utmost good faith.
- Investigation of the claim. The insurer investigates the claim based on the information in the claim form.
- Preparation of the assessment report. The insurer assesses the assessors report on the extent of the loss.
- Payment of the claim .On the assessment of the claim, the insured prepares to compensate the insured.(5 well explained steps= 10mks)

**3. (a) Factors that he must take account when deciding on which method of product promotion to use.**

- Nature of the product
- Nature of the market/Target group
- Method used by competitors
- Government policy
- Cost of promotion method
- Objectives of the promoting firm.

**5 well explained points= 10mks**

**(b) Weaknesses of using national income statistics as a measure of social welfare**

- It may be based on inaccurate data
- Bulk of the wealth held by a few people/Unequal distribution of income
- Wealth is created in the expense of peoples health/time for rest and recreation or leisure/no time for family etc.
- Increased productivity but there is massive environmental pollution
- Inflation i.e, the price level could have risen by the same proportion as per capita income.
- Most of the income made due to improvement is all put into more investment and not on improving for instance own housing.
- Government may be using income earned on goods and services such as military facilities which does not directly improves people’s standards of living.

**5 well explained points= 10mks**

**4. (a) Explain five factors that justify the existence of small scale firms in an economy.**

- Small capital .some businesses remain small because of limitations of investment funds.
- Where the market served is small .The market demand in a particular industry could be too small that it cannot accommodate large scale firms.
- If the government demands so. The law may restrict the growth of firms.
- Products that are designed to meet customer specification. There are services that require personal attention entrepreneurs that invest in such firms are compelled to operate them in small scale.
- Desire to retain control by the owner. There are entrepreneurs that start firms and leave them to remain small for fear of loss of control and independence in management if the firm becomes large scale.
- Rising costs of production. Some firms that would want to remain small because of fear of increasing cost of production with increase in its level of production.
- Risk of large scale enterprises. There are huge risks that face large scale enterprises despite the many benefits that accrue to it. To avoid such risks, firms may opt to remain small scale.
- Expensive goods. Firms that are engaged in the production and sale of expensive and sell specialized goods are of small scale because the products they are dealing with are too expensive to call for mass production.
- Quick decision making. In cases where the proprietors want to avoid delay in decision making, they may opt to maintain a small business as it may require less consultations.
- Simplicity of small firms. To avoid bureaucracy and complexities associated with large scale firms, a proprietor may want to remain small scale.

**5 well explained points= 10mks**

**(b)**

Bartenge Traders  
Balance Sheet  
As at 31<sup>st</sup> May 2014

<u>Fixed assets</u> Ksh.Ksh.			
Equipment	24,000v	Capital	128,440v
Furniture	<u>6,000v</u>	Add net profit	<u>27,320v</u>
	30,000		155,760
<u>Current assets</u> Ksh.		Less drawings	<u>20,500v</u>
Stock	49,980v		135,260
Debtors	45,770v	<u>Short term liabilities</u>	
Bank	38,760v	Creditors	<u>30,450v</u>
Cash	<u>1,200v</u>		
	<u>135,710</u>		
	<u>165,710</u>		<u>165,710</u>

**10 ticks @ 1mk= 10mks**

**5. (a) Problems with an ageing population**

- They provide a less mobile labour force- The older a person gets, the less willing they are to move from one place to another or even to change jobs.
- Low labour supply- Old people are less productive and thus cannot provide the much needed labour force
- High dependency levels- the old will be less productive and therefore will be highly dependent on the few working group who will then be strained while providing for their needs.
- The country becomes less progressive because it lacks the input of more energetic youth.
- May lead to unemployment- this may be due to the fall in demand for goods and services required by the youth.

**5 well explained points= 10mks**

**(b) Explain five difference between banking and non-banking financial institutions (10mks)**

BANK	NON BANK FINANCIAL INSTITUTIONS
Operate current accounts	Do not operate current accounts
Controlled by the CBK	Not controlled by CBK
They issue chequebooks	Not allowed to issue chequebooks
Formed to offer a wide range of financial services	Formed to offer specific services in which they were formed for.
They usually offer short term loans	Designed to offer medium and long term loans
Must open accounts with the central bank	Must open accounts with commercial banks
They provide forex services	They do not deal in forex
Members of clearing house	Does not take part in clearing house
Involved in credit creation	Not involved in credit creation

**6. (a) Importance of encouraging upward communication in an organization**

- Facilitates quick feedback
- Enables the management to receive and accommodate the views and sentiments of all staff in the organization when making decisions
- Enables a sense of belonging among workers thus motivating all members of staff
- Encourages free dialogue between the junior and senior members of staff

**4 well explained points= 8mks**

(b)

Lule Traders			
Trading, Profit and Loss account			
For the year ended 30 <sup>th</sup> April 2015v			
Dr			Cr
<b>Cost of sales:</b>	Ksh.	Ksh.Ksh.	
Opening stock		37,760v	Sales
Add Purchases	115,560v		186,000v
Add carriage in.	<u>2,340v</u>		Less Returns In.
	117,900		<u>4,400v</u>
Less Returns out.	<u>3,550v</u>	<u>114,350</u>	Net sales
C.O.G.A.S		152,110v	181,600
Less Closing stock		<u>49,980v</u>	
		102,130	
Gross profit c/f		<u>79,470v</u>	
		<u>181,600</u>	<u>181,600</u>
Carriage outwards		3,260v	Gross profit b/f
Salaries		24,470v	79,470
Electricity		6,640v	
Rent		5,760v	
Sundry expenses		12,020v	
Net profit		<u>27,320v</u>	
		79,470	<u>79,470</u>

16 Ticks @ ½ Mark= 8 Marks

**Lule Holdings**  
**Balance Sheet**  
**As at 30<sup>th</sup> April 2015v**

<b>Fixed Assets:</b>		Ksh.		Ksh.
Motor Van		85,000v	Capital	250,000v
Furniture		<u>20,000v</u>	<b>Current Liabilities:</b>	
		105,000	Creditors	<u>25,000v</u>
<b>Current Assets:</b>	Ksh.			
Stock	16,500v			
Bank	103,500v			
Cash	<u>50,000v</u>	<u>170,000</u>		
		275,000		275,000

**8 Ticks @ ½ Marks= 4 Marks**

