1. (a) How internal environment may influence a business positively (10mks)

* **Committed owners.** Committed owners make informed decisions and do proper resource allocation which leads to business success.
* **Skilled personnel.**Adequate skilled personnel who are correctly matched with job activities make a business to do better.
* **Adequate physical resources.** An organization with adequate physical resources does better. (e.g. enough buildings)
* **Adequate financial resources.** Adequate finances , properly allocated and managed leads to business success
* **Inventions and innovations**
* **Good Business structure.** E.g. clearly defined duties and responsibilities reduce conflicts in an organization leading to Business success.
* **Good Business culture.** A good business culture like the one that involves employees in decision making ,motivates them hence leading to business success

(b) Types of direct taxes. (10mks)

* **Personal income tax**. Tax imposed on incomes earned by individuals. E.g P.A.Y.E
* **Corporation tax.** Tax levied on profits of a company.
* **Stamp duty.** Tax paid in areas such as conveyancing of land or securities from one person to another.
* **Estate duty (death duty)** .tax imposed on property transferred after the owners death
* **Wealth tax.** Tax imposed on personal wealth that goes beyond a certain limit.
* **Capital gains tax**. Tax levied on capital gains. (They are realized when a fixed asset is sold at a higher price than the book value.
* **Capital transfer (gift) tax**. Tax imposed on the value of property transferred from one person to another as a gift.

1. (a) Ways in which entrepreneurs can maintain a healthy Business environment. (10mks)

* By ensuring there is no pollution (air, light, sound, water and solid waste pollution.)
* By maintaining a healthy competition through competing fairy e.g not destroying the competitor’s promotional materials.
* By avoiding environmental degradation.
* By taking care of employee’s welfare. E.g paying them timely
* By maintaining security in the organization e.g. buildings and machines should be maintained properly to avoid accidents.
* By ensuring there is adequate resources.
* By maintaining good interpersonal relationship with the public / corporate social responsibility.
* By providing quality goods and services to their customers.
* By complying with the government policies

(b) Three-column cash book (10mks)

Kipchoge Entreprises

Three- column cash book

Dr Cr

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | D.Al | | Cash | Bank | Date | Details | D. Rvd | Cash | Bank |
| 2019  June 1  2  6  18  23  28  30  July 1 | Balb/f  Sales  Jelimo  Sales  Bank(c1)  Julius  Cash  Balb/f | 3,200  900 | 87,000  50,000  35,000  17,100  189,100  25,000 | | 250,000  76,800  150,000  139,100  615,900  350,600 | 2019  June 3  10  14  21  23  25  30  30 | Salaries  Machine  Kiplagat  Wages  Cash (c1)  Drawings  Bank  Bal. c/f | 1200 | 25,000  139,100  25,000  189,100 | 101,500  85,000  38,800  35,000  5,000  350,600  615,900 |

***N/B- Learner should be consistent when writing b/d, b/f and c/d,c/f.***

1. (a) Explain five negative effects of inflation in an economy (10mks)

* **Loss of confidence in the monetary system -** People lose confidence in the local currency both as a medium of exchange and a store of value. This will lead to a collapse in the county’s monetary system.
* **Retardation of economic growth -**Hinders implementation of development plans since the cost of projects increases, business people are also not willing to either take risks, invest in new ventures, expand production or hire more workers .This leads to retardation in economic growth.
* **Reduction in profit -**Rise in prices of commodities may lead to reduced sales volume for firms. This in turn may reduce the firm’s profits.
* **Wastage of time -**During inflation individuals and firms waste a lot of time hopping around for reasonable prices. The time wasted can be an extra cost to the firm or individual.
* **Increase in wages and salaries -** During inflation firms are always forced by trade unions to raise employees‟ salaries to cope with inflation. This normally leads to conflict between the parties concerned.
* **Decline in standards of living-** During inflation consumers’ purchasing power decreases especially for people who earns fixed income such as pensioners. The reduction in purchasing power brings about a decrease in standards of living.
* **Loss to creditors-** Creditors loss money when they lend out when the value is high but got paid when the value is less due to inflation.
* **Discourages savings and investments-** Discourages savings/investments since people fear their money will lose value/as they have less disposable incomes.
* **Adverse effects on the balance of payments.** Leads to balance of payment deficits as imports are highly demanded than exports because the exports are very expensive leading to fall in demand.

1. A team of sales persons have just arrived at Milele Secondary School to promote the text books of a given publisher. Explain five steps that they will follow when conducting product promotion (10mks)
2. Establishing the customers contact, as well as choosing an appropriate time to meet the customer to be. That is the time when the customer may be receptive
3. Arousing the consumers interest in the product by attracting his/her attention through approach and languages, as well as making the prospective customer develop interest in the product
4. Dealing with the objections on the product which may have been brought about by the customer to be
5. Closing the sale by inquiring whether the prospective customer will be interested in the product or not. This should be done in a polite manner
6. Offering after sale service to the customer on the product that has been sold
7. (a) Explain five challenges that Kenya as an economy may be experiencing during the implementation of her development plans (10mks)

* Over reliance on donor funding, which if they don’t receive, the plan may not be implemented
* Lack of adequate domestic resources such as skilled personnel, finance and capital may make the implementation a problem
* Failure to involve the local people in planning. This will make them not to be willing to implement it, for they will not be understanding it or rebelling for the fact that they were not included
* Natural calamities such as diseases, floods, drought, etc may make the funds that had been set aside for implementation be diverted to curb them
* Over-ambitious plans which are a times just made to impress the donors to release their funds but may not be easy to implement
* Lack of co-operation among the executing parties which may make the work not to kick off. For example a conflict between the ministry of finance and that of planning of the amount to be released
* Inflation which may make the estimated value of implementation not to be adequate, bringing a problem of finances. Prices escalate making the amount allocated for the project not to be enough.
* Lack of political will and commitment in implementing the plan. This may frustrate the implementation.

1. Differentiate between oligopoly market structure and monopoly. (10 marks)

|  |  |  |
| --- | --- | --- |
|  | Oligopoly market structure | Monopoly market structure |
| (a) | Few large films that produce similar/close substitutes that are highly differentiated. | One single producer of a product with no close substitutes. |
| (b) | Firms engage in none price competition | The firm is the same as industry and doesn’t engage in any competition. |
| (c) | Firms are engaged in collusions/ form cartels to fix the price of their product. | The firm is the price setter since its only one in the market. |
| (d) | Firms usually engage in price wars in order to remain in the market. | The firm usually engages in huge promotional activities in order to continue dominating the market and keep away potential competitors. |
| (e) | There may be price leadership where the dorminant firm dictates the market price/rules in the market. | The firm is the price setter as there is no other firms in the industry. |

1. (a) Explain **five** money transfer services that are offered by commercial banks in the Kenyan economy. (10 marks)
   * Standing orders
   * Credit transfers
   * Telegraphic transfer
   * Electronic fund transfer
   * Cheques
   * Credit cards
   * Bank drafts or bankers cheques
2. Explain **five** new trends and emerging issues in the insurance sector in Kenya today. (10 marks)

* There is cover on terrorist attacks.
* Crops and Livestock insurance has been introduced.
* There is automation of insurance activities in the economy today.
* There is introduction of pet insurance in Kenya today.
* There is increased awareness on key policies in Kenya i.e. education and medical care cover.
* There is rigorous advertising/promotion of insurance products.
* There is establishment of insurance agencies and brokers, providing insurance services services.
* Clients are getting education on their rights through insurance regulatory authority.
* Accountability of insurance companies to I.R.A.

1. (a) Explain **five** disadvantages of protectionism to a country. (10 marks)
   * A country experiences limited variety of goods and services.
   * May lead to reduced employment.
   * Other, former trading partners may retaliate causing a reduction in exports.
   * Trade restrictions may lead to poor international relations.
   * May lead to production of substandard goods due to reduced competition.
   * The country is exposed to limited market for its foods and services.
   * BOPS deficit may result due to reduced volume of exports.
   * There is little investment in the country because of limited trading opportunities.
   * The country experiences reduced foreign exchange earnings as a result of low export volumes.

# Rafiki traders,

# Trading profit and loss account,

For the year ended 31st Dec, 2019

|  |  |
| --- | --- |
| Shs. shs.  Opening stock 50,000  Add purchases 255,000  Add carriage inwards 28,000  Less returns outwards 7,000 276,000  Cost of goods available for sale 326,000  Less closing stock 58,000  Cost of goods sold 268,000  Gross profit c/d 128,000  396,000  Expenses  Discount allowed 12,000  Commission allowed 3,000  Carriage outwards 8,000  Insurance paid 25,000  Net profit 103,000  151,000 | Shs.  Sales 400,000  Less return inwards 4,000  Net sales 396,000  396,000  Gross profit b/d 128,000  Incomes  Discount received 5,000  Rent income 18,000  151,000 |

Mark up = gross profit X 100%

Cost of goods sold

128,000 x 100 = 47.76%

268,000

Rate of stock turn over = Cost of goods sold

Average stock

268,000 =5 times

54,000