**TOP STUDENT**

**REVISION**

**BUSINESS STUDIES**

**8 Sample Papers Complete with their Marking Schemes**

**TEST PAPER I**

1. Mention **four** limitations of advertising as a means of sales promotion. (4mks)
2. The capital structure of a company is divided. Name **four** such divisions. (4mk)
3. List down **four** features of co-operative society. (4mks)
4. Indicate the account in which the following entries as made. (4mks)

|  |  |
| --- | --- |
| **Entry** | **Account** |
| Bad debts |  |
| Carriage inwards |  |
| Returns inwards |  |
| Discounts given |  |
| Gross profit |  |
| Purchases |  |
| Drawings |  |
| Pre-paid rent |  |

5. Highlight **four** ways in which Insurance companies make profits. (4mks)

6. The major objective in commerce is to maximize profits. Highlight four ways in

 which businesses can achieve this important objective. (4mks)

1. Use the following information to Calculate the required ratios.

 Sundry debtors 52,000

 Stock 5,000

 Cash at bank 100,000

 Capital 40,000

 Net profit 16,000

 Current liabilities 82,000

 Calculate:

1. Current ratio. (3mks)
2. Quick ratio. (2mks)
3. Mention **four** types of wholesalers. (4mks)
4. List down **four** machines used in the mail nom and their use. (4mks)

|  |  |
| --- | --- |
| **MACHINE** | **USE** |
| (i) |  |
| (ii) |  |
| (iii) |  |
| (iv) |  |

1. The law of demand applies ‘ceteris penbus’ all other factors held constant ). Highlight

**four** circumstances under which this law may not hold. (4mks)

1. As the transport manager of a busy company. Highlight four factors you would consider

before choosing a mode of transport for your goods and services. (4mks)

1. The following balances were extracted from the books of Beauty Care Enterprises on

 31st of March 1997.

 Shs.

 Fixed Assets 42,000

 Stock 48,000

 Debtors 50,000

 Bank overdraft 25,000

 Creditors 40,000

 Cash in hand 2,000

 During the month of April the following transactions took place.

1. Bought Motor Vehicle on credit valued at kshs. 80,000 from General motors.
2. With drew Sh. 28,000 for personal use.

 Required: Prepare a balance sheet as at April 30th 1997. (5mks)

1. Give **four** reasons why an office may prefer storing information in Micro-films instead

of files. (4mks)

14. Name **four** documents used in home trade. (4mks)

15. Mention **four** reasons to justify that the Central Bank is not a Commercial Bank. (4mks)

1. Give **four** reasons why people prefer using a cheque to cash when effecting payment. (4mks)
2. The following information relates to Sis Mis traders for the year ended 31st Dec 1996.

 Opening stock

 Closing stock turnover 8 times

 Sales for the year 293,000

 **Determine:**

1. Cost of sales
2. Purchases
3. Gross profit or Gross loss. (5mks)

18. Give **four** advantages of personal selling as a means of sales promotion. (4mks)

19. Mention **four** of the contents in articles of association. (4mks)

1. International trade improves the economic welfare of a country. The recent opening

of the East African co-operation seeks to diversify International trade. Highlight **four**

factors that may hinder this good intention. (4mks)

1. The following balances relates to a business for the year ended 31 Dec 1990.

 Capital as at 31 December 1990 170,000

 Drawings for the year 5,000

 Net profit for the year 5,000

 Extra capital introduced 52,000

 Purchases 20,000

 Determine the amount of capital as at 1 Jan. 1990 (3mks)

 (ii) Net profit ratio. (2mks)

22. Give **four** functions of commercial attaches. (4mks)

23. Mention **four** investment services offered by the Kenya Posts and Telecommunications.

(4mks)

24. Name **four** file covers used in an office. (4mks)

#### TEST PAPER I

#### MARKING SCHEME

1. - Its Expensive
* It leads to unnecessary competition
* It doesn’t lead to sales increases it turns out to be a waste
* Most advertisements are brief thus they may be misinterpreted.

2. - Called - up capital

* Paid - up capital
* Registered capital
* Issued capital

3. - Voluntary Association - Service motto - serve its members

* Democratic management
* Division of profits
* State control
1. - Bad debts - profits & loss A/C
* Carriage inwards - Trading account
* Returns inwards -
* Discounts given - profit and loss
* Gross profit - profit and loss
* Purchases - Trading account
* Drawings - Balance sheet
* Prepaid rent - profit & loss
1. - By investing their funds
* From differences in claims
* From forfeited funds by policy holders
* By charging those who bleach the contract of the Policy - a certain amount is deducted when one quits the policy before agreed time.
1. - Reducing prices to increase sales
* Reduce the cost of production
* Increase prices of products
* Expand production and market

7.

 Current ratio = Current Assets

 Current liabilities

 Current Assets: Current liabilities = 82,000

 Debtors 52,000

 Stock 5,000 Current ratio = 157000

 Cash at bank 100,000 82000

 = 1.914

1. Quick ratio = Current assets - Stock = 152,000 = 1.853

###  Current liabilities 82,000

8. - Truck wholesalers

* Regional wholesalers
* General wholesalers
* Specialized wholesalers
* Nationwide wholesalers
* Cash and carry wholesalers
1. - Letter openers - opening mail
* Franking machines - stamping letters
* Parcel scales - weighing parcels before dispatch
* Shredding machine - Shredding unwanted paper
* Guillotine machine - trimming papers to the required size
* Stapling machine - a fixing pages together
1. - When the prices of other products change
* Tastes and preferences of individuals change
* When products don’t have substances.
* Incase of primary products that must be consumed
* Incases of monopolies who are the only producers.
1. - Cost of the transport mode.
* Distance to the covered
* Type of goods to be transported
* Modes of transport available
* Quantity of goods to be transported.

12.

 **Beauty Care**

 **Balance Sheet**

 **As 31st March 1997**

Capital 77,000 Fixed Assets 42,000

 Less drawings 28,000 Motor Vehicle 80,000

 Net capital 49,000 122,000

 Loan 28,000

 77,000 Current Assets

 **Current liabilities** 25,000 Stock 48,000

##  Bank overdraft 40,000 Debtors 50,000

 Creditors 1 80,000 Cash in hand 2,000 100,000

 Creditors 2  **222,000**  **222,000**

13 .- They are more confidential than files

* More durable compared to files
* They take less space
* Easy to move about and convenient to carry.

14. - Letter of inquiry

* Catalogue
* Proforma Invoice
* Delivery note
* Promising note
* Credit note
* Debit note

15. - Does not rent money to individuals

* Doesn’t receive deposits from individuals neither does it run accounts for individuals.
* Not an agent to the stock exchange
* Does not discount bills of exchange
* Doesn’t offer money transfer services for individuals.

16. - Cheque is more secure than cash

* It also acts as evidence of payment
* Its convenient instead carrying large sums of money
* Saves ones time as they may not have to go withdraw money to make payment

17.

 Rate of stock turn - over Gross loss

 = Cost of sales = Sales - Cost of sales

 Average stock = 293000 - 464000

 8 x average stock) = cost of sales. = 171,000

 8 x (opening stock + closing stock) = cost of sales

 2

 8 x (52000 + 64000) = C.O.S

 2

 8 x 58000 = C.O.S

 464,000 = C.O.S

1. Purchases + Opening Stock - Closing Stock = C.O.S

 464,000 - 52,000 + 64,000 = 476,000

18. - Personal contact with the customers

* Immediate feedback on customers feelings about a certain product
* Salesman goes to the particular group targeted.
* Salesman can persuade and convince people to buy.

19. - Classes and rights of shareholders.

* Issue and transfer of shares
* How alterations in the capital could be treated
* General meeting procedures & sorting rights
* Qualifications , Duties , and powers of directors
* Auditing of books
* Borrowing , dividends and reserve policies.

20. - Some countries may feel they aren’t benefiting much

* Political differences
* Instability in neighbouring countries
* Influx of refugees
* Different currencies used.

21.

 Capital owned at the end of the year

 = initial capital + Net profit - Drawings - Additional capital

 = 170,000 + 5,000 - 100,000 + 52,000

 = 222,000 - 105,000

 = 122,000

1. Net profit ratio = Net profit x 100

 sales

Sales = Purchases + Net profit

 = 20,000 + 5,000

 = 25,000

Net profit ratio = 5,000 x 100 = 20%

 25,000

22 .- Search for Kenyan markets abroad

* Inform businesses abroad of Kenyan goods
* Negotiate to expand Kenyan Market abroad
* Liase with the ministry of Commerce to educate Kenyan producers/manufactures.

23. - Sell bearer and premium bonds

* Operate savings accounts
* Operate SAYE (Save As You Earn) scheme
* Have fixed deposit facilities

24. - Box files

* Flat files
* Lever arch files
* Loose leaf binders
* Ring binders

**TEST PAPER II**

1. (a) Marketing boards are producer organizations set up to encourage and control the

selling of agricultural products. Discuss **five** functions of these organizations.

 (10mks)

(b) Discuss **five** differences between a bank statement and a bank pass book. (10mks)

1. (a) Despite major development in the transport sector. Many people are still using

 carts (both those driven by animals and those pushed by human beings).

Discuss **five** reasons to show why this type of transport is still preferable to others.

 (10mks)

1. Money evolved through several stages to get to the currency notes and coins we

 have today. However “ Modern - day trade may compare negatively with barter

 trade”. Discuss this statement giving it your support. (10mks)

1. (a) A business enterprise should keep a budget other than the other statements it

keeps. Discuss reasons why this activity is important. (10mks)

1. You are the sales manager of ‘speed’ Industries Ltd. that manufactures tyres.

You are faced with the decision to choose an appropriate channel to distribute the

product. Discuss the factors you consider in your choice. (10mks)

1. (a) Mail order business is whereby customers place their orders through mail and goods

are also send through mail. This business is however not popular in Kenya.

 Discuss **five** reasons to encourage your colleagues to start this type of business. (10mks)

1. Discuss the factors that influence the choice of a filing system in an organization. (10mks)
2. (a) Briefly explain the following terms as used in Capital structure of a company.
3. Registered capital. (2½ mks)
4. Called - up capital. (2½ mks)
5. Issued capital. (2½ mks)
6. Paid - up capital. (2½ mks)
7. Specialization is the separation of jobs, activities and processes so that every individual concentrates on what they can do best. Name and explain **four** major such divisions.

 (12mks)

1. (a) Discuss **five** benefits that the Kenyan government gets from Bonded Warehouses. (10mks)
2. Mwachai BINA’s books disclose the following information for the period ended

 31 Dec. 1996.

|  |  |
| --- | --- |
| Opening Stock 21000  |  |
| Purchases 40000 |  |
| Closing Stock 10000 |  |
| Sales 82000 |  |
| Returns inwards 2000 |  |
| Motor Vehicle 10000 |  |
| Rent 3000 |  |
| Sales expenses 18000 |  |
| Discount received 3000 |  |

Required: Draw up Mwachai’s trading profit and loss account for the period ended. (10mks)

#### TEST PAPER II

**MARKING SCHEME**

1. (a) - Encourage and control marketing of agricultural products by purchasing them from

 farmers.

* Encourage stable prices and incomes by keeping prices fairly fixed and store
* unsold goods to act as buffer stock.
* Offer loans for farm input purchasing.
* Help government to regulate, license and impure major export crops e.g. tea.
* Provision of a wide range of experts dealing with agricultural products
* They do research work to improve yield.
1. - A bank statement is issued after an account holder has requested for it whereas a bank pan

 book is issued after one opens an account.

* Pass book can be used to withdraw money whereas a statement cannot.
* A bank pass book contains all the particulars of a person e.g. a passport size. Whereas a bank statement doesn’t have such.
* A bank statement is seasonal that is its issued from time to time whereas a pass book is more permanent.
* A bank statement shows only the transactions that were undertaken in a certain period of time but a passbook may contain all the transactions since the account was opened.
* A bank statement may be given to anyone who holds either a savings or current account but pass book may be given only to those with savings account where cheque facilities aren’t available.

2. (a) - Carts are cheap to buy and maintain

* They are cheap and negotiable
* They are flexible - can be used where there aren’t any roads
* Convenient for short distances
* Can deliver at the doorsteps
* Readily available.

 (b) - Trading procedures have become complicated

* Increased fraud and cheating over money
* Trade has become risky due to theft and carrying of large sums of money
* Trade has become expensive where one has to bank money, pay interest for loans etc.
* It has been dominated by only a few leaving out the majority.

3. (a) - Business is done to compare the actual results with the budgeted plans.

* Aids in communication e.g. employees are fully aware of tasks to undertake within a certain period of time i.e. time budget.
* Increase efficiency as everyone want to accomplish what is expected of them.
* Evaluation of performance to know what was achieved according to the budget

 and what was not and why.

* Avoid time and money wastage as each is accounted for at the end of the period.
* Know output of employees as each departments achievement are seen.
1. - Cost - choose channels which are not too expensive so that profits aren’t reduced.
* Nature of my produce - Requires middlemen with tyre knowledge.
* Size or Nature of market - if the market is large enough around the factories

 the short channels are chosen.

* Marketing risks - to minimize these then middlemen will be involved
* Government policy - If there is any directive according to the state law as to who should sell tyres.
* Competition - If we are forcing steep competition then its advisable to market the goods ourselves to take care of our customers and convince them to buy.

4 . (a) - It is cheap as its not necessary to maintain expensive showrooms.

* Doesn’t require a fleet of transport vehicles
* Salesmen may not be required and few employees can handle the mail.
* Distributor may contain complete control over the products on his own.
* Goods sold for cash checks on bad debts
* Can operate with little capital as its unnecessary to have huge stocks of goods.

 (b) - Number of files & documents to be kept

* Simplicity - to be understand easily by new employees
* Flexible to accommodate more information without having to change existing documents .
* Easy reference and minimum risk of misfilling.
* Documents shouldn’t be filed more than once in different subjects.
* Must be affordable.

5. (a) **Registered capital** - Maximum amount of capital a company expects to raise from

 its shares and its also the amount stated in the Articles of Association.

**Called - up capital** - once the shares have been put to the public for subscription they may be called upon to pay for either all the shares or only a certain amount. The total of the amount that will be paid is called - up capital.

**Issued capital** - Although the company has registered capital it may decide to put only a portion of these to the public to start with. The total amount released then is issued - capital.

**Paid - up capital** - The total amount received from subscribers by the company out of the called - up capital.

 (b) **Trade divisions (professions division)**

 A person concentrates on the professional trade or service e.g. teaching , fishing.

**Process division** - Although in the same trade different people have their work being divided into a number of stages, activities or processes each being undertaken by a different group of people.

**Regional or Territorial specialization** - Two or more firms on the same product to complete the production process e.g. firm may undertake the processing of cotton whereas as B does the packaging.

**Nationalized specialization** - Based on soils , climates , skills and costs of production. Applied in International trade whereas a country concentrates on the production of a particular commodity or supply of service e.g. Kenya is known for coffee production.

 **(***4 x 2 ½) = 10 mks*

6 (a) - Collecting of duties which the government revenue.

* Checks on imports - Quantity and equality
* Checks on illegal trade e.g. drugs / firearms
* Use them to compile statistical data or imports.
* Use them to keep confiscated goods that would later be government property.

 (b)

 **MWACHAI’S BINA**

 **Trading profit and loss account for the year ended Dec. 31 1996**

 Opening Stock 21,000 Sales 82,000

 Purchases 40,000 Returns 2,000

 G.A.S 61,000 inwards

 Less Closing Stock 10,000

 Cost of sales 51,000

 Gross profit 29,000

 **80,000**  **80,000**

 Rent 3,000 Gross profit 31,000

 Sales expense 18,000 b/f

 Net profit 13,000 Discount received 3,000

 **34,000 34,000**

 *20 times ½ = 10mks*

**TEST PAPER III**

1. Distinguish the following terms: 6mks
2. Free goods and economic goods
3. Consumer goods and producer goods
4. Business wealth and personal wealth
5. State **four** advantages of a bonded warehouse 4mks
6. Name the factor of production that each of the following resources relate to. 5mks

Resource Factor of production

1. Teacher \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Computer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. Water \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. Sole proprietor \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. Forest \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
6. Mention any **four** methods used for sending money through the post office. 4mks
7. Using the book keeping equation, indicate the correct figure in the empty spaces provided.

|  |  |  |
| --- | --- | --- |
| Assets | Capital | Liabilities. |
| 180,000 | 50,000 |  |
| 200,000 |  | 90,000 |
|  | 45,000 | 38,000 |
| 150,000 |  | 50,000 |

1. The following information was drafted from the books of Rayrose college on 31st Jan 2002.

Item Amount (Kshs)

Opening stock 400,000

Sales 700,000

Closing stock 10,000

Purchases 150,000

Sales returns 20,000

Purchase returns 50,000

Salaries and wages 80,000

Rent 70,000

Income 80,000

 Calculate:

1. Gross Profit 4mks
2. Net profit 4mks
3. Mark-up percentage 2mks
4. State any **four** conditions under which a proforma invoice may be used. 4mks.
5. Highlight any **four** services rendered by retailers to consumers. 4mks
6. Outline any **four** functions of the Kenya External Trade Authority by (K.E.T.A.) 4mks
7. Mention **four** limitations of advertising as a means of sales promotion 4mks
8. As the transport manager of a busy company highlight four factors you would consider

before choosing a mode of transport for your goods and services. 4mks

1. “Most secondary schools maintain that students should pay fees with cheques and not cash” Account for this statement. 4mks
2. Indicate the account in which the following entries are made.

|  |  |
| --- | --- |
| Entry | **Account** |
| Carriage inwards |  |
| Carriage outwards |  |
| Incomes receivable |  |
| Return inwards expenses. |  |

1. List **four** features of co-operative societies. 4mks
2. Outline any **four** barriers that hinder effective communication. 4mks
3. Highlight any **four** problems or challenges that businesses would face due to adoption

of the decentralization policy. 4mks

1. Give any **four** benefits that a farmer would reap from being a member of a producer cooperative. 4mks
2. Outline any **four** features of multiple shops. 4mks
3. With the aid of a tree diagram, show the main divisions of trade. 3mks
4. What is meant by the following abbreviations as used in the study of commerce. 4mks
5. F. O. R \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
6. O . M . O \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
7. C. I . F \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
8. C. W. O \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
9. State any **four** methods that the government of Kenya uses to protect its consumers. 4mks
10. Give any **three** characteristics of money as a medium of exchange 3mks
11. What is a ‘bill of exchange’ 2mks
12. Highlight any **three** demerits of the barter system of trade. 3mks

###### **TEST PAPER III**

**MARKING SCHEME**

1. **Distinguishing Concepts.**

 a) Free goods - Those things which are given free by nature eg air. Have utility but

 no economic value.

Economic goods - Those things which are scarce when compared to human wants and

 human effort required to obtain them. Have utility and economic

 value (price)

 b) Consumer goods - Goods meant for direct consumption and they satisfy economic

 wants may be perishable or durable.

 Produce goods - Goods that help in further production of consumer goods. They

 assist in production eg machinery.

c) Business Wealth - Goods of value (assets) that belong to a business eg. Premises.

 Personal Wealth - Consists of items that belong to an individual person eg clothes,

 TV, etc.  *1 x 6*

1. **Advantages of a bonded warehouse.**
* Goods can be prepared for sale while in bond
* If goods are sold on bond, the duty passes to the buyer
* The owner can look for market first before paying the duty
* Some goods lose weight so the duty paid becomes lower if its based on weight
* Ensures that no duty is evaded since the goods cant be released without payment
* Enables the government to check on prohibited goods and smuggling.

*Any other relevant point.*

1. **Resource Factor of production**

a) Teacher Labour

b) computer Capital

c) Water Land

d) Sole proprietor Enterprenuer

e) Forest Land *1 x 4*

1. **Methods of sending money through post office.**
* Telegraphic money order
* Ordinary money order
* Registered mail
* Postal order. *1 x 4*

|  |  |  |
| --- | --- | --- |
| **Assets** | Capital | **Liabilities** |
| 180,000 | 50,000 | 130,000 |
| 200,000 | 110,000 | 90,000 |
| 83,000 | 45,000 | 38,000 |
| 150,000 | 100,000 | 50,000 |

 **1 x 4**

1. a) Calculating gross profit

**Rayrose College**

**Trading account**

 **For the year ended 31st Jan 2001**

**Kshs. Kshs.**

### Opening stock 400,000 Sales 700,000

Add purchases 130,000 Less sales returns 20,000

Less purchases 50,000 100,000 Net sales **680,000**

 500,000

Less closing stock 10,000

### Cost of goods sold 490,000

Gross profit c d 190,000

  **680,000 680,000**

Gross Profit b d 190,000

 4mks

Calculating Net profit.

Net profit = (Gross profit + income) – expenses

 Income = 80,000

 Expenses = Salaries & wages + rent

 = 80,000 + 70,000

 = 130,000

 hence N.P = ( 190,000 + 80,000) - 150,000

 = 270,000 - 150,000

 = **kshs. 120,000** 4mks

1. Calculating mark-up percentage.

Mark – up = Gross profi x 100

 Cost of goods sold

 = 190,000 x 100

 490,000

 **= 38.8%** 2mks

1. **When a proforma invoice may be used.**
* When the seller wants to request for payment before goods are delivered
* When the seller does not want to give credit to the buyer
* Issue to an agent who sells goods on behalf of the seller
* Used by importers to get customs clearance before the goods are sent
* Serve the purpose of a quotation
* Sent to the buyer to show him what he would have to pay if he bought goods sent on approval. *1 x 4*
1. **Services rendered by retailers to consumers**
* Selling goods to consumers in affordable units
* Display goods to enable consumers know which alternatives exist.
* Advise the consumers on use. Servicing and maintenance of goods
* Stock a large variety from different manufacturers as per the needs of consumers
* Provide credit facilities to worthy customers
* Offers after sales services on technical goods to the consumers

#### *Any other relevant point. 1 x 4*

1. **Functions of K.E.T.A.**
* Marketing of Kenyan products in foreign markets
* Advise manufacturers on how to improve the quality of their products in order to get bigger markets overseas.
* Providing training facilities on export matters
* Arrange trade fairs and exhibitions in foreign countries to introduce Kenya products in foreign countries.
* Publishing information on the possibilities of the expansion of exports
* Encourage the production and marketing of handicrafts
* Provide trade facilities and negotiate with transport companies on behalf of exporters.

*1 x 4*

1. **Limitations of Advertising.**
* Its expensive to the producer who may have to go through advertising agencies.
* May be misleading or deceitful since they create unproductive competition.
* The consumer is penalised in terms of prices since advertising costs are passed over to him her.
* Creates mechanical buying particularly for permanently advertised products
* Some advertisements are nasty and dirty hence leads to decay of good morals

#### *Any other relevant point. 1 x 4*

1. **Factors to consider when choosing mode of transport.**
* The cost of transport
* Speed and time taken
* Nature of goods
* Flexibility
* Packing requirements
* Distance to be covered
* Insurance risks. *1 x 4*
1. **Advantages of cheques.**
* Secure since if stolen they can be traced
* Convenient to carry than coins and notes
* Payment can be made without the need to travel
* Acts as evidence of payment.

####   *Any other relevant point. 1 x 4*

|  |  |
| --- | --- |
| Entry | Account |
| Carriage inwards | Trading account |
| Carriage outwards | Profit and loss |
| Incomes receivable  | Profit and loss |
| Return inwards | Trading account |

1. **Features of cooperatives.**
* Voluntary Association ie open to all
* Service motto ie serves its members and that profit is not the only motive
* One for all and all for one ie self help through mutual help
* Democratic management
* Division of profit is done on the basis of service rendered
* State control ie state exercises chose control. *1 x 4*
1. **Barriers to effective communication**
* The language used
* The medium used
* Willingness of the receiver to listen
* Noise
* Attitudes of the communicators
* Poor planning
* Improper timing *Any other relevant point. 1 x 4*
1. **Problems of decentralization.**
* Lack of trained personnel
* Lack of basic infrastructures such as roads
* Basic services like banking may not be found in all areas
* Inadequate market
* Certain benefits eg entertainment may not be found in the decentralized industries.

*Any other relevant point. 1 x 4*

1. **Benefits from co-operatives.**
* Fair price for his her produce
* Reduced costs of transport, processing and marketing
* Get ideas regarding quality improvement, better methods of cultivation, etc
* Secure credit on reasonable terms than an individual could
* Purchasing farm equipment’s at reasonable prices
* A farmer is assumed of a stable price for his produce. *1 x 4*
1. **Features of multiple shops.**
* Uniformity of the premises, external shop front, internal layout, etc
* Control is vested in the central organisation
* Buying if centralised and selling is decentralized through several branches.
* Deal only in a particular set of goods
* Sales are strictly cash
* Selling prices are fixed by the central organisation.

*Any other relevant point. 1 x 4*

1. Divisions of trade.

Trade

 Home trade Foreign trade

 Retail Wholesales Import Export

1. **Meaning of abbreviations.**

i) F.O.R - Free On Rail

ii) O. N. O. - Or Nearest Offer

iii) C. I. F - Cost, Insurance and Freight

iv) C. W. O - Cash With Order.

1. **Government methods of consumer protection.**
* Setting up standards eg Kenya Bureau of Standards
* Price control
* Licences
* Food and Drugs Acts.
* Sale of Goods Act.
* Public Heath Act.
1. **Characteristics of money**
* Acceptability
* Portability
* Divisibility
* Durability
* Homogeneity
* Stability
* Scarcity
* Cognizability *1 x 3*
1. A bill of exchange is an unconditional order from one party to the other to pay on demand or at a stated future date the sum on the bill. It must be signed by the drawer and be accepted by the drawee. 2mks
2. **Demerits of barter trade.**
* Lack of double coincidence of wants
* Lack of standard measure of value
* Indivisibility of some products
* Bulkiness of some products
* Lack of storage facilities. *1 x 3*

**TEST PAPER IV**

1. a) Explain the role played by the Jua Kali sector in the development of Kenya today 10mks

 b) Explain the problems experienced by cooperative societies. 10mks

1. a) Discuss the factors that may influence the growth of a business unit. 10mks

b) Discuss the factors that you would consider when choosing the mode of transport. 10mks

1. a) The following information relates to demand and supply schedule for good.

Price per unit (Kshs.) Quantity demanded Quantity supplied.

 70 100 1000

 60 500 800

 50 500 400

 30 800 400

 20 900 300

 10 1000 100

1. On the graph paper provided, draw the demand and supply curve on the same graph

and determine equilibrium price and quantity. 10mks

1. What would happen if the price of good X was increased from shs. 50 to shs. 70. Explain. 2mks
2. What would happen if the price of good X was decreased from shs. 50 to shs. 10. Explain. 2mks

b) Outline the disadvantages if sole proprietorship. 6mks

1. a) Explain the differences between private limited company and public limited

 company. 10mks

 b) Explain the role played by warehousing as an aid to trade among others. 10mks

1. a) Explain the problems that Kenya experiences due to concentration of industries

in the urban centres. 10mks

1. Discuss the main functions of the accounts department in any business enterprise.

10mks

1. a) Discuss the main factors that influence the demand for a particular good or service.

10mks

 b) Explain the factors to consider when choosing means of communication. 10mks

# **TEST PAPER IV**

**MARKING SCHEME.**

1. **a) Role played by the Jua Kali sector in the development of Kenya today**
* Source of income to individuals
* Source of employment both to owners and others
* Provide market for raw materials produced in rural areas.
* Earns foreign exchange eg curios and sold abroad
* Government gains revenue from taxes
* Provide goods at affordable prices to the locals
* Provides investment opportunities
* Promotes communal development as evidenced by women groups.

#### *Any other relevant point 2 x 5*

 **b) Problems experienced by cooperative societies.**

* Limited supply of goods and services since they concentrate on pure or main goods for export
* Managerial problems due to inefficient committees, who lack appropriate education and relevant experience.
* Financial problems due to embezzlement of funds by leaders.
* Scattered population and poor basic infrastructures such as roads and other communication network.
* Political interference since the government does not let the co-operatives to operate independently
* Corruption particularly in recruitment of personnel which leads to inefficiency.

*2 x 5*

1. **a) Factors that may influence the growth of a business unit.**
* Availability of sufficient capital
* Availability of market for the product
* Favourable legal factors
* Mature of product service
* Minimal costs of production leading to high profits
* Availability of transport and communication facilities.

#### *Any other relevant point 2 x 5*

**b) Factors that you would consider when choosing the mode of transport.**

* Cost freight rate: Amount of money paid to transport companies and should be maintained at lowest levels possible.
* Speed and time: Time required to transport goods from source to destination. Fast moving goods need a means of transport that is fast e.g newspapers.
* Nature of goods: Bulky goods are transported by sea or rail while valuable and perishable goods are transported by road or air.
* Flexibility: Ability of a mode of transport to reach its destination. Road transport is the most flexible.
* Distance: The length of the journey for which goods have to be transported. Short journeys are more economical by road.
* Packing requirements: This is how goods have to be packed to meet a particular mode of transport. Special packing might add to the cost and become expensive.
* Convenience: This is the certainity that goods will reach the expected destination in required form.
* Availability: This deals with how possible it is to get a certain mode of transport.

*2 x 5.***)**

**3) Combined dd ss Curve for good X**

 70

 60

#####  50

 40

 30

 20

 10

 100 200 300 400 500 600 700 800 900 1000

 Qty demanded supplied.

 E . P = 50 shs.

 E . Q = 500

 i) From 50 to 70 shs. = at 50 sh: Qd = 500QS = 500

 at 70 shs: QD = 100 Q5 - 1000

 Excess supply of 900 units

 Supply > dd by 900 units

 Due to price increase.

ii) From 50 to 10 = at 50 - QD = 500 QS = 500

 at 10 sh = Qs = 100 Qd = 1000

 shortage of 900 units

 demand increase from 500 to 1000 units

 excess demand but these is a shortage

 due to price decrease. *1 x 6*

**b) Disadvantages if sole proprietorship.**

* Meets the losses of the business alone
* Unlimited liability
* Insufficient capital for expansion
* Inability to carry out research
* Jack of all trade (over working)
* In case of death, the business collapses
* No economies of scale. *1 x 6.*
1. **a) Differences between private limited company and public limited company.**

|  |  |
| --- | --- |
| **Private ltd Co.** | **Public Ltd Co.** |
| * Membership is from 20 and limited to 50
* No transfer of shares
* Commences trading after receiving a certificate of registration
* The final accounts are private and confidential.
* The directors do not need to be specified on formation
* Aim is to have limited liabilities and safeguard personal properties
* They comprise family business owned by friends
* They are not quoted in the Nairobi stock Exchange.
 | * Membership is from 7 and there is no limit
* There is transfer of shares.
* Commences trading only after receiving a certificate of incorporation
* The final accounts have to be audited by a certified public accountant.
* A list of directors and their portfolios have to be stated on formation.
* Aim is to raise required capital from the public
* The only relationship is that of business.
* Quoted in the Nairobi stock Exchange.
 |

*1 x 10*

1. **Role played by warehousing as an aid to trade among others.**
* Preserves surplus, stabilizes prices and helps to save huge quantities of good which would otherwise be wasted.
* Goods can be prepared for sale while in the warehouse in terms of sorting, weighing, packing etc
* Provide temporary accommodation of goods for producers with no sufficient room for storage.
* Acts as a reservoir enabling trade to continue throughout the year.
* Deferred payment on highly taxed goods enables the importer to look for a market for the good
* Enables the government to get revenue through duty paid. *2 x 5*
1. **a) Problems that a Kenya experiences due to concentration of industries in the urban**

**centres.**

* Rural urban influx
* Increase in criminology
* Increased environmental pollution
* Unbalanced regional development
* Increase in unemployment in urban areas
* Development of slums
* High cost of living in urban areas
* Inadequate social goods like schools
* Destruction of road network
* High dependence ratio if the rural folks on those who work in town.

#### *Any other relevant point. 2 x 5*

1. **Functions of the accounts department in any business enterprise.**
* Maintain the accounting records
* Prepare and send invoices to the customers
* Prepare the budget and plan the activities of the organisation
* Receive money and make payments on behalf of the organisation
* Calculate and make payments on behalf of the organisation to the employees
* Prepare final accounts at the end of the year.
* Analyse the financial position of the business
* Carrying out internal audit. *2 x 5*
1. **a) Factors that influence the demand for a particular good or service.**
* Own price of the commodity
* Price of related goods ie substitutes and complements
* Income levels of consumers
* Tastes, fashions and preferences
* Weather conditions eg demand for umbrellas and gumboots increases during the rainy season.
* Government policy.
* Expected changes in price of goods. *2 x 5*

 b**) Factors to consider when choosing means of communication.**

* Speed: When the message is urgent, telex, telephone or telegram is the best
* Cost: Refers to expenses incurred in sending a message. Generally, the letter is cheaper to send messages.
* Confidentiality: The ability of the message to reach to the intended person. Letters are better than telephone for confidence purposes.
* Distance: Represents the geographical gap between the sender and the recipient
* Evidence: Refers to the record of the message conveyed. All means of written communication provide evidence.
* Reliability: The assurance certainity that the message will reach the intended recipient, at the intended time, place and the right form. Face to face is the best for this purpose.

*2 x 5*

**TEST PAPER V**

1. Distinguish the following pair of concepts (6mks)

1. Transport and communication
2. Warehouse and warehousing.
3. Cheque and bankdraft

2. Explain the role played by transport as an aids to trade (4mks)

3. Outline any **four** circumstances under which a manufacturer would sell goods directly to

 consumers (4mks)

4. Highlight any **four** reasons why a government may set up parastatals to supply essential

 goods to its people (4mks)

5. Mention any **four** factors that account for the high demand for cellphones/mobile phones in

 Kenya today (4mks)

6. State any **four** characteristics of human wants (4mks)

7. The table below shows various forms of production. Indicate using a tick the correct

 classification in the appropriate column (5mks)

|  |  |  |  |
| --- | --- | --- | --- |
| **Form of production** | Primary | **Secondary** | **Tertiary** |
| Transportation |  |  |  |
| Farming  |  |  |  |
| Food processing  |  |  |  |
| Retailing |  |  |  |
| Lumbering |  |  |  |

8. Outline **four** sources of capital to co-operative societies (4mks)

9. Mr Ryan had he following assets and liabilities on 30th April 2002.

 Kshs

 Cash at bank 23,100

 Cash in hand 3,250

 Debtors 45,300

 Stock 48,200

 Furniture 11,600

 Motor-vehicle 65,000

 Creditors 56,000

##  Bank loan 25,000

a) Calculate his capital (4mks)

10. Outline any **four** services rendered by a public warehouse (4mks)

11. Mention **four** ways in which commercial attaches in our foreign embassies help out our

 traders (4mks)

12. Explain any **three** parties to a cheque (3mks)

13. Outline any **four** essentials of a warehouse (4mks)

14. Highlight any **four** forms of after-sales service that may be extended to a consumer. (4mks)

15. Outline any **three** qualities of an office worker (3mks)

16. Outline any **four** ways though which co-operatives help Agricultural development in

Kenya. (4mks)

17. The following balances were extracted from the books of Abdi Traders.

 Kshs

Opening stock 22000

Closing stock 26000

Purchases 349000

Expenses 120000

Sales 500000

Capital 200000

Calculate :

(a) Margin percentage (3mks)

(b) Stock turn over (3mks)

(c) Cost of sales (2mks)

18. List any **four** principles of insurance (3mks)

19. Highlight any **four** reasons why international trade is said to be of great importance to a

 developing country (4mks)

20. Outline any **four** factors that have promoted the growth of commerce over the years (4mks)

1. Account for the popularity of supermarkets in Kenya today (4mks)
2. Why in your opinion do you think oral communication lost popularity in Kenya today.

(4mks)

23. Other than commercial banks, mention any other **four** financial institutions that provide

 financial services in Kenya (4mks)

24. Name any **three** factors of production and their respective rewards (3mks)

**TEST PAPER V**

**MARKING SCHEME**

1. **Distinguishing concepts.**
* Transport – The process of moving goods or people from one place to another.
* Communication – The process of disseminating information /message from one person to another.
* Warehouse – Is a building where goods are received and stored prior to being despatched to the people who require them
* Warehousing – Is the process of receiving goods into warehouses, storing them and dispatching them to the users
* Cheque – Is an order by a depositor/ drawer to the bank/drawee to make a specific payment to the person named /payee
* Bank draft- A cheque drawn by a bank in favour of a married person and serves as a guarantee of payment .  *(1 x 6 = max 6 marks)*
1. **Role of transport**
* Facilitates movement of materials from their source places to the factories/industries
* Movement of finished goods from factories to consumers
* Increases utility of goods and services
* Enhances movement of bulky goods
* Avoids wastage since surpluses are transferred to areas where they are scarce
* Makes possible exploitation of resources

Any other relevant point *( 1 x 4 = max 4marks)*

1. **When a manufacturer sells directly to consumers**
* When goods require sufficient after-sales services
* When goods are very expensive e.g. motor cars.
* When goods are branded and widely advertised
* When goods are highly fashionable with high profit margin
* When goods are highly fragile e.g. glass materials
* When goods are highly perishable e.g. fruits and vegetables .
* When the manufacturer wants to exercise some control during the distribution process. *Any other relevant point ( 1 x 4 = max 4 marks)*
1. **Why government sets up parastatals to provide essential services**
* Prevent exploitation of the public by private businessmen
* Provide goods and services that private enterpreneurs are unwilling to venture due to low profits involved
* Provide large amount of capital(initial) where private organisation are not able to finance
* Provide essential goods and services that are too sensitive to be left in the hands of a private sector
* Stimulate economic development of the country by providing the essential social overhead capital
* Establish monopolies in areas of interest where high profits are involved

*(any other relevant point ) ( 1x4 = max 4 marks )*

1. **Factors accounting for high demand of cellphones**
* They are highly portable
* Convenient since the owner can be reached anywhere and anytime
* They are cheaper since the cost of calling a trunk call or otherwise is the same .
* They are time saving since one does not have to travel to receive or make a call
* They are easier and takes less time to install
* Serves as a diary since telephone numbers can be stored

*(any other relevant point) 1x4 max = 4 marks*

1. **Characteristics of human wants**
* They are insatiable
* They are habit forming
* They are competitive
* They are recurring
* Particular wants can be satisfied

***(Any other relevant point) 1 x4 max = 4marks***

|  |  |  |  |
| --- | --- | --- | --- |
| **Form of production**  |  **Primary**  | **Secondary**  | **Tertiary**  |
| Transportation  |   |  |  √ |
| Farming |  √ |  |  |
| Food processing  |  |  √ |  |
| Retailing |  |  | √ |
| Lumbering | √ |  |  |

 **1 x 5 max 5 marks**

8. **Sources of capital to co-operatives**

* Membership contributions
* Retained profits
* Credit facilities
* Entrance fees
* Surplus and reserves *(1 x 4 max 4marks)*
1. Capital = Assets – Liabilities

 Assets = ( Cash at bank + cash in hand +debtors + stock + Furniture + motor-vehicle)

 (23100 + 3250 + 45300 + 48200 + 11600 + 65000)

 = 196450

Liabilities = Creditors +Bank loan

 = 56100+ 25000

 = 81000

Hence capital = 196450-81000

 = 115350

1. **Services rendered by a public warehouse**
* Provide storage facilities
* Serves as a place for preparation of the goods for subsequent use by a change in their condition e.g. ripening of bananas
* Renders a warrant which is a document of title issued to the merchant owning the goods
* Offers protection by insurance against loss by fire, theft, etc
* Prepares sample for report and market usage

*( any other relevant point ) 1x 4 = max 4*

1. **Role of commercial attaches**
* Explore new markets for more export opportunities
* Study and analyse markets for exports for their home countries
* Research and keep data for new markets
* Publish and advertise their countries exports
* Select buyers agents, agents and distributors of the home country’s exports
* Inform traders in their home countries of the standards required for exports .
* Organise visits to trade fairs and exhibitions for businessmen from their home countries. **(***any other relevant point ) 1 x 4 = max 4 points*
1. **Parties to a cheque.**
* The drawer – the account holder who drafts the cheque
* The drawee- The bank that is to make payment.
* The payee – The named person who is to receive payments

 *(½ x 6 = 3marks)*

1. **Essentials of a warehouse**
* Ideal location where goods are produced in greater quantity
* The building must be suitable and of large size appropriate to store goods efficiently
* Properly equipped with necessary facilities to store goods for a longer time without getting spoilt
* Efficient and well trained staff with ability to protect goods against damages by fire, water or bad weather.
* Should have efficient transport system to enhance movement of goods into and out of the warehouse.
* Should have adequate protection measures

*(any other relevant point) 1 x 4 = max 4 marks.*

14. **Forms of after-sales services**

* Free of charge repair for specific period of time
* Cleaning or servicing of the equipment at regular intervals free at very reasonable rates.
* Provide technical advice regarding he use of equipment if the customer has some problem.
* Ensure availability of spares

**(***Any other relevant point ) 1 x 4 = 4 marks)*

15. **Qualities of an office worker**

* Personal attribute e.g. neatness, cleanliness.
* Office etiquette e.g. respect courtesy
* Personal knowledge and skills

16**. How co-operatives help Agricultural development**

* Help farmers get better prices for their produce
* Assist farmers seeds free or at reduced prices
* Fertilisers, farming tools and implements are provided at subsidised rates
* Offer useful advice on farming
* They sometimes grant loans to farmers for development .
* Provide a channel of distribution of loans offered by the government to relevant members. *(any other relevant point) 1 x 4 = max 4 mks)*

17. Margin percentage

 = Gross profit x 100

 Sales

Gross profit = Sales – cost of goods sold(Opening +Purchases – closing stock

 = 500000 – (22000+349000-26000)

 = 500000- 397000

 = 103000

Hence margin 103,000 x 100

 500000

 = 20.6%

(b) Stock turn – over

 = Cost of sales

##  Average of stock

Cost of sales = Opening stock + Purchases – Closing stock

Average stock = Opening stock + Closing stock

 2

Hence Turn-over = 22000 + 349000 -26000

 22000 +26000

 2

 = 103000

 24000

 = 4.3  *( 1 x 3) = 3marks*

c) Cost of sales

 = Opening stock + Purchases

 = 22000 +349000

 = 371000 ***(1 x 2 ) = 2marks***

18. **Principles of insurance**

* utmost good-faith uberimae or fidei
* Insurable interest
* Subrogation
* Proximate cause
* Indemnity
* Contribution/average clause
* Pooling risks
* Insurable risks

19. **Importance of international trade**

* Individual are able to get a variety of goods which they do not produce themselves.
* Encourages specialisation by countries
* Encourages interdependence hence international peace and understanding
* Encourages a country to dispose off its surplus produce
* Earning of foreign exchange
* The government earns income from tariffs and other duties

*(Any other relevant point) 1x4 = max 4 marks)*

1. **Factors that promoted growth of commerce**
* Development of money
* Diversification of resources
* Specialisation and division of labour
* Government involvement in trade activities
* Development of infrastructures
* Development of auxiliary

 *(any other relevant point ) 1 x 4 = 4 marks )*

1. **Why supermarkets are popular.**
* Offer fair prices to their customers since they buy in bulk hence get huge discounts
* Saves time for customers since they get what they want under roof.
* Employs few attendants hence operate at low cost.
* Impulse buying leads to more sales since customers have access to goods for easy choice
* They do not sale credit hence avoid the problem of bad debts

*Any other relevant point ( 1 x 4)*

1. **Why oral communication has lost popularity.**
* It’s expensive in long distance
* its not suitable for confidential messages.
* It’s open to exaggeration where favours are expected
* No record keeping making reference difficult
* It can be time wasting.
* It may be treated lightly if not properly planned
1. **Financial institutions providing financial services.**
* Merchant bank
* Hire purchase finance companies.
* Building societies.
* Insurance companies and pension funds
* Post office savings bank. *Any other relevant point 1x4*

24. **Factor Reward**

- Land rent

- labour wages

- Capital interest

- Enterprenuership profit  *½ x 6*

**TEST PAPER VI**

1. a) Explain **six** reasons why a businessman would choose to operate a current account instead

 of a savings account. 12mks.

 b) Highlight any **four** circumstances under which a businessman would communicate to the

 customers by letters rather than telephone. 8mks.

1. a) Discuss the main challenges/problems that face the small scale industry in Kenya today 10 mks
2. Explain the factors that a seller should take into account when choosing the best medium

for advertising his products 10mks

1. a) Explain the benefits that Kenya is likely to enjoy for being a member of the common

 market for East and Southern Africa (COMESA)

b) Clearly describe the services rendered by wholesalers to growers, producers and

 manufacturers 10mks

1. a) Clearly describe how the central bank limits the credit creation of the commercial banks. 10mks

 b) Explain the role played by marketing boards 10mks

5. (a) The following information relates to African Retail Traders for the year ended

31st Dec 1999

 Gross profit 600000

 Opening stock 285000

 Sales 2400000

 Purchases 1830000

 Expenses 360000

 Net profit 240000

 Closing stock 315000

 Fixed assets 400000

 Debtors 900000

 Cash at bank 35000

 Current liabilities 438000

# a) Calculate

1. Cost of goods sold
2. Mark –up percentage
3. Debtors ratio
4. Current ratio 12mks

 b) Outline any **four** reasons that may lead to dissolution of a partnership business 8mks

6 . a) What arguments can be advanced for state ownership of business understandings 10mks

 b) Write short notes on the following terms as used in insurance

1. Indemnity
2. Utmost good faith
3. Proximate cause
4. Insurable interest
5. Subrogation 10mks

**TEST PAPER VI**

**MARKING SCHEME**

1. **a) Why a businessman would choose to operate a current account**
* Excellent means of settlement of accounts speedily and economically avoiding the use of the legal tender
* Can be used for direct receipt of, regular, sums by direct credit instead of legal tender
* Withdrawals can be effected on demand without notice
* It is a basis for obtaining loan funds or of overdraft facilities
* Provide means to effect regular payment at stated intervals of time by standing order eg rent.
* Safety, reliability and ready availability of funds kept in this way.
* Provides periodic bank statements issued which schedule all bank transactions completed for the period. *Any other relevant point = 2 x 6*

 b) **Circumstances when a businessman would communicate to customers with letters than**

 **telephone.**

* When permanent records for future reference are required
* When communication needs to be highly confidential
* When communication need to reach many people at a time when he/ she needs to accommodate complex messages such as tables and graphs for illustrations.
* When the customer is far away and it may be two expensive to call.

*Any other relevant point = 2 x 4*

1. **a) Problems facing small scale industry.**
* Lack of sufficient capital
* Lack of proper market information
* Poor management due to low education levels
* Lack of credit facilities due to lack of proper securities
* Poor financial control since most owners do not know how to keep clean records.
* Lack of tenacity / persistence since most owners expect returns overnight.

***Any other relevant point = 2 x*** 6

1. **Factors to consider when choosing the best medium for advertising.**
* The ‘reach’ of the media ie the proportion of the target audience that can be contacted.
* The relative cost per unit cost should be low
* The impact of the media ie the extent to which the message is effectively taken in.
* The permanence of advertising
* The selectivity of the media.
* The product being advertised. *Any other relevant point = 2 x 5*

1. **a) Benefits that Kenya reaps from COMESA.**
* High quality products
* Fairly priced products
* Wide variety of products
* Access to a wider market.
* Wider consumer choices
* International peace and understanding. *Any other relevant point = 2 x 5*
1. **Services rendered by wholesalers to growers, producers & manufacturers.**
* Market to purchase all their products, providing warehousing in preparation for subsequent distribution to retailers.
* Provision of transport services: often packing for despatches of the goods: prompt settlement: display and advertising of the product.
* Link with retailers and consumers’ demands to facilitate production in anticipation of demand and with fore knowledge of changes in consumers’ selection, taste and requirements.
* Relieves the suppliers off the problem of finding diverse markets, finance and storage problems.
* Provides for further services necessary in preparation for retail marketing eg. Grading, blending, refining, etc
* Fulfils the manufacturers’ needs for a steady supply of raw materials or semi – finished goods to ensure continuity of his production lines.

*Any other relevant point = 2 x 5*

1. **a) How Central Bank limits credit creation of Commercial Banks.**
* Open market operations
* Bank Rate Policy
* Margin Requirement
* Selective Credit Control
* Rationing of Credit.
* Direct Action, Moral persuasion and publicity. *2 x 5*
1. **Role of marketing boards.**
* Buying and selling produce at fair prices
* Control of production
* Collection of produce and transportation
* Storage of produce
* Financing functions
* Research and advisory services
* Advise the government on matters related to the produce they handle
* Promote interests of the farmers / growers by supplying fertilizers, seeds etc to enhance productivity and good farming.
* High quality products
* Fairly priced products
* Wide variety of products
* Access to a wider market.
* Wider consumer choices
* International peace and understanding. *Any other relevant point = 2 x* **5**
1. a) **Cost of goods sold.**

= opening stock + purchases – closing stock

= 285,000 + 1,830,000 – 315,000

= 1,800,000

1. **Mark-up percentage**

= Gross profit x 100

 Cost of sales

= 600,000 x 100

 1,800,000

 = 33 1/3 %

1. **Debtors ratio**

= Debtors x 365

 sales

= 9 00,000 x 365

 2,400,000

= 136.9

= 137days.

1. **Current ratio.**

= Current Assets

 Current Liabilities

= Stock + Debtors + Cash at bank

 Current Liabilities

= 315,000 + 900,000 + 35,000

 438,000

= 1,250,000

 438,000 = 3.08 : 1 + 3 . 1 : 1. *1 x 3*

1. **Reasons that may lead to dissolution of partnership.**
* Completion of the intended purpose
* Loss of one partners
* Request of dissolution by one partner
* A change in the country’s law disqualifying the business
* A court order
* Insolvency of the business. *Any other relevant point = 2 x 4*
1. **a) Arguments for state ownership of business undertakings.**
* They promote general welfare of the public by providing social goods such as medical facilities, sewerage, etc
* Avoid wastage and inefficiency since some establishments are nationalised to avoid duplication.
* They encourage private investment in activities which require heavy capital but take long to bring returns.
* They provide services to the public at fair prices since the interest of the public is the main consideration.
* Encourages democratic control through the state and local authority and profits are not to a limited number of shareholders.

*Any other relevant point = 2 x 5*

1. **Short notes:**
2. Indemnity : A principle of insurance which states that an individual should only be compensated upto the actual monetary loss caused by the event insured against. The maximum one can get is the value of the property insured when there is total loss caused by the risk insured against. Hence the insured should never benefit / gain.
3. Utmost good faith - this principle requires that the insured person must disclose all the material facts about the insured property to the insurance company.
4. Proximate cause - This principle states that for an insurer to be liable, the loss must be dominantly and effectively resulting from a risk for which the insurance policy was taken out.
5. Insurable interest - This principle states that an insurance claim cannot be valid unless an insured person can prove that he has suffered a financial loss because the insured event has occurred. The insured person must not gain from the occurrence of the insured event hence should only insure upto the amount that you can claim when the event occurs.
6. Subrogation - This principle maintains that after the one insurer has indemnified the insured, the rights in the remains of the damaged proper by pass on to the insurer.  *2 x 5*

**TEST PAPER VII**

1. Highlight any **four** problems that a country may experience when it has decentralized its industries. 4mks
2. Highlight any **four** characteristics of money that enables it to serve its purpose efficiently. 4mks
3. Explain any **four** problems that Kenya would experience from participating in international trade. 4mks
4. Outline any **four** importance’s of advertising as a sales promotion method. 4mks
5. Highlight any **four** ways in which insurance companies make profits. 4mks
6. Mention **four** of the contents in the articles of association. 4mks
7. In the spaces provided, name the type of business organisation described by each of the following features. 4mks

**Description Business organisation**

1. Each member has only one vote ………………………………………
2. The business enjoys perpetual succession ………………………………………
3. Each member may act on behalf of the business ………………………………………
4. Formed by an act of parliament ………………………………………
5. Identify **four** services that can be conveniently paid for using standing orders (bank orders) 4mks
6. Give any **four** reasons why the Kenyan government is actively involved in licencing

business activities. 4mks

1. Outline any **four** main principles of investment 4mks
2. Explain the meaning of the following terms. 4mks
3. Par value
4. Blue chips
5. Cum right or Ex-Right
6. Tilt Edged securities
7. The following is a summary of transactions for Ryan Traders for the month of April 2002.

2nd April - Commenced business with shs. 12,000 in cash and shs. 150,000 at the bank

3rd  April - Made cash sales amounting to shs. 6,000

5th April - Received cash shs. 16,000 from a debtor

12th April - Paid for motor expenses shs. 7,000 in cash

13th April - Drew shs. 30,000 from bank for office use

15th April - Paid salaries in cash amounting to shs. 15,000

17th April - Bought furniture worth shs. 18,000 paying by cheque.

18th April - Paid expenses amounting to shs. 15,000 by cash

19th April - Cash sales of shs. 40,000 received by cheque

23rd April - Paid shs. 20,000 cash into the bank

25th April - Paid a creditor shs. 16,000 by cheque

You are required to prepare a two-column cash book for Ryan Traders for the month of April 2002. 8mks

1. Highlight any **four** reasons why the Kenyan government finds it necessary to train businessmen. 4mks
2. The following balances were extracted from the books of A & B Co. as at 1st April 2002.

Capital shs. 200,000

Fixed Assets shs. 180,000

Current Assets shs. 40,000

Current Liabilities shs. 20,000

During the month, the following took place.

1. Goods worth 50,000 were taken away from the business for personal use.
2. Net profit of shs. 80,000 was realized.

Calculate capital as at 30th April 2002. 4mks

1. Other than advertising, mention any other **four** methods of sales promotion. 4mks
2. Highlight any **four** reasons why most businessmen do not prefer transferring their goods

 via canals. 4mks

1. Alex is an employee of an advertising firm as a sales executive. He receives a salary of

Kshs. 10,000 plus commission of the following basis:-

On the first sales of shs. 100,000 - 2%

On the next shs. 200,000 - 5%

On the balance of sales - 10%

He sold an advertising space worth shs. 450,000 during the month of January 2002.

Calculate his total income for the month. 4mks

1. Highlight any **four** methods that the government can use to influence the quantity of a commodity supplied. 4mks
2. Indicate the type of resource represented by the following. 4mks

Type of Resource

 Forest …………………………………………………………….

 Road …………………………………………………………….

 Doctor …………………………………………………………….

 Wildlife …………………………………………………………….

1. Outline any **four** methods of determining prices in the market.
2. Write short notes on the following types of partners. 4mks
3. Active Partners
4. Minor partners
5. Quasi partner
6. Outgoing partner
7. “The office performs a fundamental role in any business organisation.” Account for this statement. 4mks
8. Outline any **four** factors that an investor should consider before setting up a small scale

retail shop in a town. 4mks

## **TEST PAPER VII**

**MARKING SCHEME**

1. **Problems of decentralization.**
* Spread of industrial pollution
* Strain / over – utilization of a country’s natural resources
* Certain special services may not be available in the rural areas
* Incentive offered by the government to the firm is a burden to the tax payer
* Decentralized firms may not enjoy benefits that other firms realize in urban areas.

*Any other relevant point* *any four pts 1mks each*

1. **Characteristics of money.**
* Portability
* Homogeneity
* Divisibility
* Scarcity
* Cognizability
* Durability
* Acceptability
* Stability. *1 x 4mks*
1. **- Inferior products may be imported.**
* Over dependence
* Balance of payment problems
* Loss of cultural values and prestige
* Moral decay
* Lack of cultural values and prestige
* Moral decay
* Lack of development skills for countries that specialize in production of primary products.

*Any other relevant point any four pts 1mks each*

1. **Importance of advertising.**
* Informs the prospective customers that a certain product has been placed in the market
* Help consumers to make a more informed choice on the goods they intend to buy
* Increases the volume of sales hence realization of higher profit levels
* Acts as an aid to product identification since an advert clearly shows the brandname and colour of the product.
* Assists in planning production as it plans a significant role in reducing sales fluctuations
* Helps to inculcate customers goodwill particularly the reminder advert which keeps customers aware that the product is still in the market.

*Any other relevant point 1 x 4*

1. **How insurance companies make profits**
* Investing their funds
* Differences in claims
* Forefeited funds by policy holders
* By taking whatever remains after compensation eg remains of a car.

*Any other relevant point 1 x 4 mks*

1. **Contents of the articles of association**
* Classes and rights of shareholders
* The issue and transfer of shares
* Methods of dealing with any alterations on the capital
* Qualifications, duties and powers of directors
* Borrowing, dividend and reserve policies
* Rules regarding preparation and auditing of accounts.

*Any other relevant point 1 x 4 mks*

1. **Description Business Organisation**

|  |  |
| --- | --- |
| 1. Each member has only one vote
2. Business enjoys perpetual succession
3. Each member may act on behalf of the business
4. Formed by an act of parliament
 | Co-operativeSoleproprietorshipPartnershipParastatal |

1. **Services that can be paid for by standing orders**
* Rent payments
* Subscriptions
* Insurance’s
* Hire purchase payment
* Loan payments
* Mortgage repayments

*Any other relevant point 1 x 4 = any four pts 1mks each*

1. **Why the Kenyan government is involved in licencing.**
* Regulate the number of businesses in any one line of activity to control unhealthy competition.
* Ensure that traders engage in only those business activities for which they have licences.
* Control illegal businesses in the country
* Ensure that those who engage in professional activities meet the requirements
* Control the type of goods that should enter or leave the country.

*any four pts 1mks each*

1. **Principles of investment.**
* Should be secure
* Liquidity ie ability to be converted into cash
* Ability to grow over a period of time
* Should generate income / returns
* Ability to spread risks over several types of securities. *1 x 4*
1. **Explanations.**
2. Par value - This is the face value or nominal value of a share
3. Blue chips - Refers to high grade equity shares ie the ordinary shares of a company which have had a good dividend record extending over the years.
4. Cum Right or Ex – Right - Used in reference to a new rights issue attaching to the shares. Ex-right refers to that right retained by the seller while cum – Right is the right transferred to the buyer.
5. Gilt Edged Securities - Refers to securities sold by the government considered absolutely safe. *1 x 4*
6. Ryan Traders

Cash book for the month

of April 2002.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date2/4/ 023/4/ 025/4/ 0219/4/ 0223/4/ 0225/4/ 0225/4/ 02 | **Particulars**Bal b/fSalesDebtorsSalesCash ( c)Bal c/dBal b/d | Cash12,000 6,00016,00023,000**57,000** | Bank150,00040,00020,000210,000146,000 | Date12/4/ 0213/4/ 0215/4/ 0217/4/ 0218/4/ 0223/4/ 0225/4/ 0225/4/ 0225/4/02 | ParticularsMotor expensesOfficeSalariesFurnitureExpensesBank ( c)CreditorBal c/dBal b/d | Cash7,00015,00015,00020,000**57,000**23,000 | Bank30,00018,00016,000146,000**210,000**  |

 8mks

1. **Why the government trains businessmen.**
* Expose businessmen to modern developments in management
* Educate businessmen of efficient methods of operating business eg effective methods of sales promotion
* Identify and discuss current problems facing businesses and look for possible solution
* Import proper business ethics eg good customer relations
* Educate businessmen on how to use available resources to minimize costs and maximize profits
* Inform businessmen on various available profitable business opportunities in their surroundings
* Expose them to government policies regarding business activities in the country

*1 x 4 = any four pts 1mks each*

1. **Calculation of capital**

Initial capital 200,000

Less Drawings 50,000

 150,000

Add net profit 80,000

Net capital 230,000 *1 x 4 mks*

1. **Other methods of sales promotion**
* Free samples
* Gifts
* After – sales service
* Credit facilities
* Price reductions *Any other relevant point 1 x 4 mks*
1. **Problems of canals.**
* Canals lack speed hence cant be used to transport perishable or urgently required goods
* Canals can only serve a limited area where water exists
* Canals may dry in drought seasons and freeze in very cold seasons
* Maintenance charges are high

*Any other relevant point 1 x 4mks*

1. **Calculation of total income.**

**Shs. Shs.**

Basic Salary 10,000 10,000

On the first sales of 100,000 2/100 x 100,000 2,000

On the second sales of 200,000 5/100 x 150,000 10,000

On the balance of sales 150,000 10/100 x 150,000 15,000

 **Total income**  37,000 *1 x 4mks*

1. **Methods used by government to influence supply.**
* Taxes
* Subsidies
* Price control
* Production quotas
* Creation of monopolies through licencing *1 x 4mks*
1. **Item Type of Resources**

Forest Natural

Road Man-made

Doctor Human

Wildlife Natural *1 x 4 = any four pts 1mks each*

1. **Methods of price determination.**
* Haggling ie bargaining over a price range
* Auction
* Price mechanism
* Government policy
1. **Short notes.**
2. Active partner - One who takes an active role in the running of the partnership business
3. Minor partner - One who is under 18 years of age, shares profits but cant take part in management.
4. Quasi partner - One who does not contribute capital but allows the firms to use his name as a partner. Shares profits but not losses.
5. Outgoing partner – One who is retiring from a partnership business with the consent of all other partners or in accordance with any previous agreement.

*any four pts 1mks each = 1 x 4*

1. **Functions of an office**
* Collecting and recording information
* Distributing information
* Mailing
* Reproduction of documents
* Storing information
* Safeguarding an organizations property
* Communication.
1. **Factors to consider when setting up a small scale retail shop in town.**
* Extent of demand / market
* Level of competition
* Security level
* Accessibility
* Type of business
* Availability of raw materials
* Availability of water and power *Any other relevant point 1 x 4*

**TEST PAPER VIII**

1. a) Explain any **five** methods that the Kenyan government may adopt in order to control

the volume of imports. 10mks

 b) Discuss the main sources of capital to small scale enterprises. 10mks

1. a) What do you understand by economies to scale. Discuss any **four** internal economies

of scale 10mks

1. Clearly define the term sales promotion. Discuss the importance of Trade Fairs as

 part of sales promotion. 10mks

1. Opportunities exist for purchasing of necessary durable goods by installment.
2. Describe **two** methods commonly used for this purpose. 4mks
3. Mention **three** advantages of each to:
4. The manufacturers 6mks
5. The consumer 6mks
6. Give any **two** differences of the two methods. 4mks
7. Prepare a trading profit and loss account for 2000 and a balance sheet as at 31st Dec 2000 from the following trial balance.

 L. Kabas Co.

 Trial Balance

 As at 31st Dec 2000

|  |  |  |
| --- | --- | --- |
| CapitalLand and buildingsMotor vehicleDrawingsFurniture and fittingsDebtorsCreditorsStock on 1st Jan 2000PurchasesSales Returns inwardTransportReturn outwardsTelephone and ElectricityRates and InsuranceLicence and Legal expensesRent incomeSalariesAdvertisingCarriage inwardsStationery and office expensesGeneral expenses | DR (Kshs)50,00038,00032,48511,20038,459 37,129273,538 7,83235,223 9,835 4,942 1,95637,280 6,34212,345 950 2,484 **600,000** | CR (Kshs)150,000 46,253384,803 10,544 8,400 **600,000** |

 Cost of unsold stock on 31st Dec 2000 was Kshs. 43,210. 20mks

1. a) Explain any **five** functions of commercial banks. 10mks
2. Assume that you are a policy maker in Kenya today, explain the reasons which would

make you recommend rural industrialization policy. 10mks

1. a) Account for the low bargaining power of trade unions in Kenya today. 10mks
2. Outline any **five** benefits that a person may derive from being a member of savings

and credit cooperative society. 10mks

**TEST PAPER VIII**

**MARKING SCHEME**

1. **a) Methods of controlling volume of imports**
* *Tariffs*  - Involves levying import duty on goods that are entering a country.
* *Quotas*  - Is a quantitative restriction permitting only a given number of units of a

 commodity to be imported during a specific period.

* *Exchange control* – Refers to control by the government on the exchange value of the currency of a country. Importers can only import goods when they seek permission for acquiring foreign exchange.
* *Trade agreements* - is an agreement between different countries regarding the foreign trade under this system, goods can only be imported from some specific countries only.
* *Total ban/ Embargo* - Involves imposing a complete ban on import of some specific commodities. *2 x 5*
1. **Sources of capital to small scale enterprise**
* Personal funds / owners capital
* Borrowing from friends and relatives
* Members contribution
* Loan from banks and other non bank financial institutions
* Going public ie borrowing from the public by the use of stocks
* Venture capital ie a group of rich people with a pool of financial resources which they led to viable small scale business. *Any other relevant point*
1. a) Economies of scale refers to the benefits that a firm enjoys due to expanding its scale of

production.

**Internal economies**

* Administration: When a firm expands, its administrative expenses are distributed over greater output and the per unit cost decreases.
* Financial: Large firms have a good reputation hence can get loans from financial institutions.
* Marketing: Large firms sell their products easily since they are able to engage in sales promotion methods
* Technical: Due to their financial capacity, large firms can afford capital goods that enables them to produce superior products. *2 x 4*

b) Sales promotion: refers to the process whereby the demand for the products of a

 business enterprise is created in an attempt to increase sales. It

 has to do with informing the consumers about the existence of a

 particular product, its quality and features, places of availability as

 well as the price of the product. *2mks*

**Importance of Trade fairs.**

* It’s a means of advertising products to the wholesale and retail trade
* Brings new products on view to create a demand
* Builds up an advance order book within the trade and hence ensure continuity of production over a period of time
* Enables new business contacts to be made A***ny other relevant point 2 x 4***
1. **a) Methods of buying goods in instalment.**

- Hire purchase - A system where the buyer agrees to pay for the commodity in

instalments. The buyer obtains the possession of the article on the down payment (deposit) but the title of ownership remains wit the seller until the last instalment is made.

* Credit sales / Deferred payment - under this system the article becomes the property of the

buyer with the payment of the first instalment. The buyer is supposed to pay

the remaining amount in instalments. ***2 x 2***

1. **Advantages of Hire Purchase to:**
2. **The manufacturer**.
* He is able to increase his volume of sales.
* Profit earned on hire purchase is higher than profit earned on cash basis.
* Goods belong to the seller until the last instalment is paid.
1. **The buyer.**
* He takes possession of goods and their use immediately after down payment.
* Instalments to be made are predetermined enabling him to plan and budget for payment of the amounts.
* He is able to acquire goods he could not have afforded on cash terms
* The buyer can possess more goods including expensive items. *1 x 6*

 **Advantages of credit sale to:**

1. **The manufacturer**
* He is able to increase his volume of sales
* Profits realized are higher since customers must pay higher prices
* He can reclaim the amount due from the buyer under a court order.
1. **The buyer**
* He is able to buy expensive goods on credit
* Ownership of the article posses to the buyer after the first instalment
* He is able to plan on acquisition of certain goods.

*Any other relevant point 1 x 6.*

1. **Differences:**

|  |  |
| --- | --- |
|  Hire purchase* Goods can be repossessed if the buyer breeches the contract
* Ownership remains with the seller till the last instalment is made
 |  **Credit sale*** Goods cant be repossessed but the buyer can be sued for damages
* Ownership posses to the buyer when the first instalment is affected.
 |

 *Any other relevant point 1 x 4*

1. L. Kabs Co

Trading, Profit and loss A/c

For the year ended 31st Dec 2000

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Shs. | Shs. |  | Shs. | Shs |
| Opening stockAdd: purchase- Returns outwards + Carriage inwardsGoods available for saleLess closing stockCost of goods soldGross profit c/d**Expenses.**TransportTelephone & ElectricityRates and InsuranceLicence and legal expensesSalariesAdvertisementStationery & office expensesGeneral expensesNet profit c/d | 27353812345352239835494219563728063429502484 | 37129312468432102692581077133769719901217101116113 | SalesLess returns inwardsNet salesGross profit b/dAdd Rent incomeNet profit b/d | 3848037832 | 376971376971107713840011611317101 |

L. Kabs Co

Balance sheet

At at 31st Dec 2000

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Shs | Shs |  | Shs | Shs |
| Fixed AssetsLand & Building Motor vehicleFurnitureCurrent assetsDebtorsStock | 5000038000112003845943210 | 9920081669180869 | CapitalLess DrawingsAdd Net profitNet capitalAdd creditors | 150,0003248517101 | 13461646253180869 |

1. **a) Function of commercial Banks**
* Receiving deposits
* Advancing loans
* Transferring money
* Agents of the stock exchange market
* Custodian of valuable items.

*Any other relevant point 2 x 5*

1. **Reasons for rural industrialization policy.**
* Creation of job opportunities in rural areas
* Provision of market for raw materials produced in rural areas.
* Balanced growth in the economy
* Reduced rural – urban migration / influx
* Increase incomes of rural population
* Rural population will get modern facilities like electricity, piped water, etc.

*Any other relevant point.*

1. a) **Problems of trade unions.**
* Poor management
* Political interference
* Insufficient funds
* Lack of strike benefits
* High levels of unemployment
* Lack of patience during the negotiation period.

*Any other relevant point 2 x 5*

1. **Benefits of savings and credit co-operative society (SACCO)**
* Education
* Sharing of additional profits
* Loans can be advanced
* Savings
* Improved living standards
* Credit facilities eg Bank overdraft.

*Any other relevant point 2 x 5*

**TEST PAPER IX**

1. Explain the following terms as used in commerce 4mks
2. Registered capital
3. Subscribed capital
4. Issued capital
5. Paid up capital
6. Outline any **four** circumstances under which a credit note may be used. 4mks
7. The main objective of commerce is profit maximization. Highlight any four ways in

which businesses can achieve this objective. 4mks

1. Give any **four** functions of commercial attaches. 4mks
2. Mention **four** investment services offered by the Kenya Postal Corporation. 4mks
3. Give any **four** reasons that may lead to dishonour of a cheque. 4mks
4. Highlight any **four** benefits that accrue to a seller who uses personal selling as a method

of sales promotion. 4mks

1. Give any **four** categories of goods that are suitable for direct distribution from producers

 to retailers. 4mks

1. Highlight **four** ways in which Insurance companies make profits. 4mks
2. State any **four** sources of capital to co-operative societies. 4mks
3. The following balances relates to a business for the year ended 31st Dec 2000.

Capital as at 31st Dec 2000 170,000

##### Drawings for the year 5,000

Net profit for the year 5,000

Extra capital introduced 52,000

Purchases 20,000

1. Determine the amount of capital as at 1st Jan 2001. 3mks
2. Calculate the Net profit ratio 3mks
3. Outline any **four** features of a fixed deposit account. 4mks
4. Give any **four** reasons why most business people prefer to transport their finished

products via road transport. 4mks

1. Give any **four** benefits that you may reap as a consumer from an advertising campaign. 4mks
2. Mention any **four** remittance services offered by the post office. 4mks
3. Give **four** reasons why an office may prefer storing information in micro-films instead

of files 4mks

1. Assume that you want to start photocopying business in your nearest town. Cite any

**four** factors you would consider before buying your copies. 4mks

1. The following machines are found in a mailroom. State the function of each. 5mks

|  |  |
| --- | --- |
| **Machine** | **Functions** |
| Addressing machine |  |
| Shredding machine |  |
| Guillotine |  |
| Franking machine |  |
| Composite machine |  |

1. Give any **four** reasons why the use of Electronic mail (E-mail has become very popular

in Kenya today. 4mks

1. The following balances were extracted from the books of MM traders on 31st January 2002.

###### Item Amount

Sales 10,000

Purchases 6,000

Bank loan 2,000

Buildings 30,000

Machinery 40,000

Premises 60,000

Debtors 5,000

Creditors 4,000

Opening Stock 7,000

Capital 132,000

You are required to prepare a trial balance for MM traders as at 31st January 2002 from

the above information. 6mks

1. Outline any **four** functions of money as a medium of exchange. 4mks
2. Give any **four** reasons why the government would need to train businessmen. 4mks
3. Identify **three** reasons that can lead to dissolution of partnership. 3mks

**TEST PAPER IX**

**MARKING SCHEME**

1. **Explaining.**

i) Registered Capital - Amount of capital that a company can raise from its registered

 members

ii) Subscribed Capital - The portion of issued share capital that has been accepted by the

shareholders

iii) Issued Capital - The portion of the authorised share capital that has been offered to

the shareholders.

iv) Paid up capital - The amount of subscribed share capital paid up by the shareholders of a

 company.

1. **When to use a credit note:**
* When there are damaged goods
* When packing cases and containers are returned
* When there is overcharge resulting from an arithmetic error.
* When goods delivered are not in accordance with the order.

 *1 x 4*

1. **How to achieve profit maximisation objective.**
* Reduce prices to increase sales
* Reduce the cost of production
* Diversify and expand production
* Expand market
* Increase prices of products
* Increase sales promotion campaigns.*1 x 4*
1. **Functions of commercial attaches.**
* Search for Kenyan market abroad
* Inform business abroad of Kenyan goods
* Negotiate to expand Kenyan market abroad.
* Liase with the ministry of commerce to educate Kenyan producers/ manufacturers.

*1 x 4*

1. **Investment services by posta corporation.**
* Premium bonds scheme
* Operate S.A.Y.E. (save as you earn)
* Have fixed deposit facilities
* Have saving facilities
1. **Why cheques are dishonoured**
* Insufficient funds
* Post – dated cheque
* Stale cheque.
* Amount in words differ from amount in figures.
* Signature of the account holder may differ from the specimen in the bank
* Alterations that have not been signed against
* The drawer has stopped payment of the cheque.
* If any one of the requirements for a properly drawn cheque is missing or wrongly written.
* A crossed cheque will be dishonoured if the depositor does not abide by the conditions of the crossings. *1 x 4*
1. **Benefits of personal selling.**
* Creates a personal touch between the seller and the buyer
* The seller explains to the buyer since he/ she can ask questions regarding the products
* The seller gets to know how to improve the quality of his products depending on lamentations made by the buyer
* The buyer knows exactly whom to turn to incase of any problem.
* The seller can sell on credit to the credit worth customers

*Any other relevant point 1 x 4*

1. **Goods suitable for direct distribution.**
* Goods which require sufficient after –sales service eg electronics
* Goods which the manufacturer wants to exercise some control during distribution
* Goods with high profit margin and the retailers purchase in bulk
* Goods which are very expensive eg motor vehicles
* Goods which are highly perishable eg milk.
* Branded goods and goods which are widely advertised eg coca-cola.

*Any other relevant point 1 x 4*

1. **How insurance companies make profits**
* Investing their funds
* Differences in claims
* From forfeited funds by policy holders
* By charging those who breach the contract of the policy.

*Any other relevant point 1 x 4*

1. **Sources of capital to co-operative societies.**
* Members contributions
* Retained profits
* Entrance fee deposits
* Credit facilities
* Surplus and reserves. *1 x 4*
1. **Calculations.**
2. Capital = ( opening capital + Extra capital introduced + net profit)
* Drawings.

= ( 170,000 + 52,000 + 5000) - 5000

= 227,000 – 5000

= 222,000

1. Net profit ratio.

NPR = Net Profit x 100

 Sales

Sales = Net profit + purchases

 = 5,000 + 20,000 = 25,000

 \ N.P.R = 5000 x 100

 25,000 = 20% *1 x 3*

1. **Features of a fixed deposit account.**
* Opened for a specific period of time
* Opened with a specific amount for a specific period
* Higher interest rates are paid
* Used by commercial bank to advance loan to others
* Can be used as a security to apply for an overdraft against the current account of the same person. *1 x 4*
1. **Why road transport is preferred.**
* Its cheaper and faster for short distances
* All areas including remote areas can be accessed by road.
* Suitable for delivering perishable goods like vegetables
* Handling is minimal hence cuts down breakage and pilferage
* Its flexible hence goods may be sold on route.
* Insurance charges are lower compared to sea transport
* Convenient since vehicles need not run on scheduled time like with rail transport.

#### *Any relevant point. 1 x 4*

1. **Advantages of advertising to the consumer.**
* Getting information about what is available in the market
* Information about price, quality, size and other features of the product.
* Explanations on the use and value of the product.
* The consumer gets to know quickly what he/she wants to buy
* Enables the consumer to compare prices and other features of different products
* Gets entertained by the advertising compaign.

#### *Any relevant point. 1 x 4*

1. **Remittance services offered by the post office.**
* Postal order
* Money order
* Telegraphic money order
* Registered mail
* Cheque. *1 x 4*
1. **Advantages of micro-films.**
* Saves space and weight since bulky files are replaced by compact carbons of films.
* Documents can be sent abroad more cheaply
* More durable compared to files
* Little risk of misplacing
* Saves filing equipment and also floor space.
* Can be enlarged on paper to provide quick and accurate duplicate copies of the original documents
* Provides a more permanent record since its more.

#### *Any relevant point. 1 x 4*

1. **Factors to consider when buying a copier.**
* the cost ie both initial and operating cost
* availability for the intended purpose
* likelihood of obsolescence
* Room for expansion or to accommodate higher work load
* Availability of credit or hire purchase terms offered by the supplier.

#### *Any relevant point. 1 x 4*

|  |  |
| --- | --- |
| Machine | **Function.** |
| Addressing machine | Print names and addresses of customers |
| Shredding machine | Destroy unwanted materials |
| Guillotine | Cutting and trimming papers |
| Franking machine | Print postal stamp impressions on the envelop. |
| Composite machine | Fold document, insert in envelops and seal the envelops. |

 *1 x 5*

1. MM Traders

 Trial balance

As at 31st January 2002

|  |  |  |
| --- | --- | --- |
| **Details**  | **Debit (Kshs.)** | **Credit (Kshs)** |
| Sale |  | 10,000 |
| Purchases | 6,000 |  |
| Bank Loan |  | 2,000 |
| Buildings | 30,000 |  |
| Machinery | 40,000 |  |
| Premises | 60,000 |  |
| Debtors | 5,000 |  |
| Creditors |  | 4,000 |
| Opening stock | 7,000 |  |
| Capital |  | 132,000 |
|  | **148,000** | **148,000** |

 *½ x 12*

1. **Importance of a balance sheet.**
* Helps the shareholders to know whether the business is in a position to meet its claims
* Helps the investor to determine whether their funds are invested wisely
* Helps to compare the performance of the business with that of previous years or similar business’s.
* Helps the government to determine the tax to impose on the business
* Help potential investors in making informed decisions on the share to buy in the stock exchange market.
* Helps the management of the business to identify where urgent actions needs to be taken in order to promote the business. *1 x 4*
1. **Functions of money.**
* Medium of exchange
* Standard measure of value
* Store of value
* Unit of account
* Standard of deferred payment. *1 x 4*
1. **Why businessmen need to be trained.**
* Expose them to modern development and management
* Import efficient business operating methods
* Identify problems facing businesses and look for solutions
* Import proper business ethics and good customer relations
* Educate them on how to utilize the scarce resources
* Instil in them the need to minimize costs inorder to maximise profits

#### *Any other relevant point 1 x 4*

1. **Reasons for dissolution.**
* Completion of the intended purpose or period agreed upon
* Loss of one partner
* Request of dissolution by one partner
* A change in the country’s law disqualifying the business.
* A court order.
* Inability of the business to meet its claims / liabilities.

#### *Any other relevant point 1 x 3*

**TEST PAPER X**

1. a) Discuss the factors that should be considered in choosing a channel of distribution

for any particular product. 10mks

 b) Explain any **five** types of wholesalers who may be found in our country today. 10mks

1. a) Assume that you are the sales manager of Kenya Breweries limited. Explain the

qualities you would look for every time you are recruiting your sales executives. 12mks

1. What do you understand by the term production. Explain any **four** factors of

production. 8mks

1. a) The following balances were extracted from the books of spikes Ltd on 31st Dec 2001.

 **Shs.**

Fixed Assets 42,000

Stock 48,000

Debtors 50,000

Bank overdraft 25,000

Creditors 40,000

Cash in hand 2,000

Capital 77,000

During the month of January, the following transactions took place.

1. Bought motor vehicle on credit valued at Kshs. 80,000 from General motors.
2. Withdrew sh. 28,000 for personal use.

 Prepare a balance sheet as at 31st Jan 2002 for spikes Ltd.

 c) Give any **five** reasons to justify that the central Bank is not a Commercial Bank.

 10mks

1. a) Discuss circumstances under which a wholesaler may be eliminated from the chain

 of distribution. 10mks

b) Explain the essentials of a good warehouse. 10mks

1. a) Advertising media refers to the means used to convey the sales message to the customers /

 users of any given product. Explain any **five.** 10mks

 b) What do you understand by ‘containerization’. Briefly explain the benefits associated

with containerisation. 10mks

1. a) Explain the role played by consumer co-operative societies in Kenya today. 10mks

b) To a certain extent, public corporations are to considered desirable. Explain 10mks

**TEST PAPER X**

**MARKING SCHEME**

1. **a) Factors considered in choosing a channel of distribution for any particular product.**

- Nature of goods: Technical, Industrial, Perishable or goods that require servicing and

 installation should be sold directly to ultimate consumers or through retailers.

* Marketing costs: Goods that require special marketing facilities like storage, refrigeration, etc should be sold through intermediaries in order to cost share the marketing costs.
* Size of the market: where the size of market is large enough, direct selling is preferred.
* Nature of the market: where the market is local and the producer can reach his customers with ease and make large sales then direct selling is the best.
* Scale of production: Small producers like small scale farmers should sell their products directly
* Marketing risks: Where these risks are high such as spoilage and fall in value, its advisable to sell through intermediaries in order to distribute these risks.

*Any five well explained points ( 2 x 5)*

 **b) Types of wholesalers who may be found in our country today**.

* National wholesalers – set up by government to distribute a specified product in the country. Have branches all over the country e.g K.M.T.C.
* Regional wholesalers: Cover a given region such as province, districts, etc. and distribute a given product in that region. No other party is allowed to distribute similar goods in the region.
* Specialised wholesalers: Sell a particular type of a product eg books but offer great variety within their particular field.
* General wholesalers: Stock a variety of related goods eg a hardware shop stocks nails, iron sheets, cement, etc.
* Truck wholesalers: Carry only a limited range of stock and combine selling, delivery and collection function in one operation.
* Cash and carry: Operate as self service stores. Require retailers to come to the wholesale shop, pick their requirements, pay and carry away their own purchases.
* Rack jobbers sell particular products to certain types of retail stores.

*2 x 5*

1. **a) Qualities of Sales Executives.**
* Attractive personality
* Ability to assess the customers
* Politeness and courtesy
* Thorough knowledge of the product
* Aggressiveness
* Confidence. *Any other relevant point 2 x 5*

b) Production refers to the process of creating finished goods from raw materials to satisfy

 human wants.

**Factors of production.**

Land: Includes all natural resources that are given to man free of charge eg soil, water, forest

etc paid rent.

Labour: Physical and mental human effort employed in the process of production eg. Teacher,

manager, etc paid wages

Capital: Man made goods that assist in the process of production increases productivity of

land and labour. Eg machinery paid interest.

Enterpreneurship: Ability to organise other factors of production in appropriate proportions for

effective production. Paid profit.

 *4 well explained points 2 x 4*

1. a) Spikes ltd

 Balance sheet

 At at 31st Jan 20

 Kshs. Kshs.

Fixed Assets 42,000 Capital 77,000

Motor vehicle 80,000 Less Drawings 28,000

#  Net capital 49,000

Current Assets Current Liabilities

## Stock 48,000 Bank overdraft 25,000

## Debtors 50,000 creditors 40,000

Cash in hand 2,000 loan (withdrawal) 28,000

 **222,000 222,000**

 *1 x 10*

 b) **Why central Bank is not a Commercial Bank.**

* Does not advance loans to individuals
* Does not receive deposits from individuals nor run accounts of individuals
* Does not discount bills of exchange
* Does not offer money transfer services
* Its not a custodian of valuables. *2 x 5*
1. **a) When wholesaler may be eliminated.**
* When prices of goods are high like those of motor vehicles, the wholesaler may be eliminated since the manufacture can bear both selling and distribution costs.
* Where goods are highly perishable eg milk
* Where goods are branded and widely advertised
* Where goods have high profit margins.

### Any other relevant point 2 x 5

b) **Essentials of a good warehouse.**

* Ideal location where goods are produced in greater quantity to be used later.
* Suitable building which is large enough and appropriate to store goods of different kinds more safely
* Should be well equipped with necessary facilities to store goods for a longer period
* Should have well trained and efficient staff to ensure that goods are protected against losses and damages
* Good transport system to enhance movement to and from the warehouse
* Should have appropriate protection measures to elleviate losses, damages and other calamities. *2 x 5*
1. **a) Advertising media**
* The press
* Radio
* Television
* Outdoor publicity
* Window display
* Fair and exhibitions *Any five well explained points 2 x 5*

 **b) Containerization** refers to the packing of the cargo in standardised containers which are

 sealed by the exporter or his agent. The sealed containers are loaded on to the

 ship and delivered to the importer sealed. *2mks*

 **Benefits:**

* Takes little space since containers are of standardised sizes.
* Enhances simple and cheep movement of goods
* Enables the use of modern cargo – handling machinery
* Safe since containers are sealed
* Insurance premium is low due to lower risks involved
* Assists road transport
* Convenient since different containers are for specific goods. *2 x 4.*

1. a**) Role of consumer co-operatives.**
* Provide members with goods and services at fair prices and of good quality
* Protect members against exploitation, inefficient and dishonest trade practices by individual retailers
* Provide channel through which ideas regarding quality and use of products can be propagated
* Bring services to remote areas where independent traders are afraid.
* Accept members deposits and assists them to buy or acquire land by purchase or lease.
* Remove excess profits enjoyed by independent traders and pass the same to the members.

 *2 x 5*

**b) Problems associated with public corporations**

* Poor services and low quality goods due to absence of competition
* Wastes are encouraged since losses are financed by tax payers.
* Poor bad business decisions are likely to be made due to political motives
* Where rival private firms exist, they are subjected to unfair terms and conditions
* Fear of political repercussions may lead to avoidance of risky yet important projects
* Though inefficient, they may not be criticized openly due to fear of political influences.

#### *Any other relevant point. 2 x 5*

**TEST PAPER XI**

1. State any **four** advantages of a wholesaler to a consumer 4mks
2. List **four** qualities of good filing system 4mks
3. Study the diagram below and answer the questions that follow

1. What type of demand is potrayed by curve DD 2 mks
2. Outline the **two** causes of this curve 2mks
3. Why would an exporter prefer to use container services as a method of transport 4mks
4. State any **four** after sales services business firm selling electronic goods sets can offer

to the customers 4mks

1. The following information was extracted from the books of a trader :

 Creditors sh 60,000

 Cash at bank 20,000

 Debtors 40,000

 Stock 70,000

 Calculate :

1. Current ratio 3mks
2. Quick ratio 2mks
3. Give **four** reasons why the budget is an important government tool of control to the economy 4mks
4. Differentiate between Balance of trade and Balance of payments 4mks
5. The following information was extracted from the books of Roadside kiosk as at

 Sept 30th 1999:

 Cash at hand Shs. 30,000

 Capital 170,000

Creditors 40,000

Stock 70,000

Purchases 150,000

Sales 205,000

Debtors 65,000

Motor vehicles 100,000

 Prepare a trial balance as at 30th Sept 1999. 5mks

1. What are the **four** methods of personal selling carried out by salesmen 4mks
2. In the recent past many countries have adopted trade liberalization as the way forward to development. Highlight any **four** adverse effects that such nations may experience due

 to liberalization 4mks

12.Outline any **four** functions of the Nairobi stock exchange 4mks

13. List **four** methods used by the central bank of Kenya in credit control 4mks

1. Consumer protection is safeguarding consumers from exploitation by producers and businessmen . Give **four** reasons why this is necessary 4mks
2. The following is a demand/ supply schedule for kerosene. Draw a diagram to illustrate

using your own scale 5mks

 Also find the equilibrium price / quantities

 Price Quantity Demanded Quantity Supplied

 Per day Per day

 5 60 10

 7 50 15

 10 40 20

 15 35 25

 20 30 30

 25 25 35

 30 20 40

1. Name **four** characteristics that should be posed by goods in order for them to be described

as wealth. 4 mks

1. Limited companies are Large Organizations which attract large profits. However these undertakings are still not popular in Kenya and sole proprietorship seems to be more

 popular. Give **four** reasons to explain this 4 mks

1. Give **four** reasons why most organization prefer oral interviews whenever they are

 recruiting new employees/staff 4 mks

1. The law of demand states that ‘Other things being equal, a fall in price will lead to an

increase in quantity demanded .’Highlight any Four circumstances under which this

 law may not hold. 4 mks

1. In the spaces provided below indicate the level of production that relates to each of the following activities

 Activity Level of production

###  Selling goods in a shop \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

###  Fishing from a river \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

####  Growing maize \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

####  Making leather belts \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 4 mks

1. Enter the following transaction into a cash book and balance it as at 20th March 1995.

 March 2nd started business with Kshs. 28,000 of which Kshs. 8000 was banked .

 March 4. Bought stock from Nekesa worth Kshs 2000 and paid by cheque.

 March 6. Paid wages in cash Ksh 4000.

 March 10.Received a cheque for Kshs. 3000 from a debtor

 March 20. Deposited cash in bank from cash till Kshs. 3000. 5 mks

1. State any **four** benefits accruing as a result of SmithKline Beecham merging with Glaxowellcome 4 mks
2. The sales from Mambo stores for the year 1999was Ksh 99,000. Given that goods are

usually sold at a margin of 20%, what was the gross profit for the year. 3 mks

1. Differentiate between
2. C.W.O and C.O.D 2 mks
3. F.O.B and F.A.S 2 mks

**TEST PAPER XI**

**MARKING SCHEME**

1. Breaking of bulk
* Offers a variety of goods
* Price stabilisation
* Advertising creates awareness
* Steady supply – (storage)
* After sales services *( 1x4 = 4mks)*

2. – Simplicity

* Compactness
* Accessibility
* Safety
* Elasticity/ flexibility/ Expansion
* Cross reference
* Economy  *(1 x 4 = 4marks)*
1. a) An abnormal demand curve

b) (i) Geffen goods

1. (ii) Conspicuous consumption /luxurious
2. iii) Speculative demand – Future expectations of a rise or fall in prices

  *(1 x 2 = 2mks)*

1. – Easy handling of goods – containers are designed to enable use of machinery
* Less damage to goods
* Safety – They are sealed until they reach the importers
* Low premium insurance costs, this results due to less risks
* Use of specially designed containers for special goods (.e.g tankers)
* Reduced inspection hence less disturbance to the goods

*(1 x 4 = 4marks )*

1. - Availability of spare parts
* Guarantee- repair of the articles for a specific period of time after purchase
* Technical advise to the consumer on the use of items
* Helping to install machinery or equipment
* Servicing of goods from time to time
* Delivery / transporting the goods to customers premises.

*( 1 x 4 = 4 marks)*

1. (i) Current ratio = Current assets / Current liabilities

 = 130000 / 60000

 = 2.2 / 1

 » 2 :1

1. Quick ratio = Quick assets

# Current liabilities

 = 130000- 70000

 60000

 = 60000

 60000

 = 1:1 *( ½ x 4 = 2marks)*

1. - A necessary aspect of planning
* A tool for correcting development plans that are not feasible
* A standard measure of government performances
* Forces the government to prioritise its projects and plans
* Reflects government monetary policies used to control the supply of money
* Evaluates the success and failures of the economy
* Motivates the facilitators to meet the set objective by working hard

*( 1 x 4 = 4 marks)*

1. Balance of trade : The difference between the values of visible exports and visible imports of a country over a given period ( 2mks)

Balance of payments : The difference between the record of a country’s visible and invisible *exports* against the value of her invisible imports over a period .

9. *ROADSIDE KIOSK TRIAL BALANCE AS AT 30TH SEPT* .

 DR. CR.

Purchases 150,000

Capital 170,000

Sales 205,000

Debtors 65,000

Creditors 40,000

Motor vehicles 100,000

## Stock 70,000

Cash at bank 30,000

 415000 415000

*(½ x 10 tics = 5marks)*

10 - Show room sales

* Display of goods in a room attendants
* Provision of detailed information about the products
* Trade fairs and exhibitions
* Manufacturers / Agriculturist stalls ( outlets)
* Visiting customers in homes or towns (e.g insurance)
* Posting sales girls / boys in supermarkets shops .

 *( 1 x 4 = 4 marks )*

11. - Encourages single sided development since industries with comparative

 advantage develops to the neglect of others

* Substandard and harmful products may be produced and traded leading to dilution of social welfare
* Dumping is encouraged which discourages development of local industries
* May lead to exploitation and colonisation
* Promotes unproductive competition which leads to closure of infant industries
* Presupposes the existence of leissez faire and working of price mechanism under perfect market which are unrealistic *( 1x 4 = 4 marks)*

12. - Marketing of securities which facilitate flow of new capital into the industry.

* Protect investors by maintaining rules and discipline of the brokers.
* Advise and guide companies seeking capital
* Publishes information regarding prices of securities
* Transfer the title to any quoted security  *( 1 x 4 = 4 marks)*

13. - Open market operation

* Bank rate method
* Margin requirement
* Selective credit
* Reserve requirements

14. - Ensure goods are of good quality

* Ensure the right quantity and size
* Ensure health standards are met
* Ensure safety standards are met
* Ensure fair pricing
* Protect them against breach of contract
* Protect from false advertising

15 -

* Equilibrium quantity 30 units
* Equilibrium price 20 shillings

16. - Must have utility

* Should be scarce
* Must have money value
* Should be transferable

17. - Profits in sole proprietorship aren’t shared

* In sole proprietorship there is personal contact with customers unlike in joint stock companies
* Formation procedure is easier in single owned business than joint stock companies
* Decision making in single owned business are easier than in joint sock companies *( 1 x 4 = 4marks)*

18. - Immediate feedback

* Leaves no room for alteration /misinterpretation of the message
* Creates a personal touch or healthy relationship between the interviewer and the interviewee.
* Saves time since information is passed on and a response to it received instantly enabling a decision to be made immediately.
* Enables the interviewer to access extra information about the interviewee by asking probing questions.
* The interviewer is able to assess the confidence levels of the interviewee

*( 1 x 4 = 4marks)*

19. - Incase of the essential goods that must be consumed

* Ostentatious goods that must be consumed
* Luxurious goods like cars
* Inferior goods i.e goods for the poor
* Geffen goods e.g bread  *( 1 x 4 = 4marks)*

20. - Tertiary level

* Primary level
* Secondary level
1. CASH BOOK

 Date Particulars Cash Bank Date Particulars Cash Bank

March 2nd B/f 20,000 8,000 4th Purchases 2000

 Wages 4000

10th Debtors 3,000 Bank 3000

20th Cash 3,000 Balance c/d 13000 12000

20th Bal c/d 20,000 14,000 20,000 14,000

 13000 12000

1. - Higher production leading to low cost of goods per unit thus higher profits
* Large market due to lower prices and no competition
* Reduced competition increases sales
* Advantages of specialisation
* Better management as a result of combined pool of specialist / specialised labour
* Cheap purchases of raw materials as a result of bulk buying at a discount
* Will be able to attract external finance easily for expansion
* Control of prices due to information of cartel .

23. Sales = Shs. 100,000

 Margin = Gross Profit x 100

 Sales

1. = GP x 100

100,000

 GP = Ksh 20,000.

1. a) C.W.O - Cash with order – The buyer must pay for the goods when he makes an order.

 C.O.D – Cash on Delivery - Payment is effected when goods are delivered to the buyer.

1. F.O.B - Free on board . Prices quoted includes expenses from the sellers warehouse up to the

docks .

TEST PAPER XII

1. A company intends to promote its products by arranging a prize winning competition through the media. Prizes can only be won through buying the products.
2. Explain **five** benefits that the company would get by using this method of sales promotion 10mks

(b) Explain **four** factors determining the market prices of commodities. 10mks

1. (a) The government of Kenya has been adopting the policy of privatisation of firms.

Discuss some of the benefits that the Kenyan people reap from this policy 10mks

1. The following balance were extracted from the books of Charles & Sons Co.

 as at May 31st 2002 .

 Capital 600,000

 Net profit 130,000

Plant fixtures 160,000

Equipment’s 100,000

Buildings 240,000

Office furniture 10,000

Stock 192,000

Cash 118,000

Debtors 158,000

Pre-paid expenses 22,000

Creditors 130,000

Outstanding expenses 20,000

Bank overdraft 110,000

**Required :**

(i) Prepare a balance sheet as at 31st may 2002 7mks

1. Calculate
2. Working capital
3. Current ratio
4. Net profit as percentage to capital 3mks

3. (a) Explain **five** circumstances under which an insurance company would not compensate

 the insured in the event of loss 10mks

 (b) Odhiambo’s publishing company recently joined the Nairobi stock exchange.

 Describe **five** benefits 10mks

1. Opportunities exist for purchasing of necessary durable goods by instalment
2. Describe **two** methods commonly used for this purpose 4mks
3. Mention **three** advantages of each to:
4. Manufacturers
5. Consumers 12mks

(c) Give any **two** differences of the two methods 4mks

5. (a) Explain any **five** methods that the Kenyan government may adopt in order to control the

 volume of imports 10mks

 (b) Discuss the main sources of capital to small scale enterprises 10mks

6. (a) Explain **five** reasons why it is necessary for a country to control international trade

 10mks

 (b) Explain **five** diseconomies that may be suffered by firms due to large scale production

 10mks

**TEST PAPER XII**

**MARKING SCHEME**

1. - Increased awareness of the consumers of the product advertised

 - Increased sales volume of the product

 - More customers / wider market to the goods

 - Retention /loyalty of the already existing customers

 - Increased market due to large market and consumers

 - Better quality due to competition created by advertising

1. - Price mechanism- The interaction of demand and supply in the market .

 - Government policy - Through taxation subsidies and price controls

 - Auction - Prices suggested by prospective buyers

 *(Mentioning 1 mk) (Explanation 1 mk)*

1. **(a) Benefits of privatization**
* Kenyans enjoy improved products and services due to research carried out by privatised firms
* The spirit of competition enhances good management hence efficiency
* Consumers enjoy fair prices of products and services due to minimal wastes if any.
* Privatisation calls upon many firms entering the market leading to product diversity hence Consumers have a wide variety to choose from.
* Due to stiff competition, privatised firms engage in aggressive sales promotion methods which keep consumers informed of the products in the market.
* The need for greater profits makes them engage in risky projects which may be of great importance to the consumers.

 **Any other relevant point 2x5 = 10**

b) Billy and Sons Co.

 Balance sheet

 As at 31st May 2002

 Shs shs Shs. Shs.

 **Fixed Assets** Capital 600,000

Plant& Fixtures 160,000 Add net profit 140,000

##### Equipment’s 100,000 Net capital 740,000

Buildings 240,000 **Current Liabilities**

Office furniture 10,000 510,000 Creditors 130,000 Outstanding Exp. 20,000

**Current Assets**

 Cash 118,000 Bank overdraft 110,000 260,000

Debtors 158,000

Pre-paid expenses 22,000

Stock 192,000 490,000

 1,000,000 1,000,000

1. Working capital = Current Assets - Current liabilities

 = 490,000 - 260,000

 = 230,000

1. Current Ratio = Current Assets

 Current liabilities

 = 400,000

 260,000

 = 49.26 (1mk)

1. Net profit as a percentage to capital

 = Net Profit x 100 = 140,000 x 100

 Capital 600,000

 = 23.3%

3 a) - Losses caused by the insurers carelessness i.e not accidental

* Incase the insured has no insurable interest in the property
* Incase of accident / loss is not directly related to the risk insured
* Incase the insured has not paid premiums as expected
* If on investigation the insurance company realises that false information was given by the insured
* A car accident which is caused by a third person who is not insured.
1. - The company knows value of its shares in the market
* The company may sell more shares since its is known to the public.
* The company raises more capital by floating more shares in the stock exchange
* The company uses more information gathered from stock exchange to improve its performances
* Helps to attract competent personnel in the company
* Promotes company image .
1. HIRE PURCHASE :- A system where the buyer agrees to pay for the commodity in installment. The buyer obtains the possession of the article on the down payment (deposit) but the title of ownership remains with the seller until the last installment is made .

 CREDIT SALES/DEFFERED PAYMENT- Under this system the article becomes

 the property of the buyer with the payment of the first installment. The

 buyer is supposed to pay the remaining amount in installments.  ***(2 x 2 )***

1. **Advantages**

 *Manufacturer.*

* He is able to increase his volume of sales .
* Profit earned on hire purchase is higher than profit earned on cash basis
* Goods belong to the seller until the last installment is paid .

*The buyer.*

* He takes possession of goods immediately after down payment
* Installments to be made are predetermined enabling him to plan and budget for payment of the amounts
* He is able to acquire goods he would not have afforded on cash terms.
* The buyer can possess more goods including expensive items.

 *(1 x 6 = 6marks)*

**Advantages of credit sale to:**

1. *The manufacturer:*
* He is able to increase his volume of sales
* Profits realised are higher since customers must pay higher prices
* He can reclaim the amount due from the buyer under a court order.
1. *The buyer*
* He is able to expensive goods on credit
* Ownership of the article passes to the buyer after the first installment .
* He is able to plan on acquisition of certain goods *( 1 x 6 = 6 marks)*

###### Differences

 **Hire purchase Credit sale**

 - Goods can be repossessed if the - Goods cant but the buyer can be sued for

 buyer breaches the contract. damages

 - Ownership remains with the seller - Ownership passes to the buyer installment is

 when the first till the last installment is effected.

 Is made. ***Any other relevant 1 x 4 = 4 mks.***

1. a) Methods of controlling volume of imports
* Tariffs - Involves levying import duty on goods that are entering a country
* Quotas - Is a quantitative restriction permitting only a given number of units of a commodity to be imported during a specific period
* Exchange control - Refers to the control by the government on the exchange value of the currency of a country. Importers can only import goods when they seek permission for acquiring foreign exchange.
* Trade agreements - Is an agreement between different countries regarding the foreign trade.
* Total ban / Embargo - Involves imposing a complete ban on import of some specific commodities . *2 x 5 = 10marks.*
1. **Sources of capital to small scale enterprises**.
* Personal funds /owners capital
* Borrowing from friends and relatives
* Members contribution
* Loans from bank and other non bank financial institutions
* Going public i.e borrowing from public by use of stocks.
* Venture capital i.e a group of rich people with a pool of financial resources which they lead to viable small scale businesses.

 *(any other relevant point)*

1. To enable infant industries to grow without interference from foreign industries.
* To avoid entry into the country of commodities which might be harmful to the moral culture and health standard of its people.
* To eliminate dumping of inferior or substandard goods in country.
* To correct balance of payment deficit .
* To enable a country to fully exploit its resources which otherwise might be idle from undue competition .
* To raise revenue for government projects in the country
* To reduce the dependency of a country on another which might mistreat her incase of misunderstanding between them .
* To protect key industries which promotes faster development and lead to establishment of other industries
* To diversify industrial growth by allowing production of different commodities to prevent dependence on other countries .
1. Decision making take too long
* Size of market may be too small
* Complexity of the organisation may create difficulty in management
* Lack of enthusiasm due to size which kills commitment- no personal contact
* High risks due to change in fashion, taste or falling prices .
* Formation of monopolies leading to exploitation of consumers
* Poor staff and employee welfare are due to large number.