SAMPLE PAPER 1

565/1

BUSINESS STUDIES
1. Highlight four social responsibilities of a business to its customers
   (4mks)
   outline four roles played by the government in creating of an enabling business environment

2. Give four measures that may be taken by the government to reduce income inequalities in a country
   (4mks)

3. List four principles of a good tax system
   (4mks)

4. List four stages involved in staffing as a function of management
   (4mks)

5. Give four essential elements of a transport system
   (4mks)

6. The supply schedule for Mr. Okutoyi is shown below

<table>
<thead>
<tr>
<th>Price (Ksh)</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>200</td>
</tr>
</tbody>
</table>

   (a) Calculate the price elasticity of supply
   (2mks)

   (b) Interpret the meaning of this elasticity of supply
   (1mk)

7. Highlight four causes of demand pull inflation in an economy
   (4mks)

8. List four disadvantages of buying goods on hire purchase terms over credit purchase
   (4mks)

9. Outline four conditions which favour the use of personal selling as a strategy of product promotion
   (4mks)

10. Highlight four barriers associated with written communication
    (4mks)

11. The balance sheet of King Kong Enterprises as at 31st May, 2004 is given below

    **King Kong Enterprises**
    **Balance sheet**
as at 1st may 2004

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>KSH</th>
<th>LIABILITIES</th>
<th>KSH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>19,000</td>
<td>Capital</td>
<td>71,000</td>
</tr>
<tr>
<td>Delivery van</td>
<td>120,000</td>
<td>loan</td>
<td>120,000</td>
</tr>
<tr>
<td>Stock</td>
<td>36,000</td>
<td>creditors</td>
<td>19,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>22,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in hand</td>
<td>13,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>210,000</strong></td>
<td><strong>Total</strong></td>
<td><strong>210,000</strong></td>
</tr>
</tbody>
</table>

The following transactions took place in the business.
May 2, paid creditors by cheque Sh. 9000
May 3, debtors paid Sh. 18000 by cheque and Sh. 2000 in cash
May 4, the proprietor deposited Sh. 50,000 into the business bank account from a cash prize won in a competition
May 5, bought equipment Sh. 6000 and paid by cheque
May 6, paid a creditor Sh. 7500 by cheque

**Required**

Prepare the balance of the business as at 7th may 2004

(5mks)

12. The following information was obtained from Jakaila traders for the year ending 31st Dec, 2004

<table>
<thead>
<tr>
<th>Sh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors balance on 1st Jan 2004</td>
</tr>
<tr>
<td>Debtors balance on 31st Dec 2004</td>
</tr>
<tr>
<td>Discount allowed</td>
</tr>
<tr>
<td>Return inwards</td>
</tr>
<tr>
<td>Cash received from debtors</td>
</tr>
<tr>
<td>Debtors dishonoured cheque</td>
</tr>
<tr>
<td>Discounts disallowed</td>
</tr>
</tbody>
</table>

**Required**

Determine the value of credit sales for the period ending 31st Dec 2004

(4mks)
13. Enter the following transactions in the ledger accounts of Onyango Traders for the month of May 2004.

(4mks)

May  
1: Started business with Sh. 150,000 cash  
2: Bought goods on credit from Kamau for Sh. 40,000  
4: Sold goods for cash Sh. 34,500  
5: Returned some of the goods purchased from Kamau for Ksh. 4,500

14. Record the following transaction in the cashbook of Ole Polos traders for the month of January 2005 and balance it off.

1st Jan: Cash in hand Sh. 10,000, cash at bank Sh. 20,000  
10th Jan: Paid by cheque Kamau Sh. 8,800 and Mogaka Sh. 11,000 after deducting 12% cash discount in each case  
30th Jan: Banked all the cash leaving Sh. 1200 in the cash till

(5mks)

15. Majengo wholesalers operates with the following ledgers. Sales ledger, cashbook, nominal ledger, and general ledger. State the ledger in which the following accounts would be found. (4mks)

<table>
<thead>
<tr>
<th>Account</th>
<th>Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
</tr>
<tr>
<td>Commission received</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td></td>
</tr>
</tbody>
</table>

16. Complete the following table by indicating the account to be debited and one to be credited (4mks)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Account DR</th>
<th>Account CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Bought a delivery van on credit from general motor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ii) Yialie, a proprietor converted private furniture into a business asset

iii) Withdrew cash from bank for business use

iv) Sold furniture and payment received by cheque

17. The graph below represents cost curves between various cost curves in a firm

Name the cost curve labeled
(4mks)

18. State the role of business community in environmental and community health management (4mks)

19. List four errors that will not affect the agreement of the trial balance
(4mks)

20. Outline four benefits of a bonded warehouse to the government
(4mks)

21. Outline four ways in which a trading account is important to a business
(4mks)
22. Outline three ways in which the international bank for reconciliation and development (World Bank) promotes international trade  

(3mks)

23. Highlight four negative implications of a rapid population growth in developing countries (4mks)

24. The diagram below shows movement of price towards equilibrium. Study it and answer the questions below.

Identify the region marked
(a) x
(b) y
(c) (ii) Name the point marked K ..............................................  

(3mks)

MARKING SCHEME

SAMPLE PAPER 1

565/1

BUSINESS STUDIES
1. i) Giving consumers quality products
   ii) Giving consumers safe products
   iii) Advising consumers about products and their use
   iv) Being fair in the quantity and pricing
   v) Avoiding misleading advertising
   vi) Availing goods to consumers and making affordable to consumers
   vii) Proper labeling, packaging and presentation of products
   viii) Responding to consumers complaints
   ix) Conducting research before allowing a product into the market

2. i) Passing legislation that support and promote business activities
   ii) Providing incentives to encourage investments e.g. Subsidies, tax exemption
   iii) Provision of credit through governments institutions e.g. KIE, ICDC
   iv) Creation of a pool of trained/qualified/skilled manpower
   v) Provision of security
   vi) Ensuring there is political stability and good will
   vii) Provision of infrastructure e.g. roads to cost of production
   viii) Promotion of locally produced goods and services
   ix) Liberalization of marketing and communication services
   x) Facilitating the marketing of produce

3. i) Fixed minimum wages
   ii) Graduated income tax

   Higher taxes on luxuries

   Establish social security scheme which will guarantee minimum standard of economic well being

   Equality of opportunity i.e. avail equal opportunity to all individuals

   vi) Equitable distribution of national resources

4. i) Equality
   ii) Certainty
   iii) Convenience
   iv) Economical
   v) Flexibility
vi) Diversity
vii) Elasticity
viii) Simplicity

5. i) Recruitment
   ii) Selection
   iii) Hiring and placement
   iv) Training and development

6. i) Unit of carriage
   ii) Method propulsion
      iii) Ways
      iv) Terminal

7. Proportionate change in quantity
   Proportionate change in price
   Prop \( \Delta \) in quantity = \( \frac{200-40}{40} = \frac{160}{2} \times \frac{1}{2} \)
   Prop \( \Delta \) in price = \( \frac{5-2}{2} = \frac{3}{2} \times \frac{1}{2} \)
   \( = \frac{160}{40} \times \frac{3}{3} = 8 \times 2 = 2.67 \times 1 \)
   b) Elasticity of supply is Elastic i.e. it is greater than 1

8. i) Increase in total expenditure
   ii) Fall in the level of saving
   iii) Increase in money supply
   iv) Expectations of price increases

9. i) The buyer does not become the owner of the goods
    ii) The buyer cannot resell the goods
    iii) Hire purchase price is higher
    iv) Goods can be repossessed

10. i) Availability of adequate resources
     ii) Concentrated and easily accessible markets
     iii) High unit value of the product
     iv) Products whose use need to be demonstrated
     v) Suitability of a product to individual needs
vi) Introduction of a new product in a market

11. i) Unfamiliar language/ technical terms
    ii) Inability to read
    iii) Blindness/ visual impairedness
    iv) Unfamiliar subjects
    v) Level of language used (Difficult)

12. **KING KONG ENTERPRISE**
    **BALANCE SHEET**
    **AS AT 7th MAY 2004 ✓**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Shs</th>
<th>Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>2500 ✓</td>
<td></td>
</tr>
<tr>
<td>Delivery van</td>
<td>120,000 ✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>145000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>36000 ✓</td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>2000 ✓</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>58500 ✓</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2000 ✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>98500</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>243500</strong></td>
<td></td>
</tr>
</tbody>
</table>

| CAPITAL                 |       | 121,000 ✓|
| Long term liabilities   |       |         |
| Loan                    |       | 120,000 ✓|

| Current liabilities     |       |         |
| Creditors               |       | 2500 ✓  |

13. **TOTAL DEBTORS ACCOUNT**

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
<th>SHS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHS</strong></td>
<td><strong>Receipts from debtors</strong></td>
<td>298000 ✓</td>
</tr>
<tr>
<td>Bal b /d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24000 ✓</td>
<td>Discount allowed</td>
<td></td>
</tr>
<tr>
<td>Debtors dishonored cheque</td>
<td>18000 ✓</td>
<td></td>
</tr>
<tr>
<td>18000 ✓</td>
<td>Return inwards</td>
<td>5600 ✓</td>
</tr>
<tr>
<td>Discount allowed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>500 ✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Credit sales 351,100
Bal c /d 72000
393600

Or
Shs
Debtors closing balance 72000
Add: Receipts from debtors 298000
Discount allowed 18000
Return inwards 5600
393600

Less: Debtors opening balance 24000
Debtors dishonored cheque 18000
Discount allowed 500 42500
Credit sales 351100

14. CAPITAL ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>SHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH</td>
<td>150000</td>
</tr>
</tbody>
</table>

CASH ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>SHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>150,000</td>
</tr>
<tr>
<td>Sales</td>
<td>34,500</td>
</tr>
</tbody>
</table>
PURCHASES ACCOUNT

| SHS | Kamau (Creditor) | 40,000 ✓ |

CREDITOR (KAMAU) ACCOUNT

| SHS | Purchases | 40,000 ✓ |
| SHS | Return inwards | 4500 ✓ |

SALES ACCOUNT

| CASH | 34,500 ✓ |

RETURNS OUTWARDS ACCOUNT

| CREDITOR (KAMAU) | 4500 ✓ |

OLE POLOS

15. THREE COLUMN CASH BOOK

<table>
<thead>
<tr>
<th>DATE</th>
<th>DETAILS</th>
<th>DISC ALL</th>
<th>CASH</th>
<th>BANK</th>
<th>DATE</th>
<th>DETAILS</th>
<th>DISC ALL</th>
<th>CASH</th>
<th>BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/05</td>
<td>Bal b /d</td>
<td></td>
<td>10000</td>
<td>20000</td>
<td>2005</td>
<td>Kamau Mogaka</td>
<td>1200</td>
<td>8800</td>
<td>1100</td>
</tr>
<tr>
<td>30th / Jan</td>
<td>CASH</td>
<td></td>
<td>8800</td>
<td>30th Jan BANK</td>
<td>8800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bal c /d</td>
<td></td>
<td>1200</td>
<td>9000</td>
<td>Bal c /d</td>
<td>1200</td>
<td>10000</td>
<td>2880</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

www.arena.co.ke    0713779527
16. **Account** | **Ledger**
--- | ---
  i) Sales | Nominal
  ii) Purchases | Nominal
  iii) Debtors | Sales
  iv) Creditors | Purchases
  v) Capital | General
  vi) Salaries | Nominal
  vii) Commission received | Nominal
  viii) Bank | Cash book

17. **Account debit** | **Account credit**
--- | ---
  i) Motor vehicle account | General motors account

(Creditors account)
  ii) Furniture account | Capital account
  iii) Cash account | Bank account
  iv) Bank account | Furniture account

18. a) Average fixed cost  
b) Marginal cost  
c) Average variable cost  
d) Average total cost

19. i) Ensuring the cleanliness and beauty of their business premises  
ii) Ensuring they participate in environmental conservation activities  
iii) Recycling and processing their product to ensure that they are harmless to environment and community health  
iv) Sponsoring the beautification and cleanliness of the environment  
v) To partner with stakeholders to ensure a clean environment and good community health

20. i) Error of original entry
ii) Error of principal
iii) Error of omission
iv) Error of commission
v) Complete reversal of entries
vi) Compensating errors

21. i) Revenue to the government e.g. duty on goods
   ii) Enable government to check entry of harmful goods
   iii) Enable government to verify documents for goods on transit
   iv) Enable government to check on quantity of goods imported
   v) Enable it to inspect type or nature of goods imported
   vi) Enable it to check entry of illegal goods into the country

22. i) Enables a business to determine the cost of goods sold
   ii) Enables the business to determine the revenue generated from the sale of stock
   iii) Enables a business to determine the profit/ loss from the sale of stock
   iv) A decision making tool
   v) Help in preparation of final accounts

23. i) It provides loans that are used in financing a B.O.P deficit
   ii) It promotes foreign investment in developing countries
   iii) Promotes economic stability
   iv) Provides technical assistance

24. i) Reduces per capital income
   ii) Increased dependency ratio
   iii) Reduces saving and investments
   iv) Leads to unemployment and under employment
   v) Pressure on social amenities
   vi) Inequitable distribution of income
   vii) Leads to over exploitation of nature resources/ environmental degradation

25. X – Excess supply
    Y- Excess demand
SAMPLE PAPER 2

565/1

BUSINESS STUDIES

   (4mks)

2. Cite four features of economic resources.
   (4mks)

3. Below are some of the factors that influence the operations of a business.
   Indicate with a tick
   (√) in the appropriate column the business environment associated with each of
   the factors mentioned.
   (4mks)
<table>
<thead>
<tr>
<th>Factor</th>
<th>Internal environment</th>
<th>External Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Objectives and goals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Technology environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Financial resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Political will</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Identify four types of cash terms of payments.
   (4mks)

5. State four essential components for communication to take place.
   (4mks)

   (4mks)

7. State four characteristics of ordinary shares.
   (4mks)

8. Give four factors that influence the choice of distribution channel.
   (4mks)

9. The following information relates to business W, X, Y and Z

<table>
<thead>
<tr>
<th>Business</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Capital Shs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>W</td>
<td>350,000</td>
<td>W</td>
<td>150,000</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>160,000</td>
<td>240,000</td>
</tr>
<tr>
<td>Y</td>
<td>800,000</td>
<td>450,000</td>
<td>Y</td>
</tr>
<tr>
<td>Z</td>
<td>700,000</td>
<td>Z</td>
<td>280,000</td>
</tr>
</tbody>
</table>

Determine the figures represented by W, X, Y and Z in the table.
   (4mks)

10. Name the ledger in which each of the following accounts can be found.
    (4mks)

<table>
<thead>
<tr>
<th>Account</th>
<th>Ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Motor vehicle account</td>
<td></td>
</tr>
<tr>
<td>(b) Debtors accounts</td>
<td></td>
</tr>
<tr>
<td>(c) Creditors accounts</td>
<td></td>
</tr>
<tr>
<td>(d) Bank account</td>
<td></td>
</tr>
</tbody>
</table>
11. The diagram below represents a demand curve for a product.

(a) Identify the nature of the demand curve represented by the diagram. (1mk)

(b) List three factors that may account for the nature of the demand curve represented above. (3mks)

12. Highlight the factors to be considered when constructing consumer price index. (4mks)

13. State the objectives of export processing zones (EPZ). (4mks)

14. Identify the international trade documents that relate to the following statements.
   (a) Indicate the country of origin of imported goods. .................................................................
   (b) Is a document of title to the goods traded in international trade........................................
   (c) Used to demand payments before delivery of goods .........................................................
   (d) Facilitates an importer to obtain credit ................................................................................

15. Differentiate between 'incidence of tax' and 'impact of tax'. (4mks)

16. Outline four sources of a business idea. (4mks)
17. The following purchases returns were made by Borabu Traders in the month of February 2005.

   Feb. 4 Returns to Sam worth sh. 1,000 Credit note 123, to Kambi suppliers worth shs. 2,000 credit note 264.
   Feb 20. Returns to Omache wholesalers’ goods worth sh. 500, credit note 289, Kambi suppliers, worth sh. 1000 credit note 362.

Post the information to the purchases returns journal.
(4mks)

18. The following balances were available for Anyimu’s grocery shop on 31st December 2004

   Capital sh. 20,000
   Bankloan sh 20,000
   Stock sh. 12,000
   Cash in hand sh. 20,000

Draw the balance sheet following the order of liquidity.
(4mks)

19. (a) Define the term “value added” as used in business studies. (1mk)
(b) Determine the value of the missing values marked ‘a’, ‘b’, and ‘c’ in the table below. (3mks)

<table>
<thead>
<tr>
<th>Product</th>
<th>Factory 1</th>
<th>Factory 2</th>
<th>Factory 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price (shs)</td>
<td>500</td>
<td>(b)</td>
<td>14,500</td>
</tr>
<tr>
<td>Value added</td>
<td>(a)</td>
<td>3,500</td>
<td>(c)</td>
</tr>
</tbody>
</table>

   a. = ………………………
   b. = ………………………
   c. = ………………………

(3mks)

20. For each of the following transactions given below, indicate in the appropriate columns, the source document and the book of original entry in which the transaction should be recorded.
(4mks)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Source document</th>
<th>Book of original</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Purchase of goods on credit</td>
<td>entry</td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>b) Sale of desks on credit</td>
<td>entry</td>
<td></td>
</tr>
<tr>
<td>c) Payment to a creditor</td>
<td>entry</td>
<td></td>
</tr>
<tr>
<td>d) Goods returned by a client</td>
<td>entry</td>
<td></td>
</tr>
</tbody>
</table>

21. Cite four reasons why business persons prefer mobile phones to land lines as a means of communication.
   (4mks)

22. (a) Explain the term ‘demand for money’
    (1mk)
   (b) State the motives which underlie the demand for money in an economy.
    (3mks)

23. Highlight the service offered by the wholesaler to the retailer.
    (4mks)

24. Highlight four ways in which clothing satisfies human wants.
    (4mks)

25. Outline four sources of Oligopoly powers.
    (4mks)
SAMPLE PAPER 2
MARKING SCHEME
565/1
BUSINESS STUDIES

1. i) Wrong choice of business
    ii) Poor management skills
    iii) Poor customer relations
    iv) Poor selling strategies
    v) Poor business planning
    vi) Poor time management
    vii) Poor record keeping skills
    viii) Poor pricing policies
    ix) Poorly qualified staff
    x) Limited (business) finances

2. i) They are scarce / limited
    ii) They have a monetary value
    iii) They have alternative uses
    iv) They are unevenly distributed from one place to another
    v) They have utility, which is the ability of being useful
    vi) They are transferable from one party to another.
3.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Internal environment</th>
<th>External environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>ii)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>iii)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>iv)</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

(4mks)

4. i) Spot cash
   ii) Cash on Delivery (COD)
   iii) Cash with order (CWO)
   iv) Prompt cash

5. i) The sender
   ii) The channel
   iii) The message
   iv) The receiver

6. i) Family and social ties
   ii) Ignorance of existing job opportunities
   iii) Cost of movement to other regions is high
   iv) Prejudice / Negative attitude of some people to some regions
   v) In availability of amenities e.g. residential houses

7. i) Have voting rights- They are hence called equity shares
   ii) Have no fixed rate of dividends. The dividends on them vary according to the amount of profits made.
   iii) They have a claim to dividends after the preference shares
   iv) If the company is being liquidated they are paid last after the preference shares
   vi) Are irredeemable
   vii) Ordinary shares are not attached to any security
8. a) The nature of the good / product
   b) Nature of the market
   c) The nature of competition
   d) Government policy
   e) Cost

9. i) \( W - 200,000 \)
    ii) \( X - 400,000 \)
    iii) \( Y - 350,000 \)
    iv) \( Z - 420,000 \)

10. a – Real accounts
    b- Personal accounts
    c- Personal accounts
    d- Real accounts

11a). Abnormal demand curve
    b)i) Goods of ostentation/ prestige
    ii) Inferior goods
    iii) Giffen goods
    iv) Expectation of future shortages
        - Expectation of further increases in prices
        - Necessities
        - Habitual goods and services

12. i) Selection of the commodities (basket of commodities)
    ii) Choice of the base period
    iii) Price of the commodity during the current period
    iv) Choice of the average to be used

13. i) To increase productive capital investment
ii) To generate employment opportunities  
iii) To encourage the transfer of technology  
iv) To develop backward linkages  
v) To diversify export of products and markets

14. a) Certificate of origin  
b) Bill of lading  
c) Pro forma invoice  
d) Letter of credit

15. i) Means the final resting place of the tax or who has to bear the burden of this tax  
ii) Is the point at which the initial burden of tax falls

16. a) Newspapers / magazines  
b) Shows and Exhibitions  
c) Hobbies  
d) Vocational Training and Experience - Surveys

17.  

**Purchases returns journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Credit note number</th>
<th>Folio</th>
<th>Amount Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 4</td>
<td>Sam</td>
<td>123</td>
<td>PL1</td>
<td>1,000</td>
</tr>
<tr>
<td>4</td>
<td>Kambi suppliers</td>
<td>264</td>
<td>PL3</td>
<td>2,000</td>
</tr>
<tr>
<td>20</td>
<td>Omache wholesalers</td>
<td>289</td>
<td>PL4</td>
<td>500</td>
</tr>
<tr>
<td>20</td>
<td>Kambi suppliers</td>
<td>362</td>
<td>PL3</td>
<td>1,000</td>
</tr>
</tbody>
</table>

28 Total purchases for returns account (Cr) February posted to the GL. purchases 4500
18. Anyimu’s Grocery shop

**Balance sheet at 31st Dec 2004.**

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Sh</th>
<th>Current liabilities</th>
<th>Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sh</td>
<td></td>
<td>Bank loan</td>
<td>20,000 ✓</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>32,000 ✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>Premises</td>
<td>8000 ✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>40,000</strong></td>
</tr>
</tbody>
</table>

19. a) “Value added” – is the net contribution to the product by each firm involved in the production process; hence is the value of a firm’s output less what that firm has paid to other firms for inputs in the production or/it measures the value of total national output by summing up the net contribution of all individuals firms at each stage of production.

20

<table>
<thead>
<tr>
<th>Source document</th>
<th>Book of original entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Invoice received</td>
<td>Purchases journal</td>
</tr>
<tr>
<td>b) Invoice issued</td>
<td>General journal</td>
</tr>
<tr>
<td>Receipts / cash sale slips</td>
<td>Cash book / cash payment journal</td>
</tr>
<tr>
<td>c) Credit note received</td>
<td>Sales returns journal</td>
</tr>
</tbody>
</table>

21. i) Business people can be contacted any time (24hrs).

ii) Both the sender / caller and the receiver can identify each other

iii) Business person can make or receive calls anywhere with network
iv) Mobile phones are portable
v) It is easier to get connected
vi) Faster one, does not need to pass through operator
vii) Cheaper to operate, no fixed monthly charges
viii) Mobile phones can be used to store important telephone contacts and other messages

(SMS)

22.a) Demand for money refers to liquidity preference, i.e. the desire to hold money instead of other assets.

b) i) Transactive motive – for day to day purchase of goods and services or desire to hold money in cash to meet daily expenses for purchases
   ii) Precautionary motive- meeting unforeseen contingencies, such as illness & accidents.
   iii) The speculative motive – related to the rate of interest and bond prices both current and future.

23. i) Buying
   ii) Breaking of bulk
   iv) Storage
   v) Variety of goods
   vi) Financing
      - Transportation
      - Advice

24. i) Provides warmth
   ii) Makes one smart
   iii) Cover nakedness
   iv) For easy identification- professional and gender
   v) Protects one from biting insects

25. i) Huge capital requirement acting as a barrier to many other firms
   ii) Control of source of raw materials being with a few firms
   iii) Aggressive entrepreneurs employ ruthless strategies forcing their rivals to leave the industry
   iv) Where a few firms hold patent rights relating to production techniques of particular products
v) Mergers and takes over which remove numerous small entrepreneurs out of business
1. Outline four reasons for establishment of a business enterprise.  
4mks

2. Identify four documents used in the delivery process in home trade.  
4mks

3. Outline three basic qualities of an office worker.  
3mks

4. Outline four ways in which the government influences the quantity of a commodity supplied.  
4mks

5. Highlight four factors that may be used in determining the size of a firm.  
4mks

6. Outline four uses of a general journal.  
4mks

7. Identify four type of taxes levied on businesses in Kenya.  
4mks

8. The Central Bank is a banker to the government. Outline four banking services that it provides to the government.  
4mks

9. The following information was extracted from the books of Kabila Traders for the year ended 31st December, 2003.  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital on 1st January 2003</td>
<td>270,000</td>
</tr>
<tr>
<td>Capital on 31st December 2003</td>
<td>320,000</td>
</tr>
<tr>
<td>Drawings during the year</td>
<td>100,000</td>
</tr>
<tr>
<td>Additional capital introduced during the year</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Calculate Kabila Traders Ltd’s profit or loss for the year ended 31st December 2003.  
3mks

10. Identify four sources of monopoly powers.  

11. Under what circumstances would a common carrier refuse to transport goods of a particular trader.  
4mks
12. Highlight four advantages of hire purchase to the seller.

4mks

13. The following balances were extracted from the books of Njoroge traders on 31st May 2004.

<table>
<thead>
<tr>
<th></th>
<th>Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>62,500</td>
</tr>
<tr>
<td>Stock</td>
<td>2,000</td>
</tr>
<tr>
<td>2 years bank loan</td>
<td>40,000</td>
</tr>
<tr>
<td>Bank</td>
<td>160,000</td>
</tr>
<tr>
<td>Cash</td>
<td>20,000</td>
</tr>
<tr>
<td>Premises</td>
<td>800,000</td>
</tr>
</tbody>
</table>

Prepare his balance sheet

4mks

14. Record the following transactions in the relevant ledger accounts.

2004
June 1 Ochieng started a business with shs.50,000 cash
"  4 Bought office equipment for shs. 2,000
"  6 Deposited shs.12,000 into the business bank account
"  8 Bought stock for the shs.10,000
     (Balancing of accounts not required)

4mks

15. Differentiate between circular letters and Memoranda.

4mks

<table>
<thead>
<tr>
<th>Letters</th>
<th>Memoranda</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>i)</td>
</tr>
<tr>
<td>ii)</td>
<td>ii)</td>
</tr>
<tr>
<td>iii)</td>
<td>iii)</td>
</tr>
<tr>
<td>iv)</td>
<td>iv)</td>
</tr>
</tbody>
</table>

16. The following diagram represents the demand and supply of a commodity.
State four effects of fixing maximum price at Po.

4mks

17. Outline four characteristics of insurable risks.

4mks

18. Outline four factors to consider when deciding on an ideal office layout.

4mks

19. The following information was extracted from the books of Bondo Traders as at 31st December, 2004.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>2,500</td>
</tr>
<tr>
<td>Purchases</td>
<td>46,000</td>
</tr>
<tr>
<td>Closing Stock</td>
<td>1,500</td>
</tr>
<tr>
<td>Mark up</td>
<td>20%</td>
</tr>
</tbody>
</table>
20. The following transactions relate to Kabala Traders for the month of December, 2004.

- 2\textsuperscript{nd} December: Cash sales shs. 30,000
- 8\textsuperscript{th} December: Banked sh. 15,000
- 10\textsuperscript{th} December: withdrew sh. 10,000 from bank for office use.

Prepare a cash extract.

21. Identify four advantages of export processing zones to a country.

22. Outline four benefits that a country gets by being a member of the international monetary fund (IMF)

23. Identify four short falls of after sales service as a method of sales promotion to the buyers.

24. State four circumstances under which a country’s terms of trade would be unfavourable.

25. The following assets and liabilities were available as at 1\textsuperscript{st} January, 2005.

<table>
<thead>
<tr>
<th>Shs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in hand</td>
<td>43,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>19,000</td>
</tr>
<tr>
<td>Telephone bills due</td>
<td>3,000</td>
</tr>
<tr>
<td>Rent outstanding</td>
<td>8,000</td>
</tr>
<tr>
<td>Electricity prepaid</td>
<td>4,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>19,000</td>
</tr>
</tbody>
</table>

Prepare a statement of affairs as at 1\textsuperscript{st} January 2005.
MARKING SCHEME.

SAMPLE PAPER 3

1.  i) Profit generation / maximization

   ii) Creation of employment

   iii) provision of goods and services.

   iv) For prestige / enhancing own image

2.  i) Delivery note

    ii) Packaging sheet

    iii) Consignment note

    iv) Advice note

    v) Invoice

3.  i) Personal attributes

    ii) Office etiquette
iii) Individual knowledges, skills and experiences

4.  
   i) Taxes

   ii) Subsides

   iii) Quotas

   (iv) Price control

5.  
   i) Number of employees

   ii) Volume of output

   iii) Floor area covered by premises / size of land occupied

   iv) Capital invested

   v) Production methods / techniques / technology

   vi) Market served / size of market.

   vii) Sales volume

6.  
   i) Purchase of fixed assets on credit

   ii) Sale of fixed assets on credit

   iii) Correction of errors

   iv) Writing off bad debts

   v) Recording opening entries

   vi) Recording closing entries

   vii) Recording of issue of shares and debentures

7.  
   (i) Income tax- It is levied on the incomes of individuals and business / companies.

   (ii) Corporation tax – It is levied on the profits made by limited companies.

   (iii) Excise tax – It is levied on goods produced within a country.
(iv) Customs duty – It is a tax levied on goods which are imported into / exported to other countries

(v) Value Added tax – It is applied to all goods at a given percentage. Therefore it is based on purchases.

(vi) Withholding tax – It is a tax collected at source especially in case of dividends / commissions / interests/ deposits / etc/

(vii) Capital gains tax – it levied on increase in the value of certain types of property when sold at a higher price that it was bought for e.g. sale of stocks / securities in the S.E market.

8.

(i) Collecting credits on behalf of the government from various sources.

(ii) Getting credit from other sources on behalf of government.

(iii) Making various payments on behalf of government.

(iv) Giving financial advice to the government

(v) Giving credits to the government.

(vi) Receiving payments on behalf of the government from sources such as foreign donors / income tax department/ customs department / etc.

9. \[ C.C = O.C + A.I - D + P \]

\[ 320,000 = 270,000 + 30,000 - 100,000 + p \]

\[ 320,000 = 300,000 - 100,000 + p \]

\[ 320,000 = 200,000 + p \]

\[ P = 320,000 - 200,000 \]

\[ P = \text{shs.} 120,000 \]
10. (i) Control of supply of an important factor of production

(ii) High initial capital outlay
(iii) Exclusive technical know-how in the production of commodity

(iv) Merging of two or more firms

(v) Government power.

11. (i) If there is no room on the vehicle

(ii) If the goods are improperly packed

(iii) If the goods are dangerous such as explosives

(iv) If the goods are not the nature the vehicle is designed to carry.

(v) If the destination of the goods is not covered by the carrier.

12. (i) Increase in sales volume

(ii) Higher profit margins are realized

(iii) Goods can be reposed if the buyer defaults

(iv) Ownership of the goods is retained until the payments is completed.

13. Njoroge Traders
    Balance sheet
    As at 31st May 2004

<table>
<thead>
<tr>
<th>Shs.</th>
<th>Shs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 20,000✓</td>
<td>Capital 879,500✓</td>
</tr>
<tr>
<td>Bank 160,000 ✓</td>
<td>Creditors 62,500 ✓</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Premises 800,000 ✓</td>
<td>2 yrs Bank loan 40,000 ✓</td>
</tr>
<tr>
<td>Stock 2,000 ✓</td>
<td></td>
</tr>
<tr>
<td><strong>982,000</strong></td>
<td><strong>982,000 ✓</strong></td>
</tr>
</tbody>
</table>

### Dr. Cash Account

<table>
<thead>
<tr>
<th>2004</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs.</td>
<td>Shs.</td>
</tr>
<tr>
<td><strong>June 1st capital</strong></td>
<td><strong>June 4th office equip</strong></td>
</tr>
<tr>
<td>50,000 ✓</td>
<td>2,000 ✓</td>
</tr>
<tr>
<td><strong>June 6th Bank</strong></td>
<td></td>
</tr>
<tr>
<td>12,000 ✓</td>
<td></td>
</tr>
<tr>
<td><strong>June 8th Purchases</strong></td>
<td></td>
</tr>
<tr>
<td>10,000 ✓</td>
<td></td>
</tr>
</tbody>
</table>

### Dr. Capital Account

<table>
<thead>
<tr>
<th>2004</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs.</td>
<td>Shs.</td>
</tr>
<tr>
<td><strong>June1st cash</strong></td>
<td></td>
</tr>
<tr>
<td>50,000 ✓</td>
<td></td>
</tr>
</tbody>
</table>

### Dr. Office Equipment Account

<table>
<thead>
<tr>
<th>2004</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs.</td>
<td>Shs.</td>
</tr>
<tr>
<td><strong>June 4th cash</strong></td>
<td></td>
</tr>
<tr>
<td>2,000 ✓</td>
<td></td>
</tr>
<tr>
<td>Dr.</td>
<td>Bank Account</td>
</tr>
<tr>
<td>-----</td>
<td>--------------</td>
</tr>
<tr>
<td>Cr.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2004</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs.</td>
<td>Shs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>June 6(^{th}) cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,000✓</td>
</tr>
</tbody>
</table>
Dr. Purchase Account

Cr.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>June 8th Cash 10,000</td>
<td></td>
</tr>
</tbody>
</table>

15. Letters

(i) Has salutation - Has no salutation

(ii) Has complimentary clause - Has no complimentary clause

(iii) Used for outside correspondence - Used within organization

(iv) Can be written in many copies - Has limited copies

(v) Can be signed by dictator - Has names / title of dictator

(vi) Has official final / closing remarks - Has no official final / closing remarks

16. (i) There will be excess demand

(ii) There will be less supply in the market

(iii) There will be hoarding of goods

(iv) Black market situation may develop

(v) Some traders will secretly sell at higher prices

(vi) Some supplies will be unwilling to supply at low price

17. (i) There must be a large number of similar risks
(ii) It must be possible for the insurance company to calculate the loss mathematically.

(iii) The occurrence of the loss must be accidental.

(iv) The insured must suffer a loss or liability in occurrence of the risk.

(v) The loss suffered must be substanted.

(vi) The risk must not be catastrophic.

18. (i) There should be ease of movement

(ii) There should be ease of flow of work

(iii) There should be ease of co-ordination of staff / work.

(iv) There should be no obstruction of light and ventilation by furniture and equipment.

(v) There should be ease of communication.

19. **Bondo Traders**

   **Trading account**

   **For the year ended 31st Dec. 2004**

   **Shs**

   **Shs.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>2,500</td>
</tr>
<tr>
<td>Add purchases</td>
<td>46,000</td>
</tr>
<tr>
<td>C.O.G.A.F.S</td>
<td>48,000</td>
</tr>
<tr>
<td>Less closing stock</td>
<td></td>
</tr>
</tbody>
</table>

   **Sales**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>56,400</td>
</tr>
</tbody>
</table>
1,500✓

C.O.S
47,000✓

Gross profit
9,400✓

56,400✓

20.

Cash Book (extract)

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>F</th>
<th>Cash</th>
<th>Bank</th>
<th>Date</th>
<th>Details</th>
<th>F</th>
<th>Cash</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 2nd 2004</td>
<td>Sales</td>
<td></td>
<td>30,000✓</td>
<td></td>
<td>2004 Dec 8th</td>
<td>Bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 8th</td>
<td>Cash</td>
<td>C</td>
<td>15,000✓</td>
<td></td>
<td>Dec. 10th</td>
<td>Cash</td>
<td>C</td>
<td>10,000✓</td>
<td></td>
</tr>
<tr>
<td>Dec. 10th</td>
<td>Bank</td>
<td>C</td>
<td>10,000✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. (i) It provides employment to the citizens

(ii) They stimulates growth in specific sectors of the economy such as agricultural activities

(iii) They stimulate other products / service industries that provides industrial inputs expertise.

(iv) They lead to development of good infrastructure in these zones.

(v) They promote export trade which earn foreign currency

(vi) They help to penetrate difficult foreign markets which small scale producers would not reach.

(vii) They help to correct balance of payment imbalance by encouraging exportation of
local products

(viii) They are source of revenue to the govt.

22. (i) It provides short-term loans to member countries.

(ii) It assists in setting imbalances / advances for the member.

(iii) It assists in stabilizing currencies by maintaining orderly exchange arrangements.

(iv) It provides technical / financial advice to member countries to help them solve their Financial problems

(v) It does not interfere in the internal economic affairs of member countries / it does not Influence the economic and monetary policies of member countries.

(vii) It has maintained the gold standard to the advantage of the member countries.

23. (i) The cost of after sales services is finally passed on to the buyer.

(ii) It may be inconveniencing / unnecessary where the dealer requires the goods to be bought from his premises.

(iii) The dealer may create monopoly hence exploit the buyer / the buyer is tied down to one trader.

(iv) The dealer can run our of spare parts hence cause delays in operations.
(v) The service may be given when the product is still new and has few problems
(vi) They service charge can be unrelated to the actual work done while the charges become too high.

(vii) A lot of time / money will be spent if the customer and the supplier are far apart.

24. (i) When the prices of imports increase while those of exports decrease / decline.
   (ii) When prices of exports decline while those of imports remain constant.
   (iii) When prices of imports remain constant while those of exports decline.
   (iv) When prices of exports remain constant while those of imports increase.
   (v) If there is political instability in country affecting production of exports.

25. **Statement of Affairs**

<table>
<thead>
<tr>
<th>Shs.</th>
<th>Shs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in hand 43,000✓</td>
<td>Capital 74,000✓</td>
</tr>
<tr>
<td>Furniture 19,000✓</td>
<td>Telephone bills due 3,000✓</td>
</tr>
<tr>
<td>Debtors 19,000✓</td>
<td>Rent outstanding 8,000✓</td>
</tr>
<tr>
<td>Electricity prepaid 4,000✓</td>
<td></td>
</tr>
<tr>
<td><strong>85,000</strong></td>
<td><strong>85,000</strong></td>
</tr>
</tbody>
</table>
SAMPLE PAPER 4

565/ 1

PAPER 1

1. Give four ways in which the productivity of human effort can be improved  
   (4mks)

2. Give four differences between a proforma invoice and an invoice  
   (4mks)
3. Outline the suitable terms that describes the following statements (4mks)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Presenting a cheque for payment before time</td>
<td></td>
</tr>
<tr>
<td>ii) A polite way of requesting for payment before goods are dispatched</td>
<td></td>
</tr>
<tr>
<td>iii) An unconditional order written by seller to buyer when demanding for payment</td>
<td></td>
</tr>
<tr>
<td>iv) Inferior goods which require the accompaniment of other goods which are slightly expensive to yield satisfaction</td>
<td></td>
</tr>
</tbody>
</table>

4. Identify four ways through which franchising can be affected (4mks)

5. Mention four external diseconomies of scale (4mks)

6. Outline four methods used by the government to control monopoly powers in an economy (4mks)

7. The table below shows the demand and supply schedules of a commodity in the market.

<table>
<thead>
<tr>
<th>Price (SH)</th>
<th>Quantity demanded (Kgs)</th>
<th>Quantity supplied (Kgs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>100</td>
<td>30</td>
</tr>
<tr>
<td>12</td>
<td>90</td>
<td>40</td>
</tr>
<tr>
<td>14</td>
<td>80</td>
<td>50</td>
</tr>
<tr>
<td>16</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>18</td>
<td>60</td>
<td>70</td>
</tr>
<tr>
<td>20</td>
<td>50</td>
<td>80</td>
</tr>
</tbody>
</table>
From the above schedule:

(i) Give the nature of the supply of the commodity

(1mk)

(ii) Give the nature of the demand of the commodity

(1mk)

(iii) With the help of the diagram label the equilibrium prices and the equilibrium quantity

(2mks)

8. The following trial balance was incorrectly prepared.

**KALWAL TRADERS**

**Trial Balance As at 31/12/2004**

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>31,000</td>
<td></td>
</tr>
<tr>
<td>Cash in hand</td>
<td>11,000</td>
</tr>
<tr>
<td>Creditors</td>
<td>14,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>12,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>13,000</td>
</tr>
<tr>
<td>Drawings</td>
<td></td>
</tr>
<tr>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>6,000</td>
</tr>
<tr>
<td>Bank loan</td>
<td>18,000</td>
</tr>
<tr>
<td>Stock</td>
<td>18,000</td>
</tr>
<tr>
<td>Total</td>
<td>56,000</td>
</tr>
<tr>
<td></td>
<td>82,000</td>
</tr>
</tbody>
</table>

Required: Prepare the correct Trial Balance.

(5mks*Kyo*)

9. State three reasons justifying the use of a credit note in a business transaction

(3mks)
10. Identify the source documents that can be used in recording each of the following transactions

(4mks)

a) To correct an undercharge in an invoice ................................................

b) To pay casual workers in an organization ..............................................

c) To show that a credit transaction has taken place ...................................

d) To show that a cash transaction has taken place .................................

11. The following transactions took place in the month of March 2006 in the business of Kandie

March 2. Bartany traders returned goods worth Ksh. 2800

March 10. Mondane traders returned goods worth Ksh. 1200

March 15. Goods worth Ksh. 800 was returned to Safina traders.

March 20. The supplier of iron sheets-Kivuva who was owed Ksh. 18,000 dispatched

other items which were finally returned.

March 22. Returned goods worth Ksh. 1600 to Ukwala traders

March 28. Goods dispatched by Kokwo traders worth Ksh. 2400 got damaged while on transit and were returned.

Required: Prepare the Returns Inwards Journal for Kandie Traders

12. Outline four sources of funds to a municipality

(4mks)

13. Outline four benefits of Barter Trade

(4mks)

14. The following statement shows the various levels of Economic Integration. Against this statements, give the level that suits each.

(4mks)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Member countries imposes common tariffs on non-member states</td>
<td></td>
</tr>
<tr>
<td>b) Member countries have joint economic institution and common monetary and fiscal policies</td>
<td></td>
</tr>
<tr>
<td>c) Member countries agree to either abolish or relax tariffs and other barriers</td>
<td></td>
</tr>
<tr>
<td>d) Member countries allow free movement of factors of production</td>
<td></td>
</tr>
</tbody>
</table>

15. State four measures that has been introduced by the Transport Licensing Board in its efforts to curb road carnage in Kenya.  
(4mk)

16. Give four reasons why most firms prefer open office layouts to closed one.  
(4mk)

17. State four factors that affect the circular flow of Income in an economy.  
(4mks)

18. Highlight four types of bills of exchange.  
(4mks)

(3mks)

20. The following information relates to Koswo Traders as at 31.12.2005,  

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>15,000</td>
</tr>
<tr>
<td>Sales</td>
<td>75,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>50,000</td>
</tr>
<tr>
<td>Returns Inwards</td>
<td>8,000</td>
</tr>
<tr>
<td>Returns Outwards</td>
<td>4,000</td>
</tr>
<tr>
<td>Closing Stock</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Calculate:  
a) Cost of sales  
(2mks)  
b) Gross profit.  
(1mk)  
c) Net sales  
(1mk)
d) Net purchases
(1mk)

21. Give three types of crossings in a cheque
(3mks)

(3mks)

23. "Planning is primary in the management of a firm". State four reasons in support of this statement

24. Cell phones are a common medium of communication today". Give four disadvantages of this medium of communication.
(4mks)

25. Kamau, a sole trader does not keep a complete set of books. After scrutinizing his documents and interviewing him, the following information was available.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>60,000</td>
</tr>
<tr>
<td>Stock</td>
<td>23,000</td>
</tr>
<tr>
<td>Delivery van</td>
<td>137,000</td>
</tr>
<tr>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Trade Debtors</td>
<td>25,400</td>
</tr>
<tr>
<td>30,900</td>
<td></td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>18,500</td>
</tr>
<tr>
<td>15,100</td>
<td></td>
</tr>
<tr>
<td>Commission received in advance</td>
<td>5,800</td>
</tr>
<tr>
<td>4,400</td>
<td></td>
</tr>
<tr>
<td>Cash in hand and at bank</td>
<td>14,000</td>
</tr>
<tr>
<td>17,300</td>
<td></td>
</tr>
</tbody>
</table>
Light and heat accruing  
6,000

Bank Loan
32,000

Required: Use the above information to determine Kamau's Net profit or loss realized during the Year.

MARKING SCHEME

SAMPLE PAPER 4

565 / 1

PAPER 1

1. a) Training
b) Competitive remuneration payments
c) Provision of efficient tools
d) Improving the working conditions
e) Improving working relations
I) Allowing workers to buy shares (promote senses of ownership in the company)

<p>| 1. It is used in response to an order for goods | 1. It is used after goods have been |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.</strong></td>
<td>It shows the total value of goods to be bought</td>
</tr>
<tr>
<td></td>
<td>2. It shows the total value of the goods bought on credit</td>
</tr>
<tr>
<td><strong>3.</strong></td>
<td>It shows the prospective buyer the amount to be paid should the goods be bought</td>
</tr>
<tr>
<td></td>
<td>3. It shows the buyer the amount due for goods bought on credit</td>
</tr>
<tr>
<td><strong>4.</strong></td>
<td>Used as a basis of preparing payment</td>
</tr>
<tr>
<td></td>
<td>4. Used as a basis of making payment</td>
</tr>
<tr>
<td><strong>5.</strong></td>
<td>It cannot be used to make entries into books of accounts</td>
</tr>
<tr>
<td></td>
<td>5. It is often used as a basis of making entries into books of accounts</td>
</tr>
<tr>
<td><strong>6.</strong></td>
<td>It serves as a quotation for goods to be bought</td>
</tr>
<tr>
<td></td>
<td>6. It serves as a notice of payment for goods bought on credit</td>
</tr>
<tr>
<td><strong>7.</strong></td>
<td>It is used to demand for payment in advance for goods bought</td>
</tr>
<tr>
<td></td>
<td>7. It is used to demand payment for goods sold on credit</td>
</tr>
</tbody>
</table>

3. a) i) Post – dated cheque  
ii) Proforma invoice  
iii) Bill of exchange  
iv) Giffen goods  

4. a) Allowing the use of the same business ideas  
b) Allowing the use of the same equipment  
c) Allowing the use of the same method of processing  
d) Allowing the use of the same business name

5. a) Inadequate space (land) for expansion
b) Labour unrests strikes for higher salaries
c) Scramble for raw materials
d) Competition for the available market
e) Scramble for available labour
f) Easy targets during war

6. a) Taxation - imposition of a lump sum tax
b) Price controls - maximum prices
c) Government ownership and operations of firms
d) Legal action against monopolies

7. i) Elastic - Normal Supply curve
ii) Elastic Normal Demand curve
iii) 

![Graph](image)

8. **KALWAL TRADERS**

**TRIAL BALANCE**

As at 31/12/04

<table>
<thead>
<tr>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sh</td>
<td>Sh</td>
</tr>
<tr>
<td>Capital</td>
<td>31,000</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>11,000</td>
</tr>
<tr>
<td>Creditors</td>
<td>14,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>12,000</td>
</tr>
<tr>
<td>Debts</td>
<td>13,000</td>
</tr>
</tbody>
</table>
Drawings  15,000
Bank Overdraft  6,000
Bank loan  18,000
Stock  18,000

69,000      69,000

9.  a) When empty containers are returned
    b) When goods are returned
    c) When there is overpayment of goods / overcharged goods
    d) When arithmetical mistakes has been made
    e) To cancel an invoice wrongly sent
    f) To compensate for any gift vouchers which the retailer has received from customers in part payment

10  a) Debit Note
    b) Payment Voucher
    c) Invoice
    d) Cash receipt

11. RETURNS INWARDS JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEBTOR</th>
<th>CREDIT NOTE NO.</th>
<th>AMOUNT(SH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Bartany✓</td>
<td></td>
<td>2,800✓</td>
</tr>
<tr>
<td>10</td>
<td>Mondane✓</td>
<td></td>
<td>1,200✓</td>
</tr>
<tr>
<td>20</td>
<td>Kinyua✓</td>
<td></td>
<td>18,000✓</td>
</tr>
<tr>
<td>22</td>
<td>Ukwala✓</td>
<td></td>
<td>1,600✓</td>
</tr>
<tr>
<td>28</td>
<td>Kokwon✓</td>
<td></td>
<td>2,400✓</td>
</tr>
<tr>
<td>Totals Transferred to sales return A/C and the respective Debtors</td>
<td></td>
<td></td>
<td>26,000</td>
</tr>
</tbody>
</table>

12. a) Fines on hawkers
    b) Rent and rates on premises
c) Grants from the Government (Local Authority Transfer fund)
d) Licensing Fees / buspark fees/market stall charges
e) Charges on social amenities / service charge
f) Loan from the Government / commercial banks
g) Grants from foreign bodies.

13. a) Buyers and sellers are able to get the goods and services they require immediately after exchange
    b) A country or person is able to diagnose of surplus
    c) Promotes social relations among trading communities
d) Promotes specialisation in the production of goods and services
e) Promotes the standard of living of people involved in it as opposed to direct production

14. a) Customs Union
    b) Economic Union
    c) Free Trade Area
d) Common Market

15. a) Safety belts
    b) Speed Governors
    c) Reducing carrying capacity in PSV Vehicles
d) Removal of unroadworthy vehicles
e) Strict and severe penalties with wrongdoers e.g. withdrawal of Licences

16. a) Cheap to construct
    b) General equipment are fully utilised
    c) Ease in supervision
d) Enhances efficiency

17. a) Savings
    b) Investments
    c) foreign Trade
d) Taxation (Government interference)

18.

a) Order bill This is a bill payable on demand
b) Bearer bill This is a bill payable to the bearer at a fixed date
c) Sight bill This is a bill payable some days after acceptance
d) Usance bill This is a bill payable at a future date
e) Trade bill/money bill This is a bill arising from lending money
f) Inland This is a bill used in home trade only
g) Foreign bill
h) Accomodation bill This is a bill used in International trade

19. a) Capital is equally contributed

b) No salaries for partners
c) No drawings by partners
d) Other partners should be knowledgeable of new admissions
e) No interest on capital

20.

**KOSWO TRADERS**

**TRADING ACCOUNT**

**FOR THE PERIOD ENDED 31.12.2005**

### Alternative A

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>15,000</td>
</tr>
<tr>
<td>Add Purchase</td>
<td>50,000</td>
</tr>
<tr>
<td>Less Reruns outwards</td>
<td>4,000</td>
</tr>
<tr>
<td>Net purchases</td>
<td>46,000</td>
</tr>
<tr>
<td>Cost of goods available for sale</td>
<td>61,000</td>
</tr>
<tr>
<td>Less: Closing Stock</td>
<td>10,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>51,000</td>
</tr>
<tr>
<td>G. profit</td>
<td>16,000</td>
</tr>
</tbody>
</table>
Alternative B

a) Cost of sales = Cost of goods available for sales – Closing stock
= 61,000 – 10,000
= Sh. 51,000

b) Gross profit = 16,000

c) Net sales = Sales – Sale Returns
= 75,000 - 8,000
= 67,000

d) Net Purchases = Purchases – Purchases Returns Outwards
= 50,000 – 4,000
= 46,000

21. a) Two parallel lines without words
b) Two parallel lines with words & Co
c) Two parallel lines with words “Not Negotiable”
d) Two parallel lines with words A/C payee only"
e) Two parallel lines with words "Not Transferable"

2.2. a) Ignorance of job opportunities
b) Adverse climatic conditions
c) High expenses of transfer involved
d) Language barrier
e) Security concerns
f) Family ties
g) Cultural barrier / customs
23.  
   a) Eases coordination  
   b) Brings about development of performance standards  
   c) Reduces uncertainties  
   d) Leads to efficient utilisation of resources  
   e) Focus on objectives of the organization  
   f) Guides the decisions of the organisation  

24.  
   a) Cost of maintenance is high  
   b) It is prone to theft i.e. can easily be stolen  
   c) It releases harmful radiation which is a health hazard  
   d) It has promoted anti-social behaviour e.g. cheating / crimes  
   e) Its introduction has led to mass retrenchment of people who were employed in Telecommunication  
   f) It is discriminative especially on the deaf  
   g) Cannot be used everywhere -- requires network for effective use.  

25.  

   OPENING BALANCE SHEET

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery Van</td>
<td>137,000</td>
</tr>
<tr>
<td>Stock</td>
<td>23,400</td>
</tr>
<tr>
<td>Trade Debtors</td>
<td>25,000</td>
</tr>
<tr>
<td>Cash in hand and bank</td>
<td>14,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>199,400</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade creditors</td>
<td>18,500</td>
</tr>
<tr>
<td>Commission in advance</td>
<td>5,8000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>24,300</td>
</tr>
</tbody>
</table>

Capital 1:  
   Capital = 199,400 – 24,300  
   = 175,100/=  

CLOSING BALANCE SHEET
<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery Van</td>
<td>112,000</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>15,100</td>
</tr>
<tr>
<td>Furniture</td>
<td>60,000</td>
</tr>
<tr>
<td>Commission in Advance</td>
<td>4,400</td>
</tr>
<tr>
<td>Trade Debtors</td>
<td>30,900</td>
</tr>
<tr>
<td>Light and heat accruing</td>
<td>6,000</td>
</tr>
<tr>
<td>Cash in hand and Bank</td>
<td>17,300</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>32,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>220,200</strong></td>
</tr>
<tr>
<td><strong>Trade Payables</strong></td>
<td><strong>57,500</strong></td>
</tr>
</tbody>
</table>

(10 x 1/5 = 2 mks)

Capital 2:  

\[ \text{Capital} = \text{Total} - \text{Trade Payables} \]

\[ = 220,200 - 57,500 \]

\[ = 162,700 \]

Net Loss = Closing capital – Opening Capital

\[ = 162,700 - 175,100 \]

\[ = 12,400 \]

Net Loss = Ksh. 12,400
1. State FOUR features of labour as a factor of production. 4mks
2. State FOUR roles of ethics in businesses. 4mks
3. List FOUR subjects included in business studies. 4mks
4. State FOUR merits of replacing manual systems with automated ones in carrying out office activities. 4mks
5. Outline FOUR functions of a market. 4mks
6. The national income measure using the expenditure approach is given as \[ Y = C + I + G + (X - M) \]. State what is represented by each of the letters in the equation. 3mks
7. Highlight FOUR circumstances under which a manufacturer would sell his products directly to the consumer. 4mks
8. State FOUR undesirable effects of inflation to the Kenyan economy. 4mks
9. State FOUR characteristics of human wants. 4mks
10. State FOUR factors that determine the size of a firm. 4mks
11. Highlight FOUR prominent features of a retailer’s warehouse. 4mks
12. Outline FOUR emerging issues in government and business. 4mks
13. State FOUR uses of a credit note in home trade. 4mks
14. State FOUR external factors that affect the business. 4mks
15. Highlight FOUR advantages of private carriers in transport. 4mks
16. Outline FOUR factors that influence the supply of money in an economy. 4mks
17. The prospective insured is supposed to disclose all the information about the subject matter of insurance with all honesty. Mention any FOUR types of information to be disclosed. 4mks
18. With the aid of a diagram, state the effect of an increase in the supply of a product on the equilibrium price and quantity. 4mks
19. For each of the following transactions, state whether the transaction will cause an increase or decrease in assets, liabilities and capital. 3mks

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>ASSETS</th>
<th>LIABILITIES</th>
<th>CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Borrowed a loan from bank and was issued with a cheque</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Bought furniture for business on credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Sold the delivery van for cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Withdrew sh.2000 from business account for</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
20. Give the meaning of the following business terms
   a) Debtor  
   b) Capital  
   c) Fixed assets  
   d) Liabilities

21. Itemise the contents of a statement of account.

22. Use the table below to answer the questions that follow.  

   **CASH BOOK**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Cash</th>
<th>Bank</th>
<th>Date</th>
<th>Particulars</th>
<th>Cash</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/4/96</td>
<td>Bal. B/f</td>
<td>X</td>
<td>8,000</td>
<td>12/4/96</td>
<td>Motor expens</td>
<td>7,000</td>
<td>30,000</td>
</tr>
<tr>
<td>5/4/96</td>
<td>Sales</td>
<td></td>
<td></td>
<td>13/4/96</td>
<td>Cash (c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13/4/96</td>
<td>Bank (c)</td>
<td>30,000</td>
<td></td>
<td>15/4/96</td>
<td>Salaries</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>23/4/96</td>
<td>Cash (c)</td>
<td>20,000</td>
<td>40,000</td>
<td>17/4/96</td>
<td>Kibet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25/4/96</td>
<td>Sales</td>
<td></td>
<td></td>
<td>23/4/96</td>
<td>Bank (c)</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>58,000</td>
<td></td>
<td>31/4/96</td>
<td>Bal. c/f</td>
<td>16,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>58,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td></td>
<td>150,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   a) Calculate the missing figures: X  Y  
   b) Explain the entries made on the dates specified below *NDI*  
      (i) 13/4/96  
      (ii) 17/4/96

23. State FOUR features of incorporated business units.  4mks

24. State FIVE ways through which unemployment problem in Kenya can be solved.  5mks

25. Highlight FIVE characteristics of under development.  5mks

---

**SAMPLE PAPER 5**

**MARKING SCHEME**

565 / 1
1. Features of labour
   - Can not be stored i.e. if it remains idle for sometimes it is wasted.
   - Can not be separated from the labourer
   - Bargaining power of labour is weak
   - The supply of labour depends on other factors such as population, educational and training facilities, social conditions etc.
   - Can be skilled, semi-skilled and unskilled.

2. Roles of ethics in business
   - Encourages good working relations among workers
   - Ensuring good employer and employees.
   - Ensures that rights of individuals in the working environment are protected.
   - Ensures that professionals relate professionally to their clients
   - Helps workers to protect and uphold a good reputation of the business organization
   - Helps the workers to develop proper skills and right attitudes towards their work.

3. Subjects included in business studies.
   - Economics
   - Commerce
   - Accounting
   - Office practice

4. State four merits of replacing manual systems with automated ones in carrying out office activities.
   - They are labour saving
   - Faster / save time
   - They are accurate
   - Presentable output
   - Control fraud
   - Uniformity of output

5. Functions of a market
   - Price determination
   - Contact between buyers and sellers
   - Product outlet
   - Transaction ground
   - Source of goods

6. State what is represented by letters in the equation used in measuring national income
   Y – National income
C- Consumption expenditure by households
I- Investment expenditure
G- Government expenditure
X- Exports i.e expenditure on national output by foreigners
M-imports i.e expenditure on imports

7. Circumstances where a manufacturer would sell his goods directly.
   - Technological products
   - Some items involve long procedures
   - Some may require after sales services
   - Some products are of very high value
   - To avoid competition
   - Where the manufacture has enough funds.

8. Effects of inflation
   - Weakens the value of the local currency
   - Adverse effect on contractual agreement for provision and supply of goods and services.
   - Decline of standards of living for people earning fixed income.
   - Lenders loose borrowers
   - Inflation discourages savings
   - Increase the cost in implementation of development plans
   - Balance of payment deficit
   - Fall in investment and increases levels of employment.
   - High inflation rates general industrial unrest.

9. Characteristics of human wants
   - Insatiable
   - Require resources
   - Vary in urgency and intensity
   - Competitive
   - Recurrent
   - Universal
   - Habit forming
   - Complimentary

10. Factors that determine the size of a firm
    - The number of workers
    - The volume of output
- The amount of capital invested
- The technique of production / technology
- The size of the market served
- The means of transport and communications
- The sales volume

11. Prominent features of retailers warehouses
- Mainly owned by large scale retailers
- Attached to the retail shops
- Stock fast moving consumer goods
- They hold reserve stock to ensure the demand is constantly met
- They help in maximizing sales, improving services to customers and achieving economies of scale

12. Emerging issues in business
- Corruption
- Market liberalization
- Privatisation
- Dumping
- H.I.V Aids

13. Uses of a credit note
- Used to correct an overchange
- Issued when empty containers are returned
- Used to correct calculation errors on the invoice
- Issued when damaged goods are returned.
- Issued when wrong items are supplied

14. External factors that affect the business
- Economic environment
- Demographic environment
- Legal political environment
- Technological environment
- Socio- cultural environment
- Competitive environment

15. Advantages of private carriers
- They can establish direct contact with suppliers & customers hence establish social relations
- Can transport their goods any time they wish
- Can have their own carriers & terminals designed to suit their needs
- Can use vehicles for advertisements of their firm or products
- Can be hired by other firms hence generating more income.

16. Factors influencing supply of money in an economy.
- Increase in economic growth
- Increase in levels of employment
- Price stability
- Exchange rate stability
- High capital turnover

17. Four types of information disclosed
- An accurate description of the matters to be insured
- The period for which the insurance cover is required
- The place where the matter to be insured is located
- The risk against which the insurance cover is required
- Any circumstances or conditions that are likely to increase the probability of the risk occurring.

18. 
- Improved technology
- Reduction in the cost of production
- Reduction in the price of an alternative product
- An increase in the number of producers

19. Effects of transactions on assets, liabilities and capital

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Borrowed a loan from the bank</td>
<td>Increase</td>
<td>Increase</td>
<td>No effect</td>
</tr>
<tr>
<td>b) Bought furniture for the Business on credit.</td>
<td>Increase</td>
<td>Increase✓</td>
<td>No effect</td>
</tr>
<tr>
<td>c) Sold the delivery van and was paid cash</td>
<td>Increase✓</td>
<td>No effect</td>
<td>No effect</td>
</tr>
<tr>
<td>d) Drew 2,000 from the business for personal use</td>
<td>Decrease✓</td>
<td>No effect</td>
<td>Decrease✓</td>
</tr>
</tbody>
</table>

20. Definitions:
a) Debtor: Person/organisation who owes money to another for goods / services taken on credit

b) Capital: Money/ items contributed by someone inorder to start / sustain a business

c) Fixed Assets: property owned by business and is expected to last for along time.
   Goods that are not for re-sale

d) Liabilities – Money/ items borrowed by the business. It is what is owed by the business to others

   - Balances at the beginning and at the end of the trading period
   - All invoices issued during the month
   - All debit notes issued during the month
   - All credit notes issued during the month

22. a) \( x = \text{sh. 20, 000} \)
    \( y = 104,000 \)

   b) i) Cash was withdrawn from the bank for office use
      ii) Kibet, a creditor was paid by cheque

23. Features of incorporated business organizations.
   - Legal procedure is followed during formations
   - They have corporate status- They are legal entities separate from the owners who formed.
   - Shareholders have limited liability
   - They have perpetual succession
   - They can raise large amounts of capital hence large in size
   - Failure of the business does not necessarily reflect the failure of its owners.

24. Solving unemployment in Kenya
   - Educating and training
   - Changing with technology
   - Alternative employment
   - Setting and following government policies
   - Setting industries in different areas.

25. Characteristics of under-development
   - Low per capital income / high level of poverty
   - Unequitable distribution of income & wealth
   - Level of savings & investments i.e. vicious cycle of poverty
   - High population growth rate
   - High level of dependency
- Dominance of traditional subsistence sector
- Under-utilisation of natural resources
- High level of unemployment / under-employment
- Large rural population
- Great number of illiterate population
- Low labour productivity
- Dependence on the developed countries

SAMPLE PAPER 6

565/1

BUSINESS STUDIES

1. In the table below, indicate using a tick (√) whether the indicated factor constitutes internal or external business environment. 4mks

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>INTERNAL ENVIRONMENT</th>
<th>EXTERNAL ENVIRONMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Human resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Population</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Give THREE reasons why consumers make choice whenever they want to satisfy human wants. 3mks

3. Highlight FOUR factors that can promote occupational mobility of labour. 4mks
4. Give FOUR qualities of a good entrepreneur. 4mks

5. Highlight FOUR ways in which an open office lay-out can contribute to efficiency in office operations. 4mks

6. A wholesaler sold 20 bags of maize at Kshs. 1200 each to a retailer. The retailer was allowed a trade discount of 10% and cash discount of 3% if payment was made within a month. Calculate the total amount of money the retailer paid if the payment was made within a week. 4mks

7. Distinguish between
   (a) A firm and industry. 2mks
   (b) Direct costs and indirect costs. 2mks

8. Highlight FOUR ways in which the government can promote the location of business enterprises in a given area. 4mks

9. Complete the table below relating to the trading accounts of businesses X and Y. 2mks

<table>
<thead>
<tr>
<th>BUSINESS</th>
<th>OPENING STOCK</th>
<th>PURCHASES</th>
<th>CLOSING STOCK</th>
<th>GROSS PROFIT</th>
<th>SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>2000</td>
<td>7,500</td>
<td>800</td>
<td></td>
<td>10,400</td>
</tr>
<tr>
<td>Y</td>
<td>3,500</td>
<td>24,600</td>
<td>4000</td>
<td></td>
<td>30,000</td>
</tr>
</tbody>
</table>

10. State FOUR reasons why a trader would issue a statement of account to buyers. 4mks

11. Outline FOUR disadvantages of ageing population. 4mks

12. Give FOUR uses of a bill of lading. 4mks

13. Highlight FOUR reasons why air transport is the best suited for transporting valuable goods. 4mks

14. Jaja traders had a closing capital of Kshs. 280,000 on 31st December 2002. During the same year the following information was found in their books: -

<table>
<thead>
<tr>
<th>Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>Total expenses</td>
</tr>
<tr>
<td>Drawings</td>
</tr>
<tr>
<td>Additional Investment</td>
</tr>
</tbody>
</table>

   Calculate the opening capital for the year 2002. 4mks

15. Outline FOUR importance of a bonded warehouse to the government. 4mks

16. The diagram below represents the demand curve of a market structure.
(a) Identify the market structure  1mk
(b) Give reasons for the shape of the curve above.  3mks

17. The balance sheet below relates to Onyoni traders on 30th October 2005.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES AND CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land 120,000</td>
<td>Capital 210,000</td>
</tr>
<tr>
<td>Premises 58,000</td>
<td>Loan (10yrs) 48,000</td>
</tr>
<tr>
<td>Van 72,000</td>
<td>Creditors 16,000</td>
</tr>
<tr>
<td>Stock 16,000</td>
<td>Overdraft 10,000</td>
</tr>
<tr>
<td>Cash 14,000</td>
<td></td>
</tr>
<tr>
<td>Debtors 4,000</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>284,000</td>
<td>284,000</td>
</tr>
</tbody>
</table>

The following transactions took place during the month of November 2005.
- Took cash Kshs. 3,500 for personal use
- Sold van at Kshs. 80,000 and was paid by cheque
- Bought goods worth Kshs. 2,000 on credit.

Prepare a new balance sheet at the end of November for Onyoni traders.  5mks

18. Outline FOUR distribution channels for locally produced agricultural products.  4mks

19. Identify the motive of holding money in each of the circumstances below:  3mks
   (a) Need to hold money to cater for future unforeseen eventualities
   (b) Need to have money to cater for daily expenses
   (c) Need to have money with hopes that prices will fall in future in order to purchase more

20. Listed below, are transactions of a retailer in town X. For each of the following, identify the appropriate journal in which it should be entered.  4mks

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>TYPE OF JOURNAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Sold goods on credit to Nyawira Hotel</td>
<td></td>
</tr>
</tbody>
</table>
(b) Goods sold earlier to Riziki were returned back due to defects

(c) Received a credit note from Malaba Wholesalers

(d) Bought goods from Zubeda distributors on credit.

21. Outline **FOUR** features of under development.  

22. The following information relate to Mapesa Enterprises on 31st December 2005.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>48,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>8,500</td>
</tr>
<tr>
<td>Discount received</td>
<td>3,800</td>
</tr>
<tr>
<td>Bad debts</td>
<td>3,600</td>
</tr>
<tr>
<td>Discount allowed</td>
<td>3,000</td>
</tr>
<tr>
<td>Commission earned</td>
<td>4,000</td>
</tr>
<tr>
<td>Rent income</td>
<td>3,500</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,400</td>
</tr>
</tbody>
</table>

Required

Prepare Mapesa’s profit and loss account at 31st December 2005.  

23. Give two advantages of source documents to a firm.  


<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>CR</td>
</tr>
<tr>
<td>Kshs.</td>
<td>Kshs.</td>
</tr>
<tr>
<td>Capital</td>
<td>149,400</td>
</tr>
<tr>
<td>Debtors</td>
<td>45,300</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,000</td>
</tr>
<tr>
<td>Fixures</td>
<td>48,000</td>
</tr>
<tr>
<td>Stock (30/10/04)</td>
<td>6,000</td>
</tr>
<tr>
<td>Premises</td>
<td>160,000</td>
</tr>
<tr>
<td>Creditors</td>
<td>21,900</td>
</tr>
<tr>
<td>ICDC loan</td>
<td>90,000</td>
</tr>
</tbody>
</table>

   | Total                      | 227,300|
   |                            | 295,300|

Prepare the correct trial balance.  

25. State **FOUR** negative effects of inflation to a country.  

26. List **THREE** methods used in computing national income.  

66
MARKING SCHEME.
SAMPLE PAPER 6
565 / 1
BUSINESS STUDIES
PAPER 1

1. \[
\begin{array}{ccc}
\text{Internal} & \text{External} \\
\text{Environment} & \text{Environment} \\
\hline
a) \text{Management} & \checkmark & \\
b) \text{Economies} & & \checkmark \\
c) \text{Human resources} & \checkmark & \\
d) \text{Population} & & \checkmark \\
\end{array}
\]

2. Reasons of making a choice
- The resources are limited
- The wants are unlimited
- The wants are competitive
- Tastes & preferences differ
- Culture & beliefs

3. Factors that promote occupational mobility of labour
- Training duration
- Income earned
- Professional restriction
- Natural intelligence

4. Qualities of a good entrepreneur
- Risk taker
- Future oriented
- Imaginative
- Decision maker
- Persistent & patient
- Goal oriented
- Optimistic

5. - Easy to supervise
   - Less expenses on office partition
   - Sharing of equipment
   - Office can be put to various uses (e.g. conference)
   - Easy to communicate.

6. \[ 20\times 1200 = 24,000 \] 
   \[
   \begin{array}{c}
   90 \\
   100
   \end{array}
   \times
   \begin{array}{c}
   97 \\
   100
   \end{array}
   \times
   24000
   \]

   \[ = 20,952 \]

7. a) Firm
   a single independent business unit under one management
   Industry: comprise all firms engaged in same activity.

   b) Direct costs can be traced to the final output.
   Indirect costs cannot be traced to final output (overhead cost)

8. - provision of security e.g. police post
   - Tax relief and holidays
   - Subsidies
   - Giving free land
9. \[ x = 1700 \]
\[ y = 2100 \]
10. - To show the financial position of buyer (outstanding amount)
    - To show all payment made
    - To show all credit & debit notes sent
    - To show all invoices sent
11. Ageing population
    - Low labour force
    - High pension / retirement costs
    - High dependency ratio
12. Uses of a Bill of exchange
    - Contract of carriage
    - Document of title
    - Show ports of embarkment & destiny
13. Advantages of Air transport for \textit{transporting valuable goods}
    - Security is guaranteed (safer)
    - Goods have pay back power / high profit
    - Need fast delivery
    - Are usually not bulky
14. Closing = opening + Gross + add - drawing,

\[
\begin{align*}
280,000 &= x + 48,000 + 28,000 - 6000 \\
280,000 &= x + 76,000 - 6000 \\
280,000 &= x + 70,000
\end{align*}
\]
Opening capital = Ksh 210,000
15. Bonded warehouse
    - The government can check the quality of goods entering the country.
    - Helps the government to collect revenue
    - Government assess on the quantity as goods
    - The statistical data collected by the government from bonded warehouse helps in planning
16. a) Oligopoly
b) When price is increased dd become elastic hence loss of customer.
When price reduces demand is inelastic hence low profits.

17. **Onyieni traders**

**Balance sheet for the period ended Nov 2005**

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th>Capital</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>120,000</td>
<td>Loan (10yrs)</td>
<td>48,000</td>
</tr>
<tr>
<td>Premises</td>
<td>58,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>18,000</td>
<td>Creditors</td>
<td>18,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>4,000</td>
<td>Overdraft</td>
<td>10,000</td>
</tr>
<tr>
<td>Bank</td>
<td>80,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>10,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>290,500</strong></td>
<td></td>
<td><strong>290,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

18. Producer (farmer) → consumer  
Producer (farmer) → market → consumer  
Producer (f) → Retailer → consumer  
Producer (f) → co-operative → marketing board → consumer

19. a. Precautionary motive  
b) Transaction motive  
c) Speculative motive

20. - Sales journal  
- Sales return Journal  
- Purchases Journal  
- Purchases Journal

21. - High levels of poverty  
- High population growth rate  
- BOP. Deficit  
- Poor infrastructure  
- Unequitable income distribution.

22. **Mapesa’s profit & loss**  
**A/C as at 31st Dec 2005.**
### Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>8,500</td>
<td>Gross profit b/f</td>
<td>48,000</td>
</tr>
<tr>
<td>Bad debts</td>
<td>3600</td>
<td>Disc rec.</td>
<td>3800</td>
</tr>
<tr>
<td>Disc allowed</td>
<td>3000</td>
<td>Commission</td>
<td>4,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,400</td>
<td>Rent</td>
<td>3,500</td>
</tr>
<tr>
<td>Net profit c/d</td>
<td>42,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Gross profit b/f | 48,000 |
| Disc rec.        | 3800   |
| Commission       | 4,000  |
| Rent             | 3,500  |

| Net profit b/d | 42,800 |

23. - Evidence of payments
    - Used to make original entry

24. | Account         | Dr Ksh | Cr. Ksh |
    |-----------------|--------|---------|
    | Capital         |        | 149,400 |
    | Debtors         | 45,300 |         |
    | Insurance       | 2000   |         |
    | Fixtures        | 48000  |         |
    | Stock           | 6000   |         |
    | Premises        | 160,000|         |
    | Creditor        |        | 21,900  |
    | ICDC loan       |        | 90,000  |

| Capital         | 149,400 |
| Debtors         | 45,300  |
| Insurance       | 2000    |
| Fixtures        | 48000   |
| Stock           | 6000    |
| Premises        | 160,000 |
| Creditor        | 21,900  |
| ICDC loan       | 90,000  |

| 261,300         | 261,300 |

25. - Price increament
    - Labour problems strike
    - Reductions in real income
    - Forex earning reduce
    - Capital flight

26. - Income approach
    - Expenditure approach
    - Output / product approach.
1. Write down four circumstances under which a country may be classified as underdeveloped.  
2. State four benefits that a country may get by being a member of the International Monetary Fund (IMF).  
3. List four disadvantages of an ageing population for a country.  
4. State four measures that could be taken to control cost Push inflation.  
5. Outline four uses of national income statistics in a country.  
6. The following are types of advertising:  
   - Product advertising  
   - Competitive advertising  
   - Informative advertising  
   - Institutional advertising  
   In the table, match each type with its appropriate description.  
   - (a) Creates awareness about a product  
   - (b) Promotes the name of the manufacturer  
   - (c) Persuades the consumers to buy a product  
   - (d) Promotes a particular brand of a product  
7. State four reasons why few Kenyans take out life assurance policies:  
8. The following description relate to some documents used in home trade. In the spaces provided, write the name of each document described.  
   - (a) A document seeking information on the availability of products and their prices.  
   - (b) A document showing products and quantity required.  
   - (c) A document describing items for sale and their prices.  
   - (d) A document sent to a specific buyer, detailing the availability of products and their prices.  
9. Write down four advantages of an open office.  
10. Name the department where the following functions are carried out.
FUNCTION

DEPARTMENT

a) To maintain supply records .................................................................

b) ..............................................................................................................

c) To enhance relationship among employees. ..............................................

d) To control the use of machines, materials and labour ........................................

e) To maintain good relationships between the customers and the organization.  ........................................

11. The following information relates to the businesses of Burundi Baridi Mjuaji and Falaa.

<table>
<thead>
<tr>
<th>Business</th>
<th>Assets</th>
<th>Capital</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baridi</td>
<td>500,000</td>
<td>300,000</td>
<td>A</td>
</tr>
<tr>
<td>Mjuaji</td>
<td>B</td>
<td>1,200,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Mawe</td>
<td>300,000</td>
<td>C</td>
<td>120,000</td>
</tr>
<tr>
<td>Falaa</td>
<td>700,000</td>
<td>500,000</td>
<td>D</td>
</tr>
</tbody>
</table>

Determine the value of: (4mks)

A
B
C
D

12. Listed below is a set of transactions. In each case, state whether the transaction will increase, decrease or have no effect on capital. 4mks

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>EFFECT</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Additional cash invested by the owner</td>
<td></td>
</tr>
<tr>
<td>b) Receiving cash from a debtor.</td>
<td></td>
</tr>
<tr>
<td>c) Losses incurred by a business</td>
<td></td>
</tr>
<tr>
<td>d) Owner takes some stock for own use</td>
<td></td>
</tr>
<tr>
<td>e) Sale of old business furniture at a profit</td>
<td></td>
</tr>
<tr>
<td>f) purchase of stock on credit.</td>
<td></td>
</tr>
</tbody>
</table>

13. The table below shows four types of ledger accounts for a business. In the spaces provided, indicate by a tick, whether each of the accounts should have a debit o credit balance. 4mks

<table>
<thead>
<tr>
<th>TYPES OF ACCOUNT</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
</table>

73
14. Record the following transactions in the cash book of Mutonga Traders for the month of January 2004 and balance it.  

2004

Jan1: Cash in hand sh. 10,000, cash at bank 20,000

Jan10: Paid Lucy sh. 8,800 and Tarus sh. 11,000 after deducting 12% cash discount in each case.

Jan 30: Banked all the cash leaving sh. 1,200 in the cashbook.

15. For each of the following transactions, indicate in the spaces provided, the book of original entry in which the transaction would be recorded.  

Transaction | Book of origin entry:
--- | ---
a) Bought office furniture on credit. |  
b) Withdrew cash for personal use |  
c) Sold goods on credit |  
d) Returned goods bought for sale on credit |  

16. Outline four barriers to written communication.  

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

18. State four advantages of operating a public limited company.  

19. State four reasons why governments levy taxes.  

20. For each of the following cases, name the motive for holding money.  

<table>
<thead>
<tr>
<th>SALE</th>
<th>MOTIVE</th>
</tr>
</thead>
</table>
a) To meet daily transport expenses |  
b) To meet any unforeseen circumstances |  
c) To take advantage of anticipated fall in prices |  
d) To pay for daily good requirements. |  

21. The information given below was extracted from the business of Moto Traders, for the year ended 31st Dec. 2000  

shs.
Creditors as at 1st Jan 2000    40,000
Creditors as at 31st Dec 2000    30,000
Cash paid to creditors during the year    200,000
Cash purchases during the year    60,000
Credit purchase returns during the year    10,000
Discount received    5,000

Calculate the total purchase for the year. 4mks

22. The following information relates to Ndolo Traders. For the year ended 31 Dec. 2003

<table>
<thead>
<tr>
<th>Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>Salaries</td>
</tr>
<tr>
<td>Electricity charges</td>
</tr>
<tr>
<td>Discount allowed</td>
</tr>
<tr>
<td>Discount received</td>
</tr>
</tbody>
</table>

Prepare a profit and loss account for Ndolo Traders for the year ended 31st Dec, 2003 4mks

23. Outline four characteristic of a perfectly competitive market. 4mks

24. Write down four reasons that account for the continued survival or small firms despite the existence of large firms producing similar goods. 4mks

25. State whether the following would either lead to a shift in or a long-term movement in the demand curve. 4mks

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>EFFECT</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) An increase in population</td>
<td>.................................................</td>
</tr>
<tr>
<td>b) An increase in the sales tax of a product</td>
<td>.................................................</td>
</tr>
<tr>
<td>c) A change in the price of a product</td>
<td>.................................................</td>
</tr>
<tr>
<td>d) A change in real income.</td>
<td>.................................................</td>
</tr>
</tbody>
</table>
MARKING SCHEME
SAMPLE PAPER 7
BUSINESS EDUCATION
PAPER 1

1. Circumstances under which a country may be classified as underdeveloped.
   a) When the rate of unemployment is high
   b) When there is high population growth rate/ mortality rates
   c) When the standard of living of citizens is low
   d) When productivity in a country is low
   e) When the country has a high dependency ratio
f) When there is inefficient technology  
g) When the country has dual economy  

2. Benefits of a country by being a member of the I.M.F.  
a) Get assistance during balance of payment problems, through the use of SDRS  
b) Get technical support in terms of personnel  
c) Get facilities for exchanging currencies/ exchange rates  
d) Get advice on monetary and fiscal affairs  

3. Disadvantages of an ageing population to a country.  
a) Decline in labour supply  
b) Increased expenditure on welfare benefits  
c) Reduced revenue from income taxes  
d) Decline of industries producing goods and services for the young  
e) High dependency  
f) They may hinder technological development due to reluctance to changes e.g. innovation  
g) High per unit cost on producing social amenities  

4. Measures to control cost-push inflation.  
a) Adopt more cost effective methods of production or mechanization  
b) Control cost of inputs/ subsidies  
c) Control wages guidelines  
d) Control prices of final products  

5. Four uses of national statistics to a country.  
a) To compare the current level of economic welfare, with that of previous periods  
b) To compare its economic performance with that of other countries  
c) To plan for the economy  
d) To know how income is distributed in the country regionally and by sector  
e) To solicit for financial assistance  
f) To impose equitable distribution of income  
g) To budget and plan  

6. DESCRIPTION  
   a) Creates awareness about a product - Informative  
   b) Promotes the name of the manufacturer - Institutional  
   c) Persuades the consumers to buy a product - Competitive  
   d) Promotes a particular brand of product - Product  

7. a) Ignorance on the importance of these policies  
b) Wide spread poverty/ low incomes
c) Fear of losing their money, because of past experiences of collapse of countries

d) Lack of enough knowledge to interpret the clauses in the policy

e) Corruption and embezzlement or fouls by insurance company officials, resulting in delays of compensations

f) The elaborate and time-consuming procedures of claiming compensation

8. **DOCUMENT**
   a) Inquiry letter
   b) Order
   c) Catalogue/price list
   d) Quotation

   a) Supervision is easier, as the numbers of supervision are few
   b) Cheaper to construct, due to few partitions
   c) Joint use of office facilities, which is essential
   d) Eases communication
   e) Improves production due to constant supervision
   f) Cheaper to reorganize office
   g) Improves interpersonal relationships
   h) Less time wastage in movements
   i) Saves on space
   j) Discourages absenteeism and malingering among the employees

10. **DEPARTMENT**
    a) Purchasing
    b) Personnel/Human resources
    c) Production
    d) Sales/marketing

11. i) A – Sh.200,000
    B – Sh.2,000,000
    C – Sh.180,000
    D – Sh.200,000

12. **EFFECT**
    a) Increase
    b) No effect
    c) Decrease
    d) Decrease
e) Increase
f) No effect

13. a) Expenses –Debit balance
b) Income –Credit balance
c) Asset –Debit balance
d) Liability –Credit balance

14. **Mutonga traders**

**Cash book for January, 2004**

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Disc all</th>
<th>Cash</th>
<th>Bank</th>
<th>Date</th>
<th>Details</th>
<th>Disc all</th>
<th>Cash</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.04</td>
<td>Bal b/d</td>
<td></td>
<td>10,000</td>
<td>20,000</td>
<td>10.1.04</td>
<td>Lucy</td>
<td>1,200</td>
<td>8,800</td>
<td></td>
</tr>
<tr>
<td>30.1.04</td>
<td>Cash</td>
<td></td>
<td>8,800</td>
<td>2004</td>
<td>10.1.04</td>
<td>Tarus</td>
<td>1,500</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30.1.04</td>
<td>Bank</td>
<td>8,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30.1.04</td>
<td>Bal c/d</td>
<td>1,200</td>
<td>9,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td>2,700</td>
<td>10,000</td>
<td>28,800</td>
</tr>
<tr>
<td>1.2.04</td>
<td>Bal c/d</td>
<td></td>
<td>1,200</td>
<td>9,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. Books of original entry
a) General journal
b) Petty cash book, cash payment journal
c) Sales journal/ sales day book
d) Returns outwards journal, Returns inwards day book

16. Barriers to written communication
a) Level of language –standard
b) Illegibility –Inability to be read/ not clear
c) Unfamiliar language/ foreign language/ technical/ long/ sargon
d) Hostile tone
e) Unfamiliar subject
f) Blindness/ visual impairment

17. Government ways to create an enabling environment
a) Pausing legislation that support and promote business activities
b) Offering several incentives to encourage investments like tax holidays, subsidies, reduction or elimination of custom duties, quotas tax, and exemptions for exports e.t.c.
c) Provision of credit through government institutions
d) Creating a pool of qualified manpower
e) Provision of security
f) Ensuring there is political stability and good will
g) Provision of infrastructure to reduce costs of production
h) Liberalization of marketing and accommodation services

18. Advantages of operating a public limited company
   a) Shares are freely transferable
   b) The day-to-day management is entrusted to qualified managers
   c) The raising of capital is easier and less expensive and has many sources
   d) The death of any of its shareholders does not affect the running of the company/continuity
   e) There is limited liability

19. Reasons why government levy taxes
   a) To raise government revenue
   b) To control consumption of harmful products
   c) To re-distribute income
   d) To control the level of imports
   e) To influence the allocation of resources/ control business activities
   f) To control inflation by reducing disposal income/ prices

20. **MOTIVE**
   a) Transaction
   b) Precautionary
   c) Speculative
   d) Transaction

21. **Creditor’s Control a/c**

<table>
<thead>
<tr>
<th>Cash payment</th>
<th>200,000</th>
<th>Balance ( b/d )</th>
<th>40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounts received</td>
<td>5,000</td>
<td>Credit purchases</td>
<td>205,000</td>
</tr>
<tr>
<td>Purchases returns</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance ( c/d )</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance ( b/d )</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

245,000 245,000
22.

Ndolo traders

Profit and loss account

For the year ended 31st Dec, 2003

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>20,000</td>
</tr>
<tr>
<td>Electricity charges</td>
<td>8,000</td>
</tr>
<tr>
<td>Discount allowed</td>
<td>6,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>132,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>140,000</td>
</tr>
<tr>
<td>Discount received</td>
<td>26,000</td>
</tr>
<tr>
<td>Total purchases =Sh.205,000</td>
<td>=Sh.265,000</td>
</tr>
</tbody>
</table>

23. Characteristics of a perfectly competitive market.
   a) There are many buyers and many sellers
   b) There is free entry and exit of the firm into the industry
   c) There is perfect mobility of factors of production
   d) No transport costs
   e) The products are homogenous
   f) There is perfect knowledge about the market

24. Reasons for continued survival of small firms.
   a) They attract and retain their customers due to their personalized services and attention
   b) They are usually owned and managed by a few people, so it is easier to control operations and take corrective action faster
   c) They are flexible because of their small size. They can make a quick decision which enables them to take advantage of any changes in the environment
d) There is more commitment on the part of the owners because of the personal interest of owners
e) Consumer’s ignorance/ irrationality

25. a) Shift
b) Movement
c) Movement
d) Shift

SAMPLE PAPER 8
BUSINESS STUDIES
565/1

1. Given the following transactions indicate in the spaces provided the book of original entry in which the transaction would be recorded.

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>Book of original entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned goods bought for sale on credit</td>
<td></td>
</tr>
<tr>
<td>Sold goods on credit</td>
<td></td>
</tr>
<tr>
<td>Withdrew cash for personal use.</td>
<td></td>
</tr>
<tr>
<td>Bought office furniture on credit</td>
<td></td>
</tr>
</tbody>
</table>

2. Outline FOUR ways in which the government creates an enabling environment for business.

3. Highlight FOUR differences between a whole life policy and endowment policy

4. State FOUR measures that could be adopted to control cost push inflation.

5. Identify any FOUR factors that limit the use of credit cards in commercial transactions

6. The table below depicts the relationship between various parameters in determination of costs in a firm. Compute the missing values.

<table>
<thead>
<tr>
<th>Output</th>
<th>Average</th>
<th>Average</th>
<th>Average</th>
<th>Total</th>
<th>Marginal</th>
</tr>
</thead>
</table>

4mks
(Units) | Fixed Costs (AFC) | Variable Costs (AVC) | Cost | Cost | cost
---|---|---|---|---|---
1 | 20 | 10 | 30 |   |   
2 | 10 | 9.0 | 19 |   |   
3 | 6.7 | 8.0 | 14.7 |   |   
4 | 5.0 | 7.0 | 12 |   |   

7. The following information relates to Mumbua traders for the year ended 31st April 2005.

<table>
<thead>
<tr>
<th>shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
</tr>
<tr>
<td>Cash in Hand</td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Sales</td>
</tr>
<tr>
<td>Opening stock</td>
</tr>
<tr>
<td>Closing Stock</td>
</tr>
<tr>
<td>Margin</td>
</tr>
<tr>
<td>Expenses</td>
</tr>
</tbody>
</table>

Determine

(i) Gross profit 1mk
(ii) Cost of sales 1mk
(iii) Purchases for the year 1mk
(iv) Net profit 1mk

8. Name FOUR current trends and emerging issues in communication in the world today 4mks

9. List FOUR reasons why a friend of yours who is joining form one next year should take Business Studies as one of her subjects. 4mks

10. Highlight FOUR reasons why carbon copying is not a popular method of reproducing documents in an office. 4mks

11. Record the following transactions in the relevant ledger accounts of Birgen traders excluding the capital account 5mks

1st DEC. 2005 Started a business with sh.180,000 in a bank account, building sh. 200,000 and furniture sh. 40,000

2nd DEC 2005 Drew shs 100,000 from the bank for office use.

5th DEC 2005 Paid a watchman shs. 5,000
12. The following is a three sector economy circular flow diagram

Investment expenditure

Outline what letters A, B, C and D stand for: 4mks

13. Highlight FOUR limitations consumers are likely to face as they strive to protect themselves from unscrupulous businessmen 4mks
14. Wathiomo runs a hotel business in Kimumu village. He maintains scanty records, but the following details about the business were available on 31st October 2005.

<table>
<thead>
<tr>
<th>Shs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
</tr>
<tr>
<td>Cash at Bank</td>
</tr>
<tr>
<td>Rent income</td>
</tr>
<tr>
<td>Debtors</td>
</tr>
<tr>
<td>Furniture</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Stock</td>
</tr>
</tbody>
</table>

Prepare Wathiomo’s statement of affairs as on the particular date. 5mks

15. Distinguish between the following terms.
a) Comforts and luxuries. 2mks
b) Human Resources and Man Made resources. 2mks

16. Define the following terms
(i) Bureaucracy
(ii) Pilferage
(iii) Ultra vires
(iv) De-industrialisation 4mks

17. State Four factors that may influence the choice of a distribution channel. 4mks

18. Use the information below to write up a three column cash book and balance it as at 31st December, 2003. 5mks

2003 Dec 1st - Kericho Ltd. had cash balance of sh.2,000 and bank balance of sh. 39,800.
- Paid by cheque Abdi account of shs. 20,000 less 5% discount.
2nd - Received a cheque for sh. 9800 from Habib in Full settlement of her account of sh.10,000
9th - Cash sales paid directly into the bank sh.3500
12th - Paid insurance by cash sh 1150
22nd – Kiminini traders settled their account of sh. 6400 by cheque at a cash discount of 2%
28th - Paid rent in cash sh. 1000
30th – Withdrew sh. 4000 from the bank for office use

19. Use a diagram to illustrate the fact that increased supply leads to a reduction in price and that a lower price results in decreased supply. 4mks

20. Imperfect competition takes many forms. Outline FOUR features of retail trade as a form of monopolistic competition. 4mks
21. The proposed share capital of Bahati Company is Kshs. One million divided into:-
   i) Kshs.600,000 ordinary shares.
   ii) Kshs.400,000 preference shares.

   The shares are divided into equal shares of Kshs. 10 each. In the period ending 31st Dec. 2000
   they made a profit of kshs120,000. Find out how much was paid as dividend on ordinary
   shares if each of the preference shares was earning an extra sh.1. 4mks

22. State Four reasons to justify product promotion activities carried out by businesses 4mks

23. Highlight Four circumstances under which a business may fail to achieve the objectives set
   out by its owners 4mks

24. State Five reasons why John would prefer to obtain a loan from his sacco and not a commercial bank.
MARKING SCHEME
SAMPLE PAPER 8
565 / 1
BUSINESS STUDIES

1. a) Return outwards journal
   b) Sales journal / sales day book
   c) Cash payment journal / petty cash book
   d) General journal

2. Ways in which government creates an enabling environment
   - Passing legislation that support and promote business activities
   - Provision of credit through government institutions e.g. KIE
   - Provision of security
   - Offering tax incentive to encourage investment e.g. tax holidays, subsidies, tax exemptions for exports etc.

3. Difference between whole life and endowment policies
   - In whole life. Compensation is paid after death of the assured while in Endowment is paid after expiry of an agreed period.
   - In whole life premiums are paid through out the life of the assured whereas in Endowment. Premiums are paid only during an agreed period
   - In whole life benefits go to dependants in Endowment benefits go to the assured unless the assured dies before maturity of policy
   - Whole life is financial security to dependants , whereas Endowment is financial security to assured / dependants

4. Methods of controlling cost push inflation
   - Control cost of inputs
   - Control wage guidelines
   - Control prices of final products
   - Adopt more cost effective methods of production or mechanization
5. Limitations to use of credit cards
   - Use restricted to only urban areas
   - Only few business accept cards
   - It is expensive to operate credit cards due to high interest charges.
   - Cards are only for high income earners.
   - Long procedures and requirements involved in getting credit cards

6. TC   a – 30       MC   a – 0
        b – 38       b – 8
        c - 44.1    c – 6.1
        d – 48      d – 3.9

7. i) Gross profit
   Margin = \( \frac{GP}{Sales} \times 100 \)  
   \( \frac{25}{100} = \frac{GP}{920,000} \)
   \( \rightarrow 100GP + 920,000 \times 25 \)
   \( 100 GP = 23,000,000 \)
   \( GP = 230,000 \checkmark \)

ii) Cost of sales
   \( CGS = Sales - Gp \)
   \( = 920,000 - 23,000 \)
   \( = 690,000 \checkmark \)

iii) Purchases for the year
   \( Purchases = CGS + closing stock - opening stock \)
   \( = 690,000 + 230,000 - 150,000 \)
   \( = 770,000 \checkmark \)

iv) Net profit = GP – Expenses
   \( Expenses = \frac{15}{100} \times 920,000 = 138,000 \)
   \( Net profit = 230,000 - 138,000 \)
   \( = 92,000 \)

8. Current trends and emerging issues in communication
- Use of mobile phones (cell phones)
- Use of Electronic mail
- Internet
- Telephone bureaux
- Splitting of Kenya posts & telecommunication corporation

9. Why you would advice a friend to take business studies
- Equips learner with skills and knowledge for starting & running business
- Assist learner to develop ability to inquire and think critically
- Makes the learner appreciate the need for ethncial practices
- Helps learner to be self disciplined & have positive attitude to work.
- It’s a career subject
- It’s a living subject
- Enables learner to appreciate role of market forces.

10. Reasons why carbon copy is not popular
- Not convenient for many copies
- Copies could be misaligned
- Production of poor quality copies
- Can not be used to produce different colours
- Cannot produce copies.

11. | DR. WAGES A/C | CR | FURNITURE A/C |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5.12.05 5000</td>
<td></td>
<td>1.12.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Opening bal. 40,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH A/C</th>
<th>BANK A/C</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.12.05 Bank 100,000</td>
<td>5.12.05 wages 5000</td>
</tr>
<tr>
<td>cash 5000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING A/C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.12.05 bal 200,000</td>
</tr>
</tbody>
</table>
12. Circular flow diagram
   A- Taxes
   B- Factor services
   C- Taxes
   D- Savings

13. Limitations of consumer initiated methods
   i) Lack of support from the government
   ii) Lack of capital to finance their organisations
   iii) Ignorance of consumers about their rights
   iv) Reluctance of many consumers to join the associations so that they may voice their complaints as a group
   v) Lack of initiative from consumers to check on traders performance and report cases of non compliance to quality and price.

14. Wathiomo’s Hotel
    Statement of Affairs
    As at 31st October 2005.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Shs.</th>
<th>Liabilities</th>
<th>Shs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at Bank</td>
<td>173,000✓</td>
<td>Creditors</td>
<td>42,000✓</td>
</tr>
<tr>
<td>Debtors</td>
<td>76,000✓</td>
<td>Rent Income in advance</td>
<td>35,000✓</td>
</tr>
<tr>
<td>Furniture</td>
<td>84,000✓</td>
<td>Insurance out standing</td>
<td>20,000✓</td>
</tr>
<tr>
<td>Stock</td>
<td>160,000✓</td>
<td>Capital</td>
<td>396,000✓ ✓</td>
</tr>
</tbody>
</table>

493,000✓ | 493,000

15. a) Comforts are those which improve one’s living standards beyond the status of mere survival e.g. medical care, education, utensils.
**Luxuries** are goods and services that provide excessive comfort e.g. gold watches, expensive cars (1mk)

b) **Human resources** are services man renders either mentally or physically in production. **Man made resources** are items / things that are created by man as he modifies natural resources into more useable states.

**Definitions of terms**

16.i) Bureaucracy – refers to the administration of a business / organization through departments and sub- divisions managed by officials following an inflexible route

ii) Pilferage – Stealing of goods in bits (small quantities)

iii) Ultra vires – acting beyond the set objectives of a company

iv) De-industrialisation – the decline in manufacturing

17. Factors that influence the choice of distribution channel

i) Nature of product

ii) Nature of market

iii) The intermediaries

iv) Resources and size of the firm

v) Competitors

vi) Environmental factors

18. **DR**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DETAILS</th>
<th>FOLIO</th>
<th>DISC ALLOWED</th>
<th>CASH SHS.</th>
<th>BANK SHS.</th>
<th>CASH SHS.</th>
<th>BANK SHS.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 Dec 1. 2 9 22 30</td>
<td>Balance Habib Sales Kimini Bank</td>
<td>b/d SL GL SL C</td>
<td>200 125 ✓</td>
<td>2000 325 ✓</td>
<td>39,800 ✓ 9800 ✓</td>
<td>3500 ✓ 6272 ✓</td>
<td>4000 ✓</td>
</tr>
<tr>
<td>2004 Dec 1 12 28 30 31</td>
<td>Details</td>
<td>Abdi Insurance Rent Cash Balance</td>
<td>c/d</td>
<td></td>
<td>PL GL GL C</td>
<td>1000 ✓ 1150 ✓ 1600 ✓ 3250. ✓ 36372 ✓</td>
<td>1900 4000 ✓ 36372 ✓</td>
</tr>
<tr>
<td>Jan 1</td>
<td>Balance</td>
<td>b/d</td>
<td>325 ✓ 6000 59372 ✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CASH BOOK**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DETAILS</th>
<th>FOLIO</th>
<th>DISC ALLOWED</th>
<th>CASH SHS.</th>
<th>BANK SHS.</th>
<th>CASH SHS.</th>
<th>BANK SHS.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 Dec 1. 2 9 22 30</td>
<td>Balance Habib Sales Kimini Bank</td>
<td>b/d SL GL SL C</td>
<td>200 125 ✓</td>
<td>2000 325 ✓</td>
<td>39,800 ✓ 9800 ✓</td>
<td>3500 ✓ 6272 ✓</td>
<td>4000 ✓</td>
</tr>
<tr>
<td>2004 Dec 1 12 28 30 31</td>
<td>Details</td>
<td>Abdi Insurance Rent Cash Balance</td>
<td>c/d</td>
<td></td>
<td>PL GL GL C</td>
<td>1000 ✓ 1150 ✓ 1600 ✓ 3250. ✓ 36372 ✓</td>
<td>1900 4000 ✓ 36372 ✓</td>
</tr>
<tr>
<td>Jan 1</td>
<td>Balance</td>
<td>b/d</td>
<td>325 ✓ 6000 59372 ✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CR**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DETAILS</th>
<th>FOLIO</th>
<th>DISC ALLOWED</th>
<th>CASH SHS.</th>
<th>BANK SHS.</th>
<th>CASH SHS.</th>
<th>BANK SHS.</th>
</tr>
</thead>
</table>
19. N/B Q₀ - Q₁ brings about a change in price from P₀, P₁ and P and Q ss

20. Features of retail trade as a form of monopolistic competition
   i) There are many independent buyers and sellers of a commodity
   ii) There is product differentiation
   iii) There are no barriers to entry into or exit out of the market
   iv) There is perfect knowledge of the market by buyers and sellers
   v) The motive of traders in this market is to produce excess capacity as opposed to surplus profit.

21. Dividend on ordinary shares:
   Ksh. 1 million = 100 000 share units √
   Ksh 400 000 = 40 000 share units √
   @ sh. 1 = Ksh 40 000 √ √

   Balance on profit = KSH 80, 000 √
   Therefore each share will earn;

   = Ksh 80 000
Thus 60,000 (ord shares)

\[= 60,000 \times 80\text{cts}\]

\[= \text{Ksh 48,000}\]

22. Reasons for product promotion

i) To inform potential customers about product existence and quality

ii) To persuade existing customers to continue buying and convince potential customers to chose the product.

iii) To check competition from other businesses dealing in similar products

iv) To establish a business image (goodwill) among existing and prospective customers

v) To increase sales of a product.

23. Circumstances under which a business may fail

i) When there is mismanagement of business resources / poor cash flow management.

ii) If there is excess competition that may lead to low selling price

iii) Where the production and operational costs are high / poor pricing and cannot be offset from profits earned.

iv) When the market is too small a business may not meet its sales targets therefore reducing profitability

v) Where there is inefficiency standards are comprised and customers are lost.

vi) Where there is misuse of funds through misappropriation a business may fail

vii) Wrong choice of business in terms of acceptability, finance, time. Market and ledgity

viii) Failure to define and understand customers and their buying habit / market.

ix) Inadequate cash reserves / capital to support the business until such time profits are made

x) Poor planning e.g. setting of unrealistic goals and lack of work schedule

xi) Lack of delegation e.g. by not involving employees in decision making.

24. Reasons for taking loans from SACCos and not commercial banks

- Saccos charge low rate of interest
- Have relaxed credit conditions
- Saccos have sense of ownership / shareholder
- Loans are insured under CIS is scheme (corporate insurance service scheme)
- Saccos offer diverse products
SAMPLE PAPER 9

565/1

BUSINESS STUDIES

1. Rain water and cloth are basic human wants. State three characteristics of rain water that makes it different from a cloth. (3mks)

2. Classify the following costs into either fixed or variable costs. (4mks)
   a. Rent.................................
   b. Raw materials...........................
   c. Fuel consumed..........................
3. State four indicators of business threats (4mks)

4. Highlight on four factors that may bring about improved national income of our country Kenya. (4mks)

5. The table below shows the description and the category of inflation. Fill in blank spaces the category of inflation described. (4mks)

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>CATEGORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Has no effect on the output, employment or income distribution</td>
<td></td>
</tr>
<tr>
<td>(ii) A period of high inflation and high unemployment</td>
<td></td>
</tr>
<tr>
<td>(iii) The government can prevent it by using deliberate measures.</td>
<td></td>
</tr>
<tr>
<td>(iv) Prices increase at steady rate over time.</td>
<td></td>
</tr>
</tbody>
</table>

6. Highlight four factors that may lead to low taxable income capacities in developing countries. (4mks)

7. Describe four measures that one would take when the trial balance fails to balance. (4mks)

8. Below is a table showing population totals in Kenya for the years 1969, 1979, 1989 and 1999 population census.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>1969</th>
<th>1979</th>
<th>1989</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>10,942,705</td>
<td>15,327,061</td>
<td>21,443,636</td>
<td>28,686,607</td>
</tr>
<tr>
<td>% growth rate</td>
<td>4.0</td>
<td>3.9</td>
<td>3.3</td>
<td></td>
</tr>
</tbody>
</table>

Give four reasons to account for the trend depicted above. (4mks)

9. List four documents which are required to be filled with the registrar of companies to facilitate registration of limited liability companies. (4mks)

10. State four reasons that may account for the existence of oligopoly markets. (4mks)

11. Mention four benefits that consumers get from small-scale retailers. (4mks)

12. Under what three circumstances would a trader allow a customer to pay cash on delivery? (3mks)

13. Outline four disadvantages of devaluing a country's currency. (4mks)


**PRIME ENTERPRISES**

**BALANCE SHEET**

**AS AT 1/7/2007**

| Cash in hand | 32,000 | Capital | 190,000 |
During the month of July the following transactions took place.

July 6 - Sold stock paid by cheque shs. 27,000
July 10 - Received cash shs. 18,000 from a debtor.
July 13 - Paid creditors cash shs. 95,000 from personal savings.

Required:

Prepare PRIME balance sheet as at 13-7-2007.

15. Outline four circumstances under which a firm may be the sole supplier of a product in the market.

16. List four ways in which public debts can be redeemed.

17. (a) State the law of supply.
   (b) Highlight three circumstances under which a good may have inelastic demand despite price changes.

18. Study the information below and answer the questions that follow.

<table>
<thead>
<tr>
<th>Stock</th>
<th>47,000</th>
<th>Bank overdraft</th>
<th>23,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>143,000</td>
<td>2 year loan</td>
<td>80,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>26,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>150,000</td>
<td>Creditors</td>
<td>105,000</td>
</tr>
<tr>
<td></td>
<td>398,000</td>
<td></td>
<td>398,000</td>
</tr>
</tbody>
</table>

ABC COMPANY LTD
NOTICE TO ALL MEMBERS
The meeting scheduled for 21/4/2008 has been postponed until further notice.

Managing Director

J K MWINAMO

(a) What is the name of the document?
(b) State any feature of the document that makes you give it the above name.
(c) Give two advantages of using the above document.

19. The following figures were extracted from Onyango's Trading account.

| Opening stock | 37,000 |
| Mark-up 25%   |       |
| Purchases     | 210,000|
| Closing stock | 39,000 |

Calculate:
20. Highlight four factors to be considered when determining the most suitable business opportunity from a variety of business ideas. (4mks)

21. Highlight four circumstances that make a country reluctant to join a trading bloc. (4mks)

22. The following journals relate to Malingumu traders in the year 2006

**Purchases journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2</td>
<td>Kinga traders</td>
<td>72,000</td>
</tr>
<tr>
<td>June 7</td>
<td>Kima traders</td>
<td>23,000</td>
</tr>
<tr>
<td>June 11</td>
<td>Salome traders</td>
<td>31,000</td>
</tr>
</tbody>
</table>

**Purchases Returns journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 9</td>
<td>Kima traders</td>
<td>11,000</td>
</tr>
<tr>
<td>June 15</td>
<td>Salome traders</td>
<td>6,000</td>
</tr>
<tr>
<td>June 18</td>
<td>Kinga traders</td>
<td>4,720</td>
</tr>
</tbody>
</table>

From the above journals prepare Kinga's creditors ledger account and balance it. (4mks)

23. The following are functions of some departments in an organization. In the spaces below write the name of the department whose function is given. (4mks)

<table>
<thead>
<tr>
<th>Function</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Processing payment</td>
<td></td>
</tr>
<tr>
<td>b) Recruitment of workers</td>
<td></td>
</tr>
<tr>
<td>c) Procuring of supplies</td>
<td></td>
</tr>
<tr>
<td>d) Doing the overall management</td>
<td></td>
</tr>
</tbody>
</table>

24. The following information was collected from the books of Namanga traders for the year ended 31st December 2006.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors 31st Dec 2006</td>
<td>42,300</td>
</tr>
<tr>
<td>Returns inwards</td>
<td>2,300</td>
</tr>
<tr>
<td>Bad debts written off</td>
<td>3,100</td>
</tr>
<tr>
<td>Discount allowed</td>
<td>4,600</td>
</tr>
<tr>
<td>Debtors Jan 1st 2006</td>
<td>34,000</td>
</tr>
<tr>
<td>Cash sales</td>
<td>334,000</td>
</tr>
<tr>
<td>Dishonored cheque from debts</td>
<td>19,000</td>
</tr>
<tr>
<td>Discount disallowed</td>
<td>450</td>
</tr>
<tr>
<td>Receipts from debtors</td>
<td>198,000</td>
</tr>
</tbody>
</table>
Required: Determine the total sales for the year ended 31st Dec. 2006. (4mks)

25. State the document to be applied in each of the following statements. (4mks)

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>DOCUMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) A request by a seller for advance payment</td>
<td></td>
</tr>
<tr>
<td>(ii) Used to correct undercharge in an invoice</td>
<td></td>
</tr>
<tr>
<td>(iii) To reply to specific Setter of inquiry</td>
<td></td>
</tr>
<tr>
<td>(iv) To inform the buyer when goods were dispatched and by what means</td>
<td></td>
</tr>
</tbody>
</table>

**MARKING SCHEME**

**SAMPLE PAPER 9**

565/1

1. Characteristics of water
   - It is a free good/ gift of nature
   - Has no monetary value/ non economic good
   - Available in abundance

2. Classification of costs
   - Rent- fixed costs
   - Raw materials – variable cost
   - Fuel consumed/variable cost
   - Insurance property- fixed cost

3. Threats of a business
   - Strong competitors
   - Unfavourable government policies
   - Political instability
   - Poor economy
   - Unfavourable population

4. Factors that may improve the national income of a country
   - Availability of labour
   - Adequate capital
− Availability of entrepreneur
− Availability of land
− Advanced level of technology
− The citizens positive attitude/ culture towards work

5. Categories of inflation
i) Balanced inflation
ii) Stagflation
iii) Suppressed inflation
iv) Inertia inflation

6. Reasons for low taxable capacities in developing countries
i. Low income / the level of income in developing countries is low and come from primary industries such as agriculture, mining, etc
ii. Unemployment // most developing countries are faced with the problem of unemployment meaning few employed are the only one who pay tax.
iii. Inequality in incomes/ in most developing countries few people live comfortable lives other lead poor lives that they can pay tax
iv. Production structure / most developing countries are dominated by informal and agriculture sector in production. Majority of people in these sectors are not included in the tax bracket.

7. Step to be taken when the trial balance does not balance
− Check the omission of a debit or credit entry for the same transaction in the ledger accounts
− Check the differing amounts for the same transaction and correct
− Check the mistakes made during transferring the figures to the trials balance for all the transaction
− Check the arithmetic mistakes made when balancing the ledger accounts
− Check the arithmetic mistake made when summing up trial balance totals

8. Reasons for the population growth depicted by the table
− Improve medical care
− Increased awareness of family planning
− Increase in the level of education
− Improved nutritional / better balanced diet
− Break down of traditional taboos, beliefs and norms to attain high standards of living

9. Documents to be filled by registrar of companies for the formation of a limited liability company.
10. Sources of oligopoly power
   - Barriers to entry due to huge initial capital investment
   - A few firms controlling the sources of raw materials for the production of a particular commodity
   - Few firms holding patents that relate to the technique of production of a particular commodity
   - Aggressive and ruthless entrepreneur whose aim is to earn high profits
   - Some few firms may be enjoying large economies of scale enabling them to produce at very low costs

11. Benefits consumers get from small scale retailers
   - Get a variety of goods
   - Credit facilities
   - Advice on choice and user of the product
   - Getting goods at convenient places
   - Buys goods in small affordable prices
   - After sales services

12. Circumstances under which cash on delivery may be used
   - When a trader is contented with the credit worthiness of the customer
   - When the customer is not new to the trader and the trader understands him/her well
   - When goods are not transported by public means

13. Disadvantages of devaluing a country’s currency
   - May lead to loss of confidence in the domestic currency
   - May lead to reduced domestic savings
   - May lead to deteriorating terms of sale
   - leads to low prices of exports
   - Makes imports relatively expensive
   - It leads to inflation
   - May discourage investment in the country due to high cost of production
**BALANCE SHEET’ AS AT 13/7/2007**

<table>
<thead>
<tr>
<th>F.A</th>
<th>Land</th>
<th>150,000</th>
<th>capital</th>
<th>190,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Buildings</td>
<td>`143,000</td>
<td>add investment</td>
<td>95,000</td>
</tr>
<tr>
<td>C.L</td>
<td>bank overdraft</td>
<td>23,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.A</td>
<td>Stock</td>
<td>20,000</td>
<td>2 years loan</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td>Debtors</td>
<td>8,000</td>
<td>creditors</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash in hand</td>
<td>50,000</td>
<td>105,000</td>
<td></td>
</tr>
</tbody>
</table>

**Total:**

<table>
<thead>
<tr>
<th></th>
<th>398,000</th>
</tr>
</thead>
</table>

15. **Circumstances under which a firm may be the suppliers**
   - If the firm is a single supplier of a single produce and is protected from foreign competition
   - If the cost of transport is high and one firm happens to be near the market for the commodity
   - If the government establishes a firm and gives it a monopoly
   - As a result of amalgamation/combination or merger of firms
   - If the firm has patent rights in the production of the commodity

16. **Four ways in which public debts can be redeemed**
   - Write off/ the government may plead with the lending country to write off a loan
   - Repudiation/the government may refuse to repay a loan till it becomes a bad debt to be written off by the creditor.
   - Surplus budget/ if the revenue is more than the expenditure surplus revenue can be used to repay the loan
   - Capital levy/ the government can collect some revenue from the well of citizens and use such money to repay debts
   - Sinking funds/ government creates an account in which a certain amount of money is deposited for specified period of time after which it is withdraw and used to repay debts
   - Convention/ the government can get a new source loan funds at a cheaper rates to repay the old loan

17. a) **Law of supply**
   It states that holding other factors constant/ ceteris paribus, the higher the prices the higher the supply and vice versa.

b) **Inelastic demand**
− If the goods has no close substitute
− If the good is a necessity
− If the good takes an insignificant portion of the consumers income
− If it is a habitual good

18. a) Accounts/ finance department
   b) Personnel department
   c) Purchasing department
   d) Administration department

19 (a) Calculation of sales.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>37,000</td>
</tr>
<tr>
<td>Add purchases</td>
<td>210,000</td>
</tr>
<tr>
<td>GAFS</td>
<td>247,000</td>
</tr>
<tr>
<td>Less closing stock</td>
<td>39,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>208,000</td>
</tr>
<tr>
<td>Mark up = G.P</td>
<td>25x 208,000 = 52,000</td>
</tr>
<tr>
<td>C.O.G.S</td>
<td>100</td>
</tr>
</tbody>
</table>

Sales = C.O.G.S + G.P = 208,000+ 52,000= shs 260,000

(b) Calculation of stock turn over

Stock turn over = COGS = 208,000 = 5.4783= 5.5 times

Average stock 38,000

20. Factors considered in determining a suitable business opportunity

− Whether the business will make enough profits
− Whether the business has potential for growth
− Whether the business will be accepted by the community
− The availability of the required technology
− The suppliers for the business to operate smoothly
− The legal requirement
− Whether it is possible to raise the required capital
− Availability of market
− The level of competition
− Availability of relevant labour

21. Circumstances that may make a country reluctant to join a trading bloc

− When a country does not expect to benefit due to similarity in commodities
− When a country fears political influence
− If the trade agreement is not in favour of the country
- if a country already exists in another trading bloc/ conflict of interests
- If the country wants to protect local industries
- Where there are political / religious / cultural differences
- Where the countries are at different level of development.

22. Kingas creditors

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/6/06</td>
<td>11,000</td>
<td>2/6/06</td>
<td>72,000</td>
</tr>
<tr>
<td>18,6/06</td>
<td>4,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18/6/06 bal c/d</td>
<td>56,280</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>72,000</td>
<td></td>
<td>72,000</td>
</tr>
</tbody>
</table>

23. a) finance/ accounts department
Personnel department
Purchases department
Administration department

**Namanga traders**

<table>
<thead>
<tr>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal. b/d</td>
<td>34,000</td>
</tr>
<tr>
<td>Dishonoured cheque</td>
<td>19,000</td>
</tr>
<tr>
<td>Discount disallowed</td>
<td>450</td>
</tr>
<tr>
<td>Sales</td>
<td>196,850</td>
</tr>
<tr>
<td>Bal. c/d</td>
<td>42,300</td>
</tr>
</tbody>
</table>

**Debtors account**

<table>
<thead>
<tr>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>bad debts</td>
<td>3,100</td>
</tr>
<tr>
<td>discount allowed</td>
<td>4,600</td>
</tr>
<tr>
<td>returns inwards</td>
<td>2,300</td>
</tr>
<tr>
<td>cash</td>
<td>198,000</td>
</tr>
</tbody>
</table>

\[250,300\] \[250,300\]

Credit sales 196,850

Total sales = credit sales + cash sales

196,850 + 334,000

Kshs 520,850

25. Pro-forma invoice
- Debit note
- Quotation
- Advice note
1. **State four** types of business activities. (4mks)
   
   (a)  
   (b)  
   (c)  
   (d)  

2. **Name four** differences between an invoice and a pro-forma invoice (4mks)

<table>
<thead>
<tr>
<th>PROFORMA INVOICE</th>
<th>INVOICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td></td>
</tr>
</tbody>
</table>

3. **State four** roles of technology in a business. (4mks)

4. **Outline four** circumstances that may lead to the dissolution of a company. (4mks)

5. Given the following information, open accounts in the ledger books of Wairegi Traders (4mks)

   (a) On 1" Jan. 2006, started a business with shs. 20,000 in the bank  
   (b) Wairegi took four thousand shilling from the bank for paying school fees to his son on Jan. 10th 2006

6. **Define** the following terms,  
   
   (a) Globalization (2mks)  
   (b) Consumer protection (2mks)  

7. **Identify four** internal economies of scale enjoyed by a business. (4mks)

8. **State four** causes of monopoly powers in a firm. (4mks)

9. The following are terms used in trade; Loco price, F.O.R, Franco, F.O.B. **Match** each term with the appropriate description. (4mks)

<table>
<thead>
<tr>
<th>Description</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(a) Price quoted covers the goods as they are in the sellers premises</td>
<td></td>
</tr>
<tr>
<td>(b) Price quoted covers goods up to when they are in the ship</td>
<td></td>
</tr>
<tr>
<td>(c) Price quoted covers cost of goods and any other expenses up to the buyers premises</td>
<td></td>
</tr>
<tr>
<td>(d) Price quoted covers goods until they are loaded on rail</td>
<td></td>
</tr>
</tbody>
</table>

10. **State four characteristics of fixed deposit** accounts. (4mks)

11. From the following information of Otieno, **prepare** trading profit and loss account for the year ended 31st Dec 2006. (4mks)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>800,000</td>
</tr>
<tr>
<td>Electricity</td>
<td>200,000</td>
</tr>
<tr>
<td>Rent</td>
<td>10,000</td>
</tr>
<tr>
<td>Motor car expenses</td>
<td>16,000</td>
</tr>
</tbody>
</table>

12. **Outline four** causes of cost-push inflation. (4mks)

13. Containerization has become popular in Kenya. **List four** reasons why a businessman may not use it. (4mks)

14. Use the following diagram to calculate the price elasticity of demand. (4mks)

Where price increases from $p_0$ to $p_1$

![Diagram](attachment:diagram.png)

Assuming that $P_1 = 100$ shs., $P_0 = 50$ shs, $Q_1 = 150$ units, $Q_0 = 200$ units
15. **Outline four** forms of unethical practices in product promotion. (4mks)

16. Mr Oketch started a business six months ago. He started experiencing problems in the seventh month and gradually closed it down. **Outline four** possible reasons why the new business failed. (4mks)

17. **Outline four** roles of intermediaries in the chain of distribution. (4mks)

18. **State four** problems encountered in development planning at the implementation stage. (4mks)

19. **State four** factors that insurance companies consider when determining premiums to be charged. (4mks)

20. Jane purchased ten hens at kshs. 150 each, and sold them at kshs. 175 per hen. **Calculate**:
   (a) Margin percentage (2mks)
   (b) Mark-up percentage (2mks)

21. **State four** advantages of using office equipment over manual labour. (4mks)

22. In the blanks provided, name the sources documents required to prepare the mentioned books of original entry. (4mks)

<table>
<thead>
<tr>
<th>Books of original entry</th>
<th>Source document</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash book</td>
<td></td>
</tr>
<tr>
<td>(b) Pettycash</td>
<td></td>
</tr>
<tr>
<td>(c) Purchases journal</td>
<td></td>
</tr>
<tr>
<td>(d) Sales journal</td>
<td></td>
</tr>
</tbody>
</table>

23. **Outline four** benefits that a growing economy can get from entrepreneurship. (4mks)

24. **Define** the following lines of communication.
   (a) Vertical communication (1mk)
   (b) Horizontal communication (1mk)
   (c) Formal communication (1mk)
   (d) Informal communication (1mk)

25. A country wishes to know the structure of its population. **Give four** reasons for this
MARKING SCHEME
SAMPLE PAPER 10
565/1

1. Types of business activities
   • Production of raw materials
   • Processing of raw material/extraction
   • Manufacturing
   • Distribution of goods/trade
   • Construction
   • Provision of services

2. Differences between invoice & pro-forma invoice

<table>
<thead>
<tr>
<th>Pro-forma invoice</th>
<th>Invoice</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Issued before goods are delivered.</td>
<td>Issued after goods are delivered</td>
</tr>
</tbody>
</table>
(ii) Shows total value of goods to be Bought
(iii) Used to demand for payment in advance before goods are bought
(iv) Cannot be used to record in accounting Books

| Shows total value of goods sold on credit | Used to demand for payment for goods bought on credit | Used as source document in making entries in accounting books |

3. Four roles of technology in business.
   • Facilitates managerial control
   • Simplifies business transactions
   • Diversifies the types of commodities available
   • Facilitates efficiency

4. Circumstances that may lead to dissolution of a company
   • Insolvency
   • Merging with a larger company
   • Resolution by members
   • Deregistration
   • Expiry period of business operation
   • Membership falling below the minimum required by law
   • Failure to commence business within one year.

5.

<table>
<thead>
<tr>
<th>DR</th>
<th>CAPITALA/C</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1 Bank ✓20,000✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR</td>
<td>BANK A/C</td>
<td>CR</td>
</tr>
<tr>
<td>Jan 1 capital✓ 20,000✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Bank A/C

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Capital</td>
<td>20,000</td>
</tr>
<tr>
<td>Jan 10</td>
<td>Drawings</td>
<td>✓ 4,000 ✓</td>
</tr>
<tr>
<td>Dr</td>
<td>Drawings A/C</td>
<td></td>
</tr>
<tr>
<td>Jan 10</td>
<td>Bank</td>
<td>✓ 4,000 ✓</td>
</tr>
</tbody>
</table>

6. Globalization - A situation where formally separate economic systems in different regions of the world are now operating as one unified system.
(b) Consumer protection - the methods that are applied and enforced by various parties to ensure that the rights and interests of consumers are safeguarded.

7. Internal economies of scale
   • Marketing benefits
   • Financial benefits
   • Managerial benefits
   • Research benefits
   • Welfare benefits
   • Technical benefits

8. Causes of monopoly
   • When a firm controls the supply of an important factor of production.
   • Exclusive technical know-how in the production of a commodity
   • Where initial capital outlay is large
   • Where the government gives monopoly powers to a producer

9. a) Loco price
   (b) F.O.B
   (c) Franco
   (d) F.O.R

10. Characteristics of fixed deposits accounts.
    • Earn interest at an agreed rate
    • Has a minimum amount
- Account-holder can withdraw all the amount on expiry deposit period
- If one withdraws the money before the required time he/she may lose the interest and be charged for breach of contract

11 Otiens trading, profit & loss A/C

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>800,000</td>
</tr>
<tr>
<td>Sales</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>400,000</td>
</tr>
<tr>
<td>Electricity</td>
<td>200,000</td>
</tr>
<tr>
<td>Rent</td>
<td>10,000</td>
</tr>
<tr>
<td>Motor car expenses</td>
<td>16,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>226,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>174,000</td>
</tr>
</tbody>
</table>

12. Causes of cost-push inflation
- Increases in price of inputs
- Demand for higher wages
- Companies going for higher profits
- Unforeseen circumstances.

13. Reasons why a businessman may not use containerization
- Initial cost of manufacturing is high
• Require special machines for handling
• Contributed to unemployment
• Slow in transport
• It cannot transport irregular shaped goods
• Not suitable for small quantities of goods

14. Price elasticity of demand

\[ \text{Price elasticity of demand} = \frac{\text{change in quantity}}{\text{change in price}} \]

\[ \text{Qty} \quad Q_i - Q_o = 150 - 200 = -50 = \frac{50 \times 100}{200} = 25 \]

\[ \text{Price} = P_1 - P_0 = 100 - 50 = 50 = \frac{50}{50} \times 100 = 100 \]

\[ \text{Ped} = \frac{-50}{50} = -25/100 = (0.25) \]

15. Forms of unethical practices in product promotion
• False advertisements
• Making false claims about a product's quality and effectiveness
• Withholding real advertised products and releasing counterfeit products
• Dealing on the positive side of a product leaving the negative side
• Use of pornographic literature on advertisements
• Use of prizes to be won which may not exist

16. Reasons why the new business failed
• Lack of market
• Lack of capital
• Lack of entrepreneurship skills
• Poor customer relations
• Poor allocation of resources

17. Roles of intermediaries in the chain of distribution
• Provides a link between producers and consumers
• Offer advice to producers/consumers
• Offer regular supplies and easy access of needed goods.
• May offer credit facilities
• May engage in product promotion.

18. Problems encountered in development planning at the implementation stage.
• Lack of domestic resources.
• Natural calamities
• Over ambitious plans
• Reliance on donor funding which may fail
• Inflation
• Lack of political will or commitment
• Failure to involve local people in planning

19. Factors considered when determining premiums to charge.
• Period for which insurance cover is to last
• Conditions that are likely to increase the probability of the risk occurring
• The risks against which the insurance cover is required
• The type of policy
• The health of the assured,
• Value of the property or the matter to be insured

20. Margin % = \(\frac{G.P}{Sales} \times 100\)

\[\begin{align*}
&= \frac{150 \times 10}{175} = 150 \\
&= \frac{175 \times 10}{1750} = 150 \checkmark \\
&= \frac{250}{1750} \times 100 \checkmark \\
&= 14.3\% \checkmark
\end{align*}\]

Mark up

\[\begin{align*}
&= \frac{G.P \times 100}{Cost os sales} \checkmark \\
&= \frac{250 \times 100}{1500} \checkmark \\
&= 16.7\% \checkmark \checkmark
\end{align*}\]

• Can perform work meant for many people
• Employment of fewer workers thus less salary paid
• Are faster and can perform repeatedly
• Are accurate
• Can produce uniform/standardized goods of high quality.

22. Sources documents
• Cash sales receipt
• Voucher
• Invoice

23. Four benefits of entrepreneurship.
• Creation of jobs
• A wide variety of goods/services
• Development and improvement of country’s infrastructure
• Increase in national income

24. Vertical communication
• Messages are passed between the senior and the junior staff in the same organization.

(b) Horizontal communication- messages are passed between people of the
Same rank in the same organization
(c) Formal communication- messages are passed using approved and recognized ways
in an organization
(d) Informal communication- messages are passed without following the
right channels or the right form

25. Reasons for wanting to know structure of population
• To know the size of the economically active portion of the population
• To plan for social amenities.
• To provide infrastructure
• To plan for security.