

MARKING SCHEME SECTION I

SECTION I : PAPER ONE

01- INRODUCTION TO BUSINESS STUDIES

1. Importance of business activities:-

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

02. BUSINESS AND ITS ENVIRONMENT

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

- i) Intermediaries-enables the movement of good to customers
- ii) Technological-enhance efficiency in production
- iii) Demographic-provide markets of labour
- iv) Competitors - ensure goods quality of variety of goods are made

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

3.

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

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

- Provision of credit through government institutions
- Creating a pool of qualified manpower
- Provision of security

- Ensuring there is political stability and good will
- Provision of infrastructure to reduce cost of provision
- Liberalization of marketing

5.
 - Providing security
 - Working in line with the government policy
 - Organizing a proper working structures
 - Provision of adequate man power
 - Ensuring clean working environment
6.
 - Farming would otherwise be collecting the environment into useful resources
 - Supplementing existing raw material
 - Saving economy's investable funds that could be occurrence be used in producing new products
 - Creating jobs
 - Saving energy
7.
 - Air pollution
 - Water pollution
 - Noise pollution
 - Solid waste pollution
8.
 - Financial resources
 - Business culture
 - Organizational structure
 - Personnel
 - Management policies and styles
 - Equipment and facilities

9.

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

11.
 - Irrigation
 - Afforestation

- Military training purposes
- Wildlife conservation/ tourism
- Ranching

03. SATISFACTION OF HUMAN WANTS

1. - Low income /poverty/unemployment
 - High prices of goods and service
 - Poor quality of goods and service
 - Political instability
 - Poor health of an individual
2. (i) solar energy.
(ii) HEP(Hydro electric power] energy/water power.
(iii) Wind energy.
(iv) Geothermal/steam/geysers.
(v) Wood fuel/fire wood.
(vi) Biogas / biomass.

3. <u>RESOURCE</u>	<u>CLASSIFICATION</u>
1. Limestone	non-renewable
2. Natural rubber	non-renewable
3. Solar energy	renewable
4. Biogas	renewable
5. Rivers	non-renewable
6. Wildlife	renewable
7. Soda ash	renewable
8. Forest	renewable

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

5. - Because resources available for satisfying human wants are limited
 - Because human wants vary in urgency and intensity
 - Because there is variation in tastes and preferences of human wants
 - Because human wants are too many to be satisfied at once

6. - When the want does not recur
 - When the want does not change with time
 - When the wants to be satisfied are very few
 - When the resources to satisfy the wants are available

7. - Human wants are insatiable
 - Human wants are repetitive
 - Human wants are habitual
 - Human wants are complementary
 - Human wants are competitive

8. - One cannot do without them
 - They are felt needs
 - They cannot be postponed
 - They are satisfied before secondary wants
 - They recur

9. ***Classify the following items into either basic want or secondary want***

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

10. - The wants are habitual
 - Difficulty in making choice
 - Resource is scarce
 - The wants are unlimited

04 – PRODUCTION

1.
 - i) Direct
 - ii) Indirect
 - iii) Indirect
 - iv) Direct
2.
 - i) Free of All Expenses
 - ii) Or Nearest Offer
 - iii) Cash With Order
 - iv) I Owe You
3.
 - lack of skilled labour
 - inadequate financial resources
 - high cost of production
 - inadequate land
4.

<u>ACTIVITY</u>	<u>UTILITY</u>
a) Carpentry	form
b) Selling bread to students	possession
c) Warehousing of goods imported	time
d) Carriage of cargo to the market	place
5.
 - (i) irrigation.
 - (ii) Fallowing.
 - (iii) Land tenure.
 - (iv) Fertilizer application.
 - (v) Mechanization.
 - (vi) Crop rotation.
 - (v) Pest control.
6.
 - (i) Better quality goods
 - (ii) A variety of goods
 - (iii) Higher production capacity/mass production.
 - (iv) Goods become cheaper.
 - (v) Leads to higher standards of living
 - (vi) Promotes specialization/better skills.
 - (vii) Facilitates exchange.

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

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

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

10.
 - Basic factor of production
 - Limited in supply
 - Quality ins not homologous
 - Productivity of land can be improved
 - Size can be improved through reclamation
 - Subject to the law of diminishing returns

11.
 - Amount of capital available
 - Different uses in which capital can be put to
 - Skill and knowledge available to operate capital
 - Government policy
 - Time taken to modify
 - Reward offered

12.
 - Place utility-transport

- Form utility-industrial processing/manufacturing
- Possession utility-exchange/trade
- Time utility-warehousing/storage

- 13.**
- Specialization
 - Production of surplus goods
 - Better quality goods produced
 - Exchange of goods leading to trade
 - Encourages innovation and invention

05. ENTREPRENEURSHIP

- 1.**
- need to exploit talent
 - high market availability
 - growth in awareness
 - improved security
 - improved infrastructure
 - Need to be own boss
 - Availability of source of finance
- 2.**
- Profit generation /maximization
 - Creation of employment
 - Provision of goods and services
 - For prestige/enhancing own image
- 3.**
- Potential profits
 - Potential market
 - Future growth
 - Acceptance by the community
 - Cost of capital
 - Ability to manage
- 4.**
- Inadequate capital
 - Poor working strategies
 - Unfavorable government policies

- Insecurity in the area
 - Inadequate academic and technical knowledge
 - Inadequate business management knowledge
 - Inadequate demand market
 - Poor record keeping
 - Poor customer relations
 - Large drawings from firm
 - Lack of self discipline and poor moral character
 - Poor planning
 - Changes in technology
 - Changes in business environment
- 5.
- To reduce rate of unemployment
 - Equip learners with entrepreneurial skills and knowledge
 - Create informed population on commercial activities
 - Learners to be able to utilize local resources
 - Enable learners to be self reliant
- 6.
- Promotes job creation
 - Promote production of a wide variety of goods
 - Improves infrastructure of a country
 - Promotes healthy competition hence production of high quality goods
 - Enhances full exploitation of a country's resource
 - Promotes industrial development
 - Provides consumer with variety of goods
 - Promotes savings and investments
 - Promotes Kenyanisation/indigenization of trade/encourages participation of local profit in trade

06. MANAGING A BUSINESS

- 1.
- Provides adequate facilities
 - Ensures proper remuneration
 - offer fringe benefits
 - Ensures proper communication
 - Encourage positive competition

-Provide recreation facilities to lessen tension at work place

2.
 - (i) provision of good working tools
 - (ii) training of workers
 - (iii) ensuring good working relationship
 - (iv) provision of leisure time.
 - (v) Provision of recreational facilities.
 - (vi) Provision of accommodation.
 - (vii) Provision of insurance cover.

3.
 - Helps in evaluation of business performance
 - Assists in performance comparison
 - Helps the business to avoid past mistakes
 - It is instrumental in planning
 - Helps in target setting

07. THE OFFICE

1.
 - Adding machine
 - Cash register
 - Calculating machine
 - Accounting machine
 - Computer
 - Money counting machine.

2.
 - loyal
 - able to work for long hours
 - qualified in secretarial duties
 - good planner
 - able to keep secrets
 - good communication skills
 - good grooming

3.
 - Properly addressed
 - should be dated
 - should be précised

-Must contain the main objective/message

-Be signed

4.
 - (i) Provide legal advice
 - (ii) Writing minutes of board meetings
 - (iii) Maintains confidential records of the organization
 - (iv) Maintains and updates organizations legal registers
 - (v) Ensures compliance by the organization with legislation or law
 - (vi) Preparation of contracts, leases and other legal documents
 - (vii) Interprets law and legal notices to the directors

5.
 - Fast/quick
 - Store large amount of information/data
 - Large output
 - Quality output/standard output
 - Save on labour

6.
 - Operation
 - Easy to supervise
 - Loss expenses on office partition
 - Sharing of equipment
 - Office can be put to various uses (e.g. conference)

7.
 - To ensure efficient use/prevent misuse
 - Maintain their safe custody
 - For accounting purposes/store keeping records
 - To monitor their movement within the organization
 - Ensure adequate supply at all times

8.
 - Leads to unemployment
 - Hinders creativity and innovativeness
 - Many machines are subject to frequent breakdowns
 - Expensive to acquire, install and maintain

9.
 - Cost
 - Speed/urgency
 - Quality
 - Quantity

- Availability of power

- 10.**
- Work flow which refers to the continuous flow of documents and work in a particular direction
 - The arrangement of the office must facilitate ample supervisory of workers
 - Provision should be made for each worker to have enough working space
 - Proximity of workers to the equipment to avoid unnecessary movement
 - Office appearance should be pleasant
 - Office arrangement should promote low of communication
 - The type of job and grade

- 11.**
- Use of computers
 - Technological changes in communication
 - More emphasis on customer care service
 - Changing trends in office location and layout
 - Changing trends in office furniture and equipment
 - Changing trends in office procedures and routines

- 12.**
- Distraction of movements of fellow workers
 - Lack of privacy
 - Generally overcrowded
 - Difficult to distinguish workers of different ranks
 - Creates difficult in monitoring usage of joint facilities
 - Noise from machines.

08. HOME TRADE

- Free of All Expenses
 - Or Nearest Offer
 - Cash With Order
 - I Owe You
- Rack jobbers and drop shippers
 - Drop shippers specialize in supplying certain line of products while shippers operate from offices where they make orders
 - Specialized and generalized wholesalers

- Specialized deals in one product while generalized deal I specific product in one line of production
- 3.
 - When debtors financial status in a doubt
 - When there is fear of delay in payment
 - When the amount involved is large
 - In case the traders deals in different currencie
- 4.
 - Goods brought
 - The returns made
 - Payment made
 - Receipt of cash to date
 - Balance outstanding/amount due
 - Any discount allowed
- 5.
 - Requires a lot of patience
 - Involves a lot of movement/difficulties to move incase of poor health
 - Carriage involved calls for a lot of care
 - Operated under high risk of bad weather
 - Limited ability to carry many goods
 - High chances of insecurity/theft/fraud
- 6.
 - (i) High interest rates charged
 - (ii) Can only be used in selected (stores) businesses
 - (iii) One might be tempted to overspend
- 7.
 - (i) Banking
 - (ii) Insurance
 - (iii) Transport
 - (iv) Communication
 - (v) Advertising.
- 8.
 - (i) Lack of standard measure of value.
 - (ii) Indivisibility of commodities.
 - (iii) Problem of storage.
 - (iv) Requires double coincidence of wants.

- (v) Some commodities are bulky / difficult to carry.
- (vi) Lack of unit of account.
- (vii) Lack of standard of deferred payment

9.

10.

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

. General line wholesalers

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

11. (a) Consignment note and delivery note is: consignment note is used when the supplier hires the services of a transporter to deliver goods to the buyer while a delivery note is used when the supplier uses his own transport to deliver goods to the buyer

(b) Credit note and debit note

Credit note is prepared by the seller and issued to the buyer to effect decrease in invoice value (in case of over charge) while debit note is used to increase the invoice value (correct undercharge)

12.

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

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

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

- 13.** i) When the seller requests the buyer to make payment of goods before delivery
ii) When the seller doesn't want to give out goods on credit
iii) When the importer of goods want to get customs clearance before the goods are sent
iv) When the seller wants to show the buyer the amount he/she would have to pay for if he/she buys goods on approval
v) When the seller employs agents to sell goods for him/her.
- 14.** i) Seller enjoys a higher sales turn over
ii) Seller enjoys higher profits due to interest on hire purchase sales
iii) Seller can re-posses item incase of default in payments
iv) Capital from down payments enables the seller to continue in trading
v) Seller can sell his trade debts to a factor which provides him with working capital
- 15.** - Buyer is able to start using the item before completing all the payment
- The buyer is able to buy expensive goods that may otherwise be unaffordable
- The buyer is able to plan for the payment of the regular installments
- The buyer is free to return the goods before completion of payment of goods if dissatisfied
- 16.** -Must be signed by the drawer or creditor
- Must be accepted by the debtor in order for it to be valid
- Must be accepted unconditionally/ willing fully
- Must bear appropriate revenue stamp
- 17.** - Nature of document e.g. title deed will be always stored
- The policy of the firm
- Legal requirement
- Whether or not the transaction to which the document relates is over
- 18.** - Must bear signature of the drawer
- Must be accepted by debts
- Should be unconditionally accepted
-Must bear appropriate revenue stamp
- 19.** if 1625 shs=100%
,, = 95%

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$$= \frac{1625 \times 95}{100}$$

100

$$= 1543.75 \text{ (amount to be paid after quality discount)} \sqrt{1}$$

$$\text{If } 1543.75 = 100\%$$

$$\therefore ? = 97.5\%$$

$$= \frac{1543.75 \times 97.5}{100}$$

100

Amount to be paid after cash discount = kshs 1505 $\sqrt{1}$

If 100 packets = kshs 1505

$$\therefore 1 \text{ packet} = ?$$

$$= \frac{1505 \times 1}{100} \sqrt{1}$$

100

Price per packet = kshs 15.05 $\sqrt{1}$

09. FORMS OF BUSINESS UNITS

1. - One has to be a member
 - Guarantee from fellow members
 - Members salary
 - Members saving /shares

2. -lack of political goodwill
 - corruption /insensitive public service
 - fear of transferring ownership into foreign lands
 - Need to keep investment opportunities

3. -Will get advice an area of finances
 - Earn interest on investment
 - Receive loans at how interest rates
 - Receive credit facilities
 - Assisted in times of problems (benorelent)
 - Source of savings

4. (i) Minor partner
 - (ii) General partner

(iii) Active partner

(iv) Nominal/ Quasi partner

5.
 - (i) Will have full control of the business.
 - (ii) No sharing of profits.
 - (iii) Easy decision making.
 - (iv) There are few legal formalities.
 - (v) Top secrecy.
 - (vi) Flexible.

6.
 - (i) If the partners mutually agree/decide to dissolve it
 - (ii) Incase of death/insanity/bankruptcy of a partner
 - (iii) Incase the court orders so
 - (iv) Incase completion of he intended purpose
 - (v) If the business engages in unlawful practices
 - (vi) Incase of retirement /admission of a new partner
 - (vii) Incase of continued disagreements among the partners

7.
 - Legal procedure is followed during formation
 - They are separate legal entities from the owners who formed it
 - Shareholders have limited liability
 - They have perpetual succession
 - They can raise large amount of capital hence large in size
 - Failure of the business does not necessarily refresh the failure of its owners

8.
 - Memorandum of Association
 - Articles of association
 - Declaration
 - Certificate of incorporation
 - Prospectus
 - Trading certificate

9.
 - Memorandum of Association

- Articles of association
- Declaration
- Certificate of incorporation
- Prospectus
- Trading certificate

- 10.**
- Too much political interference
 - Inadequate capital
 - Poor management skills
 - Embezzlement of public funds

- 11.**
- i) The rights of each type of share holders eg. Voting rights
 - ii) Methods of calling meetings
 - iii) Rules governing elections of officials in the company
 - iv) Rules regarding preparation and auditing of accounts
 - v) Powers, duties and rights of the directors

- 12.**
- i) She will earn profits
 - ii) She will get better quality goods
 - iii) She will earn interest on capital invested
 - iv) She will enjoy credit facilities
 - v) She will buy goods on fair prices
 - vi) She will be assured of protection against malpractices

- 13.**
- i) They train local people so as to create the necessary man power in the subsidiaries
 - ii) They dominate international market because of their great influences
 - iii) They assist developing countries financially
 - iv) They home a guest influence in international trade
 - v) They posses a lot of capital

- 14.**
- Permanent
 - Temporary/joint venture
 - General partnership (unlimited)
 - Limited partnership
 - Trading partnerships

10. GOVERNMENT AND BUSINESS

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

2. -Difficulties to register members into association
 - Lack of awareness by consumer
 - Lack of funds
 - competition
 - (i) Garbage collection
 - (ii) Water supply
 - (iii)Street lights
 - (iv)Repair of roads
 - (v) Provision of social services e.g. schools, hospitals
 - (vi)Recreational facilities e.g sports fields, stadiums e.t.c
 - (vii) Provision of housing needs

3. - Offering several incentives to encourage investments like tax holiday subsidies
 - Provision of credit through government institutions
 - Creating a pool of qualified manpower
 - Provision of security
 - Ensuring there is political stability and good will
 - Provision of infrastructure to reduce cost of provision
 - Liberalization of marketing

4. -Improve infrastructure especially roads
 - Provide security
 - Provide incentives e.g. tax holiday
 - Improve access to finance/provide

- Reduce bureaucratic requirement for licensing
- Provide social amenities e.g. schools, hospitals, market skills e.t.c
- Provide awareness of investment opportunities

5. -Lack of support by the government

- Lack of finance
- Ignorance of consumers
- Reluctance of consumers to join these association
- Lack of initiative from consumers to check on traders performance and report cases on non-compliance

6. i) Lack of adequate finance

ii) Poor management skills of these local authorities

iii) Political interference and wrangle

iv) Poor garbage collection and disposal

v) Embezzlement of funds

vi) Corruption

7. - Poor quality goods and services/ damaged goods

- Incorrect weights and measures
- Poor hygienic conditions
- Contrabands items/ prohibited goods
- Hoarding
- Misleading advertisements
- Environmental pollution
- Harmful products
- Price overcharge

8. - Inadequate funds

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

9. - Regulation

- Training

- Internal trade promotion
- Eternal trade promotion
- Service provisions
- Creation of enabling environment
- Consumer protection

11. TRANSPORT

1. - When goods are bulky
 - When goods are heavy
 - Where the distance is long
 - When transporting livestock
 - Where railway tracts are laid
2. (i) Increased use of pipelines
(ii) Increased use of trains /Expansion of Runway
(iii) Building dual carriage ways
(iv) Policies that encourage vehicles of larger carrying capacities
(v) Discouraging use of personal vehicles
(vi) Ensure road worthy vehicles
3. (i) It's only limited to water bodies that are large and inaccessible.
(ii) Construction and maintenance of ports is very expensive.
(iii) It is a slow form of transport.
(iv) May suffer from growth of weeds and natural barriers.
(v) International laws and barriers may block the extent of coverage.
(vi) Construction and maintenance of ships is very expensive
4. - They do not follow particular routes as they can go anywhere the client
- They do not have set timetables for departure or arrival
- They call at given ports at irregular intervals
- Their freight charges depend on demand and are not constant
5. -Initial cost of acquiring the containers
-specialized equipment for handling containers is expensive to buy
-Volume of goods transported is too small to warrant containerization
-It requires re-designing of existing ports which is expensive
-The technology to re-design the existing port is lacking
- The management skills needed is limited

- 6. - Delivery of parcels
- Offering security to money transfer
- Offering of safe delivery of valuable items e.g. gold

7.

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

- 8 -When products are urgently required
- When the product is highly perishable
- When the product is of high value
- When the product is transported over a long distance
- When the customer can afford to pay for freight charges
- Where air transport is the only available means of transport

12. COMMUNICATION

- 1 - Speed post
 - Express delivery
 - Post rest ante
 - Business reply services

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

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

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

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

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

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

13. WAREHOUSING

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

2. --When it is not accessible
 - When it's placed away from the terminal or source of produce
 - When it leads to high operational costs
3. (i) For easy re-exporting.
 - (ii) For easy inspection of imports.
 - (iii) To prevent the entry of harmful goods./dangerous goods.
 - (iv) To prevent exit without legal authority.
 - (v) For easy collection of custom duties.
4. -Revenue to the government e.g. duty on goods
 - Enable government to create entry of harmful goods
 - Enable government to verify document for goods on transit
 - Enable government to check on quality of goods imported
 - Enables it to inspect type or nature of goods imported
 - Enable if to check entry of illegal goods into the country
5. -If its location is not suitable for client/if it is not accessible to users
 - If it cannot store different types of goods
 - If it doesn't have communication network
 - If it is not well equipped to handle goods/it lacks appropriate facilities
 - If it is not spacious enough to allow easy movement
 - If it doesn't have well trained personnel
 - If it doesn't keep proper records of movement of goods
 - If it doesn't offer necessary protection to goods in it
6. - If the importer is not aware of the arrival of goods
 - If the importer is still looking for money to settle dues
 - If goods are yet to be inspected
 - If the importer is still looking for market
7. - Receipt of requisitions
 - Purchasing all goods for the organization
 - Maintaining the suppliers records
 - Managing an effective purchases man power
 - Dispatching goods to various departments

8.
 - i) Continuous supply of goods for his customers
 - ii) Storing goods whose demand is seasonal
 - iii) Goods are stored awaiting collection
 - iv) Goods can be prepared for sale through breaking bulk, sorting, packing, and blending
 - v) Protecting goods from physical damage, pilferage and adverse weather condition
 - vi) Relieves retailers of the need to carry large stocks and they can always reorder, these helps them to start business without too much capital

14. INSURANCE

1.
 - a – Insure
 - b – Risk
 - c – Premium
 - d - Insurer
2.
 - i) Utmost good faith-ensures that details offered are up to date and correct for proper evaluation
 - ii) Indemnity-stresses the understanding that in the event of loss, the insured does not benefit/insurer does not over compensate
 - iii) Contribution-creates understanding to insurers who may have jointly insured a risk
 - iv) Insurable interest-ensures that insured does not incur losses on property not assured by insurer
3.
 - Bad debt cover
 - Consequential loss
 - Workman's compensation
 - Personal accident cover
4.
 - Ignorance on the importance of these policies
 - Wide spread poverty/low incomes
 - Fear of losing their money because of past experience
 - Corruption and embezzlement of funds by insurance company officials resulting in delay of compensations
 - Long procedure of claiming
5. (a) Total constructive marine loss: When a ship and/or its cargo are totally damaged but can

- (b) General average marine loss: This is when some of the cargo are jettisoned into sea deliberately to save the ship and rest of the cargo from sinking
6.
 - The property or life being insured must be the subject matter of the insurance agreement
 - There must be some property or life that is capable of being insured
 - The relationship between the insured and the property or life must be recognized
 - The insured must stand in relationship with the property or life being insured
 7.
 - Occurrence of a loss must be accidental not deliberate
 - Risk must not violate laws of the country
 - Risk must be pure and not speculate
 - Insured must suffer financial loss
 - The risk must not be catastrophic
 - The possibility of the risk taking place should not be near certainty
 - For any misfortune there must be a large number of people affected
 8.
 - Compensation is guaranteed
 - Losses are shared by the group
 - Funds contributed by the group are large
 9.
 - i) A person wishing to acquire a policy must fill in the form
 - ii) The insurance company then assesses the applicant and then calculates the premium to be paid by the insured
 - iii) The insured then pays the first premium to the insurer/ insurance company
 - iv) The insured then issues a cover note to the insurer to show that the contract is now on
 - v) Then finally the insured is issued with a policy document

Note a step must NOT be skipped or confused for another
 10. 400,000- true value of property

15. **PRODUCT PROMOTION**

1.
 - Product advertising.
 - Institution advertising.
 - Competitive advertising.

- Informative premium demand advertising.
2.
 - Increase sales
 - Prolonged duration of the competition
 - Creation of consumer brand loyalty
 - Promotion a company's image
 - Cost
 - Creation of product awareness
 3. ***Structural changes experienced in economic development:***
 - Shift from agricultural to manufacturing sector
 - Increased in literacy
 - Increased in skilled manpower
 - Improvement in health facilities
 - Improvement in technology that handle new methods of productive activities
 4.
 - Free of charge repair for a specific period
 - Servicing of the equipment at regular intervals free or at a very reasonable rate
 - Availability of spares
 - To provide transport if required
 5.
 - i) They undertake all the art works and creative work in the good ie. by suggesting the shape the good should take , then package etc.
 - ii) They advice producers on selling and promotional policies
 - iii) They plan advertising campaigns for manufacturers
 - iv) They reserve and pay for space or time for the media on behalf of the trader
 - v) They assist in destroying and packing
 6.
 - Target group who are mostly young people
 - Availability of the medium
 - Cost of medium
 - Geographical area to ensure reach ability
 - Speed/ urgency of the promotion
 - Flexibility
 - Physical characteristics of the medium
 - Legal requirement/ Government policy should be complied with

- Duration of the promotion

7.
 - Repairs of maintenance
 - Technical advice (backing services)
 - Transport
 - Installation
 - Guarantee on availability of spare parts
 - Monitoring of inspection

16. DEMAND AND SUPPLY

1.
 - Price of the commodity
 - Prices of the other related commodities
 - Future expectation of changes in prices
 - Government policy
2.
 - Decrease in cost of inputs
 - Improvement in technology
 - Fall in taxes
 - Increase in government subsidy
 - Future expectation of price increase
 - Favorable weather
4.
 - (i) It is a given /inferior good
 - (ii) If the price is expected to fall further in future.
 - (iii) If the fall in price is as a result of fall in quality
 - (iv) If the commodity is getting out of fashion..
5.
 - (i) Decrease in consumers income
 - (ii) Unfavourable changes in tastes fashions and preferences of consumers
 - (iii) Unfavourable government policies e.g. increase in taxation
 - (iv) Increase in price of compliments/decrease in price of the commodity
 - (v) Unfavourable terms of sale e.g. short credit periods and lack of discounts
 - (vi) Uneven/unfair distribution of income among consumers
 - (vii) Decrease in the size of the population
 - (viii) Unfavourable seasonal changes

6. - *Unfavourable weather*
- *License in the cost of producing cabbage*
- *Application of poor technology*
- *Increase competition from other substitutes*
- *A shift in the farmers priority to other things*
- *Unfavourable government policy like increase in subsidies etc. (4x1=4mks)*

7. - Presence of close substitutes
- Habit forming commodities
-- Durable products
- Necessities
- If the proportion of income spent on the good is small
-- If it is difficult for consumers to adjust in the short run

8. - Goods of ostentation
- Inferior goods
- Expectation of future shortages
- Necessities
- Habitual
- Necessities
- Expectation of further increases in prices

9. - Where goods are of ostentation/ luxurious goods
- In case of Gifted goods
- Where goods are necessary
- Where there is expectation of further increase in prices
- Where goods are inferior in nature
- Where goods are habitual
- Where there is an expectation of future shortages

10. C.E.D = $\frac{\% \Delta Q_y}{\% \Delta P_x}$

$$\% \Delta Q_y = \left[\frac{-4000}{15000} \right] \% = -26.66$$

$$\% \Delta P_x = \left[\frac{10}{140} \right] \% = -7.14$$

$$\text{C.E.D} = \frac{-26.66}{-7.14} \\ = 3.73$$

17. THE THEORY OF THE FIRM

1. - A pool of trained manpower from which the trader can recruit skilled labour.
 - Other complimentary firms are likely to develop alongside his own .
 - Firms offering supportive services may develop in the area.
 - A trader will benefit from the social amenities present in a localized area.
 - A trader can join other traders and work together ,hence taking advantage of large scale product.

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

3.
 - (i) provision of cheap/free land in rural areas.
 - (ii) Improving infrastructure in rural areas.
 - (iii) Improving security in rural areas.
 - (iv) Tax rebate/concession

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

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

- Quick/fast decision maker
- Rising cost of product
- Few legal procedures

- 6.
- Buying goods in large quantities
 - Selling goods in large quantities
 - Accessing ready markets for its produce
 - Retaining (widening its market)
 - Selling variety of goods
 - Market referred
 - Advertising

*

7. A= Total cost
=TFC + TVC
= 300+240=540/=

B=Average variable cost
= $\frac{\text{Total variable cost}}{\text{Total units produced}}$
= $\frac{320}{4}$ = shs. 80

C.= Average fixed cost
= $\frac{\text{Total fixed cost}}{\text{Total units produced}}$
= $\frac{300}{5}$ = shs.

D.= Average cost
=Total fixed cost +TVC
=300+720
=1020= shs. 170

6

- 8 . a) Total fixed costs at output of 50 units
Ksh. =300

b) Average variable costs [AVC]

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

c) Average total costs

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

d) Marginal costs

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

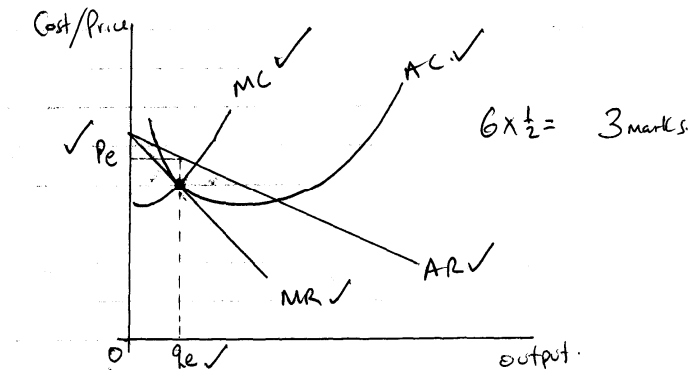
9. - Where the market is small
- Nature of the product e.g. direct service
 - To maintain simplicity of the firm
 - For flexibility purposes
 - For quick decision making
 - To avoid high overheads costs
 - Need to retain control
 - Legal constraints
 - Because of minimal risks faced
 - Limited capital

18. PRODUCT MARKETS

1. - To check on the quality of goods produced by monopoly.
- Ensure there are a variety of goods in the market.
 - Monopolist may resist emergence of new ideas or technology due to lack of competition.
 - Monopolies tend to be inefficient in their operation due to lack of competition.
 - The consumers may not enjoy quality good and services because they can only consume what his monopolis produces.
 - To control the prices charges by the monopolies

- Make sure monopolies operate at optimum capacity so as not to charge high prices.

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



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

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

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

7. - Establishes size of the market
 -Establishes the most effective modes of promotion
 -Establish existing competition and suitable ways of overcoming it

- Establishes most suitable prices for a product
- Establishes most favourable form of quantity of presenting the product

19. CHAIN OF DISTRIBUTION

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

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

- *Reducing transaction between producers and consumers*
 - *Breaking bulk*
 - *Accumulating bulk*
 - *Taking of holding goods*
 - *Providing finance to producers*
 - *Product promotion*
 - *Transporting goods*
 - *Storage goods*
- Reduces the range of goods offered to the retailers
 - Reduces the cost of goods acquired by retailers
 - Lowers the price of goods because of reduction in the length of distribution
- Preparing to meet customers/locating prospective customers
 - Opening sale/presenting the product
 - Handling objections
 - Closing of sales
- Where the commodity is perishable
 - Where the commodity is a service
 - Where the use of the commodity requires demonstration
 - Where the quantity of the commodity is small
 - Where technical advice is required
 - Where immediate feed back is required

- Where the law requires to be done so
6.
 - i) Brand Kamp/ Exporter - Consumer
 - ii) Exporter / Brand Kamp-Government agent –Wholesaler- Consumer
 - iii) Exporter/ Brand Kamp-Government Agent – Wholesaler- Retail – Consumer
 - iv) Exporter / Brand Kamp-Wholesaler- Consumer
 - v) Exporter / Brand Kamp- Import agent – Consumer

 7.
 - Nature of products - perishable
 - Availability of the channel
 - The cost of the channel
 - Channels used by competitors
 - Market concentration not in use area
 - Spread of the risk

20. NATIONAL INCOME

1. – Collection of data of the national income may be inaccurate.
 - Changes in per capita income may be due to change in the value of money.
 - Income may be in the hands of only a few.
 - The products produces may not satisfy immediate wants of the people.
 - Increased national income may mean less sleep and more worries.

2.
 - Savings
 - Investments
 - Foreign trade
 - Taxation (government interference)

3.
 - Individual talents and personal endowment
 - Inheritance from parents

4.
 - Differences in natural resource endowment
 - Difference in stock capital equipment
 - Differences in entrepreneurial cultures in the two countries
 - Differences in stock of man power

- Differences in general attitude of people towards work
 - Availability and states of technology
- 5.
- Income approach
 - Output approach
 - Expenditure approach
- 6.
- Problem of inaccurate data
 - Price fluctuations make it difficult to calculate national income
 - Problem of handling illegal and unrecorded yield income to recipients
 - Transfer payments pose a problem
 - Income disclosures aren't true because people and firms like evading tax
- 7.
- i) Problems of valuation due to unavailability/inaccuracy of output figure especially in the private section
 - ii) Problem of deciding on the goods/services to include eg. Whether the output of a house wife should be included or not
 - iii) The problem of valuing output in the subsistence sector
 - iv) Problem of frequent changing process
 - v) Problem of valuing government output since many of its services are not sold in the market
 - vi) Problems of differentiating primary inputs from intermediate inputs
 - vii) Valuing illegal activities like drug trafficking.
- 8.
- It shows average standards of living of the people
 - It determines the economic development of a country
 - It shows the country's network or actual income
 - It is used for economic planning
 - Helps to know the contribution of different sectors of the economy
 - Used to compare economic performance of different countries
 - Used to compare economic performance of a country over the years
- 9.
- When the national income is equitably distributed among the people
 - When statistics obtained consider price changes in the economy
 - When population size of the country is real and not more projections

-When statistics of output is based essential commodities consumed by the masses/large number of people

21. POPULATION AND EMPLOYMENT

1.
 - i) Census-the actual count of all people living in a certain area
 - ii) Unemployment-the inability of people who are capable of willing to work to get meaningful
 - iii) Mortality-the rate of death in every 1000 people
 - iv) Optimum population-the population level which is equal to the availability resources

2.
 - Reduces per capita income
 - Increased dependency ratio
 - Reduces saving and investment
 - Leads to unemployment and under employment
 - Pressure on social amenities
 - Inequitable distribution of income
 - Leads to over exploitation of nature resources /environmental degradation

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

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

5.
 - Changes in lifestyle where people prefer small families

- Political war
 - Natural calamities
 - High infant mortality rates
 - Reduced fertility in women
6. - Increase in market demand for good services
- Adequate labour supply
 - Inspired people to look for new markets
 - Encourage technological advancements
 - Enable export of talents

22. DETERMINING THE NET WORTH OF BUSINESS

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

2. **Katiba Traders**

Balance sheet

As at 31 April 2010

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

3. Capital=OPC +add +NP-drawing
 $6,000,000=3,500,000+540,000+NP-25,000$
 $NP= (6,000,000+25,000)-3,500,000+540,000)$
 $NP=6,025,000-4,040,000=1,985,000$

4. **Characteristics of Assets;**

- (i) Are source owned and controlled by the business
- (ii) Must have been acquired in the past
- (iii) An item of value that can be measured reliably in monetary items
- (iv) May either be fixed or current
- (v) Future economics benefit associated with the net expected benefits to be received

(b) Rent Nominal Cash Cash payment/cash book.

3. Items affected by transaction:

- Lawn mower and Bank
- Stock and Creditor Mwangi
- Debtor and cash in Hand
- Motor vehicle and capital

4.

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

5.

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

6.

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

7.

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

Is an increase, decrease or no effect

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

8. *Determination of net profit*

Initial capital interest = Kshs.120,000

Final capital + Drawings – Net profit = Initial capital

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

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

184000 – Net profit = 120000

Net profit = 184000 – 120000

Net profit for the year = 64,000

9.

HAMISI TRADERS BALANCE SHEET AS AT 31 st JAN. 2008																																																																					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Capital</td> <td style="width: 20%; text-align: right;">600,000</td> <td colspan="2"></td> </tr> <tr> <td>ADD Additional I.</td> <td style="text-align: right;"><u>47,000</u></td> <td colspan="2"></td> </tr> <tr> <td></td> <td style="text-align: right;">647,000</td> <td colspan="2"></td> </tr> <tr> <td colspan="4"> </td> </tr> <tr> <td>Current liabilities</td> <td></td> <td colspan="2"></td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">400,000</td> <td colspan="2"></td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: right;">300,000</td> <td style="text-align: right;">700,000</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>1,347,000</u></td> <td></td> </tr> </table>	Capital	600,000			ADD Additional I.	<u>47,000</u>				647,000							Current liabilities				Creditors	400,000			Bank overdraft	300,000	700,000				<u>1,347,000</u>		<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="4">Fixed Assets</td> </tr> <tr> <td style="width: 30%;">Motor van</td> <td style="width: 20%; text-align: right;">400,000</td> <td colspan="2"></td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;"><u>47,000</u></td> <td style="text-align: right;">447,000</td> <td></td> </tr> <tr> <td colspan="4"> </td> </tr> <tr> <td colspan="4">Current assets</td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">156,000</td> <td colspan="2"></td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">214,000</td> <td colspan="2"></td> </tr> <tr> <td>Cash</td> <td style="text-align: right;"><u>530,000</u></td> <td style="text-align: right;">900,000</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>1,347,000</u></td> <td></td> </tr> </table>	Fixed Assets				Motor van	400,000			Equipment	<u>47,000</u>	447,000						Current assets				Stock	156,000			Debtors	214,000			Cash	<u>530,000</u>	900,000				<u>1,347,000</u>	
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10. Calculate the of Mary Wambui as at 31st Dec,2007

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

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

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

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

$$x= 914,440✓$$

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

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

$$=100,000 +35,000 +40,000-15,000✓$$

24. THE LEDGER

1.

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

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

3.

Nyatike Traders Trial Balance As at 31 st Jan/2010		
	Dr	Cr
Capital		319,000
Drawings	16,000	
Creditors		20,000
Discount allowed	5,000	
Buildings	250,000	
Return Outwards		6,000
Purchases	<u>74,000</u>	<u>0000</u>
	<u>345,000</u>	<u>345,000</u>

4.

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

5.

Fixed	250000	
Assets	80000	
Purchases		120000
Sales	22000	
Debtors	60000	
Stock		45000
Creditors		247000
capital	<u>412000</u>	<u>412000</u>

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

7..

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

8. Capital account

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

Cash account

Date	Details	L.F	Amount	Date	Details	LF	Amount
1.6.2009	Capital	GL	100000	3.6.2009	Furniture	GL	30000

2.6.2009	A Co-operative loan	GL	20000				
----------	---------------------	----	-------	--	--	--	--

Co-operative loan account

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

Furniture account

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

Bank account

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

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

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

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

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

Dr.	FURNITURE A/C	Cr

13.6.2008 capital 15000	A
-------------------------	---

Dr.	LOAN	Cr
A	28.6.2008 cash	40,000

25. CASH BOOK

- Balance brought d own cash 10,000 (Dr)
 - Bank 15,000 (Cr)
 - Cash sales amounting to 18,500/sold goods for sh. 18,500 in cash.
 - Banked 12,000 from the cash till
 Paid debet in cash sh. 6000

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

3. Kiprono's two column cash book

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

4.

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

5. *Cash book for Ondiko Traders*

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

6.

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

RECEIPTS					PAYMENTS				
Date	Details	Fol	Cash	Bank	Date	Details	Fol	Cash	Bank
June 1	Balance b/d		5000		June 1	Balance b/d			18000

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

7. **a) Contra entry**

- It is a transaction affecting one account twice i.e. on the debit side and credit side
- For instance depositing cash into the bank affecting the cashbook on the debit and credit side

b) Folio column

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

8. **Sales return journal Laban traders**

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

9.

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

$$\begin{aligned} \text{Total sales} &= \text{credit sales} + \text{cash sales} \\ &= 681,300 + 80,000 = \text{shs.}1,481,300 \end{aligned}$$

10. - Receipt
- Payment voucher

11. RENT A/C

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

26. SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY

1. Salary account

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

- 2
- The property or life being insured must be the subject matter of the insurance agreement
 - There must be some property or life that is capable of being insured
 - The relationship between the insured and the property or life must be recognized
 - The insured must stand in relationship with the property or life being insured

3. Commission received account

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

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

5.

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

27. FINANCIAL STATEMENTS

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

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

$100 S - 1q,1760,000$

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

100

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

80

2. *The following balances were r extracted from the books of Masai retailers on 14th July 2000*
Prepare the trading account for the period ended 14th July 2000
Masai net trading account for the year ended 14th July 2000

Opening stock	30 000	Sales	1 000 000
Purchases	800 000	(Less) return inwards	20 000
(less) return	15 000	Net sales	980 000
G.A.S	815 000		
Closing stock	80 000		
C.O.S	735 000		
Gross profit	245 000		
	980 000		980 000

educationgroup.com

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

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

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

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

3. **Margin;**

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

Net sales

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

270,000

R.O.S.T. = Cost of goods sold

Average stock

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

115,000

$$= 1.6 \text{ times}$$

4. **Average stock 120,000**

ROSTO = 3times

(a) From ROSTO = $\frac{\text{cost of sales}}{\text{Average stock}} = \frac{\text{COS}}{120,000}$

$$3 = \frac{\text{COS}}{120,000}$$

$$3 \times 120,000 = \text{COS}$$

$$360,000 = \text{COS}$$

$$\therefore \text{COS} = 120,000 \times 3 = 360,000$$

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

$$\frac{1}{3} = \frac{\text{GP}}{\text{COS}}$$

$$\frac{1}{3} \times \text{COS} = \text{GP} = 360,000$$

$$\text{GP} = 120,000$$

$$\therefore \text{Gross Profit} = \text{Shs. } 120,000$$

(c) From margin = $\frac{1}{4} = \frac{\text{GP}}{\text{sales}}$

$$\text{Sales} = 4 \times 120,000$$

$$\text{Sales} = 480,000$$

5.

Bondo traders
Trading account
For the year ended 31 Dec 2004

Opening	2 000	Sales	56 400
Purchases	<u>46 000</u>		
	48 500		

Less closing stock	<u>1 500</u>	
	49 000	
G P c/d	<u>9 400</u>	
	<u>56 400</u>	<u>56 400</u>

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

7.

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

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

8. (a) Gross profit

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

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

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

(b) Cost of sale = sales – G.P

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

(c) Net profit = G.P – Expenses

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

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

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

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

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

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

Margin to mark up

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

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

10. a) Working capital
 = current assets – current liabilities
 = 320000 – 99000 = 221000
- b) Return on capital
 = $\frac{NP}{\text{Capital invested}} \times 100$
 = $\frac{95000}{525000} \times 100 = 18.09\%$

11. Mark- up = $\frac{G.P}{\text{Cos}} \times 100$
 10% = $\frac{G.P}{96,000} \times 100$
 GP = 9,600
 Sales = Cost + G.P = 96,000 + 9,600 = 105,600

Atis
 Trading and loss account
 For the month ending 30-6-2008

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

12. SHAH TRADERS
 Trading account for the period trading 30th June 2010

Opening stock	65000	Sales	280000
---------------	-------	-------	--------

Add purchases	190000	Less sales returns	(4200)
Less purchases returns (10000)	180000		275800
Goods available for sale	245000		
Less closing stock	70000		
Cost of sales	175000		
Gross profit c/d	100800		
	275800		275800
		Gross profit b/d	100800

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

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

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

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

c) Rate of stock turnover = $\frac{\text{cost of sale}}{\text{Average stock}}$
 $= \frac{360000}{60000}$
 $= 6 \text{ times}$

Average stock = $\frac{80000 + 40000}{2}$
 $= 60000$

14. i) Sales for the year
 Mark up = $\frac{GP}{COGS} \times 100$
 $25 = \frac{100,000}{COGS} \times 100$
 $COGS = \frac{100,000 \times 100}{25}$
 $COGS = \text{kshs. } 400,000$
 But sales = $COGS + GP$
 $= 400,000 + 100,000 = \text{kshs. } 500,000$

- ii) Rate of stock turn over
 Rates of stock turn over $\frac{COGS}{Av}$
 $Average\ stock = \frac{\text{opening stock} + \text{closing stock}}{2}$
 $Closing\ stock = \text{purchases} + \text{opening stock} - COGS$
 $= 400,000 + 40,000 - 400,000$
 $= \text{Kshs. } 40,000$

28. INCOMPLETE RECORDS

1. *Determine the purchase for the year*

Total Creditors acc

Discount received	12 000	Balance b/d	445 000
Returns outwards	25 000	Credit purchase	1 612 000
Cash paid	1 400 000		
Bal c/d	<u>620 000</u>		
	<u>2 057 000</u>		<u>2 057 000</u>

Credit purchases 1 612 000

Cash purchase(add) 800 000

Total purchase 2 412 000

- 2.

MALEYA TRADERS STATEMENT OF AFFAIRS AS at 31 st December, 2004			
Kshs.		Kshs.	
Assets		Liabilities	
Stock	8,000	Creditors	6,000
Cash at bank	4,000		
Premises	<u>90,000</u>	Capital	<u>96,000</u>
	<u>102,000</u>		<u>102,000</u>

3. (a) *Statement of affairs 31st Dec. 2009*

RODI TRADERS STATEMENT OF AFFAIRS AS AT 31 ST DEC. 2009			
<u>Assets</u>		<u>Liabilities</u>	
Debtors	30,000	Creditors	50,000
Buildings	870,000	Bank overdraft	80,000
Salaries prepaid	10,000	Rent due	10,000
		Capital	<u>70,000</u>
			<u>910,000</u>

(b) *Prepare net profit*

closing capital – opening capital
 770,000 – 550,000 = kshs. 22,000

4.

Balance sheet	Statement of affairs
<ul style="list-style-type: none"> • Actual values of items listed • Items listed as fixed long term and short term • Actual presentation of book –keeping equations • Prepared from complete end year records 	<ul style="list-style-type: none"> • Values are estimated • Items not listed as long term, fixed or short term • Book keeping equation employed to determine capital • Prepared from incomplete records

29. **MONEY AND BANKING**

1. - when one has a large amount of money with no immediate use
 - Where one has a financial obligation to meet at a future date
 - Where one intends to use it as collation/security.
 - Where a trader wants to earn interest from the fixed deposit account.

2. -Medium of exchange
 -Measure of value / unit of account
 -Standard of deferred payment
 - Store of value

3.
 - (i) They charge higher interest rates
 - (ii) They require collateral
 - (iii) Long procedure is followed

4.
 - (i) Lack of standard measure of value.
 - (ii) Indivisibility of commodities.
 - (iii) Problem of storage.
 - (iv) Requires double coincidence of wants.
 - (v) Some commodities are bulky / difficult to carry.
 - (vi) Lack of unit of account.
 - (vii)** Lack of standard of deferred payment.

5.
 - (a) Need to hold money to cater for future unforeseen eventualities
 - Precautionary motive
 - (b) Need to have money to cater for daily expenses
 - Transaction motive
 - (c) Need to have money with hope that prices will fall in future in order to purchase more
 - Speculative motive

6.
 - Keeping government accounts/records/ maintain accounts of government departments
 - Manage public debt on behalf of government
 - Financial advisor to the government
 - Guarantee government credits arising from internal borrowing
 - Make local and international financial transactions on behalf of the government

7.
 - It is very fast to withdraw money
 - It minimizes theft and fraud
 - It is easy to deposit money
 - Money transfer is facilitated

8.
 - Currency notes and coins
 - Securities and bonds
 - Demand deposits

9. - Transaction motive
 - Precautionary motive
 - Speculative motive

10.

Commercial banks	Non- bank commercial institutions
a)provide current accounts	a)Do not provide current accounts
b)provide short term and medium term finance	b)provide medium and long term finance
c)provide loans for unspecified exchange	c)provide loans for specified activity
d)provide foreign exchange transactions	d)do not provide foreign exchange transaction
e) Provide finance for working capital	e) Provide finance for capital development
f) Do not participate capital markets	f) Participate in capital markets

11. - provide short term/long time finance to member nations
 - provide support for debt relief/poverty reduction
 - helps poor member access international capital
 - provide technical service/advice to member nations
 -provide forum for international consultation by countries on monetary issues
 - ensure stability on international monetary system

30. PUBLIC FINANCE

- 1 -Crowding effect
 -Interfere with the ability of people to spend
 -Strings attached/forced to meet conditionality
 -Future incomes are committed hence inadequate funds for development
 -High wastes are likely due to corrupt
2. i) Principle of equity
 ii) Principle of diversity
 iii) Principle of convenience
 iv) Principle of economy
 v) Principle of flexibility/elasticity

- vi) Principle of certainty
 - vii) Principle of social benefit
 - viii) Principle of simplicity
3. - To raise government revenue
-To control consumption of harmful products
-To re-distribute income
-To control the level of imports
-To influence the allocation of resources/control business activities
-To control inflation by reducing disposal income/prices
4. - External borrowing e.g. from IMF and World Bank
- Solicit for foreign grants/donations/aids from donor countries
- Reduce government expenditure through cost-cutting measures
- Sale and lease back of public assets
- Introducing new taxation of selected goods
4. -Excise duty
- estate duty
- customs duty
- corporate tax
5. - Equitability
- Convenience
- Elasticity
- Flexibility
- Diversity
6. - Equitable
- Certain
- Convenient
- Elastic
- Flexible
- Economic

7. Progressive taxes | Regressive taxes
Progressive taxes are those taxes whose | -Regressive taxes are those whose

Rate of tax increase with increase in rate of tax payable falls as the tax base increases the burden of the tax falls more heavily on low income earners than on high income earners eg. VAT

8.
 - o Economical in collection
 - o Tax revenue is certain
 - o Does not affect the price of goods
 - o Brings about redistribution of wealth
 - o Simple to understand
 - o It is elastic
 - o Society is conscious i.e. people are aware that they are paying tax
9.
 - . Local cess
 - Granted of donation by central government
 - Fees for services rendered to public
 - Income from properties of local authorities
 - Income from government properties e.g. parks
 - Rates on land

31. INFLATION

1.
 - Imports will become so expensive
 - Income from abroad will dwindle/diminish
 - Imported inflation may set in
 - Local investment becomes very expensive
2.
 - Reduction in profit due to rise in price and reduced sales volume
 - Wastage of time when for reasonable prices around
 - Decline in standards of living due to decrease purchasing power
 - Loss to creditors
 - Retardation of economic growth as people are reluctant to take risks
 - Adverse effects on the balance of payment as export becomes more expensive leading to a fall in their demand

- Loss of confidence in monetary system
3.
 - Increase in money incomes/salaries and wages
 - Lower taxation on personal income
 - General shortages of goods and services
 - Effects of credit creation by commercial banks
 4.
 - Reducing tax on inputs
 - Restricting imports
 - Wage harmonization measures
 - Price harmonization
 5.
 - Encourages investment
 - Creating employment
 - Creates improvement to infrastructure
 - Motivation to work
 - Benefits to both the sellers and debtors
 6.
 - Reduction in profits
 - Wastage of time
 - Increases in wages and salaries
 - Decline in standard of living
 - Loss to creditors
 - Retardation of economic growth
 7.
 - i) It causes a deficit in the balance of payment
 - ii) It weakens a country's currency hence discouraging savings
 - iii) It discourages investment due to reduced savings
 - iv) It may cause industrial unrest
 - v) It cause decreased standards of living
 - vi) It hampers development plans
 - vii) It leads o uneven distribution of income

32. INTERNATIONAL TRADE

1.
 - i)Free of All Expenses
 - ii)Or Nearest Offer

iii) Cash With Order

iv) I Owe You

- 2. - Promote communication in the region
- Promote trade
- Promote tourism
- Encourage both human and capital investment.
- Increases free flow of goods and services in the region
- Maximum utilization of resources

- 3. -Encouragement of exports
 - Reduction in export duties
 - Subsidies to export industries
 - Reduction in imports
 - Imposition of new imports duties and enhancement of existing import duties
 - Import quota system
 - Import prohibition

- 4. (i) Lack of knowledge of foreign markets
- (ii) Language barrier
- (iii) Difference in currency
- (iv) Long distance involved
- (v) Restrictions and controls imposed by countries
- (vi) Differences in weights and measurement

5.

	Level
	Custom union
	Economic union
	Free trade area
	Common market

- 6. (i) Wider market for her export goods
- (ii) availability of products

- (iii) Increased mobility of factors of production e.g. labour and capital
- (iv) Higher quality of products due to specialization and competition
- (v) Creation of more opportunities
- (vi) promotes peace with trading partners
- (vii) Cheaper import goods

7. -Indent

- Bill of lading
- Letter of credit
- Certificate of origin

8. i) Produce similar products i.e. due to similar climatic conditions

ii) Poor infrastructure i.e. hinders free flow of goods and services

iii) Differences in currencies i.e. the exchange rate is varied and needs to be converted

iv) Port congestion due to increase volume of trade there by slowing down the flow of inputs and exports

v) Refugees e.g there is a middle influx of refugees from neighboring countries due to political instability eg. Rwanda

vi) Mistrust among the member states i.e. the feeling that one is gaining more than the other

33. ECONOMIC DEVELOPMENT AND PLANNING

1. - In accurate data

- Existence of large subsistence sector.
- Lack of qualified personnel.
- Problem of the private sector
- Reliance on donor funding
- Lack of domestic resources
- Failure to involve local people in planning
- Natural calamities.

2. ***Four obstacles faced by the Kenyan government in realizing its development planning ;***

-Lack of accurate data

-Lack of qualified personnel

-Lack of resources

-Failure to involve stakeholders

-Bureaucracy

-Lack of political will

3. ***Indicators of underdevelopment.***

-High level of poverty

-High population growth rate

-Poor diet/malnutrition/poor health

- Dominance of foreign investors in the local economy

-Rural-Urban migration

-Balance of trade deficits

-Unstable political/social institution

-Poor infrastructure

-Unequal distribution of income

-High levels of unemployment

-Low per capital income/low savings

-Problems of dual economy

4. --High level of poverty

-Disparity in income distribution

-Low level of savings and investments

-High population growth rate

-Dominance of subsistence sector

-Problem of unemployment

Under utilization of natural resource

-Dependence on the developed countries

-Low labour productivity

5. - Elimination or reduction of poverty

- Provision of human needs

- Reduction of disparities in income distribution

- Provision of opportunities e.g. employment and self advancement

6. i) It ensures that a country's resources are utilized to the maximum

ii) It helps to prioritize investment decisions

iii) The country is better able to negotiate with donors for foreign aid

- iv) It buys about balanced development in the country
- v) It ensures that there is more equitable distribution of income
- vi) It ensures economic stability over a long period of time

7. - It should be comprehensive
- It should address problems facing the community
 - Should set targets that are achievable
 - Should be supported by the community
 - Should be prepared based on the available resources
 - Should be economical to prepare, implement and administer
 - Should be flexible

SECTION II : PAPER TWO

01 – PRODUCTION

1.

DIRECT PRODUCTION	INDIRECT PRODUCTION
i)small output/production	i)large scale production/output
ii)limited division of labour and specialization	ii)uses/enhances division of labour/specialization
iii)goods/services produced not for sale	iii)goods/services produced are mainly for sale
iv)production of low/poor quality goods	iv)goods/services produced are of high quality
v)uses simple technology	v)employ modern technology
vi)pronounced in developing countries	vi)more pronounced in developed economies
vii)produces limited variety of goods/services	vii)produced wide variety of goods and services
viii)less interdependent among producers	viii)more interdependent among producers

02. ENTREPRENEURSHIP

1. - Creation of employment.
- Exploitation of resources.
- Promotion of technology.
- Promotion of entrepreneur/culture.
- Formation of capital/joining.

- Increase of consumers' choice.
 - Development of infrastructure.
 - Foreign exchange earnings and conservation
- 2.
- Creation of employment/jobs by absorbing people who would otherwise be jobless
 - Formation of capital through profits which may be used to expand the business
 - Reducing rural-urban migration as businesses in rural area offer employment opportunities
 - Raising standards of living through receipt of salaries and wages as well as availing a variety of quality goods and services
 - Saving on imports as entrepreneurs are able to produce goods and services that are substitutes to imports
 - Improving infrastructure through improvement of roads and security by the government
 - Reducing foreign dominance of the economy by increasing the participation of local entrepreneurs in various business activities
 - Making use of local resources which would otherwise be idle or thought to be a waste
 - Promotion of technology through the entrepreneurs creativity and innovation
 - Promotion of entrepreneurial culture by using successful entrepreneurs as role models
- 3.
- Cultural practices that does not allow individuals to be successful
 - Teachers do not encourage their student to be entrepreneurs
 - Lack of relevant business courses in schools
 - Lack of role models in the society
 - Peer group influence the way people act
 - Lack of financial and business consultancy institution
 - HIV/AIDS is becoming a de-motivating factor
 - Gender discrimination in many African traditions
- 4.
- Fall in volume of exports – rely on primary/agricultural products usually affected by draught yielding low production hence low exports hence reduced foreign earning
 - Deteriorating terms trade – value of exports are low relative to the value of imports hence pay more than the foreign earned
 - Less capital inflow compared to outflow- they usually borrow money from developed countries at repay at high interest rates creating a net capital out flow.
 - Devaluation policy – devaluation of local currency makes exports cheaper to foreigners and hence an increase in the cost importation

-Increase in import volume of capital goods and industrial raw materials for development purposes. This increases expenditure on foreign good.

5. - Wrong choice of business: Evaluate your business in terms of acceptability, finance, time, market e.t.c.
 - Availability of finances and inadequate finances: Business take time before they can generate profits. It is then important to have enough money
 - Failure to understand the market: You need to understand the market trends e.g. are a product seasonal, target consumers, competitors e.t.c.
 - Poor pricing: Not too low as to realize losses and not too high for the target consumers
 - Competition: Always try to stay ahead of your competitors by doing the normal things in a different and appealing way e.g. packaging
 - Ignoring consumers needs: always strive to satisfy your customers
 - Poor location
 - Poor planning
 - Ineffective or poor marketing
 - Poor time management
 - Poor record keeping

03. THE OFFICE

1. - Easy retrieval of documents
 - Office very tidy
 - Documents safe
 - Documents kept neat
 - Documents kept away from unauthorized persons
 - Saving on space
 - Information of future reference is kept
 - Filed documents used as evidence in cases of dispute

2. - Cost of buying the machine if its affordable
 - Availability of spare parts – if they are readily available
 - Durability – consider if it can last long
 - Effect on staff morale – consider staff attitude i.e. Positive /negative
 - Adaptability /extent of use, consider to cope with future changes and development it can serve more than one purpose

- Service personnel- consider whether there are qualified personnel to service/repair the equipment

3 -No close supervision of workers since the supervisor and workers are separated by a wall

- Because of many walls, a closed office is expensive to build and maintain
- Since presence of workers is not easy to monitor, absentism is encouraged
- A lot of time is wasted as workers move from office to office making consultation
- Encourages laxity in offices due to lack of close supervision
- Office equipment

4. - Information is stored systematically for future reference

- It provides continuity in records by maintaining safety and security of documents
- It enables one to keep the office tidy and work efficiently
- It is economical on space and material
- Presentable output
- Stores large volumes of information
- It protects against the problem of documents being misplaced

5. - Cost-critical maintenance and running costs

- Adaptability-able to cope with future changes
- Possibility of hiring rather than buying-convenience and cost of buying as opposed to hiring
- Durability the life span of the machine
- Effect on staff morale-the attitude of staff towards the equipment is threaten their job security
- Availability of complementary resources-e.g. spare parts and electricity /power availability
- Availability of manpower-the personnel required to run or operate the equipment
./affordability training costs
- Security of the equipment -whether the available resources are adequate to offer enough security of the document
- Accuracy-use should result in neat and presentable work in the office
- Flexibility-equipment should be able to handle greater and varied work load
- Prestige- equipment being efficient and effective one portraying a good image to the visitors

04. FORMS OF BUSINESS UNITS

1. - Has limited liability/shareholders debts do not go beyond their contribution

- Separate legal entity/firm and share holders act as different entities
- Perpetual succession-death of a member does not lead to dissolution
- Earn dividends/shareholders earn dividends when the firm makes profits
- Free sale of share/an investors may buy or sell shares as he wishes
- Professional management-can employ highly qualified personnel leading to high profits

2. (i) Working Capital = CA - CL
 = 110,000 – 60,000
 = 50,000

(ii) C. Employed = FA + WC
 = 350,000 + 94,000
 = 444,000

3.

<i>PUBLIC</i>	<i>LTD</i>
i)Initial capital usually provided by the government	i)Initial capital raised through share capital contribution
ii)Enacted through legislation by an act of parliament	ii)Established by promotes through companies act
iii)Managed by board of directors appointed by the government	iii)managed by board of directors elected by share holders
iv)Not profit geared	iv)operate in order to make profit
v)Profit paid as divided to government	v)profit distributed to share holders as dividends

4. - Shareholders contact a broker/agents notifying of intended sale
- Share holders surrender the original share certificate to the broker/agent
 - Share holder sign transfer form
 - Shareholder give the price he expects for the shares
 - The broker/agents verifies ownership of the share/ownership is verified
 - The broker/agent gets buyer for the shares
 - Shares are sold/paid for

5. (i) Competition - There had been steady rise in the level of competition from commercial banks

which have encroached into the traditional role of the savings and credit co-operatives. Many micro-finance institutions have also joined the field to provide the same services as those of SACCO .

- (ii) Managerial challenges – Most of the co-operative societies have experienced managerial which in some cases have nearly cause near collapse of some of the societies
 - (iii) Delayed remittance – some employers have been delaying remitting members deductions to the society. This has affected the society’s cash flow affecting the society lending programs. Members may take for long to get the loans as a result.
 - (iv) HIV/AIDS – The scourge has affected many members. The society spend a lot of money in assisting the families affected though, for example , offsetting or writing off of loans.
 - (v) government policy – The government through the Ministry of co-operatives has been regulating the sector. sometimes the government may design some policies that will affect the members or society adversely e.g. 1/3 rule
 - (vi) Political interference - especially during the elections of officials, some politicians support their friends to be elected
6. - Reduction in government expenditure – Government ceases to have the obligation of subsidizing losses made by the corporations
- Increased efficiency – This is because privatized firms are subject to completion
 - Avoidance of political interference – No room for appoint of unqualified managers on political grounds
 - Attract foreign investors
 - Increased foreign exchange earnings
 - Allowance for wider participation
 - Increased innovativeness – carry out research into better methods of production, organization and marketing
7. -At least two and a maximum of 50 members for a private company while at least seven members are required for a public limited company and no maximum
- Private limited companies are not allowed to advertise sale of share where as public limited companies are allowed
 - Unlike private limited companies, shares of public limited companies are quoted and can be sold through the stock exchange

- Whereas public limited companies must wait for a certificate of trading to commence, private limited companies are allowed to commence business upon receipt of certificate of incorporation
 - Unlike public limited companies which must have at least two directors, private limited companies can be allowed to have only one director
 - Whereas there is no age limit for directors of a private limited company, directors of public limited companies must retire at 75 years
 - Unlike private limited companies, public limited companies must publish books of accounts in newspapers
- 8.
- To restructure it for more efficiency and effectiveness to generate more profits
 - To eliminate unnecessary positions and reduce the staff in order to achieve economic number and quality
 - In order to improve on quality and quantity to increase customer's choice in terms of g/s available
 - To make it more competitive in service provisions hence lowering of prices to advantage customers
 - To appoint and employ directors without political influence but on merit
 - To improve on accountability of directors sand to managers
 - To make it profit oriented and hence efficiency
 - To improve on customer service
- 9.
- Bankrupt
 - Ultra- vires
 - Amalgamation
 - Court order
 - Decision by share holders
 - Completion of intended purpose/ period

10. PUBLIC LTD CO.	PUBLIC CORPORATION
i) Formed under companies Act	Formed by Act of parliament
ii) Managed by board of Directors Appointed by shareholders.	Managed by Board of directors Appointed by the minister/govt/ Parliament
iii) Initial capital contributed by shareholders	Initial Capital contributed by the Government
iv) Formed with an aim of making profit	Formed with an aim of providing Goods/services to the public
v) Profits made is shared among shareholders	Profits made goes to the government

11.

PUBLIC LIMITED COMPANY	PRIVATE LIMITED COMPANY
Formed by a minimum of 7 and no set maximum	Can be formed by between 2-50
Can start business only after getting a certificate of trading	Can start business soon after receiving the certificate of incorporation [Certificate of registration
Can be managed by one or two directors	Managed by a board of directors
Advertises and invites the public to subscribe for its shares	Does not advertise its shares to the public
Shares are freely transferable from one person to another	Restricts transfer of shares. Shareholders can only sell their shares with consent of other share holders

- 12.
- SACCO will enable her to save
 - Profits made by the SACCO will be distributed to her and members as dividends
 - Katura can obtain a loan from the SACCO at low interest rates
 - Incase Katwa dies the outstanding loans are written off
 - Katwa can obtain different types/ categories of loans from the SACCO
 - Loans can easily be obtained as formalities/ procedures involved are few
 - SACCO’s offer education to members

05. GOVERNMENT AND BUSSINESS

- 1.
- (i) Setting up standards by Kenya Bureau of Standard (KEBS) to ensure that commodities produced and being sold meet the desired qualities and standards.
 - (ii) Weight and measures act to ensure that equipment used for measuring are correct and accurate
 - (iii) Licensing to ensure that there is control on the type of business carried out
 - (iv) Food and drugs act to ensure that producers and traders do not include any substance in the commodities that they sell to the consumers which might have harmful effects on the consumers’ health
 - (v) Trade descriptions Act/ sale of goods act to ensure that a producer or a trader does not cheat the consumers by providing false descriptions of commodities
 - (vi) Public health Act to ensure that commodities offered for sale are hygienic and of good quality
 - (vii) Price control to ensure that essential goods and services prices don’t go beyond a certain limit

- (viii) Rent and Tribunal Act to ensure that tenants are not overcharged by land lords
- 2.
- (i) Setting up standards by Kenya Bureau of Standard (KEBS) to ensure that commodities produced and being sold meet the desired qualities and standards.
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 - (v) Price control to ensure that essential goods and services prices don't go beyond a certain limit
 - (vi) Rent and Tribunal Act to ensure that tenants are not overcharged by land lords
- 3.
- Regulation – The government regulates business activities through licensing, ensuring standards and legislation
 - Training – The government trains business people in various institutions in the country
 - Trade promotion – The government promotes trade by ensuring that there is variety of goods and services traded in locally and internationally. There are measures instituted by the government to promote trade at both domestic and international levels
 - Provision of public utilities – Provides essential services like water, transport, sewerage, power communication e.t.c. which are provided either central government or local authorities
 - Provision of enabling environment – Ensures that there is conducive environment for business activities e.g. by giving subsidies and incentives to traders, protecting traders and guaranteeing them for loans locally and on international level
- 4.
- Provide security
 - Provide basic infrastructure
 - Fair taxation/tax concession

- Eradicate corruption
- Control inflation
- Accessibility to finance
- Reduce beaurocracy in registration
- No splitting

5. . Explore and identify new markets for more export opportunities

- research and analyse markets for exports from their home countries
- keep statistics of products i.e. volume , packaging sizes and methods of manufacturing
- attend meetings seminars and workshops on trade patterns of the trading countries/on behalf of exporters
- publish and advertise their country's exports in business journals of magazines
- select buyers ,agents and distributors of the home country's exports
- inform traders of their home countries of the standards required for exports

06. TRANSPORT

1. (i) Road damage has due to reduced heavy tankers on roads.
(ii) Reduces road accident as congestion to tankers on roads has reduced
(iii) Environmental pollution has reduced as pipes do not emit gases/smoke from tankers has reduced.
(iv) Cost of handling oil has reduced since few workers are employed.
(v) Large volumes of oil are transported within a very short time.
(vi) Ensures regular supply of oil hence reducing shortage.
(vii) Pilferages of oil has reduced since pipe are very hard to break.
Cheap to maintain the pipes after construction.
Pipes are not easily affected by poor weather as they are permanently fixed

2. - In case the goods transported are heavy and bulky
- In case goods require security because cases of the ft and accidents are minimal
 - Rail transport is cheap and economical over long distance
 - Railway station have warehouse to store goods before they are collected by owners
 - In case the trader wants to make advance planning for movement of goods because trains follow regular time table
 - Railway station, have many cargo handling facilities for leading and offloading /saves time

- Railway authority have own mother vehicle delivery service from their railway station
- 3.
- Nature of production and its value
 - The nature of the market for goods in question
 - Distance separating producers
 - Cost of transport
 - In availability of intermediaries
 - Resources and size of the firm
 - Availability of the channel
 - Government policy
 - Competitors
 - Nature of the manufacture
- 4.
- After the initial cost of establishment the cost of operation is relatively low
 - Economical for transporting heavy and bulky goods over along distance
 - Trains carry a large volume of goods and a large number of goods
 - Trains have special facilities for carrying special type of goods e.g. gas, petrol, and vehicles
 - They enable the transporters to plan for the transport of his/ her goods coz they follow a scheduled fixed timetable
 - They are relatively secure as cases of theft and accidents are rare
 - Can deliver goods up to the customers premises i.e. shunting services are available
- 5.
- It is environmental friendly/ reduces pollution / causes less pollution as there is no emission of waste gases
 - Operating costs are low running costs / less administrative costs as it requires less / little labour
 - It is a faster mode because it is not affected by congestion / not affected by weather
 - It is not prone to accidents / reduces road accidents as it is mostly underground / as no interruption with other traffic
 - It reduces the number of tankers/ congestion on the roads and thus minimizing damage of the roads
 - Problem of arranging for return load do not arise as pipeline is one way (flow from the source of destination) as there is permanent connection between the source and destination
 - It is a relatively secure mode of transport in relation to these / pilferage/ as it is easy to monitor

- Large volumes of oil will be transported within a given time
- It is easy to construct / the cost is only incurred once
- It has low maintenance cost / easy to maintain as the expenses of maintaining the way/ unit of carriage are minimized
- Shortage of oil are reduced, as there is continuous flow
- Time saving for road users as there is less congestion / less traffic / jam / fewer tankers on the road

07. COMMUNICATION

- 1 -Faster communication
 - Can be used to remit/transfer of money
 - Can send written messages
 - They are portable
 - Accessible for 24hrs /continuous
 - You can access internet from anywhere
 - You can use for alteration

2. (i) Better Performance – Goods & objectives will be known hence workers will work towards achieving them.
(ii) Efficiency – Workers are able to increase productivity when communication is appropriate.
(iii) Better management - The information will be used for better planning / control. (Easy decision making).
(iv) Proper use of resources – Thus redeeming time and effort wastage.
(v) Improved customer relations – The firm will be able to establish customer needs /eliminating customer dissatisfaction.
(vi) Coordination – Irrespective of distance /would thus enhancing teamwork.

3. - May be difficult to interpret in the absence of written or spoken word
 - May require additional or specialized skills of comprehension and interpretation
 - Expensive way of communication as it needs some skills
 - There is no feed back
 - Limited coverage as it serves small audience who are accessible
 - Meaning of some symbols may not be understood

4. - It is portable hence convenient

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- Has short message services
- Can be used for other purposes e.g. calculator
- Can be used anywhere when there is network
- Affordable/ cheap
- Can be used for strong information

5. - Lack of common language for both sender and the receiver
- Use of technical /difference language-which receiver may not fully understand
 - Wide age gap between the receivers and sender
 - Poor timing-when one may not be ready to receive the message
 - Use of incorrect/inappropriate means-leading to distortion of the message
 - Negative attitudes-of one of the two communication parties
 - Several messages passed through few or one channel
 - Poor listening skills-one of the parties failing to listen properly
 - Bad weather-means being used is affected by bad weather
 - Difference in social status of the communicating parties-and are not considered to each other positions
 - Unavailability /ineffective infrastructure e.g. land lines/optic cable for cheap internet connections
 - Distraction by noise, light smell etc (mention 1mk, explain 1mk,otherwise 2mks)

08. WAREHOUSING

1. (i) Ensuring proper/adequate handling equipments to handle goods safely/easily.
- (ii) Ensuring that staff /workers/ management are well trained/motivated hence improving performance.
- (iii) Providing sufficient loading/offloading area/space to avoid congestion/delays.
- (iv) Ensures regulate security towards theft of goods/safety of personnel.
- (v) Ensure that there are adequate /Proper storage facilities to cater for special / different types of goods.
- (vi) Ensure proper file record keeping to monitor movement.
- (vii) Ensure safety measures/ take care of pests / fire/ water to avoid damage/losses.
- (viii) Ensure proper use of space/arrangement of goods to allow easy movement of goods.
- (ix) Ensure that public health requirements are met for smooth operations.
- (x) Use requirement for smooth running.
- (xi) Adequate communication facilities for effective communication.

(xii) Adequate transport/better road to move goods.

09. INSURANCE

1.
 - (i) Where the policy has elapsed due to non-payment of premiums
 - (ii) Where the occurrence of the risk was not accidental
 - (iii) Where the insured had no insurable interest in the property insured
 - (iv) Where the insurer fails to make a formal claim for compensation
 - (v) Where the cause of the loss has no close relationship with the risk insured

Where the insured failed to disclose all the relevant material facts about the subject insured and he/she is proved

2.
 - Identification of insures
 - Filling in the proposal form
 - Inspection of the subject matter and calculation of premiums
 - Payment of the first premium upon which a binder is issued
 - Issuance of the actual policy by the insurer

3.
 - Saving – The payment of premiums is a kind of saving to the policy holder
 - Security – The policy is security for both the assured and beneficiaries
 - The holder can secure a loan from the insurer without having to pledge for further security
 - Interest/ Bonuses – The policy earns interest or bonuses on the paid up premium
 - Investment – The holder may want to invest more by buying shares in the company
 - Can use the matured amount after the stated period to invest

4.
 - Insurable interest : Insurable interests exists where due to a risk occurring a person is bound to suffer financial loss. A person has insurable interest in his or her own life and property but not in that of his or her mere friend
 - Indemnity: It is the restoration of the insured who suffers loss to his former financial position he or she was before the loss occurred
 - Utmost good faith: (“Uberrima fidei”)

Obligation to both the insurer and the insured to disclose all the relevant material facts relating to the insurance contract

- Proximate cause: The cause of the loss for which a claim for compensation is made should have direct or fairly close connection with the actual or real risk insured against
- Contribution: In case one insures with two or more insurance companies to cover the same risk, the different insurance companies will share proportionately. When it comes to compensating the insured for the loss arising from the occurrence of the risk. N.B In case of life assurance policies each insurance company will for instance in the case of a bodily injury compensate the insured as per its contract with him or her
- Subrogation: Once the insurer has indemnified the insured fully as a result, the insurer acquires all the rights the insured had in the destroyed property

10. PRODUCT PROMOTION

1.
 - o Helps to widen a firm's market and increase sales.
 - o Helps to explain the use of products to customers
 - o Helps to uniform customers new products available in the firm.
 - o Helps to retain customers and market
 - o Helps to counter or correct wrong information about its products.
 - o Attends to customers complaints or grievances.
 - o Inform customers changes in prices of its products.

2.
 - o When a trader has improved the quality of his products
 - When a trader wants to enter new market.
 - When there is stiff competition on the market
 - When the trader wants to retain his existing customers
 - When the trader wants to improve his sales volume.

3.
 - (i) Availability of a wide variety of goods and services to choose from.
 - (ii) Individual consumers tastes & preferences will be catered for.
 - (iii) Consumers are likely to get high quality goods/services due to competition.
 - (iv) Consumers are likely to get goods at competitive prices/lower prices.
 - (v) Aggressive advertisement improves consumer awareness about goods and services.

4.
 - (i) Can explain the details about the products/demonstrate.
 - (ii) Immediate feedback/answers to questions hence clear doubts.
 - (iii) Collect information regarding the demand for the product (market condition).
 - (iv) Can get immediate orders/contacts from customers.
 - (v) Persuade/convince customers to buy a product.
 - (vi) Direct personal contact/personal touch with customers hence improving customer

- (vii) Can be able to make prompt decisions.
- (viii) Can have foods tested/examined for purposes of comparing with those of rivals.

5. Circumstances under which personal selling would be the most appropriate

- (i) When launching a new product as it requires a lot of awareness creation; persuasion and convincing
- (ii) When a product is tailored to meet customer specifications since customers have varying tastes and preferences
- (iii) When demonstration is required especially in technical goods whose operations need to be explained
- (iv) When the value of the product is high in order to avoid the risk of losing the item if other methods are used
- (v) When the organization can afford to finance the sales force since the cost of maintaining the team can be very high
- (vi) Where the market is concentrated in one area as the cost of accessing the market is less

6. o Attendance at the exhibition might have been low

- o People who attend the exhibition may not have been the potential buyers
- o The quality of the goods might not have been impressive compared to those of the competitors
- o The prices of the products might have been too high
- o People attending the exhibition may not have been convinced due to poor salesmanship
- o The economic situation of those attending the trade fair might not have been favourable

7. - Displays – traders neatly arrange their goods to attract potential customers

- Discounts /allowance – price concessions and reductions which makes price of goods relatively cheaper

- Free gifts /bonus – inducements given to buyers who purchase up to a given quantity of specific value

- Credit facilities – These involve giving customers goods on credit so that they pay later

- Shows and exhibitions – where producers take their products to shows and exhibitions

- After sales services – providing extra services to buyers after they have bought goods

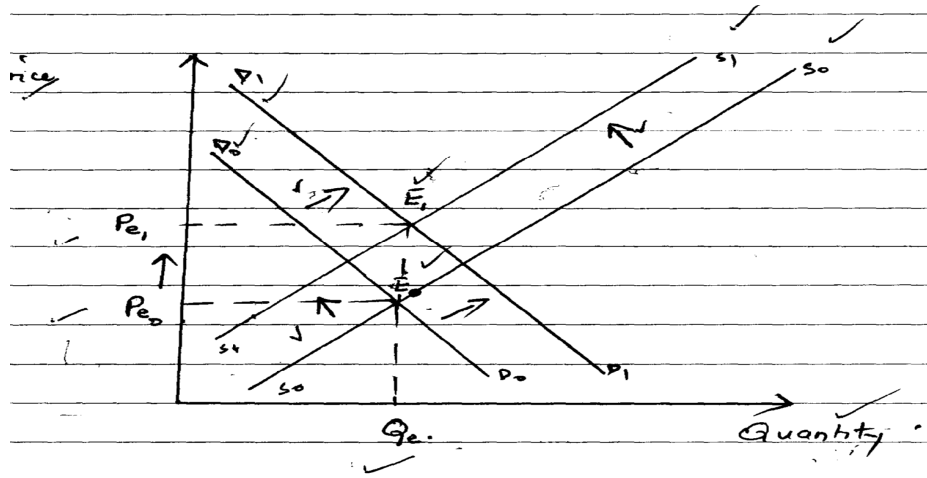
e.g. – transportation, installation, repairs, maintenance

- 8
- The newspapers may not be read/ reach in all where the customers are found/ may not be read/ reach all customers
 - Not all potential customers are able to read (illiterate)
 - The newspapers may be written in a language/ medium that is not familiar to (many) customers e.g. the blind
 - It is expensive to buy newspapers space for advertising/ it is expensive to advertise in newspapers
 - Not many/ all people (actually) buy/ afford newspapers/ (especially people in low income brackets). Newspapers are expensive to buy
 - Newspapers are not able to discriminate between the intended target group and others/ newspapers are read even by non- targeted group / the general readership of the newspapers may lead to waste of advert
 - Newspapers have short life span easily discarded

11. DEMAND AND SUPPLY

1. -Price of other related products might have gone high
 - Favourable government policies like subsidies
 - Introduction of new advanced or appropriate technology
 - When producer expects the price of the product to go low in future
 - When natural factors have favoured production e.g. good rainfall
 - When the goods that are produced seasonally have reacted pt of supply on the market
 - Entry of new firms in the industry
2. ***Using well labeled diagram, explain how excess demand and excess supply can be Experienced in the market***
 - “Excess demand” means quantities demanded by customers are more than quantities that suppliers are able to supply in the market.
 - If price is put at P1, which is above equilibrium price, there would be excess supply in the market. To clear the excess supply, sellers will be compelled to lower their prices towards equilibrium.
 - If the price is set at P2 which is below the equilibrium price, there would be excess demand. The buyers would be forced to increase their prices towards the equilibrium price in order to attract more supply

3. **Effects of an increase on demand and a proportionate decrease in supply on equilibrium price and equilibrium quantity**



Original equilibrium E_0

Original demand curve D_0D_0

Original supply curve S_0S_0

Original equilibrium price and quantity curve P_{e0} and Q_e

With an increase in demand, demand curve D_0D_0 shifts outwards to D_1D_1

Appropriate decrease in supply makes the supply curve S_0S_0 , shifts inwards

The new equilibrium position is at point E_1 he $S_1S_1 = D_1D_1$ with equilibrium quantity remains the same at Q_e and equilibrium price moves form P_{e0} to P_{e1}

12. THE THEORY OF THE FIRM

1.
 - When the finished products are bulky /heavy hence easy to transport to nearby markets.
 - When the finished products are perishable/fragile to avoid breakage e.g eggs
 - When the government policy requires firms to locate at the market.
 - When they offer personal services to the customers.
 - When the market and raw materials are found in one place.
 - When the firma want to have a full control of the market.
 - When a firm wants to reduce the cost of transporting/distributing finished products to the market.

2.
 - Reduced effects of occurrence of war
 - Provision of employment opportunities in rural area
 - Reduces rural urban migration
 - Encourages balanced regional development

-Market for locally produced raw materials

3.
 - Lack of enough capital /small scale required small capital to start
 - Limited size of market
 - Nature of goods and services
 - Government policy
 - Small scale firms are easy to manage
 - Need for personal freedom
 - Need to be self-employed

5.
 - (i) The number of employees- For example, large firms are usually associated with the employment of large number of workers who will adopt the concept of division of labour
 - (ii) Volume of output i.e. the size of a firm is assessed by the volume of its output. For this reason, a firm with high outputs is considered to be large
 - (iii) Capital invested – i.e. the size of a firm can be determined according to capital invested.
The larger the capital the firm in terms of assets the larger the firm is
 - (iv) Floor area i.e. a firm with large floor area covered by premises is said to be relatively large
 - (v) Production methods- For example i.e. specialization and division and division of labour is largely associated with big firms. However, technology levels may also be incorporated here
 - (vi) Markets – For example, a firm with many branches all over the country can be used to be big because it serves so many customers
 - (v) Sales volume/turnover- the amount of sales that a firm within a given period of time determines the size of the firms

6. Factors determining the decision of a firm on what goods and services to produce;
 - Whether the firm is product or market- oriented. Those that concentrate on the functions and quantities of a product are product- oriented while those that produce products that are meant to meet consumer needs are said to be market – oriented
 - Level of completion – Firms should come up with products which consumers prefer in order to survive in a competitive market
 - Level of technology – New inventions and innovations result in new products or improved products
 - Financial viability – The cost of production and the expected returns should be considered to determine whether the product will be viable or not

- Management Role- The management of a firm has the responsibility to determine what to produce
7. Five circumstances under which a firm may be located near the source of raw materials ;
- i) Where the raw material is bulky as compared to the final product
 - ii) Where the raw materials are perishable/ required while still fresh
 - iii) Where the raw materials are located near the product for the finished product
 - iv) Where the government policy requires that such firms be located at the raw materials source to reduce pollution
 - v) Where the raw materials are fragile
 - vi) Where the firm wants to ensure continuous production
 - vii) Where other firms pose a very high /stiff competition for the material
8. Outline any five reasons that account for the popularity of small scale retails in Kenya
- they required little capital to start /easy to raise
 - have few legal formalities to abide by during formation
 - are highly flexible -may change from one form to another depending in profitable
 - low government taxes-enabling them earn high profits
 - have low risks/losses to bear incase of theft, fire outbreak etc
 - have ready market-most of them located in densely populated areas/close to the customers
 - have permanent market due to consumer loyalty brought about by close contact with customers
 - sell fast moving goods hence no dead stock
9. ***Where the demand for the product is low than the firm serving the market would be small***
- The size of the firm may be limited where initial investments required would be very large and the firm may lack such funds
 - The firm may also lack key factors of production such as land expansion and would thus remain small
 - The nature of the product may also limit the size of the firm especially where such a firm offers personal services e.g. hair dressing and law firms
 - The owner of the firm may wish to keep his firm small in order to retain control and independence
 - The owner of the firm may wish to remain small so as to maintain flexibility in order to take

advantage of any new opportunities

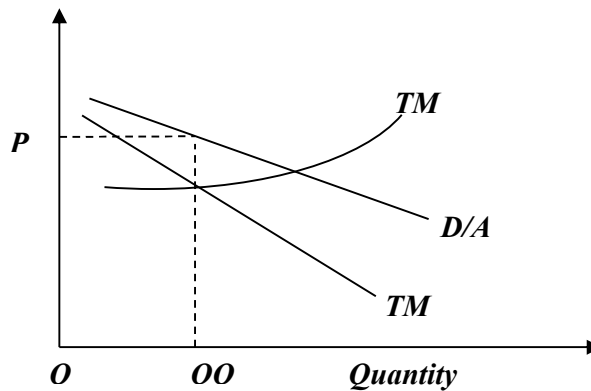
- Where the laws that restrict growth, then the firm would have to remain small
- Need for small capital

13. PRODUCT MARKETS

1. Characteristic of a monopolistic market

- One producer/supplier
- many buyers on the market
- product has no substitute
- no free entry into the market by suppliers
- The producer determines the price on the market.

2.



The cartel will produce where TMC of all the firms in the industry are equal to the TMR hence produce at OQ° and sell at OP°

3.

PERFECT COMPETITION	MONOPOLISTIC COMPETITION
a. Sellers deal in homogeneous product	- Sellers deal in differentiated products
b. are not involved in promotion of products	- Incur heavy expenses in promotion of products
c. it's a price taker	- it's a price setter/giver
d. large number of sellers	- large number of sellers operating independently
e. activities of one firm does not influence the activities of other firms	

4. *a) How a monopolist enjoy supernormal profit in both short run and long run*

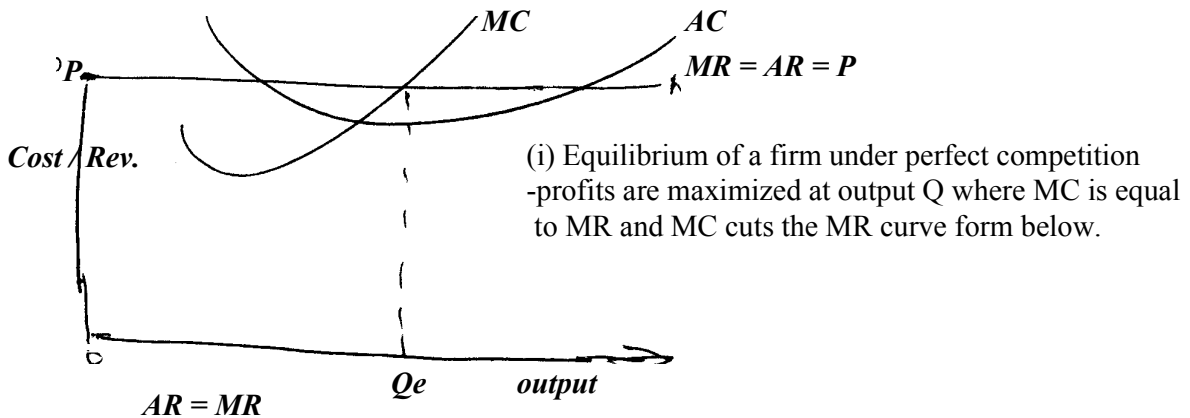
- When a monopoly decides on quantities to produce, consumer will decide the price to buy.
- When the quantity is increased the price falls and vice versa

- Profit is maximized Q when $MR = MC$ and $P = AC = MC = MR$
- Due to increased demand, equilibrium output is sold at X instead of P hence enjoying a super normal profit

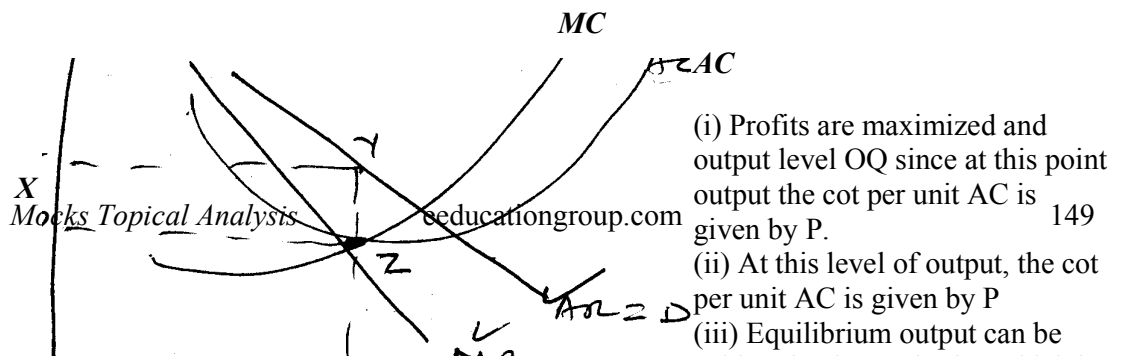
5. **Five distinctions between perfect competition and monopolistic firms**

PERFECT COMPETITION	MONOPOLISTIC
i) firms sell homogenous and identical products	i) firms sell similar but differentiated products
ii) firms are price takers	ii) firms have their own prices
iii) firms demand curve is perfectly elastic	iii) firms have normal demand curve
iv) no heavy expenditures on advertising	heavy expenditure on advertisement
v) no excess capacity in the long run	iv) firms operate excess capacity in the long run
vi) price equals to marginal cost	v) price higher than marginal cost

- A. The firm will be at equilibrium when profits are maximized. This happens at the point where $MR = MC$ and MC curve cuts MR curve from below
- Profits are maximized at level of output OQ and price determined by the demand curve AR at price OP
 - At this Quantity [OQe] and price [OPe] the firm is making supernormal profits



AR is higher than MR



P

Q

14. CHAIN OF DISTRIBUTION

1. *Possible effects that would result if wholesalers were eliminate:*

- (i) Manufactures would set-up distribution centers depots or warehouses which are additional costs to manufacturers
- (ii) The cost of distribution may be increased and the subsequent increase passed on to consumers in form of higher prices
- (iii)The retailers would have to go to manufacturers which is an additional cost to retailers
- (iv)The producers would have to break the bulk because retailers may not be able to buy in large quantities.
- (v) Manufacturers may be required to extend credit facilities to retailers, which require additional financial capital
- (vi)Due to additional functions to producers, it will reduce their specialisation in production
- (vii) Prices may fluctuate due to unsteady flow of goods

2. *Factors to be considered in choosing a particular channel of distribution*

- Where customers are few, the manufacture may use its own sale force and for large number of customers, the manufacturer would use intermediaries

(ii) Geographic concentration of the market/Nature of the market

Where the market is centralized in a few geographical areas, direct distribution is okay. However, seller would use intermediaries in less concentrated markets.

(iii) Order size – It is economically feasible to sell directly to customers who can buy their goods in large quantities. The producers would use intermediaries to sell customers who buy in small quantities

(iv) Unit value of the product – Products of high unit value can be distributed directly to the customers due to higher risks they are likely to be exposed to if longer channels of distribution were used

- (v) Perishability of the product – Products that are subject to physical or fashion, perishable must be sold through short, fast channels hence such goods mostly go directly to the customers
- (vi) Technical nature of the product – Goods of highly technical nature are normally sold directly to the customers as the seller ought to provide considerable pre-sales and after sales service
- (vii) Financial resources – A producer who is financially strong can afford to distribute directly to consumers
- (viii) The intermediaries- Different intermediaries perform different functions, hence a firm should select the channel that would be convenient to it.
- (ix) Competitors – A firm wishing to have its produce compete directly with that of a competitor, would select a channel that the competitor uses and vice versa
- (x) Environmental factors – For example the government laws and regulations may prohibit manufacturers or their own outlets from selling directly to consumers i.e. appointments of the independent distributors may be called for.

3. Circumstances under which a producer sells directly to retailers:-

- Where retailers have their own transport facilities
- Where the government policy required that
- If the commodity is perishable and should take the shortest time to reach the retailer
- Where the retailers are closer to the producers
- Where there are large scale retailers capable of buying in bulk from the producer.
- Where the producer has his own retail outlets
- Where the producer would want to keep down prices
- Where the goods are technical in nature hence require technical advice
- Where the retailer have adequate storage facilities

- 4.
- Nature of production and its value
 - The nature of the market for goods in question
 - Distance separating producers
 - Cost of transport
 - In availability of intermediaries
 - Resources and size of the firm
 - Availability of the channel
 - Government policy
 - Competitors
 - Nature of the manufacture

5. ***Six circumstances a manufacturer may prefer to sell goods directly to consumers;***

-Where goods are expensive for middle men to stock

- Where goods are technical in nature and producer may want to have direct contact with consumers
- Where producer has his own retail outlets and are distributed
- Where the market is localized and producer is close to consumers
- Where goods are perishable and producer wants to deliver them fast to consumers
- Where the goods are produced according to customers specifications or special goods
- Where the producer requires immediate/direct feed back and the costs are cheap
- Where producer is producing a small output hence no need for middle men
- Where the producer wants to maximize profits by by-passing for middlemen
- Where the goods are in very low demand e.g. demand for planes /ships
- Where has enough/adequate storage –for safety of goods to facilitate continuous production
- Where goods do not require bulk breaking –hence does not incur cost/burden of breaking bulk
- Where it is a government policy to distribute directly to consumers e.g. subsidized maize flour by NCPB

15. **NATIONAL INCOME**

1. ***Uses of national income statistics to an economy;***

- i. Use to measure rate of economic growth of a country. When output figures are high it means productivity has improved.
- ii. Helps the government to plan its economy since it provides useful information required by planners.
- iii. Used to compare the standards of living of people in a country. By comparing the per capita figures.
- iv. Help the country to know the size and contribution of various sectors to national income hence can take appropriate measures to improve them.
- v. Shows the progress of the of the economy over a given period by comparing national income statistics over given period.

2. ***Factors that contribute to this disparity in income distribution***

- Disparity in natural resources endowment
- Inheritance

- Corruption
- Disparity in access to education
- Differences in individual and personal talents
- Nepotism is rampantly used in security good job opportunity
- People get wealth through illegal means /robbery

3. ***Five limitations of using per capita income as a measure of the standard of living in a country ;***

- Inaccurate national income data-if the national income statistics are inaccurate then the per capita income will also be wrong
- inaccurate population data-if the population data is understated or overstated, then the per capita income will be relatively high or low respectively
- Inequity in income distribution-although the per capita income figure might appear to be high, the income could be in the hands of a few people
- Changes in the value of money over time-although the per capita income might appear to be high, the rate of inflation could also be very high
- Inappropriate application of national income. The per capita income might appear to be high but most of the income might have been used in a way that did not benefit the public
- Effect on people's health-high per capita income in a country could have been achieved at the expense of people's health
- Effect of leisure-high per capita income could have been achieved at the expense of leisure
- Non marketed output-the per capita income might appear to be low but there could be a lot of output in the subsistence sector that has not been accounted for
- The per capita income may not account for the negative impact on the environment when that income was being generated

4. ***Five problems that are encountered in measuring National income in your country***

- Determining what to include and what not to include e.g. illegal activities/non marketed production activities to be included
- How to value subsistence production and non-marketed production activities to be valued
- Inadequate/inaccurate data as all production activities may be valued
- Lack of qualified personnel to collect and compile data
- Lack of adequate resources to finance the gathering of relevant information

- Danger of double counting where there are transfer payment e.g. students, grants, pension, where the value of intermediate goods are involved
- Problem using market price where indirect taxes and subsidies have to be taken care of
- Appreciation in the value of assets over the years
- Problem of estimating depreciation when calculation met national income.

5. ***(a) Limitations of using per capita income to compare standards of living for people in different countries (1mk naming, otherwise 2mks)***

- Inequality in income distribution – Per capita income in one country may be high but in the hands of every few people while another country may have lower per capita income but evenly distributed
- Inappropriate application of national income per capita income in one country may be high but used in a way that does not benefit citizens while in another country it may be used to finance project that benefit the masses directly
- Effects on people's health
- High per capita income in one country could be achieved at the expense of people's health and unconstructive working conditions.
- Different interpretations of national income one country may interpret per capita income as GDP while another country as NNP at factor product
- Non-marketed output - A country heavily relying on subsistence sector of un-marketed output compared with another.
- Price structure – This may be different in different countries e.g. food stuffs may be cheaper in one country compared to another
- Use of different currencies – The values of different countries cannot be accurately through exchange rates/change in values of money
- - Different tastes, lifestyles and cultures in different countries
- Different in government expenditure from revenue collected in different countries
- Different levels and sizes of subsistence sector
- Inaccurate data collection used in the calculating of national income
- Different political system and ideologies which influence the outcome at national income

6. ***Reasons as to why a high national income may not necessarily mean better welfare for the citizens of a country***

- Uneven income distribution - Where too much of it is in the hands of few citizens and too little for many citizens

- Incorrect statistics – Incorrect statistics could have been used thus getting a wrong and exaggerated value of national income
- No leisure – High income might have been as a result of overworking labour force or even working under difficult circumstances
- The income might have been realized through activities that might have been detrimental to the environment or health of the workers
- Illegal activities – The income might be arising from illegal activities
- High inflation rate – The high income might have been consumed by high levels of inflation hence retarding the purchasing power of citizens

5. **a) i) GNP per capital of the economy**

$$\text{GNP} = C + G + I + X - M$$

$$624000 + 416000 + 300000 + 250000 - 210000$$

$$= \text{Kshs. } \frac{1380000}{40} \quad \begin{array}{l} \text{Million} \\ \text{Million People} \end{array}$$

$$= \text{Kshs.}34000$$

ii) Limitations of using GNP per calite in measuring the standard of living in a country

- National income and wealth is never equally distributed among residents of a country
- Material welfare of people cannot be measured on mathematical scale in the same way as per capital GNP
- Wants and tastes of living people in a country are never exactly the same
- Prices of products in different parts of the country do vary leading to different costs of living
- The purchasing power of people is sometimes lowered through taxes and increased through subsidies
- Sometimes an increase in quality of output is achieved through a decrease in product quality
- Sometimes arise in production is realized through stressful, dangerous and unpleasant working conditions

6. - Determining what to include and what not to indulge e.g. DO – IT YOURSELF SERVICES and illegal activities. Are non- marketed production activities to be included
- How is subsistence production and other non- marked production activities may not be valued
 - Inadequate and accurate date as well as all production activities may not be recorded
 - Lack of qualified personnel to collect and compile data
 - Lack of adequate resources to finance the gathering of relevant information
 - Danger of double counting where there are transfer payments such as student's grants and

pension or where the value of intermediate goods is involved

- Problem of using market prices where indirect taxes and subsidies have to be taken care of
- Appreciation in the value of assets over the years
- Problem of estimating depreciation when calculating Net National Income

16. POPULATION AND EMPLOYMENT

1. *Circumstances under which a high population growth may be desirable*

- A large population provides increased market for goods and services
- It creates a large pool of labour
- It leads to maximum utilization of resource
- It results to high consumption which encourages investment
- Labour becomes cheaper
- Encourages research and invention
- Export promotion
- For defensive purposes

2. *Shortcomings of self employment*

- Possible loss of invested funds
- Long hours of working
- Uncertain income
- Routine chores

3. *Five implications of an ageing population in a country ;*

- Low labour supply/shortage of labour/manpower
- High dependency burden-as many are 65 years and above or as economic population-will shoulder a bigger burden
- Strains on the availability resource to cater for the welfare of the aged e.g. health and homes for the aged
- Underdevelopment-where some resources are not fully exploited
- Low standards of living/low per capita income since national income spread over a large non-productive population
- Production of consumer goods to meet need of the agents at the expense of producer goods
- Less progressive growth of the economy-as old people tend to be conservative/resistant to change

- Reduced labour mobility since most are weak and affected by old-age diseases like diabetes ,high blood pressure etc

4. - To encourage employment creation in the private sectors ;
 - By adopting policies which encourage the use of labour intensive methods of production
 - Improvement of the education system to make it more appropriate to the employment needs of the economy
 -By diversification of economic activities – workers can diversify their economic activities in order to take care of structural and seasonal unemployment
 - Delocalization policy to establish industries in different parts of the country
 - Use of government expenditure to increase size of the economy
 - Attracting both foreign and domestic investment by creating an enabling environment
 - Land reforms measures to stimulate economic activities in the agricultural sector
 - Promotion of self – employment in the formal (jua kali) sector through incentives e.g. credit incentives, low taxes and subsidies
 - Proper utilization of natural resources will create employment opportunities for those involved in their utilization

17. THE LEDGER

1.	Dr. Cash A/c	Cr	Dr. Capital A/c	Cr.
	Jan. Capital 100,000	Jan. Purchases 20,000	Jan. Cash	100,000
		March Bank 60,000		
		June Drawings 10,000		

Dr. Purchases	Cr.
Jan. cash	20,000
May Creditor	70,000

Dr. Sales	Cr.
Feb. Debtors	30,000

Dr. Debtors	Cr.
Feb. Sales 30,000	April. R. Inwards (S.R) 50,000

Dr. Bank	Cr.
March cash	60,000

R. Inwards(S.R)	
April Debtors	50,000

Creditors		Drawings	
May Purchases	70,000	June capital	10,000

2.

Dr		Capital Account		Cr	
Date	Details	Amount	Date	Details	Amount
5/4/07	Bal c/d	80000	1/4/07	Cash	80000
			5/4/07	Bal b/d	

Dr		Cash Account		Cr	
Date	Details	Amount	Date	Details	Amount
1/4/07	Capital	80000	2/4/07	Stationery	4000
			3/4/07	Bank	50000
			5/4/07	Postage stamps	60
			5/4/07	Bal c/d	<u>25940</u>
5/4/07	Bal b/d	<u>80000</u>			<u>80000</u>
		25940			

Dr		Stationery Account		Cr	
Date	Details	Amount	Date	Details	Amount
2/4/07	Cash	<u>4000</u>	5/4/07	Bal c/d	<u>4000</u>
5/4/07	Bal b/	<u>4000</u>			

Dr		Bank Account		Cr	
Date	Details	Amount	Date	Details	Amount
3/4/07	Cash	<u>50000</u>	5/4/07	Bal c/d	<u>50000</u>
5/4/07	Bal b/d	50000			

Dr		Motor vehicle Account		Cr	
----	--	-----------------------	--	----	--

Date	Details	Amount	Date	Details	Amount
4/4/07	Lucy motors	<u>250000</u>	5/4/07	Bal c/d	<u>250000</u>
5/4/07	Bal b/d	<u>250000</u>			

Dr Lucy Motors Account Cr

Date	Details	Amount	Date	Details	Amount
5/4/07	Bal c/d	<u>250000</u>	4/4/07	Motor vehicle	<u>250000</u>
			5/4/07	Bal b/d	250000

Dr Postage Account / Exp accounts Cr

Date	Details	Amount	Date	Details	Amount
5/4/07	Cash	<u>60</u>	5/4/07	Bal c/d	<u>60</u>
5/4/07	Bal b/d	60			

May

Trial balance As at 5/4/2007

Account	Dr (Shs.)	Cr (Shs.)
Capital		80000
Cash	25940	
Stationery	4000	
Bank	50000	
Motor vehicle	250000	
Lucy motors		250000
Postage	60	
	<u>330000</u>	<u>330000</u>

3.

Dr. CAPITAL A/C		Cr.
Dec. 31 Bal. b/d	<u>160,000</u>	Dec. 1 A/C <u>160,000</u>
		Jan Bal b/d 160,000

Dr. Cash A/C		Cr.
Dec. 1 Capital	160,000	Dec. 2 Purchase 120,000
3 sales	126,000	4 electricity 1,000
5 Rent	37,500	6 comm. 6,000
	<u> </u>	7 Bal c/d <u>196,500</u>
	<u>323,500</u>	<u>323,500</u>
	<u> </u>	
Jan 1 bal. b/d	196,500	

Dr. PURCHASE A/C		Cr.
Dec. 2 Cash	<u>120,000</u>	Dec. 30 Bal b/d <u>120,000</u>
Jan. 1 Bal b/d	120,000	<u> </u>

Dr. SALES A/C		Cr.
Dec. 30 Bal. b/d	<u>126,000</u>	Nov. 3 Cash <u>126,000</u>
	<u> </u>	Jan. 1 Bal b/d <u>126,000</u>

Dr. ELECTRICITY A/C		Cr.
Dec. 4 Cash	<u>1,000</u>	Dec. 30 Bal c/d <u>1,000</u>
Jan. 1 Bal b/d	1,000	<u> </u>

Dr. RENT A/C		Cr.
Dec. 30 Bal. c/d	<u>37,500</u>	Dec. 5 Cash <u>37,500</u>
	<u> </u>	Jan. 1 Bal b/d <u>37,500</u>

Dr. DISCOUNT A/C		Cr.
Dec. 6 Cash	<u>6,000</u>	Dec. 30 Bal c/d <u>6,000</u>
Bal b/d	6,000	<u> </u>

NDHIWA TRADERS		
Trial balance as at 31 st Dec. 2008		
Title of Accounts	Debit	Credit
Capital		160,000
Cash	196,500	
Purchases	120,000	
Sales		126,000
Electricity	1,000	
Rent		37,500
discount	<u>6,000</u>	
	<u>323,500</u>	<u>323,500</u>

18. CASH BOOK

1.

Date	Details	L.F	Dis allowed	Cash	Bank	Date	Details	L.F	Dis paid	Cash	Bank
1/3/07	Bal			87,000	250,000	3/3/07	Salaries				101500
2/3/07	Sales			60,000		13/3/07	Furniture				86,000
7/3/07	Henry		4,000		76,000	17/3/07	Marita		8,000	34,200	
20/3/07	Sales			165,000		22/3/07	Wages			25,000	
24/3/07	Bank			32,000		24/3/07	Cash				32,000
29/3/07	Alvin		1,000	<u>16,000</u>		25/3/07	Drawing			4,000	
31/3/07	Cash				<u>272,800</u>	31/3/07	Bank			272,800	
							Bal c/d			<u>24,000</u>	<u>379,300</u>
	Balb/		5,000	<u>360,000</u>	<u>598,800</u>					<u>360,000</u>	<u>598,800</u>
				24,000	379,300						

2.

Date	Part	F	Amount	Date	Part	F	Total	Tel & post	OFF stat	Trav exp	Off exp
July 1	Bank	CB1	4000	July 1	Tax hire		250			250	
				1	Office cleaning		130				130
				2	Postage		210	210			
				2	String		100				100
				3	Parcel		100	100			
				3	Tel bill		900	900			
				4	Envelopes		150		150		
				4	Photo paper		500		500		

8	Bal c/d	4000	5	Bus fare	500			500	
			5	Tell call	50	50			
			6	Window cream	250				250
			6	Bus fare	200				200
			7	Total	3340	<u>1260</u>	<u>650</u>	<u>950</u>	<u>480</u>
				Bal c/d	<u>660</u>				
					4000				
				Off statio	400		400		
			8	Post stam	210	210			
				Tel bill	950	950			
			9	Train fare	600		600	600	
				Taxi fare	250			250	
			9	Off clean	150				150
	Writing p	600							
10	Off duster			300					
	Total	3460	<u>1160</u>	<u>850</u>	<u>850</u>	<u>450</u>			
10	Bal c/d	<u>540</u>							
		<u>4000</u>							
11									
12									
12									
13									

3.

MUMJI ENTERPRISES

PETTY CASH BOOK AS AT

Receipt	Date	Details	Total payments	Traveling	Wages	Stationary	Post	Tea	Misc
7000	1/6	Bal b/d							
33 000	1/6	reimb							
	1/6	wages	5 500		5500				
	1/6	bus fare	1250	1250					
	1/6	sugar	220					220	
	1/6	stamps	150				150		
	2/6	stat	5000			5000			
	3/6	postage	200						
	4/6	leaves	80						
	4/6	expenses	2000						2000
	5/6	coffee	340					340	
	5/6	milk	800					800	

4.

**FURAHA TRADERS
CASH BOOK**

DATE	PARTICULARS	D.A	CASH	BANK	DATE	PARTICULARS	D.R	CASH	BANK
2008					2008				
July 1	Balance b/d		16520	19847	July 5	Transport			2000
					6	Kerio traders	200		9800
10	Cash			15000					
12	Sales	240		11760	10	Bank		15000	
16	Kuria	125		2375	14	Drawing		3000	
24	Bank		8000						
26	Capital		9000		24	Cash			8000
28	Sales	1200	3800		27	Babu traders	1650		14850
30	Cash ©			18320	30	Bank ©		18320	
		1565	<u>37320</u>	<u>67302</u>		Balance c/d		1000	32652
	Balance b/d		<u>1000</u>	<u>32652</u>			1850	37320	67302

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

receipts	date	details	total	trav el	Office exp	Staff tea	stationer y	postag e	sundry	Ledg e a/c
12,000	March	Cash								
	1	Travelling	3500	350						
		Office exp	1000	0	1000					
	3	Postage	1200					1200		
		Staff tea	800			800				
	6	Stationery	2000				2000			
		Office exp	800		800					
	8	Staff tea	1000			1000				
		Sundry	700						700	
	15	exp	900							900
	19	Benson								

			11,900	<u>350</u> <u>0</u>	<u>1800</u>	<u>1800</u>	<u>2000</u>	<u>1200</u>	<u>700</u>	<u>900</u>
	March 31	Bal c/d	100							
<u>12,000</u>			<u>12,000</u>							
100		Bal b/d								

6. **PETTY CASH BOOK**

Receipts	Date	Details	Voucher No.	Total	Wages	Traveling	Stationery	Postage	Miscellaneous
500	2009 Feb 1	Bal b/d Cash							
2000	" 1	Taxi fare		150		150			
	" 2	Wages		250	250				
	" 2	Reams of		125			125		
	" 4	paper		30	250			30	
	" 4	Stamps		250					
	" 7	Wages		40					
	" 7	Envelope		70			40		70
	" 20	Staff tea		56					56
	" 20	Water bill		80					80
	" 28	Electricity		40				40	
	" 28	Stamps		1091	500	150	165	70	206
				1409					
2500	" 28	Bal c/f		2500					

19. SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY

1. *the general journal*

Date	Particulars	Folios	Dr(sh)	Cr (sh)
2009 June	Furniture A/C	G.L	50,000	
	Motor vehicle	G.L	100,000	
	(A record of opening balance of assets)			
2009 June 2	Furniture A/C	G.L	65,000	
	Mwema furniture Ltd	G.L		65,000
	(Being a record of office furniture bought on credit from Mwema furniture Ltd)			
2009 June 10	Omwami garage A/C	G.L	200,000	200,000
	C Motor vehicle A/C	G.L		
	(being a record of credit sale of motor vehicle to Omwami garage)			

2009 June 25	Motor vehicle A/C Purchases (Being a correction of an error of principle)	G.L	750,000	750,000
2009 June 28	Classic academy A/C Computer office Equipment A/C (Being a record of the computer to classic academy)	G.L	15,000	15,000
2009 June 29	Goseta farm A/C Tractor A/C Train on disposal of old tractor (Being a record of old tractor to Goseta farms at a profit)	G.L	250,000	200,000 50,000

2.

TOTAL DEBTORS ACCOUNT

DR		CR	
Balance b/d	24000	Bad debts	2000
Discount disallowed	1000	Discounts allowed	18000
Dishonored cheque	36000	Returns inwards	5600
Credit sales	334600	Cash	298000
	<u>395600</u>	Bal c/d	<u>72000</u>
Balance b/d	72000		<u>395600</u>
Total sales = cash sales + credit sale = 700000 + 334600 = Shs.1,034,600			

3.

TOTAL CREDITORS ACCOUNT

DR		CR	
Returns outwards	10200	Balance c/d	68000
Cash	590000	Credit purchases	621800
Discounts received	6000		
Balance c/d	<u>83600</u>		<u>689800</u>
-	<u>689800</u>	Balance b/d	83600

Total purchases = cash purchases + credit purchases

=483400 + 621800= Shs.1,105,200

4.

Cash receipt journal

<i>Date</i> <i>2009</i>	<i>particulars</i>	<i>Receipt</i> <i>number</i>	<i>Ledger</i> <i>folio</i>	<i>Discount</i> <i>allowed</i>	<i>cash</i>	<i>Bank</i>
June 2	sales	063			50 000 ✓	✓
6	Kemunto	064		3 200 ✓		76 800
18	Bank		C	✓	30 000 ✓	
21	Manwori	065		660	16 500	
30	Sales	066		✓	✓	150 000 ✓
				<u>3860</u>	<u>96 500</u>	<u>226 800</u>

5. **Cash payment journal**

<i>Date</i> <i>2009</i>	<i>particulars</i>	<i>Receipt number</i>	<i>Ledges folio</i>	<i>Discount received</i>	<i>cash</i>	<i>bank</i>
June 3	Salary &wages	083			✓	101 500 ✓
12	Omwabo	0656		800 ✓	39 200	✓
18	Cash		C			30 000 ✓
22	Furniture	734				85 000 ✓
23	Wages	801			24 000	
26	drawings			✓	<u>5 000</u>	✓
				<u>800</u>	<u>68 200</u>	<u>216 500</u>

6.

JAO TRADERS
TRADING AND PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDING 31/12/2008

<i>DR</i>			<i>CR</i>	
Opening stock		60000	Sales	208000
Add purchases	161000		Less returns in	<u>27000</u>
Add carriage	<u>11000</u>			
	172000			181,000
Less returns out	(25000)	147000		

G.A.F.S		207000		
Less closing stock		(72000)		
Cost of sales		135000		
Gross profit c/d		<u>46000</u>		
		<u>181000</u>		
Expenses			<u>181000</u>	
Discount allowed		2000		
Salaries		20000		
Tel charges	5000			Gross profit
Less prepaid	1000	4000		Discount rec
Water bills	2100			Net loss c/d
Add accrued	1300	3300		
Electricity expenses		2000		
Carriage out		10000		
Insurance paid		1000		
Dep on equil ($\frac{10}{100} \times 125000$)		12500		
		<u>54800</u>		
Net loss b/d		800		<u>54800</u>

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

<i>Receipts</i>	<i>Date</i>	<i>Details</i>	<i>Total</i>	<i>Travel</i>	<i>Office Exp</i>	<i>Staff Tea</i>	<i>Stationery</i>	<i>Postage</i>	<i>Sundry</i>	<i>Ledge a/c</i>
<i>12,000</i>	<i>March 1</i>	<i>Cash</i>								
	<i>3</i>	<i>Traveling</i>	<i>3500</i>	<i>3500</i>						
	<i>6</i>	<i>Office exp</i>	<i>1000</i>		<i>1000</i>					
	<i>8</i>	<i>Postage</i>	<i>1200</i>					<i>1200</i>		
	<i>15</i>	<i>Staff tea</i>	<i>800</i>			<i>800</i>				
	<i>19</i>	<i>Stationery</i>	<i>2000</i>				<i>2000</i>			
	<i>22</i>	<i>Office exp</i>	<i>800</i>		<i>800</i>					
	<i>24</i>	<i>Staff tea</i>	<i>1000</i>			<i>1000</i>				

	26	Sundry exp	700						700	
	31	Benson	900							900
			11,900	<u>3500</u>	<u>1800</u>	<u>1800</u>	<u>2000</u>	<u>1200</u>	<u>700</u>	<u>900</u>
	March	Bal c/d	100							
	31									
<u>12,000</u>			<u>12,000</u>							
100		Bal b/d								

8.

PURCHASES JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005 March 1	Obwocha			1200
“ “ 1	Agwata			3000
“ “ 1	Nyanamba			2500
“ “	Onyancha			2700
10	Obwocha			6600
“ “ 10	Ombaki			3300
“ “ 10				19300

SALES JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005	Okero			2000
March 5	Micheka			4300
“ “	Omwega			1500
5	Bundi			850
“ “	Tendu			630
5	Okero			900
“ “				10180

PURCHASE RETURNS JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005 March 20	Obwocha			250
“ “ 20	Onyancha			700
				950

SALES RETURNS JOURNAL

<i>Date</i>	<i>Details</i>	<i>Invoice No.</i>	<i>Ledger folio</i>	<i>August</i>
2005 March 30	Bundi			150
“ “ 30	Michieka			130
				280

20. FINANCIAL STATEMENTS

1. *Mark up* = *GP*

Cost of sales

$$\frac{1}{4} = \frac{GP}{60,000}$$

$$60,000$$

$$4GP = 60,000$$

$$GP = 15,000.$$

i) *Net sales* = *Cost of sales* + *gross profit*

$$60,000 + 15,000 = 75,000$$

ii) *Average stock : stock turn* = *cost of sales*

Av. stock

$$\frac{5}{1} + \frac{60,000}{AV}$$

AV

$$5AV + 60,000$$

$$AV = 12,000$$

iii) *Opening stock .*

$$AV = \frac{op.st + cl.stock}{2}$$

2

$$24,000 = 8000 + op\ stock$$

$$Op.stock = 16,000$$

iv) *Cost of sales*

$$op.st + p - cls$$

$$60,000 = 16,000 + p - 8000$$

$$Purchases = 42,000$$

2.

Vumilia Traders
Trading, profit and loss account
For the year ending 31st December 2006.

Opening Stock	25,000	Sales
120,000		
Add. Purchases	<u>45,000</u>	

	70,000		
Add. Carriage on purchases	<u>1,200</u>		
Cost of good sold	71,200		
Less. Closing stock	25,000		
Cost of sales	46,200		
Gross profit c/d	<u>73,800</u>		
	<u>120,000</u>		<u>120,000</u>
Expenses			
Carriage on sales	2,000	Gross profit b/d	73,800
Discount allowed/	3,400	Add: Dis received	1,950
Insurance paid	5,900		
Less Prepaid	900		
	5,000		
Salaries	12,450		
ADD Outstanding salaries	450		
	12,900		
Machinery	12,800		
Total Expenses	36,100		
Net profit c/d	<u>39,630</u>		
	<u>75,730</u>		<u>75,730</u>

Vumilia Traders
Balance sheet
AS AT 31st December 2006

<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;">Machinery</td> <td style="width: 20%;">128,000</td> <td style="width: 50%;"></td> </tr> <tr> <td>LESS Deprec</td> <td>12,800</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">115,200</td> </tr> <tr> <td>Stock</td> <td></td> <td style="text-align: right;">25,000</td> </tr> <tr> <td>Insurance prepaid</td> <td></td> <td style="text-align: right;">900</td> </tr> <tr> <td>Debtors</td> <td></td> <td style="text-align: right;">25,000</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">14,500</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>180,600</u></td> </tr> </table>	Machinery	128,000		LESS Deprec	12,800				115,200	Stock		25,000	Insurance prepaid		900	Debtors		25,000	Bank		14,500			<u>180,600</u>	<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;">Capital</td> <td style="width: 20%;">125,000</td> <td style="width: 50%;"></td> </tr> <tr> <td>Add. Net Profit</td> <td>39,630</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">164,630</td> </tr> <tr> <td>creditors</td> <td></td> <td style="text-align: right;">15,500</td> </tr> <tr> <td>outstanding salaries</td> <td></td> <td style="text-align: right;">450</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>180,600</u></td> </tr> </table>	Capital	125,000		Add. Net Profit	39,630				164,630	creditors		15,500	outstanding salaries		450			<u>180,600</u>
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		<u>180,600</u>																																									

3. Mapato Traders
Balance sheet
As at 31st dec 2009

Fixed assets

Land and building	300 000	capital	422 930
Furniture and fittings	51 500	+net profit	<u>220 500</u>
Machinery	140 000		643 430
Motor vehicle	<u>190 000</u>	-drawings	<u>175 000</u>

	681 500	468 430
<u>Current assets</u>		<u>long term liabilities</u>
Stock	124 500	mortgage loan 30 000
Debtors	103 650	bank loan <u>400 000</u>
Cash at bank	54 850	430 000
Cash at hand	<u>3650</u>	<u>current liabilities</u>
	<u>286 650</u>	creditors <u>99 730</u>
	<u>968 150</u>	<u>968 150</u>

i) Working capital

Working capital=current assets-current liabilities

$$\begin{aligned}
 CA &= \text{stock} + \text{debtors} + \text{cash in hand} + \text{cash at bank} \\
 &= 124500 + 103650 + 54850 + 3650 = \text{sh } 286650
 \end{aligned}$$

$$CL = \text{creditors} = 99720$$

$$\therefore W.C = 286650 - 99720 = \text{sh } 186,920$$

ii) Return on capital

$$\text{Return on capital} = \frac{\text{net profit}}{\text{Capital invested}} \times 100$$

$$\begin{aligned}
 &= \frac{220500}{422930} \times 100 \\
 &= 52\%
 \end{aligned}$$

iii) Current ratio

iv) Capital employed

$$\begin{aligned}
 \text{Capital employed} &= \text{capital owned} + \text{long liability} \\
 &= 468430 + 400000 = 868430
 \end{aligned}$$

Or

$$\begin{aligned}
 &= \text{fixed assets} + \text{working capital} \\
 &= 481500 + 186930 = 868,430
 \end{aligned}$$

v) Borrowed capital

$$\begin{aligned}
 \text{Borrowed capital} &= \text{long term liabilities} \\
 &= \text{mortgage loans} + \text{bank loan} \\
 &= 300000 + 100000 = \text{sh } 400000
 \end{aligned}$$

Chunga Traders
Profit & Loss A/C
For the Period Ending 31/12/2000

	Kshs			Kshs
Salary	20,000		Gross profit	80,000
Rent	12,000		Discount received	4,000
Electricity	3,000		Commission received	6,000
Net Profit	55,000			
	90,000			90,000
	90,000			90,000

Chunga Traders
Balance Sheet
As At 31/12/2000

	Kshs.			Kshs.
Fixed Assts	350,000		Capital -	395,000
			+ Net Profit	55,000
Cash	60,000		- Drawings	50,000
Debtors	20,000		Closing Stock	400,000
Stock	30,000		Bank overdraft	10,000
	460,000		Creditors	50,000
	460,000			460,000
				460,000

(i) Working Capital = CA - CL

$$= 110,000 - 60,000 = 50,000$$

(ii) C. Employed = FA + WC

$$= 350,000 + 94,000 = 444,000$$

5.

Nyamaiya Traders

Profit & Loss Account for the year ended 31 st May 2009			
Depreciation: Equipment	180,000	Gross profit	400,000
Furniture	43,500	Commission received	170,000
Power & lightning	24,000	Less: Advance	10,000
General expenses	240,000		160,000
Increase in provision for bad debts	500	Discounts received	40,000
Discounts allowed	29,000		
Net profit c/f	83,000		
	600,000		600,000

Nyamaiya Traders Balance sheet as at 31 st May 2009			
<u>Fixed assets</u>		Capital	1,000,000
Equipment	900,000	ADD: net profit	<u>83,000</u>
LESS: Depreciation	<u>180,000</u>		1,083,000
	720,000	<u>Current liabilities</u>	
Furniture	500,000	Advance commission received	10,000
LESS: Depreciation	<u>108,500</u>	Creditors	550,000
	391,500		
<u>Current Assets</u>			
Stock			35,000
Debtors	350,000		
LESS: Provision	<u>3,500</u>		
	346,500		
Cash in hand			150,000
	1,643,000		1,643,000

6. Margin = $\frac{G}{II}$

GH2 = if margin = $\frac{40}{100} = \frac{2}{5}$

Them mark up = $\frac{2}{5-2} = \frac{2}{3}$

$$(i) \frac{40}{100} = \frac{GII}{270,000}$$

$$GP = \frac{40}{100} \times 270,000$$

$$= 108,000$$

$$(ii) \text{ Net Profit} = GP - \text{Expenses}$$

$$= 108,000 - 40,000$$

$$= 68,000$$

(iii) Average Stock

$$R.O.S.T = \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

$$6 = \frac{162,000}{\text{Average Stock.}} \quad \text{Average Stock.} = \frac{162,000}{6} = 27,000$$

$$\text{Mark} = \frac{GP}{\text{Cost of sales}}$$

$$= \frac{108,000}{162,000} \times 100 = 66.6 \%$$

7. Omollo's traders for the year 2006

(i) Gross profit

$$\text{Margin} = \frac{\text{Gross profit}}{\text{Net sales}}$$

$$40\% = \frac{G.p}{270,000}$$

$$\text{Margin} = \frac{2}{5} = \frac{G.p}{270,000}$$

$$\frac{5GP}{5} = \frac{2 \times 270,000}{5}$$

$$GP = \text{Shs.}108,000$$

(ii) Cost of goods sold = sales – cost of goods sold

$$\text{Cost of sales} = 270,000 - 108,000$$

$$\text{Cost of sales} = \text{shs.}162,000$$

(iii) Net profit = Gross profit – Expenses

$$\text{Cost of sales} = 108,000 - 40,000$$

$$N.P = \text{Shs.}68,000$$

(iv) Average stock

$$\text{Rate of stock turnover} = \frac{\text{cost of sales}}{\text{Average stock}}$$

$$6 = \frac{162,000}{A.S}$$

$$A.S = \frac{162,000}{6}$$

A.S = shs.27,000

8. a) (i) Cost of sales

$$R.O.S.T.O = \frac{G.O.S}{A.S}$$

Firm x

$$6.4 = \frac{COS}{AV} \quad \text{_____} \quad 6.4 = \frac{COS}{8000}$$

$$COS = 8000 \times 6.4 = \text{Shs.}51,200$$

Firm y

$$6.5 = \frac{COS}{7000}$$

$$COS = 7000 \times 6.5 = 45,500$$

ii) Gross profit

$$\text{Mark up} = \frac{\text{Gross profit}}{\text{Cost of sales}}$$

Firm X

$$\frac{20}{100} = \frac{G.P}{51,200}$$

$$G.P = \frac{20 \times 51,200}{100}$$

100

$$G.P = 10,240$$

Firm Y

$$\frac{20}{100} = \frac{G.P}{45,500}$$

$$G.P = \frac{20 \times 45,500}{100}$$

100

$$= 9100$$

iii) Rate of return on capital = $\frac{\text{Net profit} \times 100}{\text{Capital}}$

Capital

$$\text{Firm X} = \frac{4608}{30720} \times 100 = 15\%$$

$$\text{Firm Y} = \frac{4914}{24570} \times 100 = 20\%$$

10.

JAO TRADERS
TRADING AND PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDING 31/12/2008

DR		CR	
Opening stock	60000	Sales	208000
Add purchases	161000	Less returns in	<u>27000</u>
Add carriage	<u>11000</u>		181,000
	172000		
Less returns out	(25000)		
G.A.F.S	147000		
LESS closing stock	207000		
(72000)			
Cost of sales	135000		
Gross profit c/d	<u>46000</u>		
	<u>181000</u>	<u>181000</u>	
Expenses			
Discount allowed	2000	Gross profit	46000
Salaries	20000	Discount rec	8000
Tel charges	5000	Net loss c/d	800
Less prepaid	1000		
4000			
Water bills	2100		
Add accrued	1300		
	3300		
Electricity expenses	2000		
Carriage out	10000		
Insurance paid	1000		
Dep on equil ($\frac{10}{100} \times 125000$)	12500		<u>54800</u>
	<u>54800</u>		
Net loss b/d	800		

11. *The following trial balance relates to JOKOBURA STORES*

JAKOBURA TRADERS
PROFIT AND LOSS A/C FOR THE YEAR ENDED 31/12/006

	SHS	SHS		SHS	SHS
Opening stock		48 000	sales		425 000
purchases		344 500			
Cost of goods available for sales		392 500			
Less closing stock		52 500			
Costs of goods sold		340 000			
Gross profit c/d		85 000			
		425 000			425 000
salaries	45200		Gross profit b/d	85 000	
Add general expanses accrued	1200	46 400	commission	42 800	
electricity	15240				
Less drawing	340	15 080			
depreciation					
Motor vehicles 150000x25/100		37 500			
Furniture 30000x7/100		2 100			
Equipment(55200-48576)		6624			
Net profit c/d		20096			
		127 800		127800	

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

i) A balance sheet as at 31st Dec. 2008

Odongo traders

Balance sheet as at 31st Dec 2008

F.A	
-----	--

Land	50,000	Capital	94,000
Machinery	20,000	Less drawings	<u>4000</u>
M/vehicles	<u>30,000</u> 100000		90,000
Current assets		<u>Long term liabilities</u>	
Stock	10,000	10yrs loan	20,000
Debtors	6,000	5yrs AFC loan	<u>10,000</u>
Cash at bank	10,000		30,000
Cash at hand	<u>2,000</u> 28,000	<u>Short term loan</u>	
		Creditors	6000
		Expense occurred	<u>2,000</u> √ <u>8,000</u>
	<u>128,000</u>		<u>128,000</u>

ii) calculate-Borrowed capital = long term liabilities

$$= 20,000+10,000$$

$$= \underline{30,000} \quad \text{-current ratio}$$

Current assets : current liabilities

$$28,000:8000$$

$$28:8$$

$$7:2 \quad \text{-capital owned}$$

C=A-L

$$= 128,000-38,000 = 90,000$$

Or

Capital-drawings

$$94,000-4000=\underline{90,000}$$

13.

BOSONGO WHOLESALERS

Trading, profit and loss Account

For the year ended 30th June 2008

	SHS	SHS		SHS	SHS
Opening stock		400	Sales	7000	
Add purchases	3500		Less sales returns	<u>150</u>	6850
Less purchases returns	<u>200</u>	<u>3300</u>			
		3700			
<i>Mocks Topical Analysis</i>		<u><u> </u></u>	educationgroup.com		<u><u> </u></u> 179

educationgroup.com			
Less closing stock	500		
Cost of sales	3200		
Gross profit c/f	<u>3650</u>		
	6850		6850
Discount allowed	90	Gross profit b/f	3650
Insurance	210	Discount received	80
Net profit c/f	<u>3530</u>	Rent received	<u>100</u>
	<u>3830</u>		<u>3830</u>

BOSONGO WHOLESALERS

Balance sheet As at 30th June 2008

<u>Fixed assets</u>	SHS	SHS		SHS	SHS
Furniture fitting	2000		Capital	13870	
Motor vehicles	15000	17000	Add N.P	<u>3530</u>	
				17400	
<u>Current assets</u>			Less drawings	600	16800
Stock	500				
Debtors	800	1300	<u>Current liabilities</u>		
			Creditors	1200	
			Bank overdraft	<u>300</u>	<u>1500</u>
		18300			18300

21. INCOMPLETE RECORDS

1. Working:

Trade debtors account			
Balance b/f	75,000	Receipts	170,000
Credit sales	210,000	Balance c/f	115,000
	285,000		285,000
Total sales = credit + cash sales			

$= 210,000 + 47500 = 257500$

2. *Five distinctions between statement of Affairs and a balance sheet ;*

Balance sheet	Statement of affairs
---------------	----------------------

Trade creditors account			
Payments	250,000	Balance c/f	100,000
balance c/f	125,000	purchases	275,000
375,000		375,000	

Kemoko Traders			
Trading and loss account for the period ended 31/12/2008			
Opening stock	45,000	Sales (W1)	257,500
Add: Purchases (Wii)	<u>275,000</u>	Gross loss c/f	35,000
Cost of good available	320,000		
Less: Closing stock	<u>27,500</u>		
Cost of goods sold	<u>292,500</u>		<u>29500</u>
Gross loss b/f	35,000		<u><u>65,000</u></u>
Rent & rates	5,000	Commission received	65,000
Sundry expenses	4,000		
Wages	7,750		
Lighting	3,750		
Insurance	2,500		
Net profit c/f	7,000		
	65,000		65,000

<p>i) Prepared from accounting records of double entry</p> <p>ii) prepared to determine the financial position</p> <p>iii) Prepared from accurate records of trial balance</p> <p>iv) Relates to both small and big business which keep accurate records</p>	<p>i) Prepared from single entry</p> <p>ii) Prepared mainly to get the capital</p> <p>iii) Prepared mainly from estimates of incomplete records</p> <p>iv) Relates mostly to small business which do not keep complete records</p>
--	--

22. MONEY AND BANKING

1. Characteristic of a monopolistic market

- One producer/supplier
- many buyers on the market
- product has no substitute
- no free entry into the market by suppliers
- The producer determines the price on the market.

2. Modern trends in banking:

- Internal Banking.
- ATM
- Telephone Banking.
- Investment – person, secure, mortgages, stocks/shows etc.
- More support for community projects e.g. payment of school fees (Equity/Co-op)
- Savings and credit co-operatives assuming more banking roles e.g. front office services.

3. Ways in which commercial banks have enhanced the development of business activities in the country;

- Act as a referee to business which intend to get credit facilities
- Give advisory services to business people on investment/expansion possibilities
- Guarantee payment for overseas suppliers by issuing letter of credit
- Facilitates payment among business in form of cash/cheque/credit transfer/standing orders.
- They offer safe custody /safe keeping of money
- Offer credit facilities /lending money through saving/current fixed deposit
- Acting as a trusted execution of wills in management of proportional of deceased persons /beneficial
- Agent of stock exchange /companies they assist traders to buy shares
- Custodians of valuable items like land title deeds certificates wills e.t.c.
- Availing foreign currency to importers thus assisting in international trade

4. Ways through which central bank of Kenya can expand supply of money in an economy;

- Open market operation- central bank can buy securities in OMO to increase money supply
- Reducing lending interest rate – central bank lends money to commercial banks at reduced rate, commercial banks will also lend money to customers at reduced rate hence increasing money supply
- Cash/ liquidity ratio requirement- central bank reduces ratio of deposits held by commercial banks, money available for lending by commercial bank will increase thereby increasing money supply
- Compulsory de[posit requirements- central bank reduces the commercial bank compulsory deposit with it, commercial banks will have more money to lend hence increasing money supply
- Directives and requests- central bank instructs commercial banks to reduce their lending rates, there will e an increase in money supply in an economy
- Selective credit control – central bank removes the restriction on the sectors, commercial banks will lend out more money

5. *Five methods of payments offered by commercial Banks in Kenya ;*

- i) Cheque- Instruct to the bank to make payment to the named person
- ii) Standing orders- Instruct to make a periodic payment of a specific amount to a named person until instructed otherwise
- iii) Credit transfer-Payment of several people by use of one cheque
- iv) Credit cards- Issued by a bank to a client to make purchases without necessarily any cash
- v) Travelers cheques- Used majorly by business men who travel a lot to make payments outside
- vi) Bankers cheque/Boundary- It's a cheque written on another to make payment on another the payment is guaranteed

6. *Five factors that lead to a cheque being dishonoured are;*

- When there are alterations on the cheque which are not countersigned by the drawer
- When the signature on the cheque differs from the drawers specimen signature held by the drawer
- If the cheque is dirty or torn
- If there are insufficient funds in the drawers bank account at the time of cashing the cheque
- If the amount in words differs from the amount in figures
- If the cheque is stale i.e. the cheque is presented for payment after six months since the date of issue

- If the cheque is post dated i.e. the cheque being presented for payment earlier than the cheque date
- If the account holder is dead and the bank is aware of the fact
- If the drawer instructs the bank not to pay that particular cheque
- If the cheque contains errors which need to be paid across the counter
- If the drawer becomes bankrupt or insane i.e. the drawer has lost contractual capacity

7. *Four emerging trends in the banking system are ;*

- late hour banking –e.g. executive banking after the normal banking hours
- acting as agents of stock exchange /brokers –through which new shares can be sold to the public or customers buying shares through them
- issue of credit cards-allowing customers obtain goods and services without paying for them in cash
- Establishment of new accounts e.g. salary account, jumbo junior accounts different from the traditional ones
- abolition of bank account monthly charges e.g. ledge fees and minimum deposits in some accounts
- use of ATMS-enabling banks offer services round the clock
- networking of branches-enabling clients carry some banking transactions in any branch
- E-banking-customers carrying out banking transactions by use of computers
- M-banking-customers carrying transactions using mobile phones e.g. salary alerts, deposits alerts, payment of bills, transfer of money e.g. Mpesa
- Easy credit facilities e.g. unsecured loans
- Customer service/care departments-offering personalized advice to customers
- Liberalization of foreign exchange dealings by licensing forex bureaus for customers to get foreign exchange
- Provision of banking services by micro-finance institutions e.g. KWFT, faulu Kenya, through their front office service activities (FOSA)

- 8.**
- Use of ATMS, which have enabled banks to offer banking services to clients round the clock
 - Networking of branches: which enables clients to carry out banking transactions in any branch of the bank
 - E – banking where customers are able to carry out some banking transactions in any branch of computers on – line

- M – banking, where customers can carry out some transactions by use of mobile phones e.g. salary deposits alerts, airtime top – up, statement and cheque book ordering e.t.c.
- Introduction of a variety of products to attract such as easier credit facilities i.e. unsecured loans
- Customer care departments that offer personalized services advice to the banks clients
- Use of credits cards which can be used to make withdrawals from ATMs and some can debit cards to make purchases i.e. supermarkets
- Relaxation on some of the conditions relating to operations of account e.g. removal of restrictions on minimum opening and operating balances and number of withdrawals for saving account

23. PUBLIC FINANCE

1. Principles of taxation ;

Evasion.-It should be difficult to avoid paying the tax other wise it might not achieve its objectives.

Simplicity-It should be easy to understand in terms of amount and methods of payment or else people will resist to pay.

Flexibility- The system should change with changes in economic situation or else it might not meet desired targets/revenue required.

Equality/fairness-The system should be fair to all otherwise it might over burden some members of the society.

Convenience -The time and mode of payment should be friendly to the tax payer hence avoiding complains/resistance to pay

Productivity- The system should generate greater revenue to the government for it to be justified and enable the government finance project.

2. **Sources of non –tax public revenue;**

(i) Impulses from public corporative/government businesses.

(ii) Fines & penalties imposed on peoples found breaking the law.

(iii) Fee from direct services.

(iv) Escheats

(v) Income from government properties e.g. parks/land e.t.c

(vi) Loan repayments /interest earned from government owned financial institutions.

3. **Five principles of public expenditure:**

- Optimum social benefits – majority of people are able to derive maximum benefits

- Sanctions – should be approved by relevant authority
- Proper financial management
- Economical – incurred in the most economical way to avoid wastage
- Flexibility – certain degree of elasticity to enable it be increased /decreased as need arises

4. *Five reasons for imposition of tax by the government*

- i) Through tax the government is able to control input of goods/improve balance of payment deficit
- ii) Through tax the government is able to underestimate income by taxing those who earn high money and those earning less low
- iii) Through tax the government is able to ensure even regional development in a country
- iv) The government taxes to earn revenue as a source of its income
- v) It enables the government to maintain price stability by i.e. taxing less to influence aggregate demand in the country hence influencing the price level

5. *Five characteristics of a good tax system ;*

- Equitable-tax burden should be distributed among tax payers according to the ability to pay
- Economy-collection and administrative costs should not exceed tax revenue collected
- Certainty-tax one is expected to pay should be clearly defined
- Convenience-collection and payment should not be cumbersome
- Flexibility-capable of being revised or change in line to changing economic circumstances
- Diversity-should be wide/variety of taxes to able to net a broad spectrum of the society
- Elasticity-able to respond appropriately to change in national income
- Simplicity-simple to understand

- 6.**
- Revenue is raised through taxation which is used to cover general costs of administration of the government and provision of public goods and services to its citizens
 - The government can use taxation to discourage consumption of certain products e.g. beer or cigarettes by levying heavy tax
 - It can be used as a way of protecting infant and strategic domestic industries in the country from cut throat competition by foreign industries – using high tax on foreigners
 - Reduce inequality in income distribution. This is done by taxing the rich and using the finances to benefit the poor by offering goods/ services
 - Control inflation. Taxation reduces money supply through reduction of people's disposable income thereby controlling inflation
 - Correcting balance of payments. High taxation on imports may discourage importation thus

Increase balance of payments

- Helping locate business e.g. high tax on business located in urban areas would make entrepreneurs locate their businesses in rural areas where tax is less

24. INFLATION

1. *Negative effects of inflation to an economy.*

- People lose confidence in local currency as it is difficult to use in transaction when it loses value very fast.
- Hinders implementation of development plans since the cost of projects increases.
- Leads to unfair distribution of income as the rich become richer than the poorer.
- Lead to low standard of living /poverty as people find it difficult to get basic need due to high cost of living.
- Discourages savings/investments since people fear their money will lose value/as they have less disposable incomes.
- Leads to balance of payment deficits as imports are highly demanded than exports.
- Hinders implementation of development plans since the cost of projects increases
- Encourages social evils as people resort to bad /immoral practices to get money.
- Discourage lending and borrowing this is due
- will lose when their money loses value.

2. *(a) Effects of positive inflation to the economy*

- Debtors will pay less
- Sellers will buy commodities at low prices
- Motivation to work
- Increase in investment
- High profits due to high prices
- Increased job opportunities resource use

b) Reasons why the government may adopt the delocalization policy of locating industry

- Reduced effects of occurrence of war
- Provision of employment opportunities in rural area
- Reduces rural urban migration
- Encourages balanced regional development
- Market for locally produced raw materials
- Locals are able to access goods easily

3. ***Five causes of inflation in an economy;***

- Increase in government expenditure making more money available to people which increase aggregate demand leading to an upward pressure on prices
 - Excessive credit creation by commercial banks increase money supply and hence purchasing ability leading to inflation
 - Increase in money income which increase purchasing power causing an upward pressure on price of goods and services
 - Shortage of goods and services leading to excessive demand hence pulling the prices of commodities upwards
 - Cramour for increase in wages and salaries which will be reflected in the increased prices of commodities
 - Increase in indirect taxes (e.g. VAT) which make firms to increase their prices
 - Increase in profit margins by management and shareholders leading to an increase in prices
 - Increase in cost of inputs(e.g. raw material)causes the price of finished goods to be high
- Reduction in subsidies leading to an increase in cost of production which will be reflected in an increase in the price of the commodities

4. Mild inflation - A type of inflation where the general prices of goods and services increase slowly at a single digit rate of less than 10%

Hyper inflation - It is a situation whereby the general prices of goods and services are extremely high whereby the rate is in thousands and millions percent per year

Demand pull inflation - Comes about when there is excessive demand for goods and services in the economy causing rise in prices

- In this situation there is too much money in the economy chasing very few goods and services

Cost push inflation - It results from an increase in the total production costs of goods and services leading to an increase in prices of commodities

-It is the high costs of production that pushes the prices of goods and services up

Imported inflation - It results from trading with foreigners whereby prices of foreign goods affect domestic prices

- High prices of foreign goods [imported goods] increases domestic prices of goods due to domestic demand

25. **INTERNATIONAL TRADE**

1. ***Benefits of transporting oil products by pipeline ;***

- i. Road damage has due to reduced heavy tankers on roads.
- ii. Reduces road accident as congestion to tankers on roads has reduced

- iii. Environmental pollution has reduced as pipes do not emit gases/smoke from tankers has reduced.
- iv. Cost of handling oil has reduced since few workers are employed.
- v. Large volumes of oil are transported within a very short time.
- vi. Ensures regular supply of oil hence reducing shortage.
- vii. Pilferages of oil has reduced since pipe are very hard to break.
- viii. Cheap to maintain the pipes after construction.
- ix. *Pipes are not easily affected by poor weather as they are permanently fixed.*

2. Advantages that a country may experience from imposing trade restrictions in trading partners:

- Retaliation by other trading countries leading to reduction in exports
- Reduced exchange earning due to reduced exports
- Shrinking markets due to reduced volume of trade
- Curtailed transfer of technology/low output/poor quality
- Limited variety of products which restricts consumer choice
- Poor international relation leading to conflicts/friction
- Leads to increased unemployment due to reduced trading activities
- Low involvement due to limited trading opportunities
- May worsen balance of payment as a result of reduced volume of exports
- Reduced competition leading to low quality services
- A wider market for its product enabling the firms in the region to produce to their full capacity
- Specialization where it will concentrate on production of goods and services that it can produce cheaply and efficiently.
- High quality and cheap products will be produced because of specialization and competition among member countries
- It will promote peace among people of the involved countries as they interact and cooperate among each other
- It will enjoy common bargaining front with non-member countries bringing about better terms of trade
- Development of industries will be coordinated to have a balanced development and avoid unnecessary duplication
- Employment creation since factors of production will be freely mobile within the member countries

3. Five reasons why many countries tend to prefer free trade

- Enable a country to enjoy quality goods and service due to increased competition
- Allow specialization/countries tend to specialize in what they can produce best.
- Allow them access wide variety of goods/services
- Allow wider market for goods /services produced
- Free movement of factors of production from country to country.
- Allow creation of many job opportunities for investment in different countries
- Countries enjoy cheaper goods/services
- Allow free flow of new technology ideas and skills among different countries
- Promote peace and understanding among countries

4. ***Causes of persistence balance of payment disequilibrium in East Africa***

- Fall in volume of exports – rely on primary/agricultural products usually affected by draught yielding low production hence low exports hence reduced foreign earning
- Deteriorating terms trade – value of exports are low relative to the value of imports hence pay more than the foreign earned
- Less capital inflow compared to outflow- they usually borrow money from developed countries at repay at high interest rates creating a net capital out flow.
- Devaluation policy – devaluation of local currency makes exports cheaper to foreigners and hence an increase in the cost importation
- Increase in import volume of capital goods and industrial raw materials for development purposes. This increases expenditure on foreign good.

5. ***Five measures that the Government of Kenya may take to control her persistent Balance of payment deficit ;***

- i) Increasing the volume of exports ie. by giving incentives to traders so that they can produce more output
- ii) Reducing the level of input ie. By using restrictive measures such as input duties total ban etc
- iii) By diversifying the rate of exports of the country so that when some fail others can still sell in the world market
- iv) Through Devaluation of the country's currency- this makes the exports cheaper and hence more competitive in the market
- v) By negotiating for foreign debt reduction
- vi) By adding value to the exports

6. - A wider market is created for goods and services produced in the region
- Countries are able to specialize in the production of those goods and services they are best endowed

- Promotion of peace and understanding among member countries due to integration
- Higher quality goods and services are produced due to competition
- People have access to a wider variety of goods and services which satisfy different consumer needs
- Creation of employment for individuals living within the region
- Increased economic bargaining power in trading activities by the countries forming the trading block
- Increased production of goods as a result of people engaging in different business activities
- Improvement of infrastructure in the region due to increased economic activities
- Establishment of common services e.g. railway ports authorities and research agencies to avoid duplication

26. ECONOMIC DEVELOPMENT AND PLANNING

1. Principles of taxation;

Evasion.-It should be difficult to avoid paying the tax other wise it might not achieve its objectives.

Simplicity- It should be easy to understand in terms of amount and methods of payment or else people will resist to pay.

Flexibility -The system should change with changes in economic situation or else it might not meet desired targets/revenue required.

Equality/fairness

The system should be fair to all otherwise it might over burden some members of the society.

Convenience-The time and mode of payment should be friendly to the tax payer hence avoiding complains/resistance to pay

Productivity- The system should generate greater revenue to the government for it to be justified and enable the government finance project.

2. Distinguishing features between developing and developed countries.

<i>DEVELOPING COUNTRIES</i>	<i>DEVELOPED COUNTRIES</i>
-Low level of outland and per capita income	-High level of output and per capita
-Major foreign exchange is from agriculture	-Major foreign exchange is from industrial sector
-unequal distribution of income and wealth	-Relatively more equal distribution of income and wealth
-Low level of mechanization	
-High level of unemployment	

-High population growth rate	-High level in mechanization -Low level of unemployment -Relatively low or moderate population growth rate
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3. **(a) Obstacles in implementations development plans**

- (i) Personal – Lacking adequate and skilled manpower capable of implementing plans appropriately.
- (ii) Long/cumbersome procedure for decision making which limits the ability to plan.
- (iii) Costs – High cost of implementation causing delay.
- (iv) Data - Lack of sufficient data.
- (v) Resources - Lack of sufficient resources which leads to realization of the targets
- (vi) Rigidity - Proposed of powers may be followed strictly making it difficult for the plan to be fitted to changes in economic conditions.

4. **Obstacles to economic development;**

- Low natural resource endowments which form the basis of a country’s production capacity e.g. fertile land, favourable climate e.t.c
- Inadequate capital hampering exploitation of resources, industrialization and creation of employment opportunities.
- Poor technology leading to low productivity
- Poor human resource endowment whereby manpower is composed of unskilled labour who are less productive
- Unfavourable political institutions where the government is corrupt and authoritarian scaring away investors
- Unfavourable social institutions where the traditional society is conservative and lacks innovativeness

5. **Factors that have turned to frustrate economic developments in a country like Kenya are;**

- (i) Lack of inducement of invest
Investment in an economy may be lowered by lack of effective demand for goods and services which means the market is small. Growth in national income will therefore be below, leading to lack of development
- (ii) Lack of social infrastructure

- For example, when road and communication networks which link the various parts of a country are lacking, it becomes difficult to do business and hence economic growth is limited.

(iii) Lumpiness or indivisibility of capital/inadequate capital

The capital required for production may be large in terms of machinery and equipment and may also not be divisible into small quantities or sizes. Lack of such capital hampers production leading to low economic growth and thus slow development

(iv) Inability to save/low per capita income

-When, the level of saving in the country is low then investment will also be low. This means that the level of national income is low and hence low income per capita is realized.

(v) Rapid population growth

When population is rising faster than incomes then development goals may not be realized since the country will still have a low level per-capita income and also low standard of living

(vi) Resource limitations

Production is hampered by the limited supply of resources e.g. minerals. This results into low income and hence low living standards and eventually affecting a country's economic development.

(vii) Use of inappropriate technology

Production is hampered by the limited supply of resources e.g. minerals. This results into low income and hence low living standards and eventually affecting a country's economic development

(vii) Use of inappropriate technology

The country technology that does not fit in with the local operations. This is reduced productivity and hence low economic development.

(viii) Attitudes and beliefs

For example some communities have a negative attitude towards some activities in the country e.g. jua kali sector. The negative attitudes and beliefs will therefore hinder economic development

(ix) Corruption and embezzlement of funds

- Some funds for certain projects that could easily spur a rapid economic growth are misappropriated by government employees.

(x) Lack of political will

- The government is reluctant to implement certain projects

(xi) Copying effect

- The rich people in LDCs tend to copy the consumption pattern of the rich people in DCs hence reducing their savings capacities arising from low levels of incomes in LCDs

(xii) Low natural resource endowment

(xiii) Low human resource endowment

6. *Functions of the national budget as a tool of planning;*

- Outlining government expenditure – It details the various expenditure programmes the government plans to undertake over a given period of time
- Outlining government revenue – It gives details of the various sources of revenue for the government to finance its activities
- Enabling government planning – The government uses the budget to plan for various activities and programmes that lead to economic growth and development
- Introducing changes in taxation – The various taxes to be applied, the tax rate and the mode of application of the taxes are outlined in the budget
- Regulating money supply – It outlines the monetary systems to be instituted by the government to regulate money supply in the economy
- Stimulating economic activities – It is used to increase government expenditure in the economy which will spur economic activities in the country

7. *Challenges that Kenya is facing in the implementation of her development plans ;*

- i) Lack of domestic workers ie. skilled labour, machines etc to implement the plans
- ii) Continuous reliance on donor funding which at times fail to be remitted
- iii) Natural calamity ie. the country may suffer from calamities like drought, floods etc which draw funds that were not planned for
- iv) Lack of co-operate and co-ordinate between executive parties ie. ministry of finance and planning
- v) Failure to involve local people hence making the plan to lack support from the local people as they view it to be imposed on them by few people at the top
- vi) Lack of political will ie. Where political crisis is an obstacle to the achievement of the vision

8. - Shift from agricultural to manufacturing sectors

- Reduction in illiteracy
- Increase in skilled man power
- Improvement in health facilities

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- High level of technology and entrepreneurial ability
- Reduced unemployment due to increased industrialization
- Reduced infant mortality rate
- Improved life expectancy
- Increase and improvement of institutions that impart new methods of productive economic activities