TOP STUDENT

REVISION

BUSINESS

STUDIES

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8 Sample Papers Complete with their Marking Schemes

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TEST PAPER I

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

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

5. Highlight **four** ways in which Insurance companies make profits. (4mks)
6. The major objective in commerce is to maximize profits. Highlight four ways in which businesses can achieve this important objective. (4mks)
7. Use the following information to Calculate the required ratios.

Sundry debtors	52,000
Stock	5,000
Cash at bank	100,000
Capital	40,000
Net profit	16,000
Current liabilities	82,000

Calculate:
(i) Current ratio. (3mks)
(ii) Quick ratio. (2mks)

8. Mention **four** types of wholesalers. (4mks)
9. List down **four** machines used in the mail nom and their use. (4mks)

MACHINE	**USE**

(i)	
(ii)	
(iii)	
(iv)	

10. The law of demand applies 'ceteris penbus' all other factors held constant). Highlight
four circumstances under which this law may not hold.
(4mks)

11. As the transport manager of a busy company. Highlight four factors you would consider
before choosing a mode of transport for your goods and services.
(4mks)

12. The following balances were extracted from the books of Beauty Care Enterprises on
31st of March 1997.

	Shs.
Fixed Assets	42,000
Stock	48,000
Debtors	50,000
Bank overdraft	25,000
Creditors	40,000
Cash in hand	2,000

During the month of April the following transactions took place.
(a) Bought Motor Vehicle on credit valued at kshs. 80,000 from General motors.
(b) With drew Sh. 28,000 for personal use.
Required: Prepare a balance sheet as at April 30th 1997.
(5mks)

13. Give **four** reasons why an office may prefer storing information in Micro-films instead
of files.
(4mks)

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

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

16. Give **four** reasons why people prefer using a cheque to cash when effecting payment. (4mks)

17. The following information relates to Sis Mis traders for the year ended 31st Dec 1996.
Opening stock
Closing stock turnover 8 times

Sales for the year 293,000

Determine:

(a) Cost of sales

(b) Purchases

(c) Gross profit or Gross loss.

(5mks)

18. Give **four** advantages of personal selling as a means of sales promotion.

(4mks)

19. Mention **four** of the contents in articles of association.

(4mks)

20. International trade improves the economic welfare of a country. The recent opening of the East African co-operation seeks to diversify International trade. Highlight **four** factors that may hinder this good intention.

(4mks)

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

Capital as at 31 December 1990	170,000
Drawings for the year	5,000
Net profit for the year	5,000
Extra capital introduced	52,000
Purchases	20,000

Determine the amount of capital as at 1 Jan. 1990

(3mks)

(ii) Net profit ratio.

(2mks)

22. Give **four** functions of commercial attaches.

(4mks)

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

(4mks)

24. Name **four** file covers used in an office.

(4mks)

TEST PAPER I
MARKING SCHEME

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

2. - Called - up capital
   - Paid - up capital

- Registered capital
- Issued capital

3. - Voluntary Association - Service motto - serve its members
   - Democratic management
   - Division of profits
   - State control

4. - Bad debts - profits & loss A/C
   - Carriage inwards - Trading account
   - Returns inwards -
   - Discounts given - profit and loss
   - Gross profit - profit and loss
   - Purchases - Trading account
   - Drawings - Balance sheet
   - Prepaid rent - profit & loss

5. - By investing their funds
   - From differences in claims
   - From forfeited funds by policy holders
   - By charging those who bleach the contract of the Policy - a certain amount is deducted when one quits the policy before agreed time.

6. - Reducing prices to increase sales
   - Reduce the cost of production
   - Increase prices of products
   - Expand production and market

7.

Current ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

Current Assets:		Current liabilities = 82,000
Debtors	52,000	
Stock	5,000	Current ratio = $\frac{157000}{82000}$
Cash at bank	100,000	

$= 1.914$

(ii) Quick ratio = $\frac{\text{Current assets - Stock}}{\text{Current liabilities}} = \frac{152,000}{82,000} = 1.853$

8. - Truck wholesalers
   - Regional wholesalers
   - General wholesalers
   - Specialized wholesalers
   - Nationwide wholesalers
   - Cash and carry wholesalers

13. - Letter openers - opening mail
   - Franking machines - stamping letters
   - Parcel scales - weighing parcels before dispatch

- Shredding machine - Shredding unwanted paper
- Guillotine machine - trimming papers to the required size
- Stapling machine - a fixing pages together

14. - When the prices of other products change
- Tastes and preferences of individuals change
- When products don't have substances.
- Incase of primary products that must be consumed
- Incases of monopolies who are the only producers.

15. - Cost of the transport mode.
- Distance to the covered
- Type of goods to be transported
- Modes of transport available
- Quantity of goods to be transported.

12.

Beauty Care
Balance Sheet
As 31st March 1997

Capital		77,000	Fixed Assets		
42,000					
Less drawings		28,000	Motor Vehicle		
80,000					
Net capital		49,000			122,000
Loan		28,000			
		77,000	Current Assets		
Current liabilities		25,000	Stock		48,000
Bank overdraft	40,000		Debtors	50,000	
Creditors 1	80,000		Cash in hand		2,000
100,000					
Creditors 2	**222,000**				**222,000**

13 .- They are more confidential than files
- More durable compared to files
- They take less space
- Easy to move about and convenient to carry.

14. - Letter of inquiry
- Catalogue
- Proforma Invoice
- Delivery note
- Promising note
- Credit note
- Debit note

15. - Does not rent money to individuals
- Doesn't receive deposits from individuals neither does it run accounts for individuals.

- Not an agent to the stock exchange
- Does not discount bills of exchange
- Doesn't offer money transfer services for individuals.

16. - Cheque is more secure than cash
- It also acts as evidence of payment
- Its convenient instead carrying large sums of money
- Saves ones time as they may not have to go withdraw money to make payment

17.

Rate of stock turn - over

$= \frac{\text{Cost of sales}}{\text{Average stock}}$

8 x average stock) = cost of sales.

$8 \times \left(\frac{\text{opening stock + closing stock}}{2}\right) = \text{cost of sales}$

$8 \times \frac{(52000 + 64000)}{2} = C.O.S$

$8 \times 58000 = C.O.S$

$464{,}000 = C.O.S$

Gross loss

= Sales - Cost of sales

= 293000 - 464000

= 171,000

(ii) Purchases + Opening Stock - Closing Stock = C.O.S

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

18. - Personal contact with the customers
- Immediate feedback on customers feelings about a certain product
- Salesman goes to the particular group targeted.
- Salesman can persuade and convince people to buy.

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

20. - Some countries may feel they aren't benefiting much
- Political differences
- Instability in neighbouring countries
- Influx of refugees
- Different currencies used.

21.

Capital owned at the end of the year

= initial capital + Net profit - Drawings - Additional capital

= 170,000 + 5,000 - 100,000 + 52,000
= 222,000 - 105,000
= 122,000

(ii) Net profit ratio = $\frac{\text{Net profit x 100}}{\text{sales}}$

Sales = Purchases + Net profit
= 20,000 + 5,000
= 25,000

Net profit ratio = $\frac{5{,}000 \times 100}{25{,}000}$ = 20%

22 .- Search for Kenyan markets abroad
- Inform businesses abroad of Kenyan goods
- Negotiate to expand Kenyan Market abroad
- Liase with the ministry of Commerce to educate Kenyan producers/manufactures.

23. - Sell bearer and premium bonds
- Operate savings accounts
- Operate SAYE (Save As You Earn) scheme
- Have fixed deposit facilities

24. - Box files
- Flat files
- Lever arch files
- Loose leaf binders
- Ring binders

TEST PAPER II

1. (a) Marketing boards are producer organizations set up to encourage and control the selling of agricultural products. Discuss **five** functions of these organizations.

(10mks)

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

2. (a) Despite major development in the transport sector. Many people are still using carts (both those driven by animals and those pushed by human beings).
Discuss **five** reasons to show why this type of transport is still preferable to others.

(10mks)

(b) Money evolved through several stages to get to the currency notes and coins we have today. However " Modern - day trade may compare negatively with barter trade". Discuss this statement giving it your support. (10mks)

3. (a) A business enterprise should keep a budget other than the other statements it keeps. Discuss reasons why this activity is important. (10mks)

(b) You are the sales manager of 'speed' Industries Ltd. that manufactures tyres. You are faced with the decision to choose an appropriate channel to distribute the product. Discuss the factors you consider in your choice. (10mks)

4. (a) Mail order business is whereby customers place their orders through mail and goods are also send through mail. This business is however not popular in Kenya. Discuss **five** reasons to encourage your colleagues to start this type of business. (10mks)

(b) Discuss the factors that influence the choice of a filing system in an organization. (10mks)

5. (a) Briefly explain the following terms as used in Capital structure of a company.
   (i) Registered capital. (2½ mks)
   (ii) Called - up capital. (2½ mks)
   (iii) Issued capital. (2½ mks)
   (iv) Paid - up capital. (2½ mks)

(b) Specialization is the separation of jobs, activities and processes so that every individual concentrates on what they can do best. Name and explain **four** major such divisions.

(12mks)

6. (a) Discuss **five** benefits that the Kenyan government gets from Binded Warehouses. (10mks)

(b) Mwachai BINA's books disclose the following information for the period ended 31 Dec. 1996.

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

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

TEST PAPER II
MARKING SCHEME

1. (a) - Encourage and control marketing of agricultural products by purchasing them from
farmers.
- Encourage stable prices and incomes by keeping prices fairly fixed and store
- unsold goods to act as buffer stock.
- Offer loans for farm input purchasing.
- Help government to regulate, license and impure major export crops e.g. tea.
- Provision of a wide range of experts dealing with agricultural products
- They do research work to improve yield.

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

2. (a)- Carts are cheap to buy and maintain
- They are cheap and negotiable
- They are flexible - can be used where there aren't any roads
- Convenient for short distances
- Can deliver at the doorsteps

- Readily available.

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

3. (a) - Business is done to compare the actual results with the budgeted plans.
- Aids in communication e.g. employees are fully aware of tasks to undertake within a certain period of time i.e. time budget.
- Increase efficiency as everyone want to accomplish what is expected of them.
- Evaluation of performance to know what was achieved according to the budget
  and what was not and why.
- Avoid time and money wastage as each is accounted for at the end of the period.
- Know output of employees as each departments achievement are seen.

(b) - Cost - choose channels which are not too expensive so that profits aren't reduced.
- Nature of my produce - Requires middlemen with tyre knowledge.
- Size or Nature of market - if the market is large enough around the factories
  the short channels are chosen.
- Marketing risks - to minimize these then middlemen will be involved
- Government policy - If there is any directive according to the state law as to who should sell tyres.
- Competition - If we are forcing steep competition then its advisable to market the goods ourselves to take care of our customers and convince them to buy.

4 . (a)- It is cheap as its not necessary to maintain expensive showrooms.
- Doesn't require a fleet of transport vehicles
- Salesmen may not be required and few employees can handle the mail.
- Distributor may contain complete control over the products on his own.
- Goods sold for cash checks on bad debts
- Can operate with little capital as its unnecessary to have huge stocks of goods.

(b) - Number of files & documents to be kept
- Simplicity - to be understand easily by new employees
- Flexible to accommodate more information without having to change existing documents .
- Easy reference and minimum risk of misfilling.
- Documents shouldn't be filed more than once in different subjects.
- Must be affordable.

5. (a) **Registered capital** - Maximum amount of capital a company expects to raise from its shares and its also the amount stated in the Articles of Association.

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

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

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

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

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

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

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

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

(4 x 2 ½) = 10 mks

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

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

(b)

MWACHAI'S BINA
Trading profit and loss account for the year ended Dec. 31 1996

Opening Stock	21,000	Sales	82,000
Purchases	40,000	Returns inwards	2,000
G.A.S	61,000		
Less Closing Stock	10,000		
Cost of sales	51,000		
Gross profit	29,000		
	80,000		**80,000**
Rent	3,000	Gross profit	
31,000			
Sales expense	18,000	b/f	
Net profit	13,000	Discount received	
3,000			
	34,000		**34,000**

20 times ½ = 10mks

TEST PAPER III

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

Resource	Factor of production
a) Teacher	_____
b) Computer	_____
c) Water	_____
d) Sole proprietor	_____
e) Forest	_____

4. Mention any **four** methods used for sending money through the post office.
   4mks
5. Using the book keeping equation, indicate the correct figure in the empty spaces provided.

Assets	Capital	Liabilities.
180,000	50,000	
200,000		90,000

	45,000	38,000
150,000		50,000

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

Item	Amount (Kshs)
Opening stock	400,000
Sales	700,000
Closing stock	10,000
Purchases	150,000
Sales returns	20,000
Purchase returns	50,000
Salaries and wages	80,000
Rent	70,000
Income	80,000

Calculate:

a) Gross Profit
4mks

b) Net profit 4mks

c) Mark-up percentage
2mks

7. State any **four** conditions under which a proforma invoice may be used.
4mks.
8. Highlight any **four** services rendered by retailers to consumers.
4mks
9. Outline any **four** functions of the Kenya External Trade Authority by (K.E.T.A.) 4mks
10. Mention **four** limitations of advertising as a means of sales promotion
4mks

11. As the transport manager of a busy company highlight four factors you would consider
before choosing a mode of transport for your goods and services.
4mks
12. "Most secondary schools maintain that students should pay fees with cheques and not cash" Account for this statement.
4mks
13. Indicate the account in which the following entries are made.

Entry	**Account**
Carriage inwards	
Carriage outwards	

Incomes receivable	
Return inwards expenses.	

14. List **four** features of co-operative societies.
    4mks
15. Outline any **four** barriers that hinder effective communication.
    4mks
16. Highlight any **four** problems or challenges that businesses would face due to adoption
    of the decentralization policy.
    4mks
17. Give any **four** benefits that a farmer would reap from being a member of a producer cooperative.
    4mks
18. Outline any **four** features of multiple shops.
    4mks
19. With the aid of a tree diagram, show the main divisions of trade.
    3mks
20. What is meant by the following abbreviations as used in the study of commerce. 4mks

    i) F. O. R _____
    ii) O . M . O
    _____
    iii) C. I . F _____
    iv) C. W. O _____

21. State any **four** methods that the government of Kenya uses to protect its consumers. 4mks
22. Give any **three** characteristics of money as a medium of exchange
    3mks
23. What is a 'bill of exchange'
    2mks
24. Highlight any **three** demerits of the barter system of trade.
    3mks

TEST PAPER III
MARKING SCHEME

1. Distinguishing Concepts.

a) Free goods - Those things which are given free by nature eg air. Have utility but no economic value.

Economic goods - Those things which are scarce when compared to human wants and human effort required to obtain them. Have utility and economic value (price)

b) Consumer goods - Goods meant for direct consumption and they satisfy economic wants may be perishable or durable.

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

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

Personal Wealth - Consists of items that belong to an individual person eg clothes, TV, etc. *1 x 6*

2. Advantages of a bonded warehouse.

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

Any other relevant point.

3.

Resource	**Factor of production**
a) Teacher	Labour
b) computer	Capital
c) Water	Land
d) Sole proprietor	Enterprenuer
e) Forest	Land

1 x 4

4. Methods of sending money through post office.

- Telegraphic money order
- Ordinary money order
- Registered mail
- Postal order. *1 x 4*

5.

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

1 x 4

6. a) Calculating gross profit

Rayrose College
Trading account
For the year ended 31st Jan 2001

	Kshs.			Kshs.
Opening stock		***400,000***	***Sales***	***700,000***
Add purchases	130,000		Less sales returns	20,000
Less purchases	50,000	100,000	Net sales	**680,000**
		500,000		
Less closing stock		10,000		
Cost of goods sold		***490,000***		
Gross profit c d		190,000		
		680,000		**680,000**
			Gross Profit b d	190,000

4mks

Calculating Net profit.

Net profit = (Gross profit + income) – expenses

Income = 80,000

Expenses = Salaries & wages + rent

= 80,000 + 70,000

= 130,000

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

= 270,000 - 150,000

= **kshs. 120,000**

4mks

b) Calculating mark-up percentage.

$$\text{Mark – up} = \frac{\text{Gross profi}}{\text{Cost of goods sold}} \times 100$$

$$= \frac{190,000}{490,000} \times 100$$

= 38.8% 2mks

7. When a proforma invoice may be used.

- When the seller wants to request for payment before goods are delivered
- When the seller does not want to give credit to the buyer
- Issue to an agent who sells goods on behalf of the seller
- Used by importers to get customs clearance before the goods are sent

- Serve the purpose of a quotation

- Sent to the buyer to show him what he would have to pay if he bought goods sent on approval. *1 x 4*

8. Services rendered by retailers to consumers

- Selling goods to consumers in affordable units
- Display goods to enable consumers know which alternatives exist.
- Advise the consumers on use. Servicing and maintenance of goods
- Stock a large variety from different manufacturers as per the needs of consumers
- Provide credit facilities to worthy customers
- Offers after sales services on technical goods to the consumers

Any other relevant point. *1 x 4*

9. Functions of K.E.T.A.

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

1 x 4

10. Limitations of Advertising.

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

Any other relevant point. *1 x 4*

11. Factors to consider when choosing mode of transport.

- The cost of transport
- Speed and time taken
- Nature of goods
- Flexibility
- Packing requirements
- Distance to be covered
- Insurance risks. *1 x 4*

12. Advantages of cheques.

- Secure since if stolen they can be traced

- Convenient to carry than coins and notes
- Payment can be made without the need to travel
- Acts as evidence of payment.
  Any other relevant point. *1 x 4*

13.

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

14. Features of cooperatives.
- Voluntary Association ie open to all
- Service motto ie serves its members and that profit is not the only motive
- One for all and all for one ie self help through mutual help
- Democratic management
- Division of profit is done on the basis of service rendered
- State control ie state exercises chose control. *1 x 4*

15. Barriers to effective communication
- The language used
- The medium used
- Willingness of the receiver to listen
- Noise
- Attitudes of the communicators
- Poor planning
- Improper timing *Any other relevant point.* *1 x 4*

16. Problems of decentralization.
- Lack of trained personnel
- Lack of basic infrastructures such as roads
- Basic services like banking may not be found in all areas
- Inadequate market
- Certain benefits eg entertainment may not be found in the decentralized industries.
  Any other relevant point. *1 x 4*

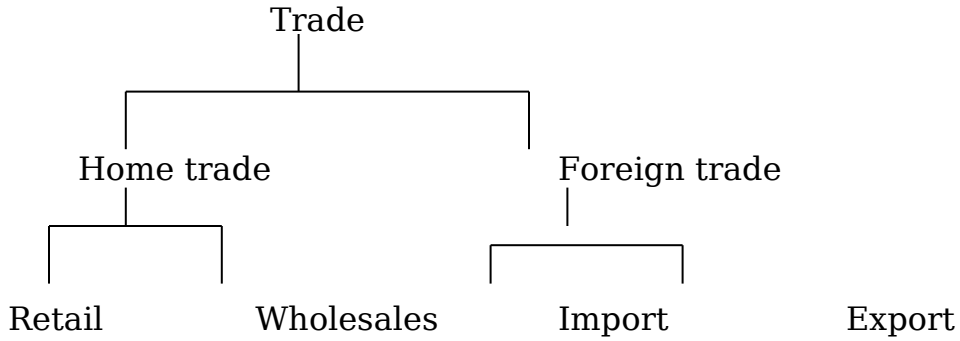
17. Benefits from co-operatives.
- Fair price for his her produce
- Reduced costs of transport, processing and marketing
- Get ideas regarding quality improvement, better methods of cultivation, etc
- Secure credit on reasonable terms than an individual could
- Purchasing farm equipment's at reasonable prices
- A farmer is assumed of a stable price for his produce. *1 x 4*

18. Features of multiple shops.

- Uniformity of the premises, external shop front, internal layout, etc
- Control is vested in the central organisation
- Buying if centralised and selling is decentralized through several branches.
- Deal only in a particular set of goods
- Sales are strictly cash
- Selling prices are fixed by the central organisation.

Any other relevant point. *1 x 4*

19. Divisions of trade.



20. Meaning of abbreviations.

i) F.O.R - Free On Rail
ii) O. N. O. - Or Nearest Offer
iii) C. I. F - Cost, Insurance and Freight
iv) C. W. O - Cash With Order.

21. Government methods of consumer protection.

- Setting up standards eg Kenya Bureau of Standards
- Price control
- Licences
- Food and Drugs Acts.
- Sale of Goods Act.
- Public Heath Act.

22. Characteristics of money

- Acceptability
- Portability
- Divisibility
- Durability
- Homogeneity
- Stability
- Scarcity
- Cognizability *1 x 3*

23. A bill of exchange is an unconditional order from one party to the other to pay on demand or at a stated future date the sum on the bill. It must be signed by the drawer and be accepted by the drawee.

2mks

24. Demerits of barter trade.

- Lack of double coincidence of wants
- Lack of standard measure of value
- Indivisibility of some products
- Bulkiness of some products
- Lack of storage facilities. *1 x 3*

TEST PAPER IV

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

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

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

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

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

Price per unit (Kshs.)	Quantity demanded	Quantity supplied.
70	100	1000
60	500	800
50	500	400
30	800	400
20	900	300
10	1000	100

   i) On the graph paper provided, draw the demand and supply curve on the same graph and determine equilibrium price and quantity. 10mks

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

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

   b) Outline the disadvantages if sole proprietorship. 6mks

4. a) Explain the differences between private limited company and public limited company. 10mks

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

5. a) Explain the problems that Kenya experiences due to concentration of industries in the urban centres. 10mks

   b) Discuss the main functions of the accounts department in any business enterprise. 10mks

6. a) Discuss the main factors that influence the demand for a particular good or service. 10mks

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

TEST PAPER IV
MARKING SCHEME.

1. a) Role played by the Jua Kali sector in the development of Kenya today

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

Any other relevant point *2 x 5*

b) Problems experienced by cooperative societies.

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

2 x 5

2. a) Factors that may influence the growth of a business unit.

- Availability of sufficient capital
- Availability of market for the product
- Favourable legal factors
- Mature of product service
- Minimal costs of production leading to high profits
- Availability of transport and communication facilities.

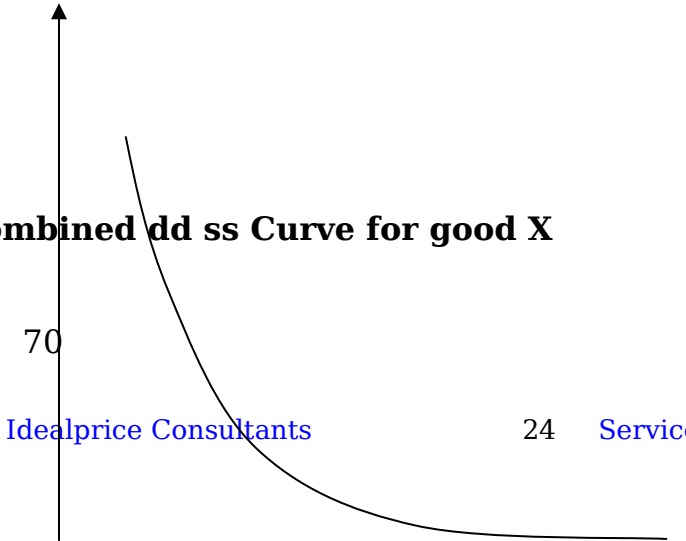
Any other relevant point 2 x 5

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

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

*2 x 5.***)**

3) Combined dd ss Curve for good X





E . P = 50 shs.
E . Q = 500

i) From 50 to 70 shs. = at 50 sh: Qd = 500QS = 500
at 70 shs: QD = 100 Q5 - 1000
Excess supply of 900 units
Supply > dd by 900 units
Due to price increase.

ii) From 50 to 10 = at 50 - QD = 500 QS = 500
at 10 sh = Qs = 100 Qd = 1000
shortage of 900 units
demand increase from 500 to 1000 units
excess demand but these is a shortage
due to price decrease. *1 x 6*

b) Disadvantages if sole proprietorship.

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

3. a) Differences between private limited company and public limited company.

Private ltd Co.	Public Ltd Co.

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

1 x 10

b) Role played by warehousing as an aid to trade among others.

- Preserves surplus, stabilizes prices and helps to save huge quantities of good which would otherwise be wasted.
- Goods can be prepared for sale while in the warehouse in terms of sorting, weighing, packing etc
- Provide temporary accommodation of goods for producers with no sufficient room for storage.
- Acts as a reservoir enabling trade to continue throughout the year.
- Deferred payment on highly taxed goods enables the importer to look for a market for the good
- Enables the government to get revenue through duty paid. *2 x 5*

4. a) Problems that a Kenya experiences due to concentration of industries in the urban centres.

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

Any other relevant point. *2 x 5*

b) Functions of the accounts department in any business enterprise.

- Maintain the accounting records

- Prepare and send invoices to the customers
- Prepare the budget and plan the activities of the organisation
- Receive money and make payments on behalf of the organisation
- Calculate and make payments on behalf of the organisation to the employees

- Prepare final accounts at the end of the year.
- Analyse the financial position of the business
- Carrying out internal audit. *2 x 5*

5. a) Factors that influence the demand for a particular good or service.

- Own price of the commodity
- Price of related goods ie substitutes and complements
- Income levels of consumers
- Tastes, fashions and preferences
- Weather conditions eg demand for umbrellas and gumboots increases during the rainy season.
- Government policy.
- Expected changes in price of goods. *2 x 5*

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

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

2 x 5

TEST PAPER V

1. Distinguish the following pair of concepts (6mks)
   (a) Transport and communication
   (b) Warehouse and warehousing.
   (c) Cheque and bankdraft
2. Explain the role played by transport as an aids to trade (4mks)
3. Outline any **four** circumstances under which a manufacturer would sell goods directly to

consumers
(4mks)

4. Highlight any **four** reasons why a government may set up parastatals to supply essential
goods to its people (4mks)

5. Mention any **four** factors that account for the high demand for cellphones/mobile phones in
Kenya today (4mks)

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

7. The table below shows various forms of production. Indicate using a tick the correct
classification in the appropriate column
(5mks)

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

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

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

	Kshs
Cash at bank	23,100
Cash in hand	3,250
Debtors	45,300
Stock	48,200
Furniture	11,600
Motor-vehicle	65,000
Creditors	56,000
Bank loan	25,000

a) Calculate his capital
(4mks)

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

11. Mention **four** ways in which commercial attaches in our foreign embassies help out our
traders
(4mks)

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

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

14. Highlight any **four** forms of after-sales service that may be extended to a consumer. (4mks)
15. Outline any **three** qualities of an office worker (3mks)
16. Outline any **four** ways though which co-operatives help Agricultural development in Kenya. (4mks)

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

	Kshs
Opening stock	22000
Closing stock	26000
Purchases	349000
Expenses	120000
Sales	500000
Capital	200000

Calculate :
(a) Margin percentage (3mks)
(b) Stock turn over (3mks)
(c) Cost of sales (2mks)

18. List any **four** principles of insurance (3mks)
19. Highlight any **four** reasons why international trade is said to be of great importance to a developing country (4mks)
20. Outline any **four** factors that have promoted the growth of commerce over the years (4mks)
21. Account for the popularity of supermarkets in Kenya today (4mks)
22. Why in your opinion do you think oral communication lost popularity in Kenya today. (4mks)
23. Other than commercial banks, mention any other **four** financial institutions that provide financial services in Kenya (4mks)
24. Name any **three** factors of production and their respective rewards (3mks)

TEST PAPER V
MARKING SCHEME

1. Distinguishing concepts.

- Transport – The process of moving goods or people from one place to another.
- Communication – The process of disseminating information /message from one person to another.
- Warehouse – Is a building where goods are received and stored prior to being despatched to the people who require them
- Warehousing – Is the process of receiving goods into warehouses, storing them and dispatching them to the users
- Cheque – Is an order by a depositor/ drawer to the bank/drawee to make a specific payment to the person named /payee
- Bank draft- A cheque drawn by a bank in favour of a married person and serves as a guarantee of payment . *(1 x 6 = max 6 marks)*

2. **Role of transport**
   - Facilitates movement of materials from their source places to the factories/industries
   - Movement of finished goods from factories to consumers
   - Increases utility of goods and services
   - Enhances movement of bulky goods
   - Avoids wastage since surpluses are transferred to areas where they are scarce
   - Makes possible exploitation of resources

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

3. **When a manufacturer sells directly to consumers**
   - When goods require sufficient after-sales services
   - When goods are very expensive e.g. motor cars.
   - When goods are branded and widely advertised
   - When goods are highly fashionable with high profit margin
   - When goods are highly fragile e.g. glass materials
   - When goods are highly perishable e.g. fruits and vegetables .
   - When the manufacturer wants to exercise some control during the distribution process. *Any other relevant point (1 x 4 = max 4 marks)*

4. **Why government sets up parastatals to provide essential services**
   - Prevent exploitation of the public by private businessmen
   - Provide goods and services that private enterpreneurs are unwilling to venture due to low profits involved
   - Provide large amount of capital(initial) where private organisation are not able to finance
   - Provide essential goods and services that are too sensitive to be left in the hands of a private sector
   - Stimulate economic development of the country by providing the essential social overhead capital
   - Establish monopolies in areas of interest where high profits are involved

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

5. Factors accounting for high demand of cellphones

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

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

6. Characteristics of human wants

- They are insatiable
- They are habit forming
- They are competitive
- They are recurring
- Particular wants can be satisfied

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

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

1 x 5 max 5 marks

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

- Membership contributions
- Retained profits
- Credit facilities
- Entrance fees
- Surplus and reserves *(1 x 4 max 4marks)*

9. Capital = Assets – Liabilities

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

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

= 196450

Liabilities = Creditors +Bank loan

= 56100+ 25000

= 81000

Hence capital = 196450-81000

= 115350

10. Services rendered by a public warehouse

- Provide storage facilities
- Serves as a place for preparation of the goods for subsequent use by a change in their condition e.g. ripening of bananas
- Renders a warrant which is a document of title issued to the merchant owning the goods
- Offers protection by insurance against loss by fire, theft, etc
- Prepares sample for report and market usage
  (any other relevant point) 1x 4 = max 4

11. Role of commercial attaches

- Explore new markets for more export opportunities
- Study and analyse markets for exports for their home countries
- Research and keep data for new markets
- Publish and advertise their countries exports
- Select buyers agents, agents and distributors of the home country's exports
- Inform traders in their home countries of the standards required for exports .
- Organise visits to trade fairs and exhibitions for businessmen from their home countries. **(***any other relevant point) 1 x 4 = max 4 points*

12. Parties to a cheque.

- The drawer – the account holder who drafts the cheque
- The drawee- The bank that is to make payment.
- The payee – The named person who is to receive payments
  (½ x 6 = 3marks)

13. Essentials of a warehouse

- Ideal location where goods are produced in greater quantity
- The building must be suitable and of large size appropriate to store goods efficiently
- Properly equipped with necessary facilities to store goods for a longer time without getting spoilt
- Efficient and well trained staff with ability to protect goods against damages by fire, water or bad weather.
- Should have efficient transport system to enhance movement of goods into and out of the warehouse.
- Should have adequate protection measures
  (any other relevant point) 1 x 4 = max 4 marks.

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

- Free of charge repair for specific period of time
- Cleaning or servicing of the equipment at regular intervals free at very reasonable rates.
- Provide technical advice regarding he use of equipment if the customer has some problem.
- Ensure availability of spares
  (*Any other relevant point) 1 x 4 = 4 marks)*

15. **Qualities of an office worker**
- Personal attribute e.g. neatness, cleanliness.
- Office etiquette e.g. respect courtesy
- Personal knowledge and skills

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

17. Margin percentage

$$= \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

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

= 500000 – (22000+349000-26000)
= 500000- 397000
= 103000

Hence margin $\frac{103,000}{500000} \times 100$
= 20.6%

(b) Stock turn – over

$$= \frac{\text{Cost of sales}}{\text{Average of stock}}$$

Cost of sales = Opening stock + Purchases – Closing stock

Average stock = $\frac{\text{Opening stock + Closing stock}}{2}$

Hence Turn-over $= \frac{22000 + 349000 - 26000}{\frac{22000 + 26000}{2}}$

$= \frac{103000}{24000}$
= 4.3 *(1 x 3) = 3marks*

c) Cost of sales
= Opening stock + Purchases
= 22000 +349000
= 371000 ***(1 x 2) = 2marks***

18. **Principles of insurance**
- utmost good-faith uberimae or fidei
- Insurable interest

- Subrogation
- Proximate cause
- Indemnity
- Contribution/average clause
- Pooling risks
- Insurable risks

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

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

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

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

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

Any other relevant point (1 x 4)

22. Why oral communication has lost popularity.
- It's expensive in long distance
- its not suitable for confidential messages.
- It's open to exaggeration where favours are expected
- No record keeping making reference difficult
- It can be time wasting.
- It may be treated lightly if not properly planned

23.Financial institutions providing financial services.
- Merchant bank
- Hire purchase finance companies.
- Building societies.
- Insurance companies and pension funds

- Post office savings bank. *Any other relevant point 1x4*

24. **Factor** **Reward**
- Land rent
- labour wages
- Capital interest
- Enterprenuership profit *½ x 6*

TEST PAPER VI

1. a) Explain **six** reasons why a businessman would choose to operate a current account instead of a savings account.
12mks.
b) Highlight any **four** circumstances under which a businessman would communicate to the customers by letters rather than telephone.
8mks.
2. a) Discuss the main challenges/problems that face the small scale industry in Kenya today
10 mks
b) Explain the factors that a seller should take into account when choosing the best medium for advertising his products
10mks
3. a) Explain the benefits that Kenya is likely to enjoy for being a member of the common market for East and Southern Africa (COMESA)
b) Clearly describe the services rendered by wholesalers to growers, producers and manufacturers
10mks
4. a) Clearly describe how the central bank limits the credit creation of the commercial banks.
10mks
b) Explain the role played by marketing boards
10mks

5. (a) The following information relates to African Retail Traders for the year ended 31st Dec 1999

Gross profit	600000
Opening stock	285000
Sales	2400000
Purchases	1830000
Expenses	360000
Net profit	240000
Closing stock	315000
Fixed assets	400000

Debtors 900000
Cash at bank 35000
Current liabilities 438000

a) Calculate
   a) Cost of goods sold
   b) Mark –up percentage
   c) Debtors ratio
   d) Current ratio 12mks

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

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

b) Write short notes on the following terms as used in insurance
   i) Indemnity
   ii) Utmost good faith
   iii) Proximate cause
   iv) Insurable interest
   v) Subrogation 10mks

TEST PAPER VI
MARKING SCHEME

1. a) Why a businessman would choose to operate a current account

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

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

- When permanent records for future reference are required
- When communication needs to be highly confidential
- When communication need to reach many people at a time when he/ she needs to accommodate complex messages such as tables and graphs for illustrations.

- When the customer is far away and it may be two expensive to call.
  Any other relevant point = 2 x 4

2. a) Problems facing small scale industry.

- Lack of sufficient capital
- Lack of proper market information
- Poor management due to low education levels
- Lack of credit facilities due to lack of proper securities
- Poor financial control since most owners do not know how to keep clean records.
- Lack of tenacity / persistence since most owners expect returns overnight.

  Any other relevant point = 2 x 6

b) Factors to consider when choosing the best medium for advertising.

- The 'reach' of the media ie the proportion of the target audience that can be contacted.
- The relative cost per unit cost should be low
- The impact of the media ie the extent to which the message is effectively taken in.
- The permanence of advertising
- The selectivity of the media.
- The product being advertised. *Any other relevant point = 2 x 5*

3. a) Benefits that Kenya reaps from COMESA.

- High quality products
- Fairly priced products
- Wide variety of products
- Access to a wider market.
- Wider consumer choices
- International peace and understanding. *Any other relevant point = 2 x 5*

b) Services rendered by wholesalers to growers, producers & manufacturers.

- Market to purchase all their products, providing warehousing in preparation for subsequent distribution to retailers.
- Provision of transport services: often packing for despatches of the goods: prompt settlement: display and advertising of the product.
- Link with retailers and consumers' demands to facilitate production in anticipation of demand and with fore knowledge of changes in consumers' selection, taste and requirements.
- Relieves the suppliers off the problem of finding diverse markets, finance and storage problems.
- Provides for further services necessary in preparation for retail marketing eg. Grading, blending, refining, etc

- Fulfils the manufacturers' needs for a steady supply of raw materials or semi – finished goods to ensure continuity of his production lines.

Any other relevant point = 2 x 5

4. a) How Central Bank limits credit creation of Commercial Banks.

- Open market operations
- Bank Rate Policy
- Margin Requirement
- Selective Credit Control
- Rationing of Credit.
- Direct Action, Moral persuasion and publicity. *2 x 5*

b) Role of marketing boards.

- Buying and selling produce at fair prices
- Control of production
- Collection of produce and transportation
- Storage of produce
- Financing functions
- Research and advisory services
- Advise the government on matters related to the produce they handle
- Promote interests of the farmers / growers by supplying fertilizers, seeds etc to enhance productivity and good farming.
- High quality products
- Fairly priced products
- Wide variety of products
- Access to a wider market.
- Wider consumer choices
- International peace and understanding. *Any other relevant point = 2 x* **5**

5. a) **Cost of goods sold.**

= opening stock + purchases – closing stock
= 285,000 + 1,830,000 – 315,000
= 1,800,000

b) Mark-up percentage

$$= \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$$

$$= \frac{600,000}{1,800,000} \times 100$$

$$= 33\ ^1/_3\ \%$$

c) Debtors ratio

$$= \frac{\text{Debtors}}{\text{sales}} \times 365$$

= 9 00,000 x 365
2,400,000
= 136.9
= 137days.

d) Current ratio.

= Current Assets
Current Liabilities
= Stock + Debtors + Cash at bank
Current Liabilities

= 315,000 + 900,000 + 35,000
438,000
= 1,250,000
438,000 = 3.08 : 1 + 3 . 1 : 1. *1 x 3*

b) Reasons that may lead to dissolution of partnership.

- Completion of the intended purpose
- Loss of one partners
- Request of dissolution by one partner
- A change in the country's law disqualifying the business
- A court order
- Insolvency of the business. *Any other relevant point = 2 x 4*

6. a) Arguments for state ownership of business undertakings.

- They promote general welfare of the public by providing social goods such as medical facilities, sewerage, etc
- Avoid wastage and inefficiency since some establishments are nationalised to avoid duplication.
- They encourage private investment in activities which require heavy capital but take long to bring returns.
- They provide services to the public at fair prices since the interest of the public is the main consideration.
- Encourages democratic control through the state and local authority and profits are not to a limited number of shareholders.

Any other relevant point = 2 x 5

b) Short notes:

i) Indemnity : A principle of insurance which states that an individual should only be compensated upto the actual monetary loss caused by the event insured against. The maximum one can get is the value of the property insured when there is total loss caused by the risk insured against. Hence the insured should never benefit / gain.

ii) Utmost good faith - this principle requires that the insured person must disclose all the material facts about the insured property to the insurance company.

iii) Proximate cause - This principle states that for an insurer to be liable, the loss must be dominantly and effectively resulting from a risk for which the insurance policy was taken out.
iv) Insurable interest - This principle states that an insurance claim cannot be valid unless an insured person can prove that he has suffered a financial loss because the insured event has occurred. The insured person must not gain from the occurrence of the insured event hence should only insure upto the amount that you can claim when the event occurs.
v) Subrogation - This principle maintains that after the one insurer has indemnified the insured, the rights in the remains of the damaged proper by pass on to the insurer. *2 x 5*

TEST PAPER VII

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

Description	**Business organisation**
a) Each member has only one vote	.....
b) The business enjoys perpetual succession	.....
c) Each member may act on behalf of the business	.....
d) Formed by an act of parliament	.....

8. Identify **four** services that can be conveniently paid for using standing orders (bank orders)
   4mks

9. Give any **four** reasons why the Kenyan government is actively involved in licencing
business activities.
4mks

10. Outline any **four** main principles of investment
4mks

11. Explain the meaning of the following terms.
4mks

i) Par value
ii) Blue chips
iii) Cum right or Ex-Right
iv) Tilt Edged securities

12. The following is a summary of transactions for Ryan Traders for the month of April 2002.

2nd April - Commenced business with shs. 12,000 in cash and shs. 150,000 at the bank
3rd April - Made cash sales amounting to shs. 6,000
5th April - Received cash shs. 16,000 from a debtor
12th April - Paid for motor expenses shs. 7,000 in cash
13th April - Drew shs. 30,000 from bank for office use
15th April - Paid salaries in cash amounting to shs. 15,000
17th April - Bought furniture worth shs. 18,000 paying by cheque.
18th April - Paid expenses amounting to shs. 15,000 by cash
19th April - Cash sales of shs. 40,000 received by cheque
23rd April - Paid shs. 20,000 cash into the bank
25th April - Paid a creditor shs. 16,000 by cheque

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

13. Highlight any **four** reasons why the Kenyan government finds it necessary to train businessmen.
4mks

14. The following balances were extracted from the books of A & B Co. as at 1st April 2002.

Capital shs. 200,000
Fixed Assets shs. 180,000
Current Assets shs. 40,000
Current Liabilities shs. 20,000

During the month, the following took place.
i) Goods worth 50,000 were taken away from the business for personal use.
ii) Net profit of shs. 80,000 was realized.
Calculate capital as at 30th April 2002.
4mks

15. Other than advertising, mention any other **four** methods of sales promotion. 4mks

16. Highlight any **four** reasons why most businessmen do not prefer transferring their goods via canals.
4mks

17. Alex is an employee of an advertising firm as a sales executive. He receives a salary of Kshs. 10,000 plus commission of the following basis:-
On the first sales of shs. 100,000 - 2%
On the next shs. 200,000 - 5%
On the balance of sales - 10%
He sold an advertising space worth shs. 450,000 during the month of January 2002.
Calculate his total income for the month.
4mks

18. Highlight any **four** methods that the government can use to influence the quantity of a commodity supplied.
4mks

19. Indicate the type of resource represented by the following.
4mks

	Type of Resource
Forest	.....
Road	.....
Doctor	.....
Wildlife	.....

20. Outline any **four** methods of determining prices in the market.

21. Write short notes on the following types of partners.
4mks
a) Active Partners
b) Minor partners
c) Quasi partner
d) Outgoing partner

22. "The office performs a fundamental role in any business organisation." Account for this statement.
4mks

23. Outline any **four** factors that an investor should consider before setting up a small scale retail shop in a town.
4mks

TEST PAPER VII
MARKING SCHEME

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

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

2. **Characteristics of money.**
   - Portability
   - Homogeneity
   - Divisibility
   - Scarcity
   - Cognizability
   - Durability
   - Acceptability
   - Stability. *1 x 4mks*

3. **- Inferior products may be imported.**
   - Over dependence
   - Balance of payment problems
   - Loss of cultural values and prestige
   - Moral decay
   - Lack of cultural values and prestige
   - Moral decay
   - Lack of development skills for countries that specialize in production of primary products.

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

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

   Any other relevant point *1 x 4*

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

Any other relevant point *1 x 4 mks*

6. Contents of the articles of association

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

Any other relevant point *1 x 4 mks*

7. Description	Business Organisation
a) Each member has only one vote	Co-operative
	Soleproprietorship
b) Business enjoys perpetual succession	
	Partnership
c) Each member may act on behalf of the business	Parastatal
d) Formed by an act of parliament	

8. Services that can be paid for by standing orders

- Rent payments
- Subscriptions
- Insurance's
- Hire purchase payment
- Loan payments
- Mortgage repayments

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

9. Why the Kenyan government is involved in licencing.

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

any four pts 1mks each

10. Principles of investment.

- Should be secure
- Liquidity ie ability to be converted into cash
- Ability to grow over a period of time
- Should generate income / returns
- Ability to spread risks over several types of securities. *1 x 4*

11. Explanations.

i) Par value - This is the face value or nominal value of a share

ii) Blue chips - Refers to high grade equity shares ie the ordinary shares of a company which have had a good dividend record extending over the years.

iii) Cum Right or Ex – Right - Used in reference to a new rights issue attaching to the shares. Ex-right refers to that right retained by the seller while cum – Right is the right transferred to the buyer.

iv) Gilt Edged Securities - Refers to securities sold by the government considered absolutely safe. *1 x 4*

12. Ryan Traders
Cash book for the month
of April 2002.

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
2/4/ 02	Bal b/f	12,000	150,000	12/4/ 02	Motor expenses	7,000	
3/4/ 02	Sales						30,000
5/4/ 02	Debtors	6,000		13/4/ 02	Office Salaries	15,000	18,000
19/4/ 02	Sales	16,000	40,000	15/4/ 02	Furniture Expenses	15,000	16,000
23/4/ 02	Cash (c)		20,000	17/4/ 02	Bank (c)		146,000
					Creditor	20,000	
	Bal c/d			18/4/ 02	Bal c/d		
25/4/ 02		23,000	210,000	23/4/ 02			**210,000**
	Bal b/d	**57,000**	146,000	25/4/ 02	Bal b/d	**57,000**	
25/4/ 02				25/4/ 02		23,000	
				25/4/02			

8mks

13. Why the government trains businessmen.

- Expose businessmen to modern developments in management
- Educate businessmen of efficient methods of operating business eg effective methods of sales promotion
- Identify and discuss current problems facing businesses and look for possible solution
- Import proper business ethics eg good customer relations
- Educate businessmen on how to use available resources to minimize costs and maximize profits
- Inform businessmen on various available profitable business opportunities in their surroundings

- Expose them to government policies regarding business activities in the country

1 x 4 = any four pts 1mks each

14. Calculation of capital

Initial capital	200,000	
Less Drawings	50,000	
	150,000	
Add net profit	80,000	
Net capital	230,000	*1 x 4 mks*

15. Other methods of sales promotion

- Free samples
- Gifts
- After – sales service
- Credit facilities
- Price reductions *Any other relevant point* *1 x 4 mks*

16. Problems of canals.

- Canals lack speed hence cant be used to transport perishable or urgently required goods
- Canals can only serve a limited area where water exists
- Canals may dry in drought seasons and freeze in very cold seasons
- Maintenance charges are high

Any other relevant point *1 x 4mks*

17. Calculation of total income.

	Shs.	**Shs.**
Basic Salary	10,000	10,000
On the first sales of 100,000	$^{2}/_{100}$ x 100,000	2,000
On the second sales of 200,000	$^{5}/_{100}$ x 150,000	10,000
On the balance of sales 150,000	$^{10}/_{100}$ x 150,000	15,000
Total income		37,000

1 x 4mks

18. Methods used by government to influence supply.

- Taxes
- Subsidies
- Price control
- Production quotas
- Creation of monopolies through licencing *1 x 4mks*

19.

Item	**Type of Resources**
Forest	Natural
Road	Man-made
Doctor	Human
Wildlife	Natural

1 x 4 = any four pts 1mks each

20. Methods of price determination.

- Haggling ie bargaining over a price range
- Auction
- Price mechanism
- Government policy

21. Short notes.

a) Active partner - One who takes an active role in the running of the partnership business

b) Minor partner - One who is under 18 years of age, shares profits but cant take part in management.

c) Quasi partner - One who does not contribute capital but allows the firms to use his name as a partner. Shares profits but not losses.

d) Outgoing partner – One who is retiring from a partnership business with the consent of all other partners or in accordance with any previous agreement.

any four pts 1mks each = 1 x 4

22. Functions of an office

- Collecting and recording information
- Distributing information
- Mailing
- Reproduction of documents
- Storing information
- Safeguarding an organisations property
- Communication.

23. Factors to consider when setting up a small scale retail shop in town.

- Extent of demand / market
- Level of competition
- Security level
- Accessibility
- Type of business
- Availability of raw materials
- Availability of water and power *Any other relevant point 1 x 4*

TEST PAPER VIII

1. a) Explain any **five** methods that the Kenyan government may adopt in order to control the volume of imports. 10mks

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

2. a) What do you understand by economies to scale. Discuss any **four** internal economies of scale 10mks

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

part of sales promotion.
10mks

3. Opportunities exist for purchasing of necessary durable goods by installment.
   a) Describe **two** methods commonly used for this purpose.
      4mks
   b) Mention **three** advantages of each to:
      i) The manufacturers 6mks
      ii) The consumer 6mks
   c) Give any **two** differences of the two methods.
      4mks

4. Prepare a trading profit and loss account for 2000 and a balance sheet as at 31st Dec 2000 from the following trial balance.

L. Kabas Co.
Trial Balance
As at 31st Dec 2000

	DR (Kshs)	CR (Kshs)
Capital		150,000
Land and buildings	50,000	
Motor vehicle	38,000	
Drawings	32,485	
Furniture and fittings	11,200	
Debtors	38,459	
Creditors		46,253
Stock on 1st Jan 2000	37,129	
Purchases	273,538	
Sales		384,803
Returns inward	7,832	
Transport	35,223	
Return outwards		10,544
Telephone and Electricity	9,835	
Rates and Insurance	4,942	
Licence and Legal	1,956	
expenses		8,400
Rent income	37,280	
Salaries	6,342	
Advertising	12,345	
Carriage inwards	950	
Stationery and office	2,484	
expenses	**600,000**	**600,00**
General expenses		**0**

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

5. a) Explain any **five** functions of commercial banks.
   10mks

b) Assume that you are a policy maker in Kenya today, explain the reasons which would
make you recommend rural industrialization policy.
10mks

6. a) Account for the low bargaining power of trade unions in Kenya today.
10mks
b) Outline any **five** benefits that a person may derive from being a member of savings
and credit cooperative society.
10mks

TEST PAPER VIII
MARKING SCHEME

1. a) Methods of controlling volume of imports
- *Tariffs* - Involves levying import duty on goods that are entering a country.
- *Quotas* - Is a quantitative restriction permitting only a given number of units of a
commodity to be imported during a specific period.
- *Exchange control* – Refers to control by the government on the exchange value of the currency of a country. Importers can only import goods when they seek permission for acquiring foreign exchange.
- *Trade agreements* - is an agreement between different countries regarding the foreign trade under this system, goods can only be imported from some specific countries only.
- *Total ban/ Embargo* - Involves imposing a complete ban on import of some specific commodities. *2 x 5*

b) Sources of capital to small scale enterprise
- Personal funds / owners capital
- Borrowing from friends and relatives
- Members contribution
- Loan from banks and other non bank financial institutions
- Going public ie borrowing from the public by the use of stocks
- Venture capital ie a group of rich people with a pool of financial resources which they led to viable small scale business.

Any other relevant point

2. a) Economies of scale refers to the benefits that a firm enjoys due to expanding its scale of
production.
Internal economies
- Administration: When a firm expands, its administrative expenses are distributed over greater output and the per unit cost decreases.
- Financial: Large firms have a good reputation hence can get loans from financial institutions.

- Marketing: Large firms sell their products easily since they are able to engage in sales promotion methods
- Technical: Due to their financial capacity, large firms can afford capital goods that enables them to produce superior products. *2 x 4*

b) Sales promotion: refers to the process whereby the demand for the products of a business enterprise is created in an attempt to increase sales. It has to do with informing the consumers about the existence of a particular product, its quality and features, places of availability as well as the price of the product. *2mks*

Importance of Trade fairs.
- It's a means of advertising products to the wholesale and retail trade
- Brings new products on view to create a demand
- Builds up an advance order book within the trade and hence ensure continuity of production over a period of time
- Enables new business contacts to be made A***ny other relevant point 2 x 4***

3. a) Methods of buying goods in instalment.
- Hire purchase - A system where the buyer agrees to pay for the commodity in instalments. The buyer obtains the possession of the article on the down payment (deposit) but the title of ownership remains wit the seller until the last instalment is made.
- Credit sales / Deferred payment - under this system the article becomes the property of the buyer with the payment of the first instalment. The buyer is supposed to pay the remaining amount in instalments.
2 x 2

b) Advantages of Hire Purchase to:

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

ii) The buyer.
- He takes possession of goods and their use immediately after down payment.
- Instalments to be made are predetermined enabling him to plan and budget for payment of the amounts.

- He is able to acquire goods he could not have afforded on cash terms
- The buyer can possess more goods including expensive items.

1 x 6

Advantages of credit sale to:

i) The manufacturer

- He is able to increase his volume of sales
- Profits realized are higher since customers must pay higher prices
- He can reclaim the amount due from the buyer under a court order.

ii) The buyer

- He is able to buy expensive goods on credit
- Ownership of the article posses to the buyer after the first instalment
- He is able to plan on acquisition of certain goods.

Any other relevant point *1 x 6.*

c) Differences:

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

Any other relevant point *1 x 4*

4. L. Kabs Co
Trading, Profit and loss A/c
For the year ended 31st Dec 2000

	Shs.	Shs.		Shs.	Shs
Opening stock		37129	Sales		
Add: purchase	273538		Less returns	38480	
- Returns outwards			inwards	3	
+ Carriage	12345	312468		7832	37697
inwards		43210	Net sales		1
Goods available for		269258			
sale		107713			
Less closing stock		376971			
Cost of goods sold					37697
Gross profit c/d			Gross profit b/d		1
	35223		Add Rent income		10771
Expenses.	9835				3
Transport	4942				8400
Telephone & Electricity	1956				
Rates and Insurance	37280				
Licence and legal	6342				
expenses					
Salaries	950	99012			

Advertisement	2484	17101		
Stationery & office expenses		116113	Net profit b/d	11611
General expenses				3
Net profit c/d				17101

L. Kabs Co
Balance sheet
At at 31st Dec 2000

	Shs	Shs		Shs	Shs
Fixed Assets			Capital	150,000	
Land &	50000		Less Drawings	32485	
Building	38000		Add Net profit	17101	
Motor vehicle	11200	99200	Net capital		134616
Furniture			Add creditors		46253
Current assets	38459				
Debtors	43210	81669			
Stock		180869			180869

5. a) Function of commercial Banks

- Receiving deposits
- Advancing loans
- Transferring money
- Agents of the stock exchange market
- Custodian of valuable items.

Any other relevant point *2 x 5*

b) Reasons for rural industrialization policy.

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

Any other relevant point.

6. a) **Problems of trade unions.**

- Poor management
- Political interference
- Insufficient funds
- Lack of strike benefits
- High levels of unemployment
- Lack of patience during the negotiation period.

Any other relevant point *2 x 5*

b) Benefits of savings and credit co-operative society (SACCO)

- Education
- Sharing of additional profits
- Loans can be advanced
- Savings
- Improved living standards
- Credit facilities eg Bank overdraft.

Any other relevant point *2 x 5*

TEST PAPER IX

1. Explain the following terms as used in commerce
   4mks
   i) Registered capital
   ii) Subscribed capital
   iii) Issued capital
   iv) Paid up capital
2. Outline any **four** circumstances under which a credit note may be used.
   4mks
3. The main objective of commerce is profit maximization. Highlight any four ways in
   which businesses can achieve this objective.
   4mks
4. Give any **four** functions of commercial attaches.
   4mks
5. Mention **four** investment services offered by the Kenya Postal Corporation.
   4mks
6. Give any **four** reasons that may lead to dishonour of a cheque.
   4mks
7. Highlight any **four** benefits that accrue to a seller who uses personal selling as a method
   of sales promotion. 4mks
8. Give any **four** categories of goods that are suitable for direct distribution from producers
   to retailers. 4mks
9. Highlight **four** ways in which Insurance companies make profits.
   4mks
10. State any **four** sources of capital to co-operative societies.
    4mks

11. The following balances relates to a business for the year ended 31st Dec 2000.

Capital as at 31st Dec 2000	170,000
Drawings for the year	5,000
Net profit for the year	5,000

Extra capital introduced	52,000
Purchases	20,000

i) Determine the amount of capital as at 1st Jan 2001.
3mks

ii) Calculate the Net profit ratio
3mks

12. Outline any **four** features of a fixed deposit account.
4mks

13. Give any **four** reasons why most business people prefer to transport their finished products via road transport.
4mks

14. Give any **four** benefits that you may reap as a consumer from an advertising campaign. 4mks

15. Mention any **four** remittance services offered by the post office.
4mks

16. Give **four** reasons why an office may prefer storing information in micro-films instead of files 4mks

17. Assume that you want to start photocopying business in your nearest town. Cite any **four** factors you would consider before buying your copies.
4mks

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

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

19. Give any **four** reasons why the use of Electronic mail (E-mail has become very popular in Kenya today.
4mks

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

Item	Amount
Sales	10,000
Purchases	6,000
Bank loan	2,000
Buildings	30,000
Machinery	40,000
Premises	60,000

Debtors	5,000
Creditors	4,000
Opening Stock	7,000
Capital	132,000

You are required to prepare a trial balance for MM traders as at 31st January 2002 from the above information. 6mks

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

TEST PAPER IX
MARKING SCHEME

1. Explaining.

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

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

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

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

2. When to use a credit note:

- When there are damaged goods
- When packing cases and containers are returned
- When there is overcharge resulting from an arithmetic error.
- When goods delivered are not in accordance with the order.

1 x 4

3. How to achieve profit maximisation objective.

- Reduce prices to increase sales
- Reduce the cost of production
- Diversify and expand production
- Expand market
- Increase prices of products
- Increase sales promotion campaigns. *1 x 4*

4. Functions of commercial attaches.

- Search for Kenyan market abroad
- Inform business abroad of Kenyan goods

- Negotiate to expand Kenyan market abroad.
- Liase with the ministry of commerce to educate Kenyan producers/ manufacturers.

1 x 4

5. Investment services by posta corporation.
- Premium bonds scheme
- Operate S.A.Y.E. (save as you earn)
- Have fixed deposit facilities
- Have saving facilities

6. Why cheques are dishonoured
- Insufficient funds
- Post – dated cheque
- Stale cheque.
- Amount in words differ from amount in figures.
- Signature of the account holder may differ from the specimen in the bank
- Alterations that have not been signed against
- The drawer has stopped payment of the cheque.

- If any one of the requirements for a properly drawn cheque is missing or wrongly written.
- A crossed cheque will be dishonoured if the depositor does not abide by the conditions of the crossings. *1 x 4*

7. Benefits of personal selling.
- Creates a personal touch between the seller and the buyer
- The seller explains to the buyer since he/ she can ask questions regarding the products
- The seller gets to know how to improve the quality of his products depending on lamentations made by the buyer
- The buyer knows exactly whom to turn to incase of any problem.
- The seller can sell on credit to the credit worth customers

Any other relevant point *1 x 4*

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

Any other relevant point *1 x 4*

9. How insurance companies make profits
- Investing their funds
- Differences in claims

- From forfeited funds by policy holders
- By charging those who breach the contract of the policy.

Any other relevant point *1 x 4*

10. Sources of capital to co-operative societies.

- Members contributions
- Retained profits
- Entrance fee deposits
- Credit facilities
- Surplus and reserves. *1 x 4*

11. Calculations.

i) Capital = (opening capital + Extra capital introduced + net profit)

- Drawings.

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

= 227,000 – 5000

= 222,000

ii) Net profit ratio.

NPR = $\frac{\text{Net Profit}}{\text{Sales}}$ x 100

Sales = Net profit + purchases

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

∴ N.P.R = $\frac{5000}{25,000}$ x 100 = 20% *1 x 3*

12. Features of a fixed deposit account.

- Opened for a specific period of time
- Opened with a specific amount for a specific period
- Higher interest rates are paid
- Used by commercial bank to advance loan to others
- Can be used as a security to apply for an overdraft against the current account of the same person. *1 x 4*

13. Why road transport is preferred.

- Its cheaper and faster for short distances
- All areas including remote areas can be accessed by road.
- Suitable for delivering perishable goods like vegetables
- Handling is minimal hence cuts down breakage and pilferage
- Its flexible hence goods may be sold on route.
- Insurance charges are lower compared to sea transport
- Convenient since vehicles need not run on scheduled time like with rail transport.

Any relevant point. *1 x 4*

14. Advantages of advertising to the consumer.

- Getting information about what is available in the market
- Information about price, quality, size and other features of the product.
- Explanations on the use and value of the product.
- The consumer gets to know quickly what he/she wants to buy

- Enables the consumer to compare prices and other features of different products
- Gets entertained by the advertising compaign.

Any relevant point. *1 x 4*

15. Remittance services offered by the post office.

- Postal order
- Money order
- Telegraphic money order
- Registered mail
- Cheque. *1 x 4*

16. Advantages of micro-films.

- Saves space and weight since bulky files are replaced by compact carbons of films.
- Documents can be sent abroad more cheaply
- More durable compared to files
- Little risk of misplacing
- Saves filing equipment and also floor space.
- Can be enlarged on paper to provide quick and accurate duplicate copies of the original documents
- Provides a more permanent record since its more.

Any relevant point. *1 x 4*

17. Factors to consider when buying a copier.

- the cost ie both initial and operating cost
- availability for the intended purpose
- likelihood of obsolescence
- Room for expansion or to accommodate higher work load

- Availability of credit or hire purchase terms offered by the supplier.

Any relevant point. *1 x 4*

18.

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

1 x 5

19. MM Traders
Trial balance
As at 31st January 2002

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

½ x 12

20. Importance of a balance sheet.

- Helps the shareholders to know whether the business is in a position to meet its claims
- Helps the investor to determine whether their funds are invested wisely
- Helps to compare the performance of the business with that of previous years or similar business's.
- Helps the government to determine the tax to impose on the business
- Help potential investors in making informed decisions on the share to buy in the stock exchange market.
- Helps the management of the business to identify where urgent actions needs to be taken in order to promote the business. *1 x 4*

21. Functions of money.

- Medium of exchange
- Standard measure of value
- Store of value
- Unit of account
- Standard of deferred payment. *1 x 4*

22. Why businessmen need to be trained.

- Expose them to modern development and management
- Import efficient business operating methods
- Identify problems facing businesses and look for solutions
- Import proper business ethics and good customer relations
- Educate them on how to utilize the scarce resources
- Instil in them the need to minimize costs inorder to maximise profits

Any other relevant point *1 x 4*

23. Reasons for dissolution.

- Completion of the intended purpose or period agreed upon
- Loss of one partner

- Request of dissolution by one partner
- A change in the country's law disqualifying the business.
- A court order.
- Inability of the business to meet its claims / liabilities.

Any other relevant point *1 x 3*

TEST PAPER X

1. a) Discuss the factors that should be considered in choosing a channel of distribution for any particular product. 10mks

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

2. a) Assume that you are the sales manager of Kenya Breweries limited. Explain the qualities you would look for every time you are recruiting your sales executives. 12mks

b) What do you understand by the term production. Explain any **four** factors of production. 8mks

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

	Shs.
Fixed Assets	42,000
Stock	48,000
Debtors	50,000
Bank overdraft	25,000
Creditors	40,000
Cash in hand	2,000
Capital	77,000

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

a) Bought motor vehicle on credit valued at Kshs. 80,000 from General motors.

b) Withdrew sh. 28,000 for personal use.

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

c) Give any **five** reasons to justify that the central Bank is not a Commercial Bank. 10mks

4. a) Discuss circumstances under which a wholesaler may be eliminated from the chain of distribution. 10mks

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

5. a) Advertising media refers to the means used to convey the sales message to the customers /
users of any given product. Explain any **five.**
10mks
b) What do you understand by 'containerization'. Briefly explain the benefits associated
with containerisation.
10mks

6. a) Explain the role played by consumer co-operative societies in Kenya today. 10mks
b) To a certain extent, public corporations are to considered desirable. Explain 10mks

TEST PAPER X
MARKING SCHEME

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

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

Any five well explained points (2 x 5)

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

- National wholesalers – set up by government to distribute a specified product in the country. Have branches all over the country e.g K.M.T.C.
- Regional wholesalers: Cover a given region such as province, districts, etc. and distribute a given product in that region. No other party is allowed to distribute similar goods in the region.
- Specialised wholesalers: Sell a particular type of a product eg books but offer great variety within their particular field.

- General wholesalers: Stock a variety of related goods eg a hardware shop stocks nails, iron sheets, cement, etc.
- Truck wholesalers: Carry only a limited range of stock and combine selling, delivery and collection function in one operation.

- Cash and carry: Operate as self service stores. Require retailers to come to the wholesale shop, pick their requirements, pay and carry away their own purchases.
- Rack jobbers sell particular products to certain types of retail stores.

2 x 5

2. a) Qualities of Sales Executives.

- Attractive personality
- Ability to assess the customers
- Politeness and courtesy
- Thorough knowledge of the product
- Aggressiveness
- Confidence. *Any other relevant point* *2 x 5*

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

Factors of production.

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

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

Capital: Man made goods that assist in the process of production increases productivity of land and labour. Eg machinery paid interest.

Enterpreneurship: Ability to organise other factors of production in appropriate proportions for effective production. Paid profit.

4 well explained points 2 x 4

3. a)

Spikes ltd
Balance sheet
At at 31st Jan 20

	Kshs.		Kshs.
Fixed Assets	42,000	Capital	77,000
Motor vehicle	80,000	Less Drawings	28,000
		Net capital	49,000
Current Assets		Current Liabilities	

Stock	48,000	Bank overdraft	25,000
Debtors	50,000	creditors	40,000
Cash in hand	2,000	loan (withdrawal)	28,000
	222,000		**222,000**

1 x 10

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

- Does not advance loans to individuals
- Does not receive deposits from individuals nor run accounts of individuals
- Does not discount bills of exchange
- Does not offer money transfer services
- Its not a custodian of valuables. *2 x 5*

4. a) When wholesaler may be eliminated.

- When prices of goods are high like those of motor vehicles, the wholesaler may be eliminated since the manufacture can bear both selling and distribution costs.
- Where goods are highly perishable eg milk
- Where goods are branded and widely advertised
- Where goods have high profit margins.

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

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

- Ideal location where goods are produced in greater quantity to be used later.
- Suitable building which is large enough and appropriate to store goods of different kinds more safely
- Should be well equipped with necessary facilities to store goods for a longer period
- Should have well trained and efficient staff to ensure that goods are protected against losses and damages
- Good transport system to enhance movement to and from the warehouse
- Should have appropriate protection measures to elleviate losses, damages and other calamities. *2 x 5*

5. a) Advertising media

- The press
- Radio
- Television
- Outdoor publicity
- Window display
- Fair and exhibitions *Any five well explained points* *2 x 5*

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

sealed by the exporter or his agent. The sealed containers are loaded on to the
ship and delivered to the importer sealed.
2mks

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

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

2 x 5

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

Any other relevant point. *2 x 5*

TEST PAPER XI

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

a) What type of demand is potrayed by curve DD
2 mks
b) Outline the **two** causes of this curve
2mks
4. Why would an exporter prefer to use container services as a method of transport 4mks
5. State any **four** after sales services business firm selling electronic goods sets can offer
to the customers
4mks
6. The following information was extracted from the books of a trader :

Creditors	sh	60,000
Cash at bank		20,000
Debtors		40,000
Stock		70,000

Calculate :
(i) Current ratio
3mks
(ii) Quick ratio
2mks
7. Give **four** reasons why the budget is an important government tool of control to the economy
4mks
8. Differentiate between Balance of trade and Balance of payments
4mks
9. The following information was extracted from the books of Roadside kiosk as at
Sept 30th 1999:

Cash at hand	Shs. 30,000
Capital	170,000
Creditors	40,000
Stock	70,000
Purchases	150,000
Sales	205,000
Debtors	65,000
Motor vehicles	100,000

Prepare a trial balance as at 30th Sept 1999.
5mks
10. What are the **four** methods of personal selling carried out by salesmen
4mks
11. In the recent past many countries have adopted trade liberalization as the way forward to development. Highlight any **four** adverse effects that such nations may experience due

to liberalization
4mks

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

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

14. Consumer protection is safeguarding consumers from exploitation by producers and businessmen . Give **four** reasons why this is necessary
4mks

15. The following is a demand/ supply schedule for kerosene. Draw a diagram to illustrate
using your own scale
5mks
Also find the equilibrium price / quantities

Price	Quantity Demanded Per day	Quantity Supplied Per day
5	60	10
7	50	15
10	40	20
15	35	25
20	30	30
25	25	35
30	20	40

16. Name **four** characteristics that should be posed by goods in order for them to be described
as wealth. 4 mks

17. Limited companies are Large Organizations which attract large profits. However these undertakings are still not popular in Kenya and sole proprietorship seems to be more
popular. Give **four** reasons to explain this 4 mks

18. Give **four** reasons why most organization prefer oral interviews whenever they are
recruiting new employees/staff
4 mks

19. The law of demand states that 'Other things being equal, a fall in price will lead to an
increase in quantity demanded .'Highlight any Four circumstances under which this
law may not hold. 4 mks

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

Activity	Level of production

Selling goods in a shop

_____

Fishing from a river

_____

Growing maize

_____

Making leather belts

_____

4 mks

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

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

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

March 6. Paid wages in cash Ksh 4000.

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

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

5 mks

22. State any **four** benefits accruing as a result of SmithKline Beecham merging with Glaxowellcome

4 mks

23. The sales from Mambo stores for the year 1999was Ksh 99,000. Given that goods are usually sold at a margin of 20%, what was the gross profit for the year.

3 mks

24. Differentiate between

(a) C.W.O and C.O.D

2 mks

(b) F.O.B and F.A.S 2 mks

TEST PAPER XI
MARKING SCHEME

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

2. – Simplicity
- Compactness
- Accessibility
- Safety
- Elasticity/ flexibility/ Expansion
- Cross reference
- Economy *(1 x 4 = 4marks)*

3. a) An abnormal demand curve
   b) (i) Geffen goods
   (ii) Conspicuous consumption /luxurious
   iii) Speculative demand – Future expectations of a rise or fall in prices
   (1 x 2 = 2mks)

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

(1 x 4 = 4marks)

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

(1 x 4 = 4 marks)

6. (i) Current ratio = Current assets / Current liabilities
   = 130000 / 60000
   = 2.2 / 1
   ≈ 2 :1

   (ii) Quick ratio = $\frac{\text{Quick assets}}{\text{Current liabilities}}$
   = $\frac{130000- 70000}{60000}$
   = $\frac{60000}{60000}$
   = 1:1 *(½ x 4 = 2marks)*

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

(1 x 4 = 4 marks)

8. Balance of trade : The difference between the values of visible exports and visible imports of a country over a given period
(2mks)
Balance of payments : The difference between the record of a country's visible and invisible *exports* against the value of her invisible imports over a period .

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

	DR.	CR.
Purchases	150,000	
Capital		170,000
Sales		205,000
Debtors	65,000	
Creditors		40,000
Motor vehicles	100,000	
Stock	70,000	
Cash at bank	30,000	
	415000	415000

(½ x 10 tics = 5marks)

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

(1 x 4 = 4 marks)

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

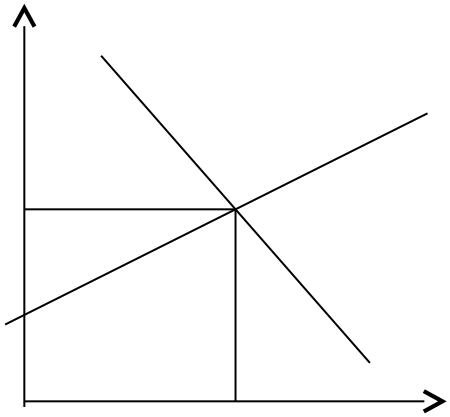
12. - Marketing of securities which facilitate flow of new capital into the industry.
- Protect investors by maintaining rules and discipline of the brokers.
- Advise and guide companies seeking capital
- Publishes information regarding prices of securities
- Transfer the title to any quoted security *(1 x 4 = 4 marks)*

13. - Open market operation

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

14. - Ensure goods are of good quality
    - Ensure the right quantity and size
    - Ensure health standards are met
    - Ensure safety standards are met
    - Ensure fair pricing
    - Protect them against breach of contract
    - Protect from false advertising

15 -



- Equilibrium quantity 30 units
- Equilibrium price 20 shillings

16. - Must have utility
    - Should be scarce
    - Must have money value
    - Should be transferable

17. - Profits in sole proprietorship aren't shared
    - In sole proprietorship there is personal contact with customers unlike in joint stock companies
    - Formation procedure is easier in single owned business than joint stock companies
    - Decision making in single owned business are easier than in joint sock companies *(1 x 4 = 4marks)*

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

- The interviewer is able to assess the confidence levels of the interviewee

(1 x 4 = 4marks)

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

20. - Tertiary level
    - Primary level
    - Secondary level

21. CASH BOOK

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
March 2nd	B/f	20,000	8,000	4th	Purchases		2000
					Wages		4000
10th	Debtors		3,000		Bank	3000	
20th	Cash		3,000		Balance c/d	13000	
		20,000	14,000			20,000	14,000
20th	Bal c/d	13000	12000				

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

23. Sales = Shs. 100,000

$$\text{Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$20 = \frac{GP}{100{,}000} \times 100$$

GP = Ksh 20,000.

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

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

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

TEST PAPER XII

1. A company intends to promote its products by arranging a prize winning competition through the media. Prizes can only be won through buying the products.

   (a) Explain **five** benefits that the company would get by using this method of sales promotion 10mks

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

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

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

   (b) The following balance were extracted from the books of Charles & Sons Co.

   as at May 31st 2002 .

Capital		600,000
Net profit		130,000
Plant fixtures	160,000	
Equipment's	100,000	
Buildings	240,000	
Office furniture	10,000	
Stock	192,000	
Cash	118,000	
Debtors	158,000	
Pre-paid expenses	22,000	
Creditors		130,000
Outstanding expenses		20,000
Bank overdraft		110,000

Required :

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

(ii) Calculate

(a) Working capital

(b) Current ratio

(c) Net profit as percentage to capital 3mks

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

the insured in the event of loss
10mks

(b) Odhiambo's publishing company recently joined the Nairobi stock exchange.
Describe **five** benefits
10mks

4. Opportunities exist for purchasing of necessary durable goods by instalment
(a) Describe **two** methods commonly used for this purpose
4mks
(b) Mention **three** advantages of each to:
(i) Manufacturers
(ii) Consumers
12mks
(c) Give any **two** differences of the two methods
4mks

5. (a) Explain any **five** methods that the Kenyan government may adopt in order to control the
volume of imports
10mks
(b) Discuss the main sources of capital to small scale enterprises
10mks

6. (a) Explain **five** reasons why it is necessary for a country to control international trade
10mks
(b) Explain **five** diseconomies that may be suffered by firms due to large scale production
10mks

TEST PAPER XII
MARKING SCHEME

1. - Increased awareness of the consumers of the product advertised
- Increased sales volume of the product
- More customers / wider market to the goods
- Retention /loyalty of the already existing customers
- Increased market due to large market and consumers
- Better quality due to competition created by advertising

(b) - Price mechanism- The interaction of demand and supply in the market .
- Government policy - Through taxation subsidies and price controls
- Auction - Prices suggested by prospective buyers
(Mentioning 1 mk) (Explanation 1 mk)

2. **(a) Benefits of privatization**

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

Any other relevant point 2x5 = 10

b) Billy and Sons Co.
Balance sheet
As at 31st May 2002

	Shs	shs		Shs.	Shs.
Fixed Assets			Capital		600,000
Plant& Fixtures	160,000		Add net profit		140,000
Equipment's	100,000		Net capital		740,000
Buildings	240,000		**Current Liabilities**		
Office furniture	10,000	510,000	Creditors		130,000
			Outstanding Exp.		20,000
Current Assets					
Cash		118,000	Bank overdraft	110,000	260,000
Debtors	158,000				
Pre-paid expenses	22,000				
Stock		192,000	490,000		
		1,000,000			1,000,000

ii) Working capital = Current Assets - Current liabilities
= 490,000 - 260,000
= 230,000

b) Current Ratio = Current Assets
Current liabilities

$= \frac{400,000}{260,000}$

$= 49.26$ (1mk)

c) Net profit as a percentage to capital

$= \frac{\text{Net Profit}}{\text{Capital}} \times 100 = \frac{140,000}{600,000} \times 100$

$= 23.3\%$

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

- Incase the insured has no insurable interest in the property
- Incase of accident / loss is not directly related to the risk insured
- Incase the insured has not paid premiums as expected
- If on investigation the insurance company realises that false information was given by the insured
- A car accident which is caused by a third person who is not insured.

b) - The company knows value of its shares in the market

- The company may sell more shares since its is known to the public.
- The company raises more capital by floating more shares in the stock exchange
- The company uses more information gathered from stock exchange to improve its performances
- Helps to attract competent personnel in the company
- Promotes company image .

4. HIRE PURCHASE :- A system where the buyer agrees to pay for the commodity in installment. The buyer obtains the possession of the article on the down payment (deposit) but the title of ownership remains with the seller until the last installment is made .

CREDIT SALES/DEFFERED PAYMENT- Under this system the article becomes the property of the buyer with the payment of the first installment. The buyer is supposed to pay the remaining amount in installments.

(2 x 2)

(b) **Advantages**

Manufacturer.

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

The buyer.

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

(1 x 6 = 6marks)

Advantages of credit sale to:

i) *The manufacturer:*
- He is able to increase his volume of sales
- Profits realised are higher since customers must pay higher prices
- He can reclaim the amount due from the buyer under a court order.

ii) *The buyer*
- He is able to expensive goods on credit
- Ownership of the article passes to the buyer after the first installment .
- He is able to plan on acquisition of certain goods *(1 x 6 = 6 marks)*

Differences

Hire purchase	**Credit sale**
- Goods can be repossessed if the buyer breaches the contract.	- Goods cant but the buyer can be sued for damages
- Ownership remains with the seller when the first till the last installment Is made.	- Ownership passes to the buyer installment is effected.

Any other relevant 1 x 4 = 4 mks.

5. a) Methods of controlling volume of imports
   - Tariffs - Involves levying import duty on goods that are entering a country
   - Quotas - Is a quantitative restriction permitting only a given number of units of a commodity to be imported during a specific period
   - Exchange control - Refers to the control by the government on the exchange value of the currency of a country. Importers can only import goods when they seek permission for acquiring foreign exchange.
   - Trade agreements - Is an agreement between different countries regarding the foreign trade.
   - Total ban / Embargo - Involves imposing a complete ban on import of some specific commodities . *2 x 5 = 10marks.*

b) **Sources of capital to small scale enterprises**.
   - Personal funds /owners capital
   - Borrowing from friends and relatives
   - Members contribution
   - Loans from bank and other non bank financial institutions
   - Going public i.e borrowing from public by use of stocks.
   - Venture capital i.e a group of rich people with a pool of financial resources which they lead to viable small scale businesses.

(any other relevant point)

6. To enable infant industries to grow without interference from foreign industries.
   - To avoid entry into the country of commodities which might be harmful to the moral culture and health standard of its people.
   - To eliminate dumping of inferior or substandard goods in country.

- To correct balance of payment deficit .
- To enable a country to fully exploit its resources which otherwise might be idle from undue competition .
- To raise revenue for government projects in the country
- To reduce the dependency of a country on another which might mistreat her incase of misunderstanding between them .
- To protect key industries which promotes faster development and lead to establishment of other industries
- To diversify industrial growth by allowing production of different commodities to prevent dependence on other countries .

b) Decision making take too long

- Size of market may be too small
- Complexity of the organisation may create difficulty in management
- Lack of enthusiasm due to size which kills commitment- no personal contact
- High risks due to change in fashion, taste or falling prices .
- Formation of monopolies leading to exploitation of consumers
- Poor staff and employee welfare are due to large number.