

565/1 BUSINESS MARKING SCHEME PAPER ONE

1. Outline four factors that hinder entrepreneurship in Kenya. (4mks)

- (i) Licensing system ,etc.
- (ii) Poor infrastructure
- (iii) Lack of inadequate resources.
- (iv) Lack of product market.
- (v) Inadequate /inappropriate education and skills.
- (vi) Political instability.
- (vii) stiff/unfair competition practices.
- (viii) Lack of business culture.

2. State four factors considered before offering credit facilities to customers. (4mks)

- (i) Availability of adequate stock.
- (ii) Repayment period.
- (iii) Credit worthiness of the customer.
- (iv) Quantity of goods to be given on credit.
- (v) Frequency at which the customer buys from the seller.
- (vi) Sellers intention of attracting and retaining customers.
- (viii) Honesty /reliability of the customer.

3. Mention four circumstances under which a manager of a company may use downward communication. (4mks)

- (i) When delegating duties.
- (ii) When training juniors.
- (iii) When solving any problems facing workers.
- (iv) When evaluating performance.
- (v) When inspiring and motivating junior.

4. Highlight four factors that a producer consider before choosing a channel of distribution. (4mks)

- (i) Nature /types of the product.
- (ii) Resources and size of the firm.
- (iii) Government policy.
- (iv) Nature of the market.
- (v) Channels used by competitors.
- (vi) Marketing risks.
- (vii) The role of intermediaries.

5. State four characteristics of goods. (4mks)

- (i) Are tangible /can be touched.
- (ii) Are visible /can be seen.
- (iii) Can change ownership/possession.
- (iv) Can be stored.
- (vi) Quality can be standardized.
- (vii) Can change in quality over time.

6. Identify four types of advertising. (4mks)

- (i) Primary demand advertising (information)
- (ii) Competitive advertising (persuasive)
- (iii) Institutional advertising.
- (iv) Product advertising.
- (v) Celebrity advertising
- (iv) Reminder advertising.

7. A house with a value of ksh. 2,000,000 is insured for Ksh.1200, 000 against fire. The value of the house destroyed by fire ksh. 1,000.0000. calculate the amount the insured was compensated after the loss. (4mks)

$$\begin{aligned}\text{Compensation} &= \frac{\text{value of policy}}{\text{Value of property}} \times \text{loss} \\ &= \frac{1200,000\sqrt{}}{2000,000\sqrt{}} \times 1000,000\sqrt{=} \\ &= \underline{600,000\sqrt{}}\end{aligned}$$

1x4= 4mks

8. Outline four features of a savings account. (4mks)

- (i) Overdraft are not allowed.
- (ii) A minimum balance must be maintained in the account.
- (iii) Withdrawals are done across the bank counter by the account holder.
- (iv) No cheque books are issued to the account holder.
- (v) Deposits in this account earn interest.
- (iv) Withdraws exceeding certain maximum amount might require a notice to be given by the customers.

- 9. Outline four reasons for differences in terms of trade between Kenya and united state of America. (4mks)**
- (i) Nature of commodities being exported.
 - (ii) Change in demand for a country's export.
 - (iii) Existing world economic order favoring product from more development countries.
 - (iv) Nature of commodities being imported.
 - (v) Total quantity supplied.
 - (iv) Trade restrictions by trading partners.
- 10. State the best types of machine one would use to perform the following tasks. (4mks)**
- (i) Guillotine
 - (ii) Paper shredder.
 - (iii) Composite
 - (iv) Franking machine
- 11. Mention four challenges that Kenya may encounter in developing planning at the formulation stage. (4mks)**
- (i) Lack of quality personnel.
 - (ii) Existence of the large subsistence sector.
 - (iii) Transfer of inappropriate development plan.
 - (iv) Lack of accurate or detailed data.
 - (v) Problem where private sector pursues different objectives from those of the planners.
- 12. List four problems of using expenditure approach in the calculation of national income. (4mks)**
- (i) Lack of accurate records of expenditure in the private sector.
 - (ii) Problem of double counting.
 - (iii) Expenditures for the subsistence sector are more approximations.
 - (iv) Fluctuating exchange rates in valuation of imports / exports.
 - (v) Difficulties in differentiating final and intermediate expenditure.
- 13. State the effects of the following transaction on the balance sheet totals. (4mks)**
- (i) Decrease
 - (ii) No effect
 - (iii) increase
 - (iv) No effect

14. Outline four benefits that Mr. Kamau will get by being a member of capital SACCO. (4mks)

- (i) Obtaining loans at low interest rates.
- (ii) It's easier to get loans /fewer formalities on compound to bank.
- (iii) One would enjoy dividends from the profits of the SACCO.
- (iv) Loans is written off incase of death.
- (v) In case of death the beneficiaries receive double the savings one had in the SACCO.
- (vi) He can obtain a variety of loans e.g emergency ,school fees, normal loans while still serving the outstanding loans.
- (vii) Benefiting from education days organized by the SACCO.
- (viii) Members savings are secured through cooperative insurance agency.
- (ix) Enables members to save/easy to save since deductions may be on check-off systems.
- (x) Loans repayment plan is determined by the borrowers ability.
- (xi) May benefit from banking facilities through their FOSA services

15. The following information relates to meru traders for the year ended 31 December 2017. (4mks)

| | |
|-----------------------|------------------|
| Sales | 1000,000. |
| Opening stock | 100,000. |
| Closing stock | 200,000. |
| Gross profits. | 200,000 |

Calculate rates of stock turnover. (4mks)

$$\begin{aligned}\text{Rate of stock turnover} &= \frac{\text{cost of goods sold}}{\text{Average stock}} \\ \text{Cost of goods sold} &= \text{sales} - \text{Gross profit} \\ &= 1,000,000 - 200,000 \\ &= \underline{800,000\sqrt{}} \\ \text{Average stock} &= \frac{\text{Opening stock} + \text{Closing stock}}{2} \\ &= \frac{100000 + 200000}{2} \\ &= \underline{150,000\sqrt{}} \\ \text{Rate of stock turn over} &= \frac{800,000}{150,000\sqrt{}}\end{aligned}$$

$$= \underline{5.33 \text{ times}} \checkmark$$

16. Mention four methods that determine the prices of commodities in the market apart from price mechanism. (4mks)

- (i) Haggling / Bargaining.
- (ii) Private treaty- sale of property at a price agreed on by the seller and buyer without /an intervening agency.
- (v) Auction
- (vi) Tendering
- (vii) Government intervention (subsidies price control taxation).
- (viii) Price collusion – where different market players conspire to fix the price.
- (ix) Retail price maintenance/ of recommended retail price /producers fixing price /price fixing – when producers /manufactures agree on the price of a commodity.

17. State four principles of public expenditure. (4mks)

- (i) Maximum social benefits.
- (ii) Flexibility to meet prevailing economic situations.
- (iii) Economy – should be incurred in the most economical way to avoid wastage.
- (iv) Sanctions – should be approved by relevant authority.
- (v) Proper financial management.

18. Highlight four reasons why the Kenyan consumer organization have been ineffective in protecting consumer. (4mks)

- (i) Lack of funds /inadequate funds to sustain lengthy court cases.
- (ii) Lack of /inadequate support from the government (financial and logistical)
- (iii) Ignorance of consumers regarding their rights.
- (iv) Reluctance of consumers to forward their complaints to the organization.
- (v) Reluctance of consumers to join these organizations so that they may forward their complaints as a group.
- (iv) Lack of initiative from consumers (apathy) to check on traders performance and reports cases of non compliance to quality and price.

19. Sales return day book. (4mks)

Sales returns day book

| Date | Details | Credit note No. | LF. | Amount. |
|-------------|--|---------------------------|------------|----------------|
| 1/11/17✓ | Emily✓ | | S.L | 1000✓ |
| 10/11/17✓ | Nathan✓ | | SL | 900✓ |
| 30/11/17✓ | Muthinja✓ | | S.L | 800✓ |
| 30/11/17✓ | Totals posted to the returns inwards a/c(dr) ✓ | 12x $\frac{1}{3}$ = 4mks) | | <u>2700</u> ✓ |

20. Identify five steps taken in procuring an Insurance cover. (5mks)

- (i) Filling a proposal form.
- (ii) Determination of premiums to be paid.
- (iii) Payment of the first premium.
- (iv) Issuing of a cover note (Binder)
- (v) Issuing of policy.

21. State three factors within a business that may affect performance. (3mks)

- (i) Resources
- (ii) Owners
- (iii) Business structure
- (iv) Business /organizational culture.
- (viii) Business objectives.

22. Record the following transaction in the relevant ledger account.

| | | | |
|---------------------------|------------------------------|---------------------------|-------------------------------|
| | | Bank a/c | |
| Capital a/c | <u>Dr.</u> | <u>cr.</u> | |
| | 1/1/18 ✓ capital ✓ 100,000 ✓ | | 10/1/18 ✓ purchase ✓ 20,000 ✓ |
| <u>Dr.</u> | | <u>cr.</u> | |
| | | 1/1/18 ✓ bank ✓ 100,000 ✓ | |
| Purchase a/c | | | |
| <u>Dr.</u> | | <u>cr.</u> | |
| 10/1/18 ✓ bank ✓ 20,000 ✓ | | | |

$$12 \times \frac{1}{3} = 4 \text{mks}$$

23. State four ways through which a firm may acquire a monopoly position. (4mks)

- (i) Ownership of production rights / patterns / copyrights
- (ii) Control of an important input in production (natural monopoly)
- (iii) Restrictive practices that force other firms out of business.
- (iv) Financial factors- where initial capital is very high hence making it difficult for other firms to enter the market.
- (v) Through combinations / Amalgamations.
- (iv) Internal economies of scale.
- (vii) The market served is small.
- (viii) Additional costs incurred by other firms in order to sell / produce in the area.

24. Kenya is one of the countries in the world that is experiencing unemployment problems. Identify four causes of this problem. (4mks)

- (i) Rapid population growth resulting to an increase in the number of people without gainful employment.
- (ii) Inadequate resources required for production to be earned out.
- (iii) Charges in seasons (seasonality in production)
- (iv) In appropriate education system.
- (v) Use of capital intensive / choosy in terms of jobs they wants and which may be unavailable.
- (v) Mismanagement of resources corruption and poor planning by the government.
- (vii) Rural-urban migration that leaves rural areas undeveloped while increasing pressure on urban resources hence inability to absorb the expanding workforce.
- (x) Lack of product market / decline in demand for goods& services)

25. State four differences between shares and debentures (4mks)

| <i>Shares</i> | <i>Debentures</i> |
|---|--|
| i) Shareholder are the real owners of the company. | i) <i>Debentures holders are creditors to the company.</i> |
| ii) Have voting rights. | ii) Have no voting rights since they do not participate in management. |
| iii) Are paid dividends when profits are earned. | iii) interest on debentures must be paid whether profits are earned or not. |
| iv) Are the last to be paid back their capital contributions incase of dissolution. | iv) Have the first claim to the proceed from the company dissolution. |
| v) Have no fixed rate of return or divided payments. | v) Have a fixed rate of return (interest) on the debentures. |
| vi) Cannot be redeemed /bought back by the company. | vii) Can be redeemed /bought back. |

(E N D)