Marking scheme for bst pp2

1a) Outline five reasons why a firm may be located near the market for its product?

- In case the final product is more bulky than inputs or raw materials
- Where the cost of transporting raw materials or inputs is lower than that of transporting the final products to the market
- Where the market is localized i.e concentrated in a particular area
- Where substantial external economies of scale can be enjoyed
- Where the government policy requires a firm to be located where the market is situated, the firm will have no choice but to comply. (5x2= 10mks)

b) Discuss five limitations of using consumer price index to measure the level of inflation in a country?

- Consumer prices indices are calculated on the basis of the commodities consumed by a typical family. The basket of commodities selected for a typical family may not be a true reflection of basket for the entire population.
- The prices to be used are difficult to determine as the commodities cost differently in different parts of the country.
- The data on prices and consumers expenditure may not be adequate or accurately collected rendering the price index unrealistic.
- It's difficult to ascertain the right base year to be used as the year selected to be used as a base year should have relatively stable prices.
- Taste and preferences of consumers are subject to change from year to year and therefore the items selected to form the basket may not be a true reflection of consumers expenditure pattern stable prices.(5x2= 10mks).

2a) Explain five instruments of monetary policy that the central bank may use to reduce money supply in a country?

- Bank rate – The central bank can raise the bank rate to reduce money supply.
- Open market operation by selling securities to the members of the public

in the open market.

- Variable reserve requirements - The central bank can reduce money supply by increasing the cash ratio or liquidity ratio.
- Special deposit (compulsory deposits). The bank may ask commercial banks to place additional deposits with it.
- Selective credit control/credit squeeze. Commercial bank may be directed by the central bank to lend specific projects or sectors of the economy.
- Directive and requests or moral persuasion.
  The central bank may appeal to commercial banks to behave in a responsible manner.

b) On 1st may 2011, Atieno had sh. 150,000 In hand and sh. 60,000 in bank. During the month, the following transactions took place?

May 3 : Paid wages sh. 10,000 in cash.

5: Musyoka a debtor, settled his account of sh. 22,000 by cheque of sh. 21,500

6: Paid rent cash sh. 12,000.

7: Withdrew sh. 15,000 from bank for office use.

11: Paid Mwangi, a creditor sh. 30,000 by cheque in full settlement of his account after deducting 6% cash discount.

19: Cash sales banked sh. 52,000.

22: Received a cheque of sh. 12,000 from Agnes after allowing her cash discount of sh.500.

25: Purchased office equipment for sh. 11,000 paying by cash.

31: Deposited all the cash into bank except sh.10, 000.

Required: Prepared three column cash book and balance it off.

Dr   THREE COLUMN CASH BOOK   Cr

Dates	Details	Disc All	Cash	Bank		Dates	Details	Disc Rec	Cash	Bank
May 2011 1st	Bal b/d		150,000	60,000		May 2011 3rd	Wages		10,000	
5th	Musyoka	500		21,500		6th	Rent		12,000	
7th	Bank	c	15,000			7th	cash	c		15,000
19th	Sales			52,000		11th	Mwangi	1915		30,000
22nd	Agnes	500		11,500		25th	Office e.g exp		11,000	

30th	Cash	c		122,000						
						30th	Bank c		122,000	
							Bal b/d		10,000	222,000
		1000	165,000	267,000				1915	165,000	267,000
	Bal b/d		10,000							

(20x1/2= 10mks)

3a) Using a well labeled diagram, explain the effects of an increase in demand on the equilibrium price and quality of commodity? (10mks)

DO   D1   P1 – new equilibrium price

P1   Q1- new equilibrium quantity

PO   DO   D1   E1 – new equilibrium point

        Q0   Q1   (with short explanation)

3b) Outline five circumstances under which a manufacturer may prefer to sell directly to consumers? (10mks)

- When goods are perishable.
- When the manufacture is financially strong to open up retail outlets.
- When the market for products is limited.
- When there inefficient infrastructure.
- When the goods are technical nature/demonstration is required.
- When the goods are required on order eg tender.
- When goods are expensive.
- When require specialized after sales service maintenance.
- When quantities are small.
- When manufacturer wishes to have direct contact with the customers.

4a) Explain five principles on which insurance is based on?

- Utmost good faith/uberimmae fidei: All information provided by the insured to the insurer must be truthful.
- Subrogation: The remain or scrap of the property after the occurrence of the risk is usually taken by the insurer after the insured is compensated.
- Proximate causes: There should be a close connection between the cause of the loss and the risk insured.
- Insurable interest:- One insurer only that which can bring a loss to him/her
- Indemnity: One is only returned/compensated back to his/her old financial position before the occurrence of the risk that led to a loss.
- Contribution: Allows one to get compensation from two or more insurance companies covering the same risk. In such a case each insurance company is required to pay a proportion of the insured amount.

b) Explain five measures that a country can take to correct a deficit in the balance of payment?

- Increasing the volume of export through various ways such as export compensation, customs draw back.
- Through restriction of imports from other nations by use of such methods as customs duty and Quotas.
- By reducing the expenditures in the country embassies abroad.
- By reducing the number of government delegation going abroad.
- By reducing the number of students studying abroad which involves payment of money to foreign universities.
- Deflationary technique i.e lowering the price of our local goods in order to create demand for the same in the international market.
- By encouraging foreign investments and inflow of capital through giving investors incentives such as tax holidays.
- Through creation of trading blocs in order to encourage more trade.

5a) Describe Five indications of under development in less developed countries (LDCs)? (10mks)

- Low per capita income – The per capita in LDC is low compared to developed countries. This low per capita income in reflected in low standards of living in those countries.
- In equitable distribution of income – Majority of the less developed countries suffers from income inequalities where a small percentage of the population earns very high incomes and a big percentage of it earns very low incomes.

- High population growth rate and a low rate of growth of job opportunities, food supply and of supply of social amenities.
- High dependently ratio- Majority of the population is below the age of 16 and they have to be supported by a few who are in the working age bracket.
- Untapped resources- Under developed countries have not been able to fully exploit their natural resources due to inadequate capital.
- Low level of technology advancement and lack of skilled manpower. This is due to inadequate education and training insufficient research and dependence on inappropriate foreign technology.
- Dual economies- In many developing countries there exist a modern commercial industrial sector alongside a traditional subsistence sector.
- Under developed infrastructure due to lack of resources.
- Dependence on small scale agricultural production and primary product exports.
- High and rising levels of unemployment due to high rate of population growth.
  (5x2= 10mks)

b) Langat started a hardware business on 1st January 2002. The following is a summary of his transactions during the month.
2002:-

Invoices received:-

    January   2. Jirani ltd sh.80,000
             18. Chuma ltd sh.140,000
             26. Mwanaisha traders sh.160,000

Invoice issued:-

    January   5. Mungi traders sh.50,000
             20. Motor traders sh.150,000
             25. Jua kali traders ah.70,000

Credit note issued:-

    January   5. Mungi traders sh.6,000
             28. Jua kali traders sh.4,000

Credit note received

    January 12. Jirani ltd sh.3,000

           24. chuma ltd sh.800

30. Mwanaisha traders sh.12,000

Purchase Journal

Date 2002	Creditors	Shs
Jan2	Jirani ltd	80,000
Jan 18	Chuma ltd	140,000
Jan 26	Mwanaisha traders	160,000
		_____
	Total posted to purchases a/c (Dr)	380,000 =======

Sales Journal

Date 2002	Debtors	Shs
Jan 5	Mungi traders	50,000
Jan 20	Motor traders	150,000
Jan 25	Jua kali traders	70,000
		_____
	Total posted to sales a/c (Cr)	270,000 ========

Sales Returns Journal

Date 2002	Debtors	Shs
Jan 10	Mungi traders	6,000
Jan 28	Jua kali traders	4,000
		_____
	Total posted to sales a/c (Dr)	10,000 ======

Purchases Returns Journal

Date 2002	Creditors	Shs
Jan 12	Jirani ltd	3,000
Jan 20	Chuma ltd	8,000
Jan 30	Mwanaisha traders	12,000
		_____
	Total posted to purchases returns a/c (Cr)	23,000 =======

6a) Outline four benefits that make an entrepreneur to prepare a business plan? (10mks)

- Enables business to identify the products it will be dealing with and therefore able to effectively plan on the cost of production.
- It helps the business indentify the target market and therefore able to produce in accordance to market preference/specification.
- It enables the business to identify the resources required to get the business operational and therefore able to get it easily started.
- It helps an entrepreneur to know his competitors hence able to use methods that can make business to compete favourably.
- It helps the business to evaluate its performance to improve on its performance
- It helps to set out a time table for entrepreneur to follow when initiating the business hence saving time.

b) Kiambu traders started business with sh.80,000 in cash on 1st January 2011.

2011 Jan 2- Deposited sh.450,000 cash into the bank

7 – Bought stock in cash sh.40,000

12 – Took sh.20,000 cash for personal use

19 – Paid salaries sh.120,000 by cheque.

20 – Cash sales sh.85,000

30 – Paid salaries sh.80,000 by cheque

Required:-

i.   Enter the above transactions in kiambu traders ledger accounts (7 mks)
ii. Balance the ledger accounts and extract a trial balance as at 30th January 2011 (5 mks)

Dr   Cash a/c   Cr

2012		2012	
Jan 1-bal b/d	800,000	Jan 2-Bank	450,000
20–sales	85,000	7-Purchases	40,000
	_____	12-Drawings	20,000
		30-b/cd	375,000
	885,000		_____
	======		885,000
Bal b/d	375,000		======

Dr   capital a/c   C/r

2012		2012	
30th JanBal c/d	800,000	Jan 1 Bal b/d	800,000
	_____		_____
	800,000		800,000
	========		=======
		Bal b/d	800,000

Dr   Bank a/c   Cr

2012		2012	
Jan 2 cash	450,000	Jan 19 salaries	120,000
		30 salaries	80,000
		Bal c/d	250,000
	_____		_____
	450,000		450,000
	======		======

Dr   purchases a/c   Cr

2012			
Jan 7 cash	40,000	Bal c/d	40,000
	_____		_____
	40,000		40,000
	======		======
Bal b/d	40,000		

```
Dr                    Drawings              Cr

2012
Jan 12 cash    20,000      Bal c/d      20,000
               _____                 _____
               20,000                   20,000
               ======                   ========
Bal b/d        20,000
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Dr              Salaries a/c         Cr

2012
Jan 19 Bank  120,000      Bal c/d     200,000
    30 Bank    80,000
               _____               _____
               200,000                200,000
               =======                ========
Bal b/d        200,000
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Dr          sales a/c              Cr

                          2012
Bal c/d     85,000        Jan 20 cash  85,000
            _____                   _____
            85,000                     85,000
            ========                   ======
                          Bal   b/d     85,000
```

(7*1 = 7 mks)

KIAMBU TRADERS

TRIAL BALANCE

AS AT 30TH JANUARY 2012

DETAILS	DR	CR

	SH.	SH.
Cash	375,000	
Capital		800,000
Bank	250,000	
Purchases	40,000	
Drawings	20,000	
Salaries	200,000	
Sales		85,000
	885,0000	885,0000
	=========================	======================

(10*1/2 =5 mks)