
MARKING SCHEME

• **1. Outline four reasons why food is considered basic want.**

- *a) Enables us to stay alive*
- *b) Gives us energy to function normally*
- *c) Helps us to stay healthy*
- *d) it is important for growth*
- *e) it is a source of warmth*

2. Reasons that can lead to the dissolution of a cooperative society.

(4mks)

- Due to a court order
- Order from commissioner of co-operatives
- Voluntary dissolution by members
- Withdrawal of members from the society leaving less than ten members
- If the society is declared bankrupt

3.

W - 390,000

X – 80,000

Y – 800,000

iv) Business B is insolvent

4. i) Office practice

ii) commerce

iii) economics

iv) entrepreneurship

5. Factors that has led to a shift of demand curve to the right.

(4mks)

- *increase in the price of substitute good*
- *increase in population*
- *increase in disposable income of the consumer*
- *Favourable terms of sale*
- *expectation of an increase in the price of the product in the near future*
- *favourable government policies*
- *changes in tastes, fashions and preference in favour of due commodity*
- *decrease in price of complimentary product*
- *equal distribution of income*

6. Ways in which advertising can be beneficial to the consumer.

(4mks)

- They educate them on the usage of the product
- They inform them on the products availability
- They guide them on where to get the product
- The outlines all the features about the product including prices to the customer
- Competitive advertisement may lead to improved quality of goods to benefit the customer
- Information on different prices through competitive advertisement makes the customer to benefit from the reduced prices

7. Agency banking becoming increasingly popular among commercial banks in Kenya. Highlight four benefits of this development to bank account holders.

(4mks)

- one can withdraw money from their account any day of the week even when banks are closed
- can deposit money into their account any where
- Will avoid the long queues which are common in the banking halls
- they can pay their utility bills any time
- can check their bank account balances

8. Circumstances under which air transport is preferred to water transport

- where the goods are urgently required
- when the goods being transported are perishable

- when the goods involved are not heavy and bulky
- If the cost of transportation is not a factor to determine the means
- If the goods being transported are of a very high value

9. Outline four problems encountered in measuring national income using output approach.

- valuation problem due to non-availability or inaccurate data.
- problem of deciding the goods and services to include
- challenges of valuation of output in subsistence sector
- problem of differentiating primary inputs from intermediated inputs
- fluctuation of prices

10. Ways that can help to improve the performance of the entire work force. (4mks)

- Providing training/refresher courses
- Providing for their welfare
- Allowing them time for recreation/with family/leave/off duty
- Promotion/transfer on merit
- Providing the necessary support equipment/resources

11. On 1st January 2005, Kamau started a furniture shop with capital of Kshs120,000. During the year he took Kshs12,000 for his son's birthday party. He also brought into the business private furniture worth Kshs20,000. At the end of the period he had made a profit worth Kshs35,000. Determine Kamau's capital at the end of the period.

Solution

Final capital – initial capital + additional capital + net profit – drawings

Final capital = 140,000 + 20,000 + 35,000 – 12,000

= Kshs183,000

12. Fiscal policies that can be used to control inflation

- Increasing tax imposed on individuals and firms income
- Reducing government spending
- Reducing tax on production
- Subsidizing production

- Producing commodities that are in short supply
- Regulating prices for essential goods and services
- Rationing the amount of goods that one can purchase at a given time

13. Advantages of landscaping office layout

- it promotes teamwork among the employers
- it makes sharing of office equipment possible and therefore reducing the costs of buying more
- supervision of workers is easy since the manager may be at a raised ground
- maintenance cost is low
- there is easy location of workers
- it discourages absenteeism of employees
- it is easy to decorate
- decoration found in the office creates an attractive and conducive environment to work in
 - it enhances the image of the firm

14. Factors that has led to a shift of demand curve to the right

(4mks)

- increase in the price of substitute good
- increase in population
- increase in disposable income of the consumer
- Favorable terms of sale
- expectation of an increase in the price of the product in the near future
- Favourable government policies
- changes in tastes, fashions and preference in favour of the commodity
- decrease in price of complimentary product
- equal distribution of income

15. State functions of proforma invoice

- polite way of asking for payment before the goods are delivered
- send when the seller does not want to give credit
- sued by importers to get customs clearance before goods are delivered
- issued to an agent who sells on behalf of the seller
- when the buyer has returned some goods for various reasons and those goods had been previously

invoiced

16. Type of Journal

- sales journal

Cash payment journal / cash book

- purchases journal

- cash receipt journal

- sales return journal

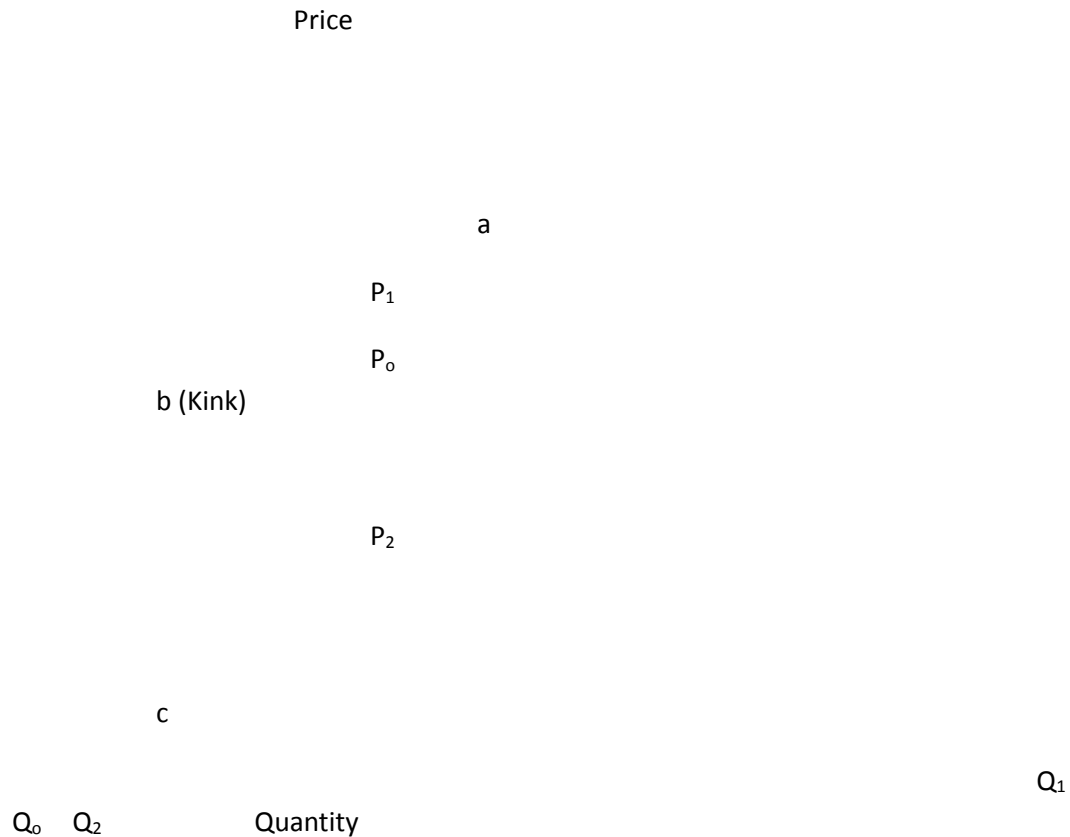
17. Outline four importance of pooling risks to an insurance company

- creates a common pool of funds from regular premiums from different clients
- enables the insurance company to compensate those who suffer loss from insured risks
- insurance company is able to spread risks over a large number of insured people
- surplus funds can be invested in
- it can meet its operating costs by using the pooled funds
- enables the insurance company to calculate premiums to be paid by each client
- enables the insurance company to re-insure itself with another insurance company

18. Mention four benefits of establishing several firms in an industry

- leads to proper use of by-products
- leads to interdependence in terms of technology
- proper co-ordination of waste disposal
- stimulates economic growth

19. In an oligopoly market structure, all firms face a Kinked demand curve. Draw a kinked demand curve and briefly outline the concept of price rigidity (4mks)



All firms in the market face a rigid price P_0 and a Kinked demand curve abc . Any firm selling at a price higher will lose a big number of customers while that trying to charge a price lower than the rigid price will not benefit significantly in terms of increase in sales because other firms will also lower theirs.

20. Differences between reproductive debt and dead-weight debt in public finance

- Reproductive debt is a public / national borrowing that the government uses to finance projects that generate revenue and in the long run may help in servicing of other debts while
- Dead-weight is a borrowing that a government uses to finance projects that do not generate revenue / recurrent expenditure e.g paying servants

21. Challenges that a young population poses to a country

- high dependency ratio
- Low labour supply as many have not attained working age
- reduce savings and investments due to high rate of consumption
 - diversion of government expenditure to cater for the young welfare
- increased social evils / crimes
- high rate of unemployment

22. Development goals that the Kenya government aims to achieve in 2010.

- eliminate illiteracy
- improve health standards
- eliminate reduce poverty by increasing per capita income
- reduce imbalance in regional development
- provide basic human wants e.g food shelter
- reduce unemployment levels
- improve the social amenities and the access to these services
- diversify economic activities to reduce over reliance on few production activities
- providing opportunities for self-advancement e.g education
- enhance environment conservation
- provide an enabling environment for business activities to take place

23. The following is a list of ledger accounts. Name the ledger book in which they are maintained (4mks)

Account	Ledger book
• Drawings	Private ledger
• Kamiritu (Customer)	Sales/Debtors ledger
• Sales	Nominal ledger
• Machinery	General ledger

24. Outline the difference between the following terms as used in International Trade (3mks)

- **Terms of trade**

This is the rate at which a country's exports exchanges against her imports. It is the value of a country's exports relative to that of her imports.

- **Balance of trade**

This is the difference between the value of visible exports and the value of visible imports over a given period of time usually one year.

- **Balance of payment**

This is the difference between the receipts from all exports in a country and the payments to all her imports.

15. State functions of proforma invoice.

a) Polite way of asking for payment before the goods are delivered.

b) Send when the seller does not want to give credit.

c) Used by importers to get customs clearance before goods are delivered.

d) Issued to an agent who sells goods on behalf of the seller.

e) When the buyer has returned some goods for various reasons and those goods had

25. The following balance sheet belongs to Dowling enterprises.

Dowling Enterprises

Balance sheet

As at 31/12/2015

<u>Fixed assets</u>	<u>Capital</u>
Land	Capital
450,000	543,000
Vehicles	<u>Long term liabilities</u>
250,000	loan from KIE
Fittings	100,000
<u>7500</u> <u>707,500</u>	loan from ICDC
<u>Current assets</u>	<u>75,000</u> <u>175,000</u>
Stock	<u>Current liabilities</u>
20,000	Creditors
Debtors	25,000
12,500	Salaries owing
Bank	<u>10,000</u> <u>35,000</u>
8,000	
Cash	<u>753,000</u>
<u>5,000</u> <u>45,100</u>	
<u>753,000</u>	

Required: Calculate;

a) *Capital owned* = kshs 543,000

b) *Borrowed capital* = kshs 100,000 + 35,000 = kshs 135,000

c) *Working capital* = C.A – C.L

$$= 45,500 - 36,000$$

$$= \text{Kshs } 10,500$$

d) *capital employed* = C.O + L.T.L

$$= 543,000 + 175,000 = \text{Kshs } 718,000$$