

1. Highlight four external factors that may positively influence the operation of a business. (4mks)

- i) - Favourable Legal-political environment  
- Favourable / healthy competition
- ii) - Favourable Socio-cultural environment  
- Favourable physical environment
- iii) - Advanced / modern technology  
- High population demanding the products
- iv) - Stable / healthy business  
- Favourable economic growth of a country

2. Outline four reasons why choice is crucial in satisfaction of human wants. (4mks)

- i) - Due to limited resources  
- Government policy on goods
- ii) - Goods in the market have different prices  
- Consumers have different taste / preferences / fashions
- iii) - Human wants are unlimited / endless wants  
- Religious beliefs and taboos may dictate
- iv) - Goods in the market have different qualities

3. Labour is one of the key inputs in production. List down four possible rewards of labour. (4mks)

- i) - wages
- ii) - salaries
- iii) - Commission
- iv) - Fees  
- Royalties

4. There are many developments in business environments which have promoted entrepreneurs to adopt new management policies to operate effectively. Highlight four new management policies that every entrepreneur/business need to adopt. (4mks)
- HR/HRIS awareness among the members of staff
  - i) - Automation - use/keeping up with dynamic technology eg Computers.
  - ii) - Restructuring of business operations - eg reducing cost of production.
  - iii) - Use of suggestion boxes.
  - Being social responsible - taking part in
  - iv) - Community services
  - Employing senior management staff on performance contracts.
5. State any four factors that may influence the choice of filing equipment's. (4mks)
- i) - Initial Price/Cost of acquiring the machine.
  - Availability of spare parts in case machine
  - ii) break down.
  - What effect it has on staff morale
  - iii) - Durability
  - Suitability - If it is suitable for the required purpose.
  - iv) - Adaptability
  - Availability of operators in case of technical problem.
6. Outline five new trends in the office organization today. (4mks)
- i) - Computerisation.
  - Use of modern method of technology eg Telex,
  - ii) e-mail, website, mobile phone and internet.
  - Introduction of customer care department.
  - iii) - Introducing identification badges to be worn by all employees within the organization.
  - iv) - Use of landscape office layout.
  - Use of the mobile phones in the office
  - Adaptation to teleconferencing
  - Merging duties of staff members eg cleaner messenger or secretary.
  - Contracting non-core activities to other firms (outsourcing) eg cleaning services

7. Highlight four advantages of hire-purchase to a buyer. (4mks)

- i) - Buyers can afford to buy a wide variety of goods at the same time.
- ii) - Buyers can use goods while paying for them.  
- Goods bought on hire-purchase can be used to secure loans.
- iii) - Buyer can purchase expensive goods which they could not otherwise afford.
- iv) - It is convenient to pay in installment.

8. Outline four limitations of consumer associations. (4mks)

- i) - Lack of adequate finances to sponsor their activities efficiently due to low membership.
- ii) - Lack of sufficient information from consumers.  
- Lack of adequate support from the government.
- iii) - The organization lacks authority to enforce cases brought to its attention.
- iv) - Ignorance on the part of consumers about their rights and the avenues to follow.

9. The following are examples of various terminologies used in transport. Name the elements associated with each example. (4mks)

Examples	Elements
i) Busstop	- Terminal
ii) Bicycles	- unit of carriage
iii) Canals	- The way
iv) Animal power	- method of propulsion

10. Write four reasons why mobile phones have become very popular. (4mks)

- i) It facilitates the sending of short messages for communication.
- People can be contacted anytime (24hrs) in mobile phones.

- It is portable.
- It also provides money transfer services
- ii) - People can make calls or receive calls anywhere with network.
- iii) - Cheaper to operate mobile phones than landlines.
- iv) - Both sender and the receiver can identify each other with the mobile phone.

11. State four examples of a private warehouse that traders may use to store their goods. (4mks)

- i) - Producer's / Manufacturer's warehouse.
- ii) - Wholesaler's warehouse.
- iii) - Retailer's warehouse.
- iv) - Consumer's warehouse.

12. Highlight four circumstances under which an insurance company may re-insure. (4mks)

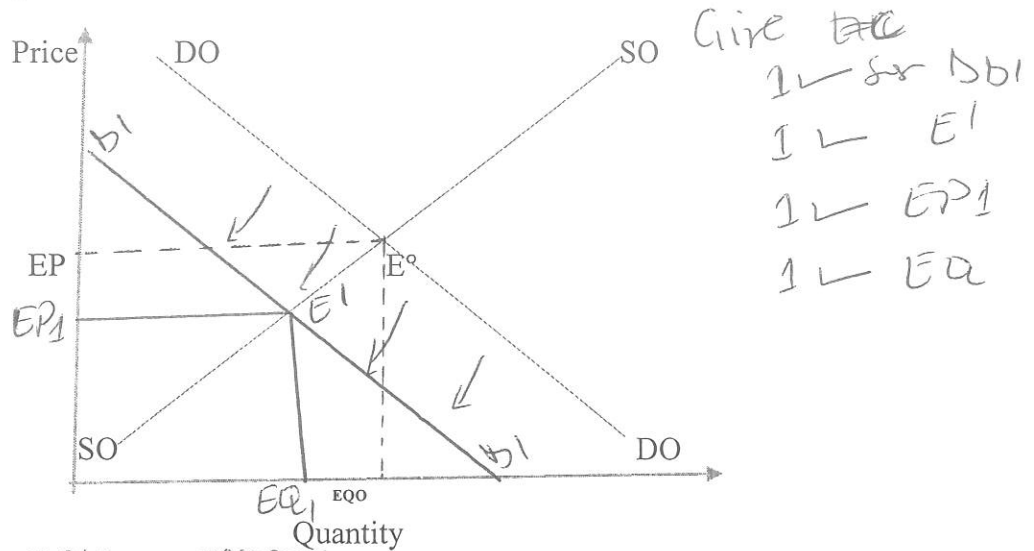
- i) - When the company covers very many risks.
- When the government policy demands so.
- ii) - When the possibility of the risks occurring are very high.
- iii) - When the value of the property insured by the company is very high.
- iv) - When there is need to spread risks insured by the company.

13. Outline four demerits of personal selling. (4mks)

- i) - It requires a lot of labour hence making the method to be costly.
- ii) - Some sales people may not be very committed to their tasks making the firm not to achieve their goal.
- iii) - It is tiresome where sales person keeps demonstrating one thing.
- It is time consuming as the sales persons keep on repeating the same thing to different customers.
- Some sales persons misuse company's resources allocated to them such as transport facilities.

iv) - This method inconveniences prospective buyers time

14. The diagram below show normal demand and supply curves of maize in Kitale market. On the diagram show the new equilibrium point, equilibrium price and equilibrium quantity as a result of negative change of consumer taste and preference towards maize. (4mks)



15. Outline four diseconomies of scale which an expanding firms may experience. (4mks)

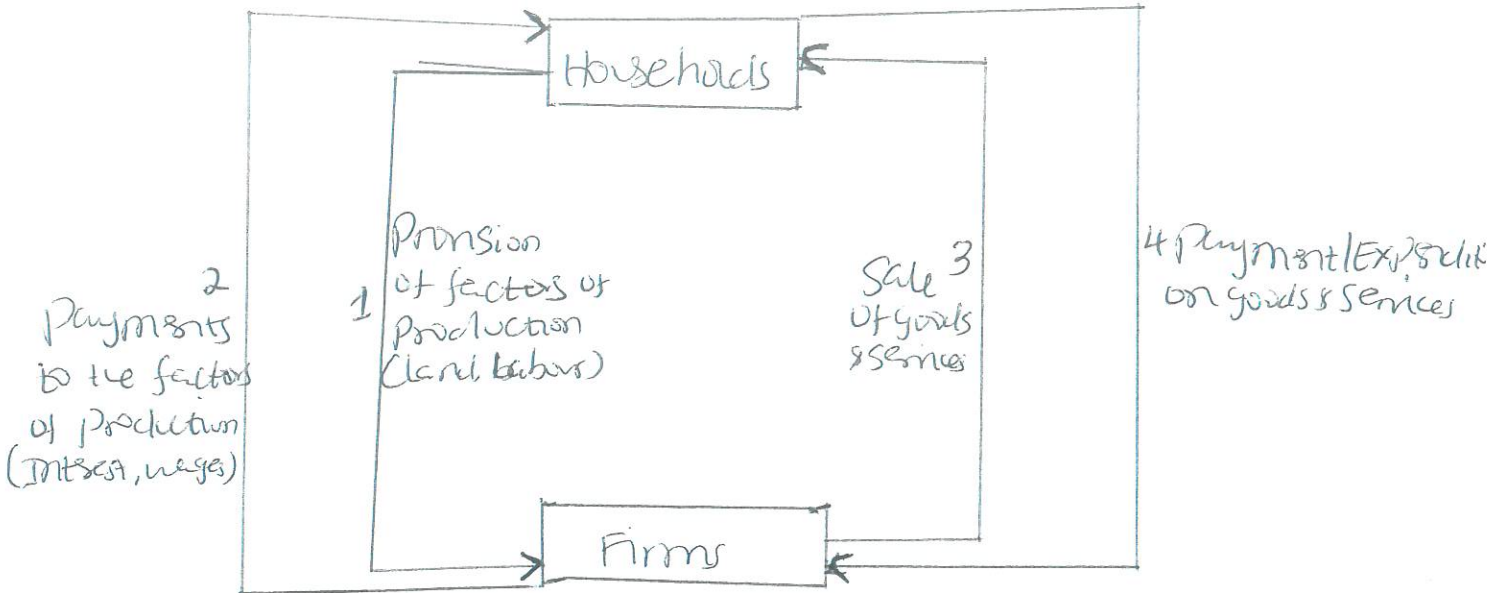
- i) - Financial economies
- Buying economies
- ii) - Marketing economies
- Research economies
- iii) - Welfare economies
- Risk bearing economies
- iv) - Technical economies

16. Give four disadvantages of long-chain of distribution of goods to a buyer. (4mks)

- i) There will be increase in prices of products in the long-run.
- ii) - Chances of damage to goods due to handling are high.
- iii) - Likelihood of delay.
- Perishable goods may go bad.
- There will be shortage of products.

iv).....

17. With the help of a diagram show the circular flow of income in a two sector economy. (4mks)



- 1- Provision of factors of production.
- 2- Payments to factors of production
- 3- Sale of goods and services
- 4- Payments / expenditure on goods & services

18. Kenya power and lighting company is the only company that distributes power in Kenya. Highlight four characteristics of the type of market structure in which the firm operates. (4mks)

- i). - There is only one supplier (seller) for the entire market.
- ii). - There is barrier to enter into the industry.  
- Prices are fixed by the suppliers / sellers.
- iii). - The product sold has no close substitute.  
- They monopolist practice price discrimination.
- iv). - There are huge promotional and selling costs incurred.

19. On 1<sup>st</sup> February 2018, Bonet traders had Kshs 3250 in the bank and Kshs 1240 cash in hand. During the week the following transaction took place. (4mks)

Feb 2: Bought stock ksh 2500 paying by cheque

Feb 3: Cash sale shs 15,000 were made.

Feb 7: Bought stock worth kshs 2000 on credit.

Feb 8: Took all the money in cash box to the bank leaving balance of Kshs 1000 only

Prepare a two column cash book.

BONET TRADERS

TWO COLUMN CASH BOOK

Dr					Cr				
Date	Details	LF	Cash	Bank	Date	Details	LF	Cash	Bank
2018	Balance	b/d	1240	3250	2018				
1 Feb					2 Feb	Purchase			2500
3 Feb	Sales		15000		8 Feb	Bank	cl	15240	
8 Feb	Cash	cl		15240	10 Feb	Balance	cl	1000	15990
			16240	18490				16240	18490
10 Feb	Balance	b/d	1000	15990					

(16x16)

(4mks)

20. Outline four importance of a trading, profit and loss account in a business. (4mks)

- i). - It discloses whether the business has made a net profit or not.
- ii). - It reveals the various expenses and income of a business.
- iii). - The government is able to determine how much tax it will be paid from these accounts.
- iv). - It is used for comparison purposes with different periods or similar businesses.

21. The following information relates to Iten traders for the year ended 31/12/2017. Gross profit margin was 20%

Fixed assets	5,000,000/=
Current assets	650,000/=
Net profit	300,000/=
Capital	4,700,000/=
Current liabilities	650,000/=
Sales	2,000,000/=
Closing stock	100,000/=
Opening stock	200,000/=

i) Calculate current ratio (1mk)

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

$$= \frac{650,000}{650,000} = \underline{\underline{1:1}}$$

ii) Gross profit mark-up (1mk)

$$\text{Mark-up} = \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$$

margin  $\frac{20}{100} = \frac{\text{G.P.}}{\text{Sales}}$

$$\text{margin} = \frac{100}{400,000} \times 100 = 25\% \text{ or } 1/4$$

$\frac{20}{100} \times \frac{1}{5} = \frac{\text{G.P.}}{2,000,000}$   
 $\text{G.P.} = 400,000$   
 $\text{COGS} = \text{Sales} - \text{G.P.}$   
 $\text{COGS} = 2,000,000 - 400,000 = 1,600,000$

iii) Rate of stock turnover. (1mk)

$$\text{Rate of stock turnover} = \frac{\text{COGS}}{\text{Average Stock}}$$

$$\text{Average Stock} = \frac{100,000 + 200,000}{2} = \underline{\underline{150,000}}$$

$$\text{RST} = \frac{1,600,000}{150,000} = \underline{\underline{10.67 \text{ times}}}$$

iv) Return on capital. (1mk)

$$\text{Return on capital} = \frac{\text{Net Profit} \times 100,000}{\text{Capital}}$$

$$= \frac{300,000}{4,700,000} \times 100\%$$

$$= \underline{\underline{6.38\%}}$$



22. Highlight four characteristics of money.

(4mks)

i) - Generally acceptability  
- Scarce in supply.

ii) - Divisibility  
- Portability  
- Durability

iii) - Stability  
- Homogeneity

iv) - Cognizability  
- Malleability

23. Explain the following terms as used in international trade.

(4mks)

i) F.O.R (Free on Rail) - The price quoted covers expenses of transporting the goods from the premises up to the railway station. All other charges are met by the importer.

ii) F.O.B (Free on Board) - The quoted price includes all the expenses which are incurred from the premises of the exporter to the ship, plus the loading expenses. All expense such as freight and insurance are met by the importer.

iii) Freight note - This document is drawn up by the shipping company indicating the charges for shipping the goods.

iv) Import license It is a document issued by the government to the importer allowing him the permission to import or bring goods into the country.

24. State four canon (principles) of government expenditure.

(4mks)

i) - Maximum social benefits.

ii) - Good financial management.

iii) - Economical in spending the funds.

iv) - Sanction by the relevant authority  
- Elasticity - possible to increase/decrease the expenditure depending on the need.

- Productivity  
- Equitable.

25. Highlight four indicators of economic development in a country. (4mks)

- i) - Increase in the number of firms or industries
- ii) - Increase in incomes.  
- Increase in output.
- iii) - Increase in rates of employment.  
- Increase in investments, both local and foreign
- iv) - Increase in consumer spending.