MARANDA HIGH SCHOOL

Confidential
Marking scheme

Marking schedule	
Mr. Achola Vincent	1 - 4
Mr. Ogutu Erick	5 - 8
Mr. Wangila Evans	9 – 12
Mr. Ombalo Daniel	13 - 16
Mr. Osena Patrick	17- 20
Mr. Dunde Simon	21 - 25

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BUSINESS PP1

MARKING SCHEME

1.Lines of communication
a) The manager of Safaricom Ltd. Communicating to the Manager of Airtel Ltd.
   Horizontal communication
b) An account clerk asking for time off from her boss
   Upward communication
c) Sales manager giving instructions to the secretary of the finance manager
   Diagonal communication
d) The receptionist giving explanations to the production manager
   Upward communication

2. State FOUR demerits of high taxation to an economy.   (4 Marks)

- *Discourages the level of foreign investments*
- *Leads to fall in consumer's disposable income*
- *Deterrent to work and enterprise*
- *Discourages savings and investments*
- *Lowers per capita income*

3. Identify the environmental factor described below.   (4mks)
   - *Skills and methods used in production -* **Technological**

   - *Affects buyer's ability to buy products* - **Economic**

   - *Forms skilling similar products trying to outdo each other-* **Competition**

   - *Aspects of the population. -***Demographic**

4. Recording transactions in the relevant journals

Purchases Journal

Date	Details	Invoice No.	I.F	Amount (Ksh)
2020				
1/03	Obwacha			1,200
1/03	Agwata			3,000
				4,200

Sales Journal

Date	Details	Invoice No.	I.F	Amount (Ksh)
2020				
5/03	Okello			2,000
5/03	Micheka			4,300
				6,300

5. Outline FOUR disadvantages of localizing firm within one region   (4 Marks)
   - It would lead to congestion/slums

   - It would cause pollution

   - It would lead to unbalanced regional development

   - May result in social evils

   - May be a target during wars/terrorism activities

   - May lead to widespread unemployment due to decline in demand

6. Mention FOUR benefits of using WhatsApp groups for office communication (4 Marks)
   - Reduced cost of communication
   - Provides unlimited space for filing
   - Fast means of communication
   - Facilitates quick decision making/feedback
   - Reduced paper work and need for paper files
   - Accord, convince while communicating/easy to use
   - Communication can take place all time

7. State FOUR circumstances that may lead to the dissolution of a partnership (4 Marks)

   - If the partners mutually agree/decide to dissolve it

   - Incase of death/insanity/bankruptcy of a partner

   - Incase the court orders so

   - Incase of completion of the intended purpose

   - Incase of retirement/admission of a new partner

   - If the business engages in unlawful business practices

   - Incase of continued disagreements among the partners

8. The following balances were extracted from the books of Ufanisi Enterprises on 31st Dec 2022.

Total Assets $= Kshs.(3,000,000 + 500,000)$
                   $= Kshs.3,500,000$

Total Liabilities $= Kshs.(700,000 + 1,500,000)$
                   $= Kshs.2,200,000$

Network/Capital $= Assets - Liabilities$
                   $= Kshs.(3,500,000 - 2,200,000)$

                   $= Kshs.1,300,000$ $4 \times 1 = 4\ Mks)$

9.For each of the following descriptions, identify the corresponding method of product promotion. (4mks)

Description	Method of promotion
a)Free promotion of a product	- *Free publicity*
b)Strategies to increase sales at the point of promotion	- *Personal selling*
c) Impersonal presentation of a product through mass media	- *Advertising*
d) Meant to improve the reputation of a firm.	- *Public relations*

10. **Participants in a two sector economy**

Statement	Participant
i) Payment of goods and services	*Household*
ii) Sale of factors of production	*Household*
iii) Payment of factors of production	*Firms*
iv) Sale of goods and services	*Firms*

11.Highlight FOUR commercial services that facilitate trade. (4marks)
- *Insurance*
- *Advertising*
- *Warehousing*
- *Banking*
- *Transport*
- *Communication*

12.Outline FOUR tools used by central bank to control credit. (4marks)
- *Bank rates*
- *Compulsory deposit*
- *Selective credit control*
- *Open market operation*
- *Moral/persuasion/direct action*
- *Case/liquidity ratio*
- *Margin requirement*

13.   Sales 20,000
      COS 10,000
      G.P 10,000

      Mark up $= \frac{G.P}{COS} \times 100$

      $\frac{5,000}{15,000}x = 33.33\%$

   iii) R.O S.T.O $= \frac{COS}{AV.STOCK}$

      $= \frac{15,000}{6,000} = 2.5$ times

   i) Margin $\frac{G.P}{Sales} \times 100$

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

   iv) Net profit = G.P – expenses

      $5,000 - (\frac{10}{100} \times 20,000) \qquad = 3,000$

14. Outline FOUR challenges that a new entrepreneur will experience when establishing business in Kenya   (4marks)
   o *Inadequate market due to low income of buyers/due to cultural practices/beliefs of customers*
   o *Poor infrastructure leading to inaccessibility to the market/inputs*
   o *Unfavorable government policies e.g. high taxation which may discourage expansion*
   o *Inadequate skills leading to poor management*
   o *Inadequate technology resulting to less quantity or poor quality goods/products*
   o *Stiff competition thus unable to access market*
   o *Poor pricing which might make the product to be too expensive to attract customers*

15. State FOUR advantages of taking an endowment insurance policy   (4marks)
   • *Policy holder can use the policy as collateral to obtain loan*
   • *Policy holders participate in profit/bonus of the insurance company*
   • *It serves as a saving plan for future investment*
   • *The policy holder is able to decide on the maturity date of the policy beneficiaries are entitled to bonus/sum assured*
   • *The policy holder enjoys sum assured if he lives in the maturity date*

16. Highlight FOUR disadvantages of cartels to consumers. (4marks)
   - May result in a monopolistic situation
   - May lead to production of inferior goods due to lack of competition
   - Prices of goods may be artificially kept high
   - They may restrict entry of other firms thus limiting consumer choice
   - Deny consumers bargaining power

17. Kenya has been experiencing an upward trend in the price of petrol. State FOUR steps that can be taken to minimize expenditure on petrol. (4marks)
   - Pooling people who are traveling to same direction
   - Use of alternative sources of energy
   - Encourage use of vehicle with high carrying capacity/fuel saving engines
   - Set maximum price legislation
   - Reduce price on petrol/subsidies
   - Improve road network
   - Increase price on complimentary goods
   - Encourage machine maintenance
   - Switch off when not in use

18.
   - Seasonal.
   - Hidden/disguised/underemployment
   - structural
   - Cyclical

19. State FOUR features of a perfectly competitive market. (4marks)

   - Large number of buyers and sellers
   - Freedom of entry and exit
   - No government influence
   - No transport costs
   - Products are homogeneous
   - Perfect knowledge by seller/buyer
   - Firms are price-takers
   - No excesses of demand or supply
   - Perfect mobility of production

20.Outline FOUR reasons that can lead to a correctly drawn cheque being dishonored. (4marks)
- Insufficient funds in the account of the drawer.
- When the cheque is post-dated
- Stale cheque
- If the drawer has closed his/her account with the bank
- When the bank learns about death, insanity or bankruptcy of the drawer and gives instruction that the cheque should not be honoured.

21.If a house worth Kshs 1,200,000 was insured against fire from Kshs 900,000 under the 'with average'. Fire occurred and damaged the house causing a loss of Kshs 500,000. Determine the value of compensation due to the insured. (4marks)

$$Compensation = \frac{value\ of\ the\ policy \times loss}{Actual\ value\ of\ the\ property}$$

$$= \frac{900,000 \times 500,000}{1,200,000}$$

$$= Kshs.\ 375,000$$

22. State FOUR problems encountered in measuring national income using the output approach (4 marks)

- Valuing of illegal activities like drug trafficking and smuggling.
- Problem of valuing output of the subsistence sector
- Problem of changing prices
- Problem of valuing government output / services
- Difficult in valuing stock at the end of an accounting period / unsold stock
- Problem of double counting
- Difficult of determining rate of depreciation
- Inaccurate data
- Inadequate finance / capital / technology

23. On 1ˢᵗ October 2021, Wambu bought goods on credit quoted at shs. 240,000. Terms of sales were; 20 % trade discount and 10 % cash discount if payment was made on 29ᵗʰ October 2021. Calculate the amount paid if payment was made on 26ᵗʰ October 2021.

(4 marks)

Trade discount = 20 % x 240,000 = 48,000 √

Price to be paid 240,000 – 48,000 = 192,000 √

Cash discount = 10 % x 192,000 = 19,200 √

Amount paid = 192,000 – 19,200 = 172,800 √

24.List down any FOUR expenses a middleman would incur in the chain of distribution. (4 marks)
- Actual cost of buying the product
- Storage cost
- Transport cost
- Insurance cost
- Advertising cost
- Salaries and wages
- Packaging and blending costs

25.
Determine the total excess supply. (1 mark)

$(905 – 700) + (1600 – 620) = 1185$

(i) Determine the total excess demand. (1 mark)

$(1200 – 602) + (900 – 780) = 718$

(ii) Determine the equilibrium price. (1 mark)

Ksh 730

(iii) Determine the equilibrium quantity. (1 mark)

850