**1. Disadvantages of a long chain of distribution.**

1. Increased price
2. Chances of damage to goods
	1. due to handling
3. Feedback to the manufacturer
	1. producer is slow
4. Perishable goods will go bad
5. Likelihood of delay of goods.

**2.** (i) Cost of sales = Opening stock + purchases – Closing stock

 = 25000 + 190000 – 35000

|  |  |  |
| --- | --- | --- |
|   | =  | **sh. 180,000** |
|  ii)Gross Profit  | =  | Cost Of Sales × Markup  |

 

= 

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | =  |  sh. 36,000 |
|  iii)Sales  |  | =  | Cost of sales + Gross Profit  |
|  |  |  |  |

 = 

 = sh. 216,000

iv)R.O.S.T.O = Cost Of Sales ÷ Avg. Stock

 Avg. Stock = 

 = 

2

 = sh. 30,000

 R.O.S.T.O = ***½ x 8 = 4 marks***

 = 6 times

**3. Type of unemployment.**

* 1. Structural
	2. Involuntary
	3. Technological
	4. Disguised

**4. Documents prepared by the buyer (4 marks)**

1. Letter of inquiry
2. Local purchase order
3. Goods received note
4. Goods returned note
5. IOU

**5. Highlight four merits of direct tax as a source of revenue to the government. (4m**

 a) May be progressive hence equitable

 b) Simple to understand to both taxpayer and tax collector

c) Convenient to both tax payer and tax collector as time for collection is known .

d) Can be used to counter inflation.

e) High revenue earning capacity as it expands naturally with

 economic growth i.e. elastic

 f) May be used to redistribute wealth and resources equally.

g) Certain to both tax payer and tax collector.

**6. Ways in which Economic environment influence business activities(4 marks)**

1. Level of wages of the consumer
2. Taxes on income
3. Value of money/inflation/foreign exchange rate
4. Prices of other related goods

**7. Roles of advertising agencies in product promotion**

1. Help businesses in designing their trademarks, logos, and advertising materials
2. Book space and airtime for their customers in various media houses
3. Offer advisory services to their clients on selling techniques
4. Advertise on behalf of their clients
5. On behalf of their clients, they choose the appropriate media to use

**8. Ways in which the government of Kenya promotes entrepreneurial development**

1. Building or improving all infrastructure such as roads, sewerage systems etc
2. Improving the level of security
3. Lowering taxation/giving tax exemptions or holidays
4. Providing subsidies
5. Controlling the cost of electricity and petroleum products/make it affordable to encourage production
6. Support training to equip entrepreneurs with management skills
7. enhance access to finances especially to women and youth

**9. Name of the source document used to record the following transactions**

|  |  |  |
| --- | --- | --- |
|  | **Transaction**  | **Source Document**  |
| a) | Received goods returned by a buyer who bought them earlier on credit  | **Copy of the Credit note/Retained credit note**  |
| b) | Making of payment to casual workers at the end of the week  | **Cash payment voucher**  |
| c) | Bought goods for sale from Gilanis Supermarkets on credit  | **Purchase/Received/Original Invoice**  |
| d) | A customer, Adhiambo, send a cheque for goods she bought earlier on credit  | **Copy/Retained Cash Receipt**  |

**10. Essential factors of a warehouse.**

a) Specialized buildings

b) Conveniently located

c) Installation of handling equipment.

d) Security systems to safeguard the goods from theft or damage by weather or people.

e) Qualified human resources to run the warehouse.

f) Good road and other communication network.

g) Compliance with the law of the land.

**11. Meaning of the following:**

C – Expenditure on consumer goods.

I – Expenditure on capital goods / Investments

G – Government expenditure

X – M – Expenditure on exports less expenditure on imports or expenditure on net exports.

*NB: The word expenditure must be captured in every point.* (4 x 1 = 4 marks)

**12**. Explain the meaning of:

 (a) Joint demand: - Refers to goods

 and services that are consumed together and therefore demanded together e.g Pen and Ink (2 mks)

 (b) Derived demand: - Refers to goods and services that are demanded because they give rise to products that are actually demanded eg a hen may be needed because there is a need for eggs. (2 mks)

**13. Reasons for decline in fertility in Nyeri county**

1. Delayed marriages
2. Craving for higher standards of living
3. Desire to give families better lives than parents
4. Where a small family is considered fashionable.
5. Due to decline in mortality rates
6. **Give four basic characteristics of a business idea.** 4mks
7. what products or services to sell
8. the market to sell the goods and services
9. how the business will run
10. objectives of the business
11. the pricing of the products 4x1=4mks
12. **Documents needed to start a company.**
	1. Memorandum of Association.
	2. Articles of Association
	3. List of Directors
	4. Statement from the Directors that they are willing to be Directors.
	5. Statement from a lawyer or a director showing that all the legal requirements for formation have been fulfilled.

 1x4=4mks

1. **Identify four barriers to international trade**
2. quotas
3. import bans
4. import export custom duties
5. import export licensing(complicated procedures0
6. foreign exchange control
7. moral persuasion eg Buy Kenya build Kenya 4x1=4mks
8. **In the table below classify the accounts as personal, nominal, real or private. 4mks**

 Account Account type

 Machinery Real

 Kamau(creditor) Personal

 Electricity bill Nominal

 Rent income Nominal 4x1=4mks

1. **Reasons why shopping malls have become popular in Kenya**
2. Offer extensive parking facilities
3. Customers do all their shopping in one building hence saves time
4. Shopping malls save on space which reduces rents and rates
5. Usually open for long hours
6. They accept credit cards
7. They offer a wide variety of goods
8. They are convenient to shop in since they provide services such as restaurants, post offices, reading rooms etc.
9. Are usually situated in town centres 4x1 = 4mks

**19.**

**Meru Traders**

**Balance sheet**

**as at 2nd July, 2012**

Furniture

Computer

Motorvan

Bank

Cash

88,000

45,000

400.000

5.000

5.000

543,000

Capital

Creditors

543,000

136,000

407,000

543.000

 8 x ½ = 4mks

**20. Factors that hinder economic development**

1. Low natural resource endowment / low quantities of natural resources
2. Inadequate capital
3. Low levels of technology
4. Poor human resource endowment / lack of skilled labour
5. Political instability
6. High population growth rate
7. Insecurity
8. Negative social-cultural factors 4x1= 4mk

**21. Reasons that may necessitate insurance companies to re- insure.**

1. Where the value of property is great.
2. When chances of loss through the insured risks are high.
3. When the insurance company has insured many different risks
4. When the insurance company wishes to share liability in the event a major loss occurring.
5. Government takes it a legal requirement for an insurance to re-insure. Any 4 x 1 = 4 Mks

**22. Consumer price index**

|  |  |  |
| --- | --- | --- |
| ITEM |  2013 |  2014 |
|  | P0 | W | P0W | P1 | W | P1W |
| flour | 80 | 2 | 160 | 85 | 2 | 170 |
| bread | 50 | 1 |  50 | 60 | 1 |  60 |
| milk | 40 | 3 | 120 | 60 | 3 | 180 |
|  |  |  | 330 |  |  | 410 |

 CPI= 410X 100 = 124.24
 330

 Level of inflation = 124.24 – 100= 24.24%

1. **Conditions for contract**
2. Must be for legal purposes
3. Insured and insurer must have legal capacity to contract
4. Terms and conditions must be acceptable by both parties
5. Payment of premiums must be made
6. Risk must be insurable *4 x 1 = 4mks*

**24** **Lion traders**

 **Trial balance**

 **As at 30th June 2012.**

|  |  |  |
| --- | --- | --- |
| Details  | Dr. |  Cr.  |
| SalesCarriage outDiscount allowedDiscount receivedReturns inwardRent incomePurchases Bank Capital  |  6,000 11,000 12,000 2,000 150,000 |  14,000 5,000 3,000 159,000 |
| Total  | 181,000 |  181,000 |

1. **State four characteristics of basic human wants**
2. One cannot do without them
3. They are felt needs
4. They are satisfied before secondary wants
5. They cannot be postponed ***4mks***