**1. (a) Positive effects of inflation to the economy. (10marks)**

a. Debtors may pay less.

Debtors may end up paying less in real terms. This is because the debtors pay for the commodities in the future at old low prices and not at the prices which the commodities would be selling.

b. sellers may earn more.

This is so because sellers buy the commodities when the prices are low and sell them later when the prices are high thereby making more profits.

c. Motivation to work

As prices of goods and services increase it tend to motivate people to work harder in order to earn more so as to maintain their living standards

d. Increased production.

As people work hard in order to maintain their standards of living they had before inflation they end up producing more goods and services.

e. Better use of available resources.

People tend to use the available resources in the most economical way in order to avoid wastage

**(b) Distinguishing features between co-operative societies and partnership. (10 marks)**

|  |  |
| --- | --- |
| Co-operative societies | Partnership |
| Managed by a committee of nine members | Manage by active partners |
| Formed by a minimum of 10 members with no maximum. | Formed by 2-20 partners unless for professional partnership which goes to a maximum of 50 |
| The main motive is to improve the welfare of members | Main motive is to make profits |
| Govern by co-operative act | Govern by partnership act |
| Members have limited liability | Some partners may have unlimited liability |
| Not affected by death , insanity, exit or entry of a member | May be dissolve due to exit, entry, death, insanity and bankruptcy of a member. |

**2. (a) Effects of an increase in supply of a commodity on its market equilibrium. (10marks)**

Price

D0 S0

S1

E0

P0

E1

P1

S0

S1

Q0 Q1  Quantity

An increase in the supply of a commodity in the market forces suppliers to charge a lower price so as to avoid any excess supply. Such decrease in price will then encourage consumers to buy more of the commodity

**(b) Factors that may hinder the formulation of a good development plan in Kenya. (10marks)**

(i) Lack of adequate /accurate/detailed data- records are rarely kept by society leading to poor /unreliable plans.

(ii) Shortage /inadequate funds or capital- this make it difficult to collect /compute information and reliable prepare plans

(iii) Copying/transfer of inappropriate plans - which will not suit local citizens /communities as they differ in culture, development

(iv) Existence of large subsistence sector hence difficult to get information and makes the whole process of planning unrealistic

(v) Problem of the private sector- in most cases they may pursue different objectives from those of the government yet government doesn't have direct control

(vi) Lack of trained staff to conduct the planning- Expatriates are used which is expensive and they do not have adequate knowledge about the local economies they are called upon to plan for.

3**. (a) Monetary policies that are used by the Central Bank of Kenya to influence the amount of money in circulation in the economy. (10marks)**

(i) Bank rates.- This is the rate at which the central bank lends to commercial banks can be varied to encourage or discourage credit/borrowing by commercial banks.

(ii) Open market operation- The central; bank may sell or buy securities in the open market. Selling securities reduces the money supply ( for lending). Buying securities increase the amount of money in circulation.

(iii) Special deposits/ compulsory deposits/ minimum reserve requirements- The central bank require commercial banks and other financial institutions to have a certain percentage of deposits deposited in the central bank which can be varied to encourage / discourage credits

(iv) Cash ratio/ liquidity ratio- The ration of cash/ deposits may be varied to control money supply credit which can be increased to reduce money supply/ can be decreased to increase money supply.

(v) Moral persuasion/ Liquid assets persuasion- The central bank may appeal/ request/ persuade/ restrain leading/ credit rationing.

(vi) Selective credit control- The commercial banks may be required by the central bank to approve loans only for special types of projects e.g. agriculture, manufacturing e.t.c

(vii) Direct action/ directive/ instructions- Central banks can use its authority to direct/instruct the financial Institutions to lend more/ less/ apply credits squeeze/ credit expansions margins requirements.

**(b) On 1st January 2017, Majengo traders had ksh. 240,000 cash in and Bank credit balance of kshs 270,000. During the month, the following transactions took place. (10marks)**

**Jan 2 : Cash sale of kshs 200,000**

**5 : Debtor settled his account of ksh 1,000,000 by cheque less 5% cash discount.**

**15 : Paid salaries kshs 50,000 in cash**

**20 : Settled creditors accounts of Kshs 100,000 by cheque less 2% cash discount.**

**21 : Received a cheque for kshs 84,000 from charity traders after deducting 6% cash discount.**

**24: Deposited Kshs 100,000 from office cash**

**25 : Cash sale Kshs 200,000 banked directly.**

**26 : A cheque received on January 5th from a debtor was dishonoured.**

**27 : Purchased goods worth kshs 20,000 on credit.**

**31 : Banked all the cash except Kshs 80,000**

**Required: Prepare a three column cash book duly balanced.**

**MAJENGO TRADERS**

**THREE COLUMN CASH BOOK**

**FOR THE MONTH OF JANUARY 2017**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| DR (Receipts) | | | | |  | (Payments) CR | | | | |
| Date | Particulars | Disc all | Cash | Bank |  | Date | Particulars | Disc Rec | Cash | Bank |
| 2017  JAN  1ST  2ND  5TH  21ST  24TH  25TH  31ST | BAL. B/D  SALES  DEBTORS  CHARITY TRADERS  CASH (C)  SALES  CASH | 50,000  5,400  55,400 | 240,000  200,000  84,600    440,000 | 950,000  100,000  200,000  210,000  1,544,600 |  | 2017  JAN1st  15th  20th  24th  26th  31st | BALANCE B/D  salaries  creditors  bank  dishonored cheques  bank c  Balance c/d | 2,000  2,000 | 50,000  210,000  80,000  440,000 | 270,000  98,000  100,000  9,500  226,600  1,55,600 |

**Balance b/d 80,000 266,600**

**4. (a) Explain five sources of public finances. (10 marks)**

(i) Taxes and levies

These are taxes and levies on individual members of public and business organizations out of their earnings and services provided by the government.

(ii) Dividends from parastatal and investments

These are the shares of profits given to the government by parastatals in form of dividends.

(iii) Borrowing loans locally an internationally

Locally, the government borrows through the sale of treasury bonds and bills as well as infrastructure bonds. Internationally the government borrows from international financial institutions such as the World Bank and friendly countries.

(iv) Fees for services rendered to individuals directly by the government for examples registration of birth, marriages and deaths, business licensing, burial permit, work permits and transfer of property.

(v) Fines and penalties charged on those considered to have breached government laws from courts.

These are imposed on individuals firms and corporations found guilty of breaking the laws of land.

(vi) Escheats

Properties reposed by the government from members of public for various reasons e.g where one dies without a will and have no legal heir.

**(b) Explain five measures of correcting balance of payment disequilibrium. (10marks)**

(i) Devaluation of currency (lowering the currency value)

This is making exports cheaper and imports expensive. This increases exports and reduces imports thus reducing deficit in the balance of payment.

(ii) Import restrictions

This may be done by imposition of high tariffs on imports or setting import quotas. This limits the volume of imports where by reducing the negative of balance of payments.

(iii) Export promotion

This is aimed at increasing the volume of exports from the country through exports compensation by establishing export processing zones and diversification.

(iv) By encouraging foreign investment into the country

This provides the foreign currency necessary for the payment of imports.

(V) Restricting outflow of capital.

This is a deliberate effort by the Government to restrict outflow of capital.

5**. (a) Procedure of balancing the ledger accounts.**

(i) Identify the account tittle and calculate the totals on each side of the ledger account i.e. the debit totals and credit totals.

(ii) Calculate the differences between the debit and the credit totals

(iii) Record the differences on the side with the smaller totals as balance carried down (balance c/d)

(iv) Obtain the totals of each side after entering the balance c/d. If the recording and calculations are correct, the debit total should equal to the credit totals. Write the totals at the same and double underscore.

(v) Finally record the balance on the opposite side of the balance c/d below the totals as balance brought down. (Balance b/d)

**(b) Features of human want apart from the fact that they require resources to satisfy.**

(i) They are insatiable/endless/unlimited- The satisfaction of one human need leads to the need to still have it but in a more improved way. One has a car, for instance but still works hard to buy a better one.

(ii) Some are universal- some human wants like food and clothing are common to all human beings

(iii) They are complementary- Some human needs, once satisfied will require that others are also satisfied so as for it to work or serve its purpose. For instance if on acquires a car, he or she must buy fuel so that he car can run.

(iii) They are repetitive/recurrent- Some human needs like hunger can only be satisfied temporarily

(iv) They are habit forming/addictive- use of certain goods to satisfy some needs may lead to dependence on such substances

(v) They vary in urgency and intensity- Some human wants are more urgent than others

(vi) They are dynamic- Human needs change with time, age, health status, social and even economic status

(vi) They are competitive- Human wants always compete for attention. Each would like to be satisfied first.

**6. (a) factors you would consider when choosing an appropriate media for promoting the novel. (10marks)**

i. The intended target group:

Television is expensive but can be targeted at regions or specific groups according to their level of education, age or lifestyle. In our case, the target group is composed of young and older people.

ii. Geographical spread of the market.

Since the novel is to be read by all students countrywide, I would choose any of the nationwide circulating media such as newspaper, radio and television.

iii. Cost of advertising.

I would choose a medium which the company can afford. It should also be reasonable compared to the sales it will generate.

iv. Urgency of the advertisement.

The use of the novel as a set book is urgent, thus, I would choose to use radio, newspaper or television as it is capable of transmitting the message very fast.

v. Nature of the product.

The novel is meant for general use, thus I would choose a medium that has a wide reach such as radio.

**(b) The following balances were extracted from the books of Juma Traders as at 31st December, 2016. (10marks)**

**SHS**

**Land and buildings 200,000**

**Capital 370,000**

**Prepaid rent 50,000**

**Motor Vehicle 150,000**

**10 year bank loan 100,000**

**3 years ICDE loan 50,000**

**Stock (31/12/15) 50,000**

**Debtors 30,000**

**Creditors 30,000**

**Accrued expenses 10,000**

**Cash at bank 50,000**

**Cash in hand 10,000**

**Drawings 20,000**

**Prepare:**

1. **A balance sheet as at 31st December 2016.**
2. **Determine:**

* **Working capital**
* **Capital employed**
* **Borrowed capital**

**Juma traders**

**Balance sheet**

**As at 31st December 2016**

|  |  |
| --- | --- |
| Assets shs shs  Fixed assets  Land and building 200,000  Plant and machinery 50,000  Motor vehicles 150,000 400,000  Current assets  Debtors 30,000  Stock 50,000  Prepaid rent 10,000  Cash at bank 50,000 140,000    540,000 | Capital and liabilities shs shs  Opening capital 370,000  Less drawings 20,000  Closing capital 350,000  Long term liabilities  10year bank loan 100,000  3year ICDE loan 50,000 50,000  Short term liabilities  Creditors 30,000  Accrued expenses 10,000 40,000  540,000 |

**Working capital**.

Current assets – current liabilities

140,000 – 40,000 = 1000,000

**Borrowed capital**

Long term liabilities = 150,000

**Capital employed**

Working capital + fixed assets i.e 100,000 + 400,000 = 500,000