WEITHAGA ZONE FORM 4 BUSINESS EXAM PAPER TWO

TERM TWO 2019 MARKING SCHEME.

1.a) Musa presented a cheque to Equity bank but unfortunately, the bank didn’t cash the cheque. Explain **five** reasons that would have contributed to this situation. (10 marks)

- The cheque could have been postdated / presented before the date indicated on its face.

- Insufficient fund in the account of the drawer.

- Amount in words differed with the amount in figures.

- The drawer may have stopped the payment by asking the bank not to cash / honour it.

- The drawer may have closed the account from which payment was to made.

- Alterations made on it were not countersigned.

- Bank learnt of the death / insanity of the drawer.

- Stale cheque / presented after 6 months.

1.b) Outline **five** differences between public corporation and public limited company.

(10 marks)

|  |  |
| --- | --- |
| Public limited company | Public corporation |
| - Initial capital provided by government | - Realized through sale of shares |
| - Established by act of parliament | - Established by company’s act |
| - Board of directors appointed by government / minister in charge | - Elected by shareholders |
| - Initiated to serve the public as provision of essential services | - Started to make profit |
| - Profit paid as dividends to the government | - Profits distributed to shareholders as dividends. |
| - No political interference | - Political interference is experienced. |

2.a ) Using a well labeled diagram, explain the effect of decrease in demand on the equilibrium price and quantity. (10 marks)

D0

D0

D1

D1

S

S

Price

P0√

P1

E0

E1

Qo√

Q1√√√

Q1

Q0

Quantity

O

Quantity√

Decrease in demand causes excess supply in the market which pushes the price down from P0 to P1and quantity demanded decreases from Q0 to Q1.√√

2.b)The following information was extracted from the book of Mulwa’s book of account

Stock (1.1.2016 ) 80,000

Stock (31.1.2016) 120,000

Net sales 708,000

Net purchases 640,000

Expenses 8,000

Bank 180,000

Debtors 140,000

Creditors 100,000

Cash 40,000

Bank Overdraft 80,000

Capital 500,000

Required

Calculate :

(i) Working capital (2 marks)

(ii) Current ratio (1 mark)

(iii) Rate of stock turn over (3 marks)

(iv) Mark-up percentage (2 marks)

(v) Return on capital (2 marks)

1. Working capital

= current assets - current liabilities

( 120,000 + 180,000 + 140,000 + 40,000 ) √- ( 100,000 + 80,000 ) √

( 480,000 - 180,000 ) √ = 300,000√ ( 4 x ½ = 2 marks )

1. Current ratio

= Current Assets = 480,000 √ = 8 **:** 3 √ ( 2 x ½ = 1 mark )

Current liabilities 180,000

(iii) Rate of stock turnover.

= Cost of goods Sold √

Average stock

C.O.G.S = 80,000 + 640,000 - 120,000 = 600,000 √

Average stock = Opening stock + closing stock √

2

= 80,000 + 120,000 = 100,000 √

2

R.O.S.T.O = 600,000 √ = 6 times √ ( 6 x ½ = 3 marks )

100,000

1. Mark-up percentage

= Gross profit √ Gross profit= 708,000 - 600,000

C.O.G.S = 108,000 √

= 108,000 × 100 % √ = 18 % √ ( 4 x ½ = 2 marks )

600,000

(V) Return on capital

= Net profit √ Net profit = G.P - Expenses

Capital invested = 108,000 - 80,000

= 100,000 √

=100,000 ×100 % √ = 20 % √ ( 4 x ½ = 2 marks )

500,000

3.a) Outline **five** characteristics of an efficient tax system. (10 marks)

(a**) Equity / fair** - Should be just / people should be taxed according to their income levels

(b) **Economical** - Should be cheap / easy to administer / cost effective / cost of collection should be lower than tax collected.

(c) **Convenient** – Should be suited / favourable to the needs of tax collector / tax payer.

(d) **Certainty** - Tax payer / collector should know what / when / how to pay / collect.

(e) **Flexibility** – (Where tax is used as an instrument of national policy), it should be adaptable to all economic circumstances / conditions / subject to revision.

(f) **Simplicity** - Should be easily understood / administered.

(g) **Elasticity** - Proceeds from taxation should be capable of expanding / contracting in line with changes in incomes / population.

(h) **Diversity / wide base** –There should be a wide variety / range of classes / net many taxpayers.

(i) **Difficult to evade** - should not create loopholes for people dodge / escape payments.

(j) **Should regulate the economy** - By encouraging production / proper allocation of resources.

(k) **Maximum benefit to taxpayer**, through provision of quality products / sufficient goods and services.

3.b) ‘Bodaboda’ transport has become very popular in Kenya today. Explain **five** factors that might have contributed to this trend. (10 marks)

i) Cheap to acquire and maintain.

ii) Cheap over cheap distance.

iii) Are flexible therefore they offer door to door services.

iv) Relatively fast over short distance.

v) Are readily available when required.

vi) Low carrying capacity therefore fills up fast thus saving time.

vii) Suitable in remote areas where roads are narrow and rough (supplements other means ).

4.a) Explain **five** demerits of delocalization (10 marks)

- Pollution becomes wide spread aal over the country.

- Spread of insecurity and other evils.

- Firms may not benefit from external economies.

- It might be expensive to hire and attract appropriate labour.

- Difficult to develop infrastructure adequately in all areas.

- Support services may not be readily available in some areas.

- May be expensive to hire skilled labour

- Government may be forced to give incentives to initiate and sustain delocalization.

4.b) Discuss **five** problems encountered in development planning (10 marks)

- **Poor database** - information may be inadequate rendering plan unreliable.

- **Lack of capital** which makes it difficult and tedious exercise since resources / (computers) are not readily available.

-**Existence of large private sector** where government does not have direct control.

- **Failure to involve people at the grassroots** which may result to lack of support / rejection by people.

- **Over ambitious plans** that are unrealistic and unattainable leading to abandoned or failed projects.

- **Unforeseen occurrences / natural disasters** which may prevent implementation.

- **Use of imported models** which may not be appropriate for the domestic economy.

- **Lack of commitment** by institutions and persons entrusted with the responsibility of implementation.

- **Lack of political will** which frustrates implementation efforts.

- **Political instability.**

- **Shortage of qualified manpower**.

5.a) Differentiate between direct production and indirect production. (10 marks)

Direct production Indirect production

- Volume of production is small - Volume of production is high

- Low quality goods - High quality goods

- Production for own use - Production for sale / exchange

- Use simple technology - Modern technology used

- Limited variety of goods and services - Wide variety

- Less interdependence among producers - High interdependence among producer

- Limited division of labour and - High division of labour and specialization specialization.

- More pronounced in developing – More pronounced in developed economies

economies.

5.b) Discuss **five** types of unemployment. (10 marks)

1. **Disguised / Hidden** - Where work is not sufficient to keep workers fully utilized / withdrawal of a worker does not change the output.
2. **Voluntary / Real wage** - Where people choose not to work / real wage is above the one needed to employ all workers.
3. **Structural / Technological** - Demand for labour declines due to changes in production method.
4. **Residual** - due to physical disability.
5. **Involuntary / Open unemployment** - People are actively looking for jobs at the existing wage rate but are not able to get them / there are no chances.
6. **Frictional** - People lose jobs and go on looking for new ones / due to time lags in changing jobs.
7. **Seasonal** - Due to relative variation in seasons which affect economic activities in sectors such as agriculture.
8. **Cyclical / Demand deficit** - Due to fluctuation in economical activities over a period of time (trade cycle) i.e from boom / peak to recession todepression to recovery to boom again.
9. **Casual / Erratic** - affect casuals whose demand for their labour is on temporary basis e.g. Construction industry.

6.a) Explain **five** factors that an insurance company may consider in determining the amount of premium to charge in a life assurance policy. (10 marks)

i) **Health status** - the healthier one is, the lower the premiums and vv.

ii) **Occupation** - the highly risky it is, the higher the premiums and vv.

iii) **Residence** - the more prone to crime and other challenges, the higher the premiums and vv.

iv) **Age** - the older one is, the higher the premiums and vv.

v) **Period of policy cover** - the shorter the period is, higher the premium and vv.

vi) **Value of the policy** - the higher the value of the policy, the higher the premium and vv.

6.b) Mr. Faulu a sole trader had the following transactions starting 1st January 2016.

Jan 1 Balance b/d cash sh10,000 and bank sh 30,000.

Jan 5 Bought goods for sale by cheque sh 8,000.

Jan 7 Sold goods worth 3,000 on credit.

Jan 8 Paid water sh 300 cash.

Jan 12 Received sh 500 cash from Mr. Odera.

Jan 14 Deposited sh 2,000 in the bank from the office.

Jan 16 Received by cheque sh 4,000 from Mapema.

Jan 20 Withdrew sh 15,000 from the bank for office use.

Jan 26 Received payment of sh 15,00 by cheque from Jaribu enterprises after allowing discount of sh 200.

Jan 28 Paid rent sh 6,000 cash.

Jan 30 Paid wages cash sh 3,000

Jan 31 Settled Tene traders account of sh 5,000 and received a 5 % cash discount.

Required:-

Prepare a three column cash book and balance it off at end of January. (10 marks)

3 COLUMN CASH BOOK

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | D.A | Cash | Bank | Date | Details | D.R | Cash | Bank |
| Jan1 | Bal b/d √ |  | 10,000 √ | 30,000 √ | Jan 5 | Purchases √ |  |  | 8,000 √ |
|  |  |  |  |  | Jan 8 | Water √ |  | 300 √ |  |
| Jan 12 | Odera √ |  | 500 √ |  |  |  |  |  |  |
| Jan 14 | Cash √ |  |  | 2,000 √ | Jan 14 | Bank √ |  | 2,000 √ |  |
| Jan 16 | Mapema √ |  |  | 4,000 √ |  |  |  |  |  |
| Jan 20 | Bank √ |  | 15,000 √ |  | Jan 20 | Cash √ |  |  | 15,000 √ |
| Jan 26 | Jaribu √ | 200 √ |  | 1,500 √ | Jan 28 | Rent √ |  | 6,000 √ |  |
|  |  |  |  |  | Jan 30 | Wages √ |  | 3,000 √ |  |
|  |  |  |  |  | Jan 31 | Tene √ | 250 √ | 4,750 √ |  |
|  |  |  |  |  | Jan 31 | Bal b/d √ |  | 9,450 √√ | 14,500 √√ |
|  |  | 200 √ | 25,500 √ | 37,500 √ |  |  | 250 √ | 25,500 √ | 37,500 √ |
|  | Bal b/d |  | 9,450 | 14,500 |  |  |  |  |  |

NB: A tick on either side for **all** dates. (2 x ¼ = ½ mark ) 38 × ¼ = (9½ marks)

A candidate who prepares single column cashbooks, mark the first one and **ignore** the second one.