

Name _____ Index Number _____

Candidate's signature _____

Date _____

565/1
BUSINESS STUDIES
PAPER 1
JULY / AUGUST 2011
2 HOURS

NZAU / MUKAA FORM 4 CLUSTER EXAMINATION
Kenya Certificate of Secondary Education
BUSINESS STUDIES
PAPER 1
2 HOURS

INSTRUCTIONS TO CANDIDATES

- (a) Write your name and index number in the spaces provided above.
- (b) Sign and write the date of the examination in the spaces provided above.
- (c) Answer all the questions .
- (d) All answers must be written in the spaces provided in this booklet.

This paper consists of 6 printed pages

Turn Over

1. List down four cases when downward vertical communication would be used. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

2. Give four purposes of calculating return on capital ratio to the entrepreneurs. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

3. Fill in the table the missing values . (Values given in Kshs.) (4 marks)

Fixed Assets	Current Assets	Current liabilities	Long term liabilities	Capital
(a) 2,700,000	1,600,000	150,000	_____	3,350,000
(b) 14,000	7,760	3,870	4,160	_____
(c) _____	65,000	80,000	90,000	325,000
(d) 180,000	_____	60,000	47,000	150,000

4. Highlight four challenges facing SACCO's in Kenya. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
5. State four activities that are common duties of a personnel manager. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
6. Hire purchase businesses are not common in the Kenyan economy. State four reasons as to why investors don't venture much in this business opportunity. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

7. Outline four ways through which the Government may influence demand of a product. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
8. State four principles that guides the frame work of insurance companies towards the relationship of the parties involved. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
9. State four functions of pro-forma invoice as a document used in trade. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
10. State four benefits Kenya Commercial Bank customers get by registering with their new service, E-Banking facility. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
11. State four ways through which the government creates an enabling environment for business operations. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
12. State four ways through which a well laid down business structure would enhance business performance. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

13. Kenya wishes to reduce its volume of imports in her efforts to correct the balance of payment disequilibrium. Mention four ways she can use so as to achieve this. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
14. State four conditions that make a firm start enjoying monopoly power. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
15. Mention four costs wholesalers may incur while distributing goods that may increase the final prices of goods to consumers. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
16. State the type of business activity that leads to each of the following utilities. (4 marks)
- (i) Place utility _____
- (ii) Time utility _____
- (iii) Possession utility _____
- (iv) Form utility _____
17. A business activity is done with an aim of making profit. Outline four importances of business activities in an economy. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____
18. State four documents required by the registrar of companies to register a limited liability company. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

19. The government has always encouraged the spread of industries in all parts of the country. State four benefits of this policy. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

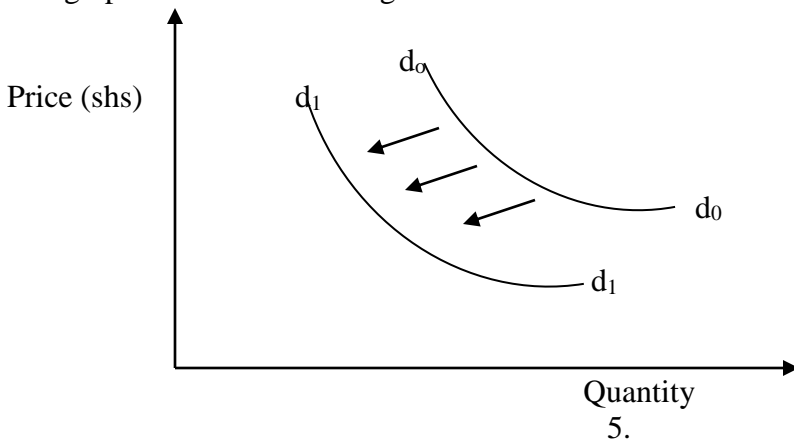
20. Give four characteristics of all human wants. (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

21. State four differences between free goods and economic goods. (4 marks)

Free goods	Economic goods
(a) _____	_____
_____	_____
(b) _____	_____
_____	_____
(c) _____	_____
_____	_____
(d) _____	_____
_____	_____

22. List four examples of print media that can be used to promote sales . (4 marks)
- (a) _____
- (b) _____
- (c) _____
- (d) _____

23. The graph below shows change in demand from d_0 to d_1



State four reasons that may have caused the change. (4 marks)

(a) _____

(b) _____

(c) _____

(d) _____

24. State four sources of public finance. (4 marks)

(a) _____

(b) _____

(c) _____

(d) _____

25. Outline four characteristics of under-development. (4 marks)

(a) _____

(b) _____

(c) _____

(d) _____

565/1
BUSINESS STUDIES
PAER 1
JULY / AUGUST 2011

NZAU / MUKAA FORM 4 CLUSTER EXAMINATION
Kenya Certificate of Secondary Education
BUSINESS STUDIES
PAPER 1

MARKING SCHEME

1.
 - Training the juniors
 - Delegating duties
 - Solving problems facing workers
 - Inspiring and motivating the juniors (giving rewards)
 - Evaluating performance.

4 x 1 = 4 marks

2.
 - Helps to compare performance of the business over different periods
 - Helps to compare performance of the business with another similar business.
 - Reveals whether the business finances have been wisely invested or not.
 - Helps potential investors to make wise investment decision on what business opportunities to invest

4 x 1 = 4 marks

3.

Fixed Assets	Current Assets	Current liabilities	Long term liabilities	Capital
(i) 2,700,000	1,600,000	150,000	800,000 ✓	3,350,000
(ii) 14,000	7,760	3,870	4,160	13,730 ✓
(iii) 430,000 ✓	65,000	80,000	90,000	325,000
(iv) 180,000	77,000 ✓	60,000	47,000	150,000

4 x 1 mark (4 marks)

4.
 - Faces stiff competition from well established financial institution
 - Mismanagement
 - Corruption, misappropriation and embezzlement of funds leads to financial problems of SACCO
 - May not have enough finances to cater for members financial needs
 - Continued default in repayment of loans may cripple the SACCO's Financially.

4 x 1 = 4 marks

This paper consists of 5 printed pages

Turn Over

5. - Hiring the work force
 - Assigning duties to employees
 - Supervising the employees to do their work effectively
 - Training employees to acquire knowledge and skills to perform duties assigned.
 - Motivating employees with inducement to perform their duties better
 4 x 1 = 4 marks
6. - Hire purchase requires very large amount of capital to start and run.
 - There are very high risks of loss on hire purchase sales
 - The cost of operating hire purchase business is very high
 - Repossessed goods due to default in payment can only be sold as second hand.
 4 x 1 = 4 marks
7. Ways through which the government may influence demand of a product
 - High taxes results to high price hence low demand and less or no tax leads to low price hence high demand
 - Subsidised products have low prices hence high demand while withdraw of subsidies increases prices hence low demand
 - Legislation or some set laws / regulations may control consumption of goods like prohibiting smoking in public or shortening beer drinking hours
 - Price control
 4 x 1 = 4 marks
8. Principles of insurance
 - Insured should have insurable interest
 - Insured should portray utmost faith
 - It contrasts of indemnity
 - Doctrine of proximate cause
 - Contribution
 - Subrogation
 4 x 1 = 4 marks
9. Functions of pro-forma invoice
 - Polite request for payment before goods are delivered
 - Sent by sellers who don't want to give credit
 - Used by importers to clear customs before goods are delivered
 - Given to an agent who sells goods on behalf of the seller
 - Sent to show the buyer the amount to pay if the order is approved
 - Used as a quotation
 4 x 1 = 4 marks
10. Benefits Kenya Commercial Bank customers get by registering with E-Banking
 - Can transfer money from Bank account to mobile phone M-Pesa
 - Can transfer money from M-Pesa to Bank account
 - Can check the account balance
 - Request for mini-statements
 - Can pay utility bills without going to the bank
 - Be notified when salaries have been processed
 - Can top up mobile phone airtime automatically
 4 x 1 = 4 marks
11. Ways through which the government creates an enabling environment for business performance
 - Protection of local industries and business firms
 - Encourages investment through giving favourable incentives
 - Encourage local market domination through subsidies
 - To guarantee local business people to service financing in the international agencies
 4 x 1 = 4 marks

12. (a) Each employee knows his/her work and what is expected as it outlines duties and responsibilities
 (b) There is no conflict or confusion among the workers
 (c) Team work is enhanced among the employees
 (d) Ensures proper control which in turn promotes efficiency
 4 x 1 = 4 marks
13. - Increasing import duties
 - Imposing quotas and total bans
 - Reduce / control foreign exchange needed by importers
 - Give strict regulations / administrative bottle necks in getting import licences
 4 x 1 = 4 marks
14. - Control of an important input / factor of production
 - Ownership of production rights
 - Internal economies of scale
 - The size of the market being small not to warrant many producers
 - Additional costs by other firms
 - Where a group of firms combine to act as one
 - Restrictive practices like price wars
 - Financial advantages due to high value tangible assets
 4 x 1 = 4 marks
15. Costs wholesalers may incur while distributing goods
 - Actual cost of buying goods
 - Transport costs
 - Storage costs
 - Insurance costs
 - Salaries and wages
 - Packing and blending
 4 x 1 = 4 marks
16. - Place utility – Transportation ✓
 - Time utility – Storage ✓
 - Possessive utility – Trade ✓
 - Form utility – Processing ✓
 4 x 1 = 4 marks
17. Importance of business activities in an economy
 - Providing goods and services
 - Generating profit / income used to improving peoples' standards of living
 - Promoting health competition between traders which bring about improved quality of goods
 - Creating employment
 - Source of government revenue
 - Development of entrepreneurial culture
 - Utilisation of resources
 4 x 1 = 4 marks
18. - Memorandum of Association
 - Articles of Association
 - A list of Directors with details of their names addresses, occupations and shares subscribed
 - A statement of agreement to serve as directors
 - A signed declaration by the secretary / lawyer that requirements have been met
 4 x 1 = 4 marks

19. Advantages of delocalization

- Fair / balanced distribution of industries in the country
- Market for raw materials produced in rural areas
- Attracting other industries in rural areas
- Curbing rural-urban migration
- Promoting infrastructural development in rural areas
- Creation of employment opportunities for the surrounding area / population

4 x 1 = 4 marks

20. Characteristics of human wants

- Unlimited or insatiable
- Competitive
- Recurrence
- Habit forming
- Complementary
- Differ in urgency and intensity

4 x 1 = 4 marks

21. Differences between free goods and economic goods

- Free goods are abundant in supply while economic goods are scarce / limited in supply
- Free goods have no monetary value / price while economic goods have monetary value price.
- Free goods are gifts of nature / economic goods require man's efforts
- Free goods are for every body / economic goods are for specific / individual

4 x 1 = 4 marks

22. Examples of print media that can be used to promote sales of a product

- Newspapers
- Posters
- Bill boards
- Brochures
- Magazines
- Journals / periods

4 x 1 = 4 marks

23. Reasons for shifting of demand curve to the left

- Fall in price of substitutes / rise in price of complimentaries
- Fall in consumers disposal incomes
- Unfavourable change in taste, fashions and preferences
- Unfavourable change in government policy eg increased taxes, reduced subsidies
- Expected future fall in price

4 x 1 = 4 marks

24. Sources of public finance

- Taxation
- Fees / licencing
- Fines and penalties
- Escheafs
- Surplus / dividends / profits from public corporation
- Income from sale of government property
- Grants / loans
- Charges / rent / rates for use of government property

4 x 1 = 4 marks

25. Characteristics of under development

- High population growth rate
- Poor resource endowment
- Under employment / un employment
- Dominance of subsistence / Agricultural sector
- Shortage of capital
- Technological backwardness

4 x 1 = 4 marks

Name _____ Index Number _____

Candidate's signature _____

Date _____

565/2
BUSINESS STUDIES
PAPER 2
JULY / AUGUST 2011
2 ½ HOURS

NZAU / MUKAA FORM 4 CLUSTER EXAMINATION
Kenya Certificate of Secondary Education
BUSINESS STUDIES
PAPER 2
2 ½ HOURS

INSTRUCTION TO CANDIDATES

- (a) The paper consists of six questions
- (b) Answer ANY five questions
- (c) Write your answers in the answer booklet provided
- (d) All questions carry equal marks

This paper consists of 3 printed pages

Turn Over

1. (a) Of late, the 'bodaboda' services (motorcycle) has become a popular means of transport in many parts of the country. Explain five factors that have led to this trend. (10 marks)
- (b) Explain five problems that are likely to be encountered by planners as they prepare a development plan. (10 marks)
2. (a) Kimonyi, a manufacturer wants to build his own warehouse for storing goods before selling them. Explain five factors that Mr. Kimonyi should consider before building the warehouse. (10 marks)
- (b) Outline five banking services that Central Bank of Kenya provides to the government. (10 marks)
3. (a) Explain five internal factors that may weaken the performance of a business. (10 marks)
- (b) John and Makali have been running business jointly. Eventually they decided to separate and run individually. Discuss any five shortcomings each one of them would face. (10 marks)
4. (a) The following balances were extracted from Tabitha Enterprises for the month ended 21 March 2002

March 1: Started business with Ksh. 700,000 cash at bank.

March 10: Bought goods on credit from Muthoki investment Ksh. 100,000

March 18: Sold goods on credit to Wambua Ksh. 28,000.

March 22: Returned goods that were bought from Muthoki Investment that were defective worth Ksh. 35,000.

March 31: Paid wages by cheque Ksh. 400,000

Required:

 - (i) Open Ledger accounts and enter the above transactions.
 - (ii) Balance the Ledger accounts and extract a trial balance. (10 marks)
- (b) Highlight any FIVE features that a government should consider when deciding on a good tax system. (10 marks)
5. (a) As the managing director of a manufacturing company, explain FIVE emerging issues that you should consider in your daily operations. (10 marks)
- (b) Discuss five problems linked to rapid population growth. (10 marks)

6. (a) Prepare a three-column cashbook from the following information of MBOO TRADERS for the month of January 2010 and Balance it off. (12 marks)

January 1 Started business with capital 80,000 cash and 200,000 at bank.
January 3 Bought furniture by cheque 20,000
January 5 Bought goods by cheque 70,000
January 8 Received cash from Mutua 19,000 having allowed him a cash discount of 1,000
January 9 Paid the following accounts by cheque :
Nduku 30,000, Musembi 15,000 and Kamene 26,000 having deducted 10% discount in each case.
January 12 Cash sales 14,000, paid for postage in cash 2,000
January 16 Received a cheque of 27,500 from Mueni in full settlement of his account of 30,000
January 20 Received cheques of the following amounts from : Mary 18,000, Darmaris 28,800 and Peter 12,600. We had allowed each of them a discount of 10%
January 25 Took cash to the bank 32,000.
January 28 Paid salaries 10,000 in cash and 37,000 by cheque .
January Withdrew cash from bank for office use 50,000.

(b) Explain four benefits of 'pooling of risks' to insurance company. (8 marks)

NZAU / MUKAA FORM 4 CLUSTER EXAMINATION
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BUSINESS STUDIES
PAPER 2

MARKING SCHEME

1. (a) Factors that make bodaboda service (motorcycles) a popular means of transport in the country.
- It's a faster means of transport – Low filling capacity hence don't over delay customers.
 - Its very flexible as can easily change route to meet the customers needs – no fixed route
 - Accessibility / availability – Have easy access into areas where other vehicles like buses may not reach especially in remote rural areas
 - Easy / cheaper to operate – are cheaper to maintain and operate unlike other bigger vehicles.
 - Cheaper to buyer – they don't require very large / huge amount of capital to purchase like buses or matatus.
 - Require few legal formalities when operating.
 - It facilitate door to door services unlike buses and matatus
 - There are less risks involved
 - Most parts / roads in the country are not well developed hence can be accessed by this means

1 mark for naming, 1 mark explanation , otherwise

2 marks x 5 = 10 marks

- (b) Problems encountered in preparation of a development plan.

- (i) Lack of accurate or detailed data since the quality and reliability of the statistical data on which it is based on is very important.
- (ii) Existence of large subsistence sector especially found in less developed countries make planning unrealistic.
- (iii) Lack of qualified personnel as many countries rely on foreign experts who are not conversant / knowledgeable about local economies
- (iv) The problem of private sector as many in the private sector may be pursuing very different objectives from those of the planners
- (v) Transfer of inappropriate development plan as planners tend to assume that development plans that have worked in more developed economies would also work in the less developed economies which end up failing.
- (vi) Inflation as prices are rising too rapidly, the resultant change in planned resources cost may negatively affect the preparation and its implementation
- (vii) Lack of domestic resources as limitation of domestic resources such as finance and capital equipment.

Any 5 well explained award 2 marks otherwise 1 mark

5 x 2 marks = 10 marks

This paper consists of 5 printed pages

Turn Over

2. (a) Factors to consider before building a warehouse.
- (i) The type of goods to be stored in the warehouse
 - (ii) The handling facilities to be used because different goods needs different handling facilities
 - (iii) The site to construct the warehouse in order to minimize handling and transport charges
 - (iv) The cost of building and equipping the warehouse.
 - (v) The volume of goods to be stored in the warehouse so as to know the size of the warehouse to build
 - (vi) Accessibility – whether there’s good roads for easy accessibility both for the customers and goods entering.
 - (vii) Legal requirements so as not to be at longer heads with the law.
 - (viii) Security for both the goods stored and the personnel working in the warehouse
 - (ix) Possibility of future expansion whether there is enough space as the business grows.

(b) Services of Central Bank to the Government.

- Keeping money on behalf of the government
- Provide loans to the government for development expenditure
- Provide advice on economic investment decisions / financial matters
- Arranges for external funding / borrowing from friendly countries / IMF / World bank
- Manages public debt / Repayment of external / internal borrowing.

(5 x 2 = 10 marks)

3 (a) Internal factors weakening business operations

- (i) Unclear business objectives / strategies
- (ii) High prices of products / low quality goods
- (iii) Unfavourable management policies hindering development and growth
- (iv) Personnel who lack the necessary skills and expertise in their performance
- (v) Obsolete / Out dated machinery / equipment / inappropriate technology which is not applicable in the modern world
- (vi) Inadequate financial resources hindering modern development
- (vii) Business culture which is irrelevant to the current trends
- (viii) Disagreement / wrangling among personnel / society
- (ix) Misappropriation / embezzlement / corruption which is so rampants in many businesses / departments

Any 5 x 2 marks = 10 marks

(b) Shortcomings of running a business enterprise alone.

- (i) Lack of specialization as the individual would be performing all duties in the business alone.
- (ii) Difficulties in raising enough capital to run the business
- (iii) Incase of losses incurred in the business the individual will bear the entire losses alone
- (iv) The individual will bear all the liabilities of the business alone – unlimited liability
- (v) Over working – the individual will tend to work long hours hence no time for recreation.
- (vi) Lack of continuity in case of death, insanity or bankruptcy etc, of the individual leading to collapse of the business.

Any 5 x 2 = 10 marks

4. (a) (i) Ledger Accounts

Dr		Capital A/C	Cr	
2002		sh	2002	shs.
March 31	Balance c/d	<u>700,000</u> ✓	March 1 cash at bank	<u>700,000</u> ✓
			March balance b/d	700,000 ✓

Purchase A/C			Cr		
2002		sh	2002		shs.
March 10	Muthoki (creditor)	<u>100,000</u> ✓	March 31	Balance c/d	<u>100,000</u> ✓
March 31	Balance b/d	100,000 ✓			

Muthoki (Creditor) A/C			Cr		
2002		sh	2002		shs.
March 22	Returns outwards	35,000 ✓	March 10	Purchases	100,000 ✓
March 31	Balance c/d	<u>65,000</u> ✓			
		<u>100,000</u>	March	Balance b/d	65,000 ✓

Sales A/C			Cr		
2002		sh	2002		shs.
March 31	Balance c/d	<u>28,000</u> ✓	March 18	Wambua (Debtor)	<u>28,000</u> ✓
			March 31	Balance b/d	28,000 ✓

Wambua (Debtor) A/C			Cr		
2002		sh	2002		shs.
March 18	Sales	<u>28,000</u> ✓	March 31	Balance c/d	<u>28,000</u> ✓
March 31	Balance b/d	28,000 ✓			

Returns Outward A/C			Cr		
2002		sh	2002		shs.
March 31	Balance c/d	<u>35,000</u> ✓	March 22	Muthoki Investment (Creditor)	<u>35,000</u> ✓
			March 31	Balance b/d	35,000 ✓

Bank A/C			Cr		
2002		sh	2002		shs.
March 1	Capital	700,000 ✓	March 31	Wages	400,000 ✓
		<u>700,000</u>	March 31	Balance c/d	300,000 ✓
				c/f	<u>700,000</u>
March	Balance b/d	300,000 ✓			

Dr			Wages A/C	Cr		
2002			sh	2002		shs.
March 31	Bank		<u>400,000</u> ✓	March 31	Balance c/d / c/f	<u>400,000</u> ✓
March 31	Balance b/d		400,000 ✓			

4. (a) (ii)

Tabitha Enterprises
Trial Balance
As at 31 March 2002

Particulars / Details	Debit Shs	Credit Shs
Capital		700,000 ✓
Bank	300,000 ✓	
Purchases	100,000 ✓	
Muthoki / (Creditor)		65,000 ✓
Wambua / (Debtor)	28,000 ✓	
Sales		28,000 ✓
Returns outwards		35,000 ✓
Wages	400,000 ✓	
	<u>828,000</u> ✓ ½	<u>828,000</u> ✓ ½

9 ticks @ 1mark = 9 marks
2 ticks @ ½ mark = 1 mark
10 marks

(b) Features of a good tax system

- Should be flexible i.e possible to increase or decrease
- Should be expensive to evade
- Should not adversely affect savings
- Should be predictable
- Should not deter initiative or kill entrepreneurship
- Process of tax collection should be economical

(5 x 2 = 10 marks)

5. (a) Emerging issues affecting modern business operations

- Development in technology – should consider use of modern technology both in production and information communication
- Environmental conservation – should consider appropriate ways of disposing waste product to avoid polluting the environment
- HIV/AIDs pandemic – should be involved in educating workers of the problems of HIV/AIDs and how to prevent it
- Gender – There should be no discrimination because of gender
- Social responsibility – e.g donating medicine and social activities like games
- Performance contracts in public corporations
- Employees Welfare, Incentives e.g housing recreational tours etc.
- Good conflict resolution strategies.

(5 x 2 marks = 10 marks)

- (b) Rapid population growth has the following problems
- (i) Leads to decline in per capita income
 - (ii) Leads to increase in dependency ratio
 - (iii) Leads to decline in savings and subsequently investment
 - (iv) Leads to unemployment in the country
 - (v) It may be difficult to provide enough social amenities
 - (vi) May lead to disequality in income distribution
 - (vii) May lead to degradation of the environment

Any five well explained award

2 marks otherwise 1 mark

5 x 2 marks = 10 marks

6. (a)

THREE COLUMN CASH BOOK

Dr						Cr					
Date	Details		Discount allowed	Cash	Bank	Date	Details		Discount received	Cash	Bank
2010						2010					
Jan 1	Capital			80,000 ✓	200,000 ✓	Jan 3	Furniture				20,000 ✓
Jan 8	Mutua		1000 ✓	19,000 ✓		Jan 5	Purchases				70,000 ✓
Jan 12	Sales			14,000 ✓		Jan 9	Nduku		3,000 ✓		27,000 ✓
Jan 16	Mueni		2,500 ✓	27,500 ✓		Jan 9	Musembi		1,500 ✓		13,500 ✓
Jan 20	Mary		2000 ✓		18,000 ✓	Jan 9	Kamene		2,600 ✓		23,400 ✓
Jan 20	Damaris		3,200 ✓		28,800 ✓	Jan 12	Postage			2,000 ✓	
Jan 20	Peter		1,400 ✓		12,600 ✓	Jan 25	Bank	'C'		32,000 ✓	
Jan 25	Cash	'C'			32,000 ✓	Jan 28	Salaries			10,000 ✓	37,000 ✓
Jan 31	Bank	'C'		50,000 ✓		Jan 31	Cash	'C'			50,000 ✓
						Jan 31	Balance	c/d		146,500	50,500
			10,100 ✓	190,500 ✓	291,400				7,100 ✓	190,500 ✓	291,400
Jan 31	Balance	b/d		146,500 ✓	50,500 ✓						

36 ticks x $\frac{1}{3}$ = 12 marks

NB: Discounts received and allowed should not balance for any award all columns should be entered correctly.

(b) Benefits of 'Pooling of risks' to an insurance industry

- (i) It creates a common pool of funds / common fund from regular premiums / from different clients.
- (ii) Enables the insurance company compensate those who actually suffer the risks / losses
- (iii) It's able to spread risks over a number of insured people.
- (iv) Investment / surplus funds can be invested by giving out loans / buying shares
- (v) Enables the company meet the running / operating costs raising the pool of funds
- (vi) Earns the company profits / income which are distributed as dividends to owners
- (vii) Enables the company to determine / calculate premiums to be paid
- (viii) Enables the company to be compensated out of the re-insurance cover.

Any 5 x 2 marks = 10 marks