

MARKING SCHEMES 1995 – 2012

INTRODUCTION TO BUSINESS STUDIES

1. KCSE 1995

- Enable trade to take place
- Bridges the gap between the producer and consumer through transport
- Informs consumers about good and services available i.e. where they can be found, their prices.
Uses etc
- Provide storage facilities/ warehouse
- Provides safe places for keeping money, opportunity for borrowing banking
- Protects trade against risk through insurance

SATISFACTION OF HUMAN WANTS

1. 1995

Goods	Classification
Factory	Producer
Private car	Consumer
Iron ore	Producer
Tools	Producers
Exercise books	Consumer
Clothing	Consumer

2. 1996 – They are essential for survival
 - They cannot be permanently satisfied
 - They are universal
3. 1996. – Avoiding indiscriminate felling of trees
 - Planting more trees
 - protecting forests areas from human settlements
 - Developing alternative sources of energy to reduce reliance as wood fuel
 - Educate the public the importance of forest conservations
4. 1997 – Their exploitation creates employment
 - Provides raw materials for industries
 - They are used to generate income for a country/ foreign income
 - They are basic factors for sustenance of a life e.g. irrigation schemes
 - Provides means of transport
5. 1997 – They are essential for survival
 - The consumer has limited sources
 - They cannot be postponed
 - They are self needs
6. 1998 – Fluctuating oil prices
 - No oil in Kenya/ reduce importation
 - Availability of cheaper energy
 - Reduce pollution/ environmental friendly
 - High cost of production of fuel

7. 1999- Unlimited needs/wide variety
 - Different tastes/ preferences/ fashion
 - Difference prices of goods
 - Government policy on goods
 - Limited sources
8. 2000 – unlimited number
 - can be satisfied as long as one has the means
 - They are complementary
 - Compose with one another
 - Vary in urgency and intensity
 - They are insatiable
9. 2001 – Food
 - Clothing
 - Shelter
10. 2002 – It may lead to pollution
 - May endanger lives due to landslides
 - Over reliance on mining may lead the country into economic problems
 - When price fluctuate
 - Mines get exhausted
11. 2003 – Reasons prevent misuse of resources
 - To protect environmental degradation
 - To conserve resources
 - To control production activities which require natural resources
 - Promote tourism
12. 2005. There is exchange hence one is able to acquire what they do not have i.e.
Possession utility
 - Goods are stored until when needed through warehousing hence time utility is created
 - Goods are taken to where required through transportation hence place utility is created
 - Through the process of production goods are converted to the right form in which the consumers can use them to satisfy his wants hence form utility is created.

PRODUCTION

Paper 1

1. 1995

Activity	Level of production
Digging clay soil	Primary
Construction of a bridge	Secondary
Selling of a shop	Secondary
Growing vegetables	Primary
Transportation of medicine	Tertiary
2. 1997
 - Does not involve exchange and therefore no surplus production
 - There is limited use of modern technology

- There is use of economic resources/ capital
- 3. 1998
 - warehousing
 - Transport
 - Advertising
 - Insurance
 - Communication
- 4. 1999- Take advantage of cheap labour in the country
 - avoid paying tax on the goods that would otherwise be imports
 - To take advantages of suitable raw materials in the country
 - To make products cheaper hence more sales
 - To make transport cheaper
- 5. 1999
 - secondary
 - Tertiary
 - Primary
- 6. 1999
 - Consumer goods are demanded for final or direct use by the buyer
 - Producer goods demanded for production of other good

7. 2000

Resources	Factor of production
Manager	Labour
Vehicle	Capital
Cotton	Land
Water	Land
Owner	Entrepreneur

- 8. 2001
 - Productivity usually on small scale
 - Usually for own consumption
 - Production is not for the market
 - Use simple method of production
 - Low quality
- 9. 2002
 - Identifies viable business opportunity
 - Combine the other factors of production
 - Provides capital required to carry out production
 - Employs and rewards other factors of production
 - He bears all the risks and losses
 - enjoys the profits
 - He makes all the decisions on the business
 - He controls and manages the business

Paper 2

- 1. 1996
 - Identifies viable business opportunities
 - Provides guidelines on how production should be organized/ take/ place/ Coordinate
 - Provides the capital necessary to carry on production
 - Hirea/ rewards all other factors of production
 - Bears all the risks/ incurs losses/ enjoys all profits

- Decides how/ where/ when / what to invest the business
 - Provides/ avails/ assembles/ marshals other factors of production
2. 2004 - Large quantities
- They buy in bulk, hence they get a good quantity discount, hence reduce their purchase expenses
 - Transport costs
 - They buy in bulk, hence they transport their goods at once, which reduces on transport costs.
 - Skilled manpower
 - They are able to employ skilled personnel, who provides quality management reduce on losses, and hence maximize profits
 - Use of machinery
 - They are able to afford machinery which in turn reduce on labour costs, hence reducing production costs
- Research
- They are able to carry out research, hence producing quality products and with the least wastage, hence reducing on production cost.

7. OFFICE

PAST K.C.S.E QUESTIONS

1. 1995 -So that they can be protected from damage
- So that information can be retrieved easily when needed
 - So that the office can be tidy
 - So that reference can be done in future
 - Plans for the operations of an office
 - Coordinating the operations of an office
 - Reports the operations of an office to the general manager of the business organizations
 - Organizes the operations of an office
3. 1997

Function	Equipment
Sending and receiving written messages	Telex
Sending and receiving verbal messages	Telephone
Sending and receiving copies of documents	Fax Machines
Sending and receiving one way only	Pager

4. 1998 - Leadership
- Sound
 - Judgment
 - Methodical
 - Strong character
 - Discipline

- Polite
 - Forward looking
 - Communicative
5. 1999 - Availability of storage spaces
- Cost of storage
 - Information contained in the document
 - need for future references
 - Purpose of documents
6. 2002

2002 Office task	Equipment
Printing stamps impression and envelopes	Franking machine
Cutting papers into required sides	Franking machine
Pinning papers together	Stapler
Recording processing, storing, retrieving information	Computer

7. 2003 - Receiving Information
- Sending out information
 - Processing information
 - Reprographic purposes
 - Filing documents for future reference
 - Safeguarding organizations assets
 - Recording information
 - Offer administrative facilities
8. 2004 - mailing
- Processing information
 - Reprographic purposes
 - Recording information

8. HOME TRADE
PAST KCSE QUESTIONS

1. 2003 - Production of surplus goods and services
- Development of money and banking
 - Development technology
 - Differences in resources endowment between different countries as areas within the country.
 - Political stability
 - Government policy
 - Skilled manpower
2. 2004 - It is used for future reference
- It acts as an evidence of transactions and reminds the debtors of the debt.

- He can use to pursue the debtors in case he refuses to settle the debts
- can use it borrow some money for the business as a security

9. FORMS OF BUSINESS UNITS

Answers Paper 1

1. 1995 - Obtains discount because of bulk buying
 - Able to advertise
 - Incurs low costs of production
 - Offers better management because of specialization
 - Allows diversification in order to reduce risks
 - Able to cater for staff welfare
 - Large output due to many channels

2. 1995

Statement	True/ false
a) Contains the activities the company is engaged in	False True
b) Indicates the process to be followed in calling meetings	True False
c) Contains details of electron procedures	true
d) Indicate the liabilities of the shareholders	
e) Contains the rights of each shareholder	

3. 1996 – usually requires capital to start
 - Decision making is faster
 - Profit earned are not shared
 - Flexible
 - Enjoy secrecy
4. 1996 – Increase employment opportunities
 - Transfer of technology
 - Increase government revenue from licenses and taxes
 - Development of infrastructure
 - Creation of international understanding
5. 1997 – A partnership may be able to raise more capital than a sole proprietorship
 - A partnership may be able to use the abilities of all the partners while a sole proprietor has to rely on ideas alone
 - The partners may share losses when they occur while the sole proprietor suffers sole losses alone
 - Some partners may have limited liability while the sole proprietor has Unlimited liabilities.
 - The ability to share work
6. 1998 – used for long term activities

- can raise large amount
 - Can be bought back
 - Less cost of raising
 - Interest paid on remaining balances
 - Lenders of money do not have voting rights
7. 1998 – Promotes saving habits
- Obtains cheap loans
 - Assistance during problems
 - Financial advice
 - Invest on behalf of members limits for banking facilities
 - Payment dividends
8. 1999 - He does not require as much capital to start the business
- Operating costs are much lower than those of a shopkeeper
 - He is closer contact with his customers
 - He is more flexible in making business decisions
 - Able to go where customers are
 - Price is not fixed
 - Sells in cash so no bad debts
9. 1999 - Lack of adequate skilled administration
- Low income of existing and potential cooperative members
 - Inadequate collateral to borrow loans
 - Undue interference with the movement by government – by-government functionaries
 - Delayed transfer of members’ contribution by employees

10. 2000 Statement	References shares	Ordinary Share
a) Represents ownership		x
b) Rate of dividend is fixed	x	
c) Has voting rights		x
d) Considered first in liquidation	x	
e) Redeemable	x	
f) May be cumulative	x	

11. 2000 - Easy to form
- Flexible in terms of business activities
 - Quick decision making
 - uses family labour
 - Usually no division of labour
 - enjoy business secrets
 - Owned by one person
12. 2000 - able to get discounts due to bulk purchases
- Able to establish its own retail outlet to promote its products
 - Can afford to hire qualified manpower and hire machines
 - Could enjoy low cost of production due to spreading of costs over large Outputs
 - Able to spread risks
 - Easier to raise capital
13. 2001 - It is short – term credit facility

- Practiced by traders only
 - Period for which the credit is given varies from 30 days for home trade and 60 – 90 days for foreign trade
 - Does not require a down payment
 - Credit attracts no interest if paid within agreed period
 - Buyer takes ownership of goods immediately
 - Usually paid one
 - ensures continuous supply of stock
14. 2001 – Need to protect consumers from high prices charged on poor quality
- Products provided by private producer
 - need to avoid foreign control over an industry
 - Change in political ideology
 - Need to provide less profitable but essential services
 - need to collect revenue
15. 2001 – each member has only one vote- cooperative
- The business enjoys perpetual succession- companies
 - Each member may act on behalf of the business- partnership
 - Formed by parliament – public corporation
16. 2001 – Organizing training
- Employment of qualified staff
 - Enforcement of law to punish errant staff
 - Control errant staff
 - Reducing of undue influence by the government
 - Motivate staff
 - restructuring them to make them competitive
17. 2002 – Loans
- Member contributes in buying shares
 - Membership
 - Retained profit
 - Interest on loans to members
 - Rent income
18. 2002 – Sell similar goods
- Their members decide on share of the market
 - Member from rules on which to operate
 - are made up of competing firms
 - The members next to fit prices of goods sold
19. 2002 – It is a minimum membership of 2 people
- Its shares are not freely transferable
 - Entry to membership is not free
 - It has limited liability
 - Has a separate legal entity
 - Maximum membership of 50 people
20. 2003 – Promissory note
- Trade credit

- Bank overdraft
 - Retained earnings
 - Factory
 - Personal Savings
 - Relatives
 - Bill of exchange
 - When quantities are small
21. 2003 - May result in a monopolistic situation
- May lead to production on inferior good due to lack of competition
 - Prices of goods may be artificially kept high
 - They may restrict entry of other firms thus limiting consumer choice
 - Leads for shortages
 - Deny customers bargaining scale
22. 2004 - One enjoys economics of scale
- One can get money from long – term sources as the business can offer security
 - One enjoys large profit margin
 - One can be able to employ skilled labour
 - One can afford to advertise his commodities
23. 2005 - easy to raise capital to start the business
- The business is highly flexible
 - Quick decision- making
 - Requires less legal procedures during formation
 - Able to keep top business secrets
 - Does not have too much government control
 - Exposed to fewer risks due to their small sizes
 - They are not heavily taxed compared to big companies

KCSE PAST QUESTIONS PAPER 2

1. 1995 (i) Open and voluntary membership

Members wishing to join cooperative societies do so on voluntary basis and can leave at will. They are however, expected to meet basic requirements before they can join.

(ii) Educator for members

Support for educational activities with movement/aimed to foster cooperative principles at all levels to encourage membership and teaching

(iii) The principle of democratic control

The administration of cooperatives is entrusted to a committee elected by members on the basis of one man one vote.

(iv) Affiliation co-operation

Primary co-operative societies should be affiliate/ co-operate/ others/ secondary apex societies/ all levels

(v) Interest on capital

Limited interest on capital should be allowed/ predetermined on capital but based on a fixed rate bid down by rule

(vi) **Principle of political neutrality**

Cooperatives are supposed to be non- partisan politically/ non politically

(vii) **Payment on dividends/ share of profits**

Profits made is shared among the members according to their contribution
prorate basis

2. (i) **payments**

Farmers usually get their payments after a long time after they deliver their
produce/ delayed payments

(ii) **Deductions**

Boards usually makes deductions from the payments they make to farmers
at times without explaining why such deductions are made/ unfair
deductions.

(iii) **Bureaucracy/ procedure**

The procedure that farmers have to follow in delivery of their produce
getting payments is sometimes cumbersome and time wasting.

(iv) **Collecting of produce**

Sometimes collection of produce (from collection centers) delayed leading
to deterioration of produce quality/ unnecessary losses.

(v) **Differentiation**

Lack of distinction between quality of produce from different areas may
disadvantage those farmers who produce high quality produce.

(vi) **Pricing**

Farmers have to say no in the determination of prices/ prices are fixed by a
board but the board may not reflect the true market price

(vii) **Corruption/ embezzlement/ fraud**

Farmers loose money via dishonest deed e.g. cheating in weight, recording
etc.

(ix) **Management**

Political interference may affect adversely the running of the boards

3. 1996. - Overdrafts are current account holders

- Hire purchase of goods
- Bills of exchange / promissory notes/ trade bills can be sold instead
of
- waiting for them to mature
- Issue of post dated cheques
- Trade credit
- Retained earnings
- Short term bank loans
- Discounting of invoices
- Taxation money
- Sale and lease back
- Leasing of property
- Provision for depreciation
- Proposed dividends

4. 1997 – To curb monopolistic practices

- To provide goods and services the private sector is unable to provide

- To create job opportunities
 - For security purposes e.g. dealing with firearms
 - To allow local participation/ minimize foreign participation
5. 1998 – To avoid excessive competition among themselves
- To share the market demand in the areas/ regions selling
 - To determine the output/ quota for each member
 - To influence the price charged on products
 - To lobby for policies better to them/ protect their interest
 - To set modules/ standards improve in quality
7. 1999-Debentures are units in loans which must be paid by a public company unlike ordinary shares
- Ordinary shareholders are paid in fixed rate of interest
 - Failure to pay debenture rates leads to company being declared bankrupt unlike payment of share dividends
 - Debenture interest must be paid by a public company unlike ordinary shares
 - In the event of a company winding up, it is obliged to pay debentures first while shares may come last
 - Raising money through require no security while debentures may require a security
 - Securing finance through debentures is more expensive than through ordinary shares
 - Debentures reduce the borrowing power of a company while shares enhance.
 - Dividends can be converted to bonus shares while it is not possible with debentures

8. 1999

Public corporation

- formed by an act of parliament
- Initially financed by the government
- B.O.D nominated by government
- Political influence eminent
- Losses subsidized by government
- Profits go to the government
- Auditing is done by the government auditors
- Performs specific functions

Private limited company

- Under registrar of companies cap 486
- Financed by shareholders
- Directors nominated by shareholders
- No political influence
- May lead to collapse of company
- Profits go to the shareholders
- Decision to wind up rests on the individual/ shareholders
- Auditing is done by private auditors

- Performs various functions
9. 2000(i) access to interest free resources in the host country
- (ii) Have access to both local and international market
 - (iii) They are foreign owned while others are locally owned
 - (iv) They are government by both the local regulations as well as those of other countries where they operate
 - (v) Because of their large reserves of resources multinational can undertake very high- risk investment
 - (iv) Multinational co- operations repatriates much of their profits back to their countries of origin.
10. 2001 -Inadequate capital: with adequate, the business growth will be hindered
- Extended demand: if market is wide, the firm will grow, if small the growth will be limited
 - Infrastructure: with adequate infrastructure, a firm will grow; if poor the growth will be limited.
 - Technology efficient technology enhance growth inefficient technology will hinder growth
 - Competition: stiff competition will limit growth less competition will allow growth
 - Management: inefficient management will hinder growth, efficient will lead to growth
 - Government policy: government policy may lack a hinder growth e. g taxation
 - Water: availability will enhance growth, lack will hinder growth
11. 2001 - High installments which many Kenyans cannot afford discouraged many Kenyans
- High interest rates charged on loans discourages many Kenyans. Low incomes of a majority of Kenyans not to afford
 - Many Kenyans are unaware of services offered by building societies which make them not to seek finance.
 - Poor saving habits of many Kenyans are not able to raise discourage Kenyans.
 - Long procedure or acquiring loans, discouraging many Kenyans from purchasing houses.
 - Cheaper Sources finances from other sources e.g SACCO, which are not attractive.
 - Accessible. Most societies are not accessible to many Kenyans as they are in urban areas.
 - Loan condition. Many societies have rigid conditions which Kenyans cannot meet.
12. 2002 - The firm will be able to enjoy marketing economics due to large volumes

of sales

- The firm will be able to enjoy financing economies such as easy credit/ availability of collateral
- Production economies- the firm will be able to access large quantities that attract quantity discount.
- The firm will be able to spread risk by diversifying operations
- The business can afford modern machinery
- Business can acquire new skills for more effective production
- Can provide staff welfare facilities for improved performance
- Division of labour- different people are assigned different task according to ability.

13. 2002 - Liability of members in PLC is limited while in partnership of PLC is not Limited

- Membership of PLC cannot act as agent on behalf of the business while partner's act as agents for partnership.
- Maximum partnership of PLC is not limited while partnership form of business has limited maximum number of partners
- (Entry) accept any entity form legal) are considered as legal entities/ own property in their own name)
- (Regulations) PLC are regulated by M.O and A.O. While partnerships are regulated by agreement.
- Transfer of phases allowed in PLC while it is restricted in partnership
- PLC have a minimum of no.7 while partnership has a minimum of 2
- PLC are managed by elected board of directors while partnership are managed by partners themselves
- PLC raise capital by sale of share/ debentures while partnership raise capital through contribution by partners
- PLCs acquired certificate of incorporation to start operating while partnership does not require a registration certificates.

14.

Kiambu Enterprises

Petty Cash Voucher

Receipt Ksh s	Date	Details	Inv. N o K s h s	Total K s h s	Travel Ks hs	Postage Ksh s	Stationery Kshs	Office E xp	Ledger A/ C	Folio
1200	Jan 1	Bal b/f								
	Jan 2	Fare	1	200	200					
	Jan 2	Stamps	2	100		100				
	Jan 3	Off. Exp	3	240			60	240		
	Jan 3	Envelopes	4	60						
	Jan 4	Cleaning	5	80			140	80		
	Jan 6	Stationary	6	140						
	Jan 6	Munyua	7	130					130	
	Jan 6	Taxi	8	160	160					
		Registration	8	40		40				
				1150	360	140	200	320	130	

Ledger A/C

Dr.			Cash A/C			Cr.		
Date	Details	Kshs	Date	Details	Kshs			
	2006			Petty Cash	575			
	Jan 7							

Dr.			Traveling A/C			Cr.		
Date	Details	Kshs	Date	Details	Kshs			
2006								
7/1	petty Cash	360						

Dr.			Postage A/C			Cr.		
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Date	Details	Kshs	Date	Details	Kshs
2006 7/1	Petty Cash	140			
Dr.				Office Expenses A/C	Cr.
Date	Details	Kshs	Date	Details	Kshs
2006 7/1	Petty cash	320			
Dr.				Munyua A/C	Cr.
Date	Details	Kshs	Date	Details	Kshs
2006 7/1	Petty cash	130			

15. 2003 – It acquires permanent capital as ordinary shares are not redeemable
- It is obliged to pay dividend to ordinary share holders therefore no pressure
 - from share holders to pay dividends
 - It is not obliged to pay dividend to ordinary shareholders therefore no pressure from share holders to pay dividends
 - Rate of dividends an ordinary shareholders not fixed as it is determined by the realized profits
 - Ploughing back instead of distributed them
 - The ordinary shareholders are paid last
 - No security requirements- the company will not be required to pledge
16. 2004 - Competition – he should choose a business where there is no stiff competition so as to reduce running cost like the advertising, hence maximizing profits
- Viability – he should choose a business that has fewer risks so as to secure his investments
 - Market- he should choose a business that he knows that his goods are going to get market
 - Profitability – she should invest in a business where he will get more profit so that he will be able to meet all the costs of running his business and at the same time get profits.
17. 2005 – As a way of protecting the consumer against private monopoly
- If there has been wasteful competition by several private companies, the government may nationalize the entire industry.

- If the private company was irregularly acquired by private investors from the government.
- If the activity carried out by the private company should have national benefit but not individual benefit e.g mining
- If the firm has relied on government subsidy for so long
- To prevent foreign dominion in the key sector of the economy
- To provide essential services as affordable prices
- To create sources of governments revenues
- To create job opportunities
- For security purposes especially if the business is dealing with sensitive goods like areas.

10. GOVERNMENT AND BUSINESS

ANSWERS PAPER 1

1995- Ensuring that correct use of weights and measures

- Ensuring that goods meet the required standard
- Ensuring that expired goods are not sold
- Ensuring that goods are handled hygienically
- Protected against misleading
- Ensuring correct prices for some goods
- Consumer education

2. 1995 – It is expensive over short distances

- It is not flexible i.e. cannot offer door to door services
- Goods may be damaged
- It is not readily or widely available

3. 1996 – Though licensing

- By offering advisory services
- Though taxation trading guidelines
- Though trading guidelines
- Registration

4. 1997 – Consumers are weak because they act individually

- Business people left on their own may lower standards of a quality of their Products
- Consumers do not always know their rights, educates consumers on their rights
- Safeguards against poor measures
- Safeguards against poor construction
- Safeguards against poor health standards

5. 1998 – Earn profit

- Invest where private sector cannot raise capital to start
- Invest in areas of national interest
- Provide cheap services to citizens
- Employment to citizen
- provide seminar
- It is unprofitable for private sector

6. 1999 – Lack of adequate support by government

- Lack of sufficient information from consumer protection bodies
 - Ignorance on the part of consumer about the rights
 - Lack of initiative as the part of consumers
 - Lack of capital to sponsor their programme
7. 2000 – Boycott those trades who exploit them buy from other
- Form consumer organization
 - Form vigilant organization
 - Go to court
 - Complain through press
 - Report to the authorities
 - Promote consumer education
8. 2004 - To generate income
- To create confidence in the economy and attract foreigner
 - We venture into business where individuals are not willing to invest due to low profit margins
 - To provide essential goods and services
9. 2005 – Expansion and diversification of exports
- Expansion and diversification of foreign markets
 - Development of bilateral and multilateral trade agreement
 - providing information to Kenya producers on the available selling opportunities in foreign countries
 - Educating and advising exporters on trade regulations and commercial practices in other countries
 - arranging courses and seminars for business people and relevant government officials to inform them on how to promote exporters

PAPER 2 ANSWERS PAST KCSE QUESTIONS – GOVERNMENT & BUSINESS

1. 1998 – The business malpractices that consumers need to be protected against by the government
- Overpricing / overcharging fees
 - False measurements / weight/ volumes/ capacity
 - Sub standard goods/ poor services
 - Running business under unhygienic conditions
 - Misleading advertisement
 - Dealing in illegal/ hazard goods/ services
 - Unsafe premises
 - Hoarding of goods
 - Unfair repossession of goods
 - Monopolistic practices
 - Breach of contracts

2. 2003 – Offer storage facilities to producers, selling/ acts as selling agents sells on producers behalf.
 - Collects transport produces from producers to their store
 - Carries out research for better methods of production as how to improve production
 - Provide credit/ loans to producers
 - Control quality production to attract better prices by supervision of production activities
 - Stabilization of production income through buffer stocks
 - Price stabilization by use of stabilization of funds
 - Quantity control through licensing
 - Education to producers through workshops, extension officers etc
 - Processing of produce in preparation produce before marketing
 - Ensuring steady supply of goods by installing surplus during shortages
 - Buying produce from producers, thus ensuring producer of a ready market.
 - By ensuring that the consumers are provided with goods and services hence no hoarding
 - By ensuring that there is no over charging of the consumers by the business people.
3. 2004 – By providing the consumers with essential goods and services
 - By putting up weights and measures act in order to check on the measurements and weight (Kenya Bureau of standards)
 - By licensing to ensure that the businesses offer the services they are competent with
4. 2005 – Ensure consumers are not exploited against harmful goods or poor health standards
 - To safeguard consumers get quality goods in time hence no hoarding
 - To ensure that consumers get quality goods
 - To educate consumers on their rights
 - To safeguard consumers against poor measure of goods i.e. size and weight.
 - To safeguard against unfair rents by landlords through rent tribunal
 - To safeguard against poorly constructed buildings
5. 1995 – Where a monopoly producers exploits the public the government may wish to protect the consumers through nationalizing it.
 - Where an industry of national importance's threatened with collapse
 - Where the foreigner control the industry and the government would like the locals to control
 - Where an industry deals with state security i.e sensitive industries
 - Where the industry is strategic for national development
 - Where other measures of controlling the industry are ineffective, the government could opt to nationalize it

- Where there is a change in political ideology
 - Where competition is wasteful the government may opt to nationalize so as to operate it efficiently.
 - Where the industry provides essential goods
6. 1997 – Delayed payments
- Unexplained deductions which lower their prices
 - Delayed collection of produce which leads to deterioration of the quality of Produce
 - Long and cumbersome procedures to follow when delivering produce and getting payments
 - Lack of distinction between quality of produce from different areas may disadvantage those farmers who produce high quality products
7. 1999- Participates in national shows/ trade fairs within or outside the country.
- Collects/ disseminates valuable information relating to all aspects of business for members
- Acts as a link between the business community and the government
 - Conduct conference/ course/ seminar for its members thus providing the right discussion on matters of common interest.
 - Marketing for their members goods / serving orders to their members
 - Interpret government regulations to business for the benefits of business people
 - Assists in processing and issuing certificates of origin in foreign trade i.e. to those who want to export
 - Poor infrastructure which discourages / hampers operations of investors
 - High rate of taxation that discourages investors and makes local goods less competitive
 - Insecurity that discourages investors/ tourists
 - Corruption which may add extra costs to projects / investments
 - Shortage of water may discourage investors
 - Inadequate funds that makes it difficult for KETA to carry out its functions

11. TRANSPORT

Answers paper 1

1. 1996 – Where goods are urgently needed
- Where goods are of high value to justify high freight costs
 - Where goods are profitable and so require short term transportation
 - Where security is necessary
 - Where other alternative means of transport are not available
2. 1997 – Travel by train is relatively cheaper than travel by bus
- It is more comfortable to travel by train over long distances than by bus

- Travel is more reliable form of travel than bus
 - Travel by train has convenient features as catering and toilet facilities
3. 1999 – To facilities easy delivery of raw materials
 - To ease workers movement to and from work
 - To facilitate movement of finished goods
 - To gain easy access to auxiliary services like banks, post office e.t.c
 - reduced cost of transport
 4. 1999 – Containers are expensive
 - Special vessels and tanks are required to transport the containers
 - Special harbour are also required to anchor the special vessels
 - Special loading and off loading facilities are required
 - LCL less containers load
 5. 2000 – Available in most parts of the country
 - Flexibility to variety of vehicles
 - Flexibility of routes
 - Flexible over short distances
 - Flexibility in schedules
 6. 2001 –If goods are perishable a fast and appropriate means is required
 - If goods are fragile, a smooth means of transport is required
 - If goods are highly valued, a safe and secure means is required
 - If goods are urgently required, a faster means is used
 - If goods are bulky an appropriate means will be used
 7. 2002 – Transport by rail is cheaper than road transport
 - Where goods to be transported are bulky
 - Rail transport tend to have regular time schedule
 - Where goods are urgently required, a faster means is used
 - If goods are bulky an appropriate means will be used
 8. 2003- Human beings
 - Ships
 - Motor vehicle
 - Carts
 - Air crafts
 9. 2004 –Assist in the distribution of finished goods
 - Aids in the transport of labour to the industries
 - Movement (transport) of raw materials to the industries
 - Create utility of place and time of the goods
 - Facilitates faster exchanges.
 10. 2005- Widening the market because goods are transported from areas of surplus to areas of scarcity.
 - Increase specialization as producers concentrate on the production hence high quality products.
 - Ensures production in large scale thereby enables the producers to benefit from economies of scale.
 - Ensures a variety for the consumer because foods are transported to all parts of the country.

-Transport enables producers to take goods to consumers thus creating place utility.

-Through trade many people get employed and earn an income to buy goods and services thus promoting trade.

11. 1995 - Expensive and uneconomical over short distances

- Slow means of transport.
- Does not offer door to door services
- Not readily or widely available
- Frequent handling of goods as they change from one wagon to another may damage the goods.
- In Kenya it is provided by parastatals hence not efficient due to lack of profit motive.
- Expensive to construct and maintain railway network.

12. - Containers are expensive to construct

- Requires special equipment for loading and off loading which are very expensive
- Not suitable for irregular shaped goods
- Container vessels require special terminus
- It is capital intensive hence not suitable for countries suffering from unemployment
- Does not require small quantities because in case of less than container load, the goods are likely to be mixed up contaminated or misplaced.

PAST KCSE ANSWERS PAPER 2

1. 1995 - The mode is relatively cheap, compares to other mode

- The mode requires little capital and therefore attracts small scale investors
- It does not require special skills to operate handcarts
- The mode does not necessarily require a road and can be used where there are no roads
- Handcarts do not require special terminus
- Suitable over short distances
- Suitable for small goods
- Cheaper to operate

2. 1996 - Larger volume of oil will be transported within given time.

Road accidents should be minimized, as there would be fewer tankers on the road.

- Road damage will be minimized due to fewer tankers
- Delays/ shortage of fuel to Western Kenya will be reduced as pipeline give continues supply.
- Environmental pollution from heavy tankers will be minimized
- Pilferage of fuel will be reduced as it is difficult to steal oil from the pipeline.
- Traveling between Nairobi and Western Kenya takes shorter time due to reduced congestion of the road

- Reduced costs of transportation oil
3. 1997 - Goods will be transported easily to the market
- Buyers/ Sellers will be able to move from one market to another
 - Goods will be transported from areas of excess to areas with shortages
 - It will be able to open many areas of trade
 - It will lead to time saving due to fewer delays hence cheaper goods
 - It will enable producers to specialize what they can produce better.
 - Constant availability of goods and services
4. 1998 – High costs: Railway construction is an expensive venture, requiring huge investments. These are not affordable.
- Existence of road network: there exists relatively wide network/ competition from other modes of transport
 - Poor management: The railway transportation sub- sector has been poorly run, hence stagnation
 - Lack of modern technology: modern technology required for efficient railway system is absent in Kenya, can only be imported.
 - Little government commitment: The government has committed its resources more on other forms of transport.
 - Lack of flexibility: inability to render door to door services
 - Speed: Its relatively low speed renders its inappropriate for carrying certain goods.
 - Lack of competition: Railway enjoys protected position making it impossible to operate.
 - Low industries base: this has led to low did for railway services.
5. 1999 - Time keeping: A transport system not able to keep time soon loses the confidence of the users should be reliable with regards to time.
- Flexibility: In regard to timing/ loading and unloading points are important to user
 - Speed: This critical especially on transporting perishables. An efficient transport system should be reliable with regards to time.
 - Safety. This is all for vessels damages to any of them leads to heavy loss
 - Cost: this should be reasonable
 - Qualified personnel: An efficient transport system should be managed by qualified personnel.
6. 2000 – It is environmental friendly
- Operating costs are low
 - It is fast mode because there is no congestion, not affected by weather
 - It is less prone to accident
 - It reduces the number of tankers on the roads and thus minimizing damage on the roads
 - Its relatively secure mode of transport in relation to theft.
 - Large volumes of oil can be transported within a given time
 - low maintenance cost.

7. 2002 - Nature of goods: different types of goods e.g. perishable calls for specific modes of transport
- Transport costs: transporter usually choose means that are affordable for their goods
 - Value of goods: goods of highly quality choose means that are affordable for their goods
 - Terminals convenient for loading
 - Availability: transporters are influenced by the means available
 - Distance to be covered: roads are suitable for short distance while railways- suitable for long distance
 - Urgency: goods urgently required calls for faster means of transport
 - Reliability- Choose a means that will deliver the goods as required
8. 2003 - Less/ minimal damage of goods to the containers are strong and also minimize damage due to change of weather
- Large quantities of goods can be transported: if properly arranged in containers
 - Safety of goods is enhanced since containers due to use of hands
 - It is easy to load and off load containers due to use of hands
 - Low insurance premiums: due to reduced risks of theft damage
 - Handling reduced: costs are reduced due to use of modern technology
9. 2004 - Lack of technology: If a country lacks technology for the installation of pipes
- Lack of capital: the country might lack adequate capital for the installation of pipeline.
 - Nature of products if the country does not have oil then no need for existence of pipeline transport
 - Other means of transport if there are other cheaper means of transporting oil that are available then the pipeline transport can be used
 - Terrain: If the terrain is rugged and hence will cause heavy machine to pump the petroleum, it may discourage use of pipeline.
10. 2005 – In case the goods transported are bulky
- Where goods transported are heavy
 - In case goods require security because cases of theft and accident are minimal in railway transport
 - In case of large quantities because it has large carrying capacity
 - Railway transport is cheap and economical over long distances
 - Railways stations have warehouses to store goods before they are collected by owners
 - In case the trader wants to make advance planned for movement of goods because train follow regular timetables
 - Railway stations have many cargo handling facilities for loading and off loading of goods hence saves time.
 - Railway authorities have their own motor vehicle delivery services from their railway stations, this helps in connecting the traders to other terminus

12. COMMUNICATION

Paper 1

1. 1996 – Can be re- read again for better understanding
 - Can be used for reference purposes
 - can be reproduced by photocopying when necessary
 - Can be used as evidence in law
 - can be used for a confidential purpose
2. 1997 – Sale of postage stamps
 - Mail services
 - Parcel deliveries
 - Remittance services
 - Business reply services
 - Telex
 - Fax services
 - Saving and investment
3. 1998 – Cheap
 - Can explain fully
 - Best to demonstrate
 - Can be immediate feedback
 - Learn the desired impression
 - Fast in short distance
 - Used to communicate to many at once
 - Used where other forms are not available
4. 1999. – Message automatically printed at the recipient teller machine even in the absence of receiver
 - Teller provides direct link between user all over the world
 - Immediate feedback can be received from each end
 - The printed message can be stored for future reference
 - Message is transmitted fast
5. 2000 – Language used must be understood
 - Language must be simple and clean
 - It must be free from interference
 - it must be free from distortion
 - Both sender and receiver must have positive attitude
 - Medium use should be appropriate
 - Information overload should be avoided
6. 2001 – Relatively cheap
 - Lack of alternative means in some areas
 - Widely available
 - Relative fast
 - Offers a variety of means of sending letter
7. 2002
 - Where evidence is required
 - Where future reference is needed
 - Where message is as confidential nature
 - Whose message is not urgent

- Where message should be disorder
- Where more people are to be reached
- Cheaper
- Mail service is widely spread

8. 2003 - It is costly
- It has limited confidentiality
 - Not accessible in some parts of the country
 - The system is prone to breakdown
 - It is costly to maintain
 - Equipment is expensive
 - Prone to congestion
 - Government policy
9. 2004 - If there is noise
- Negative attitude between the two parties
 - Language barrier
 - Lack of concentration

13. WAREHOUSING

KCSE Questions

1. 1995- Goods can be bounded till duty is paid
 - Goods are released on production of release warrant
 - Charges are made on all goods stored in the warehouse
 - Goods can be sold while under bond
 - Goods can be inspected, re- parked, blended, branded, labeled etc while in the warehousing
 - Goods can be re- exported while under bond
 - They are guarded by customs officials
 - They are owned by the government
 - They are used for imported/ exported goods
2. 1996- storage of goods until they are needed
 - Protection of goods from vagaries of weather.
 - Protection of goods from pilferage
 - Provides room for bulk breaking, packing and blending
3. 1997 – Allow continuity of production
 - The manufacturer is able to ensure continuous sale of its produce to the market
 - Warehousing provides protection for the goods while awaiting sales
 - Provides security against theft
 - can prepare goods for sale
 - Enables manufactures to look for market
4. 1998 – Consumers are assured of a steady supply of goods
 - They are assured of quality goods
 - They are assured of steady supply of goods
 - They are assured of stable prices
 - They get goods in convenient quantities

- Consumers are able to choose the right goods when they are braided, blended etc
 - Consumers are able to get a variety of goods
5. 1999 – The location should be ideal in terms of accessibility
 - Availability of suitable land
 - Near the point of sale market
 - Near adequate security
 - Government policy
 - Cost of building
 6. 2000 – is able to control the city of harmful goods
 - Is able to verify documents for goods on transit
 - is able to monitors the flow of imports into the country
 - is able to inspect goods
 7. 2001 – Owners of the warehouse enter into agreement
 - Usually located at points of entry
 - guarded by customer officer
 - Owned by individuals
 - Dutiable goods kept there are not released until duty is paid
 - They are large in size
 - Goods can be inspected
 - Goods can be prepared for sale
 - Goods are kept there for a fixed period of time
 - Only for imported goods
 8. 2002 – Retailers can rent space to store their goods
 - Retailers have a place to break
 - Goods can sell stored while in public warehouse
 - Goods are insured against damage caused by fire, theft etc.
 - Protects against adverse weather conditions
 - Ensure continuous supply of good
 9. 2003 – Bonded
 - Public
 - Private
 - Producers
 10. 2004 – They will have constant supply of goods
 - The price of goods will not be stable
 - They are likely to receive defeat goods as there would be no inspection
 - They are likely to have varieties of and also small quantities of goods

14. INSURANCE

1. 1995 – The person intending to buy the policy applies by filling a proposal form.
 - The insurance company studies the details of the proposal to confirm whether the details given are correct.
 - The insurance company issues a cover note
 - Insurance certificate is issued, outlining details of the agreement between two parties and the conditions that accompany the agreement.

2. 1996- Insurance industry mobilizes savings which the business community borrows to start / run and give loans to policy holders for business use.
 - The insurance company studies the details of the proposal to confirm whether the details given are correct.
 - The industry creates confidence among the business community which enables them to take risk
 - The various policies provided by the industry can be used as security to obtain bank loans for business use.
 - The industry provides compensation to the business that can suit their purposes.
 - They invest in building/ other securities which are used by business community
 - Underwriting insurance companies will undertake the share capital under subsection.
3. 1997- government: the government collects revenue by taxing the insurance industries and uses this revenue to provide public services.
 - Creation of employment: there are many people employed in the insurance industry.
 - Creating confidence: the industry encourages businessmen to take risks of investing.
 - Investment funds: monies collected by insurance companies are made available to investors as loans in various sectors of the economy.
 - Compensation: Compensation offered by the insurance industry enables the economy to continue developing.
 - Encourages saving: mobilizing long term savings from the members of the public.
 - Direct providing: can be used to secure loans loss prevention encourage the insured.
4. 1998 – When insured had no insurable interest in the property destroyed as he will not suffer any financial loss.
 - When the insured did not disclose all the relevant facts.
 - When the property has been destroyed by an act of God, as the risks are not insured when the loss was caused by an insurable e.g. act of God/earthquake.
 - When the policy was not in force at the time of loss insured when the insured purposely causes the loss.
 - When the insurance company is insolvent, hence unable to its financial obligation.
 - Lat claim where insured fails to claim within stipulation period.
 - Improper procedures where the insured fails to follow laid down procedure when claiming.
5. 1999 –Theft/burglary: to protect the owner from losses that may be made through theft/burglary.

- Fidelity guaranteed: to cover losses suffered through worker's dishonesty
 - Workman's compensation: this is to assist the workers who may be injured in the business.
 - Fire: to compensate the owner for losses arising from fire.
 - Motor vehicle: to cover business vehicles in case of accident
 - Medical cover policy: insurance will compensate for medical claims of the employees.
 - Personal accident cover: insures accident to the owner of the supermarket in the course of his duty.
 - Good/cash on transit: insures against losses of goods/cash while on transit
 - Plates gloss policy: insures against breakages caused by closure of business temporary.
 - Sprinkler leakage policy: covers accidental damage caused by accidental leakages of sprinklers.
6. 2000- Enables compensation of few sufferers, hence business continuity. Reduced burden per person as it is shared by all the insured.
- Idle funds in case no one suffers or only a few people, company can invest to earn income
 - Probability of all covered risks occurring is minimal if there are many people in the pool.
7. 2001- value of property: when the value of property is great
- High risk of loss: when chances of loss through insured risks covered
 - Number of risks covered: when insurance company has insured many different risks.
 - Spread of risk to share liability in the event of loss, safeguard the financial position
 - Government policy: government may require an insurance company to reinsure
- Create client confidence: client confidence: clients will have confidence as they are assured of compensation hence attracts more customers.
- 8 202- Uberrimae fidei: Contract of utmost good faith on insurance where the client is required to furnish the insurer with all the details regarding the risk to be covered.
- Indemnity: this is a principle where insured is restored to the original financial position before the loss occurred.
 - Third party motor vehicle insurance: covers damages suffered by persons other than the owner.
 - Subrogation –Once an insured is fully compensated for loss suffered, the insured is not supposed to gain out of the loss.

9. 2003- When the insured has not acted utmost good faith and is discovered hence making the contract invalid.
 - When the risk insured has occurred and compensation paid this bringing an end to the contract
 - On maturity of the contract, this signifying the end of the policy agreement.
 - If the insured decided to discontinue the contract making the contract no longer tenable.
 - When a court of law order termination of the contract this rendering its will and void
 - When the insurance company is finally wound up
 - Due to failure to review the contract this leading to lapse of policy.
 - Where the insured ceases to have insurable interest in the property incase property is sold.
10. 2004 – savings: endowment policy is a way of saving, after which one will get compensation either on the expiry or his death.
 - Security: the endowment policy is a way of saving, after which one will get compensation either on the expiry or his death.
 - Security: the endowment policy can be used as a security for finance.
 - In case the contract expires before the insured dies, he enjoys his compensation
 - Other benefits: he can get loan for medical or education purposes.

15 PRODUCT PROMOTION

1. 1995

Description	Type
Create awareness about a product	Informative
Promotes the name of the manufacturer	Institutional
Persuades the consumers to buy a product persuasive/competitive	
Promotes a particular brand of a product	product
2. 1996- The potential customer is made aware of availability of a commodity
 - The consumer is advised on how to use the advertised goods.
 - The potential consumer is made aware of the prices of advertised good
 - Leads to mass production hence lower prices
3. 1997 – To show customers how to handle sophisticated products.
 - To keep track of the performance of the products

- To improve corporate image
 - To generate addition income from the sale, spare parts and provision of services.
 - To attend more customers
 - To retain existing customers
4. 1998- Presale preparation as part of sale person e.g. dressing
 - Locating potential
 - Pre-approach to individual buyers
 - Sale presentation or demonstration
 - Closing in the sales signing out the contract
 - post sale activities involved e.g. installation
 5. 199- Where a large audience is targeted for teaching at the same time.
 - Where the target group is too low income to afford TV
 - Where it is cheaper to advertise through radio than television
 - Where visual impression are not necessary
 - Need to use the local languages
 6. 2000- Generally affected by a fall in the demand or products
 - Most snappers prefer buying from snaps which stock a variety.
 - A fall in supply may lead to the closure of the business
 - It is monotonous
 - Stiff competition from those offering services
 - Lack of innovativeness
 7. 2000 – It is expensive
 - Has limited coverage.
 - Once advert is made it is not easy to change
 - Cannot be referred to buy the target group at their own convenience
 - Lack of variety of languages.
 8. 2001 – A trader incurs extra expenses, which might reduce profit.
 - Prices for product charged are higher due to high expenses
 - Maintenance may require employment of specialists
 - May encourage careless handling of the product
 - Customers are tied down to one trade for maintenance services who may not be offering best services.
 9. 2002 – Consumers are assisted with technical advice on how to use the items
 - Consumers may be assisted with installation cost of the product
 - Enhance good relationship between the buyer and sellers
 - Where an item has a major technical breakdown, it can easily be replaced at no extract cost
 - Transportation of goods
 10. 2003 –to increase sales volume for particular products
 - To inform customers about new products
 - To persuade existing and potential customers to buy their products
 - Transportation of goods

11. 2004 – The sales person are able to win confidence of the buyers
 - Demonstration is possible
 - Information can be gotten from the customer as pertain to the product.
 - More sales and publicity of goods is possible

ANSWERS PAPER 2

1. 1995 - Attendance at the exhibition might have been low
 - People attending the exhibition may not have been impressive
 - The pricing of the goods might have been beyond the reach of potential customers.
 - The product might have not have been culturally accepted.
 - The economic environment might not have been conducive.
 - There might have been other similar goods
 - People attending the exhibition were not convinced
 - Terms of sale were not attractive.
2. 1996 – Establish customer contact
 - arousing interest in the product
 - Creation of preference for the product
 - Making a proposal for sale.
3. 1997 – Attractive displays, trade fairs and exhibition goods should be displayed in such a way that customers are attracted to some and look at them.
 - Credit facilities: traders may offer credit facilities to some of their customers.
 - Good customers relations/personal selling: traders should be friendly, honesty and courteous to customers.
 - After sales services: traders may offer after sales services to their customers.
 - Free samples/ gift: free samples/gifts may attract customers
 - Variety of goods: trades may keep different types of goods to satisfy the various needs to customers.
 - Organizing prize winning competition
 - Maintaining cleanliness of the premises.
4. 1998 – The trader will reach many people/wide coverage/ audience because may people listen to the radio. Radio covers wide geographical area.
 - Both literate and illiterate people will get the message as it only requires listening it does not require reading/ writing
 - The advertisement can attract/ appeal /lure people by incorporating some form of entertainment / Music short plays
 - The trader can choose the time to advertise to reach a particular group

- Advertisement can be repeated several times to reach more people/ those who missed to hear later advertisements
- Radios can reach even the blind who can hear only.
- 5. 1999- to bring to notice of new consumers the existence of a product
 - To increase demand/ market so as to justify mass production leads to economies of sales
 - To educate customers on use of products
 - To announce the price of the products
 - To maintain customer loyalty
 - To cope with competition
 - To correct any misleading information about the product
 - To alert customers of imitation
 - To remind consumers of availability of the products
 - To maintain image name reputation of the product.
- 6. 2000- Type of product (some products are best advertised through the appropriate media i.e sophisticated equipment is best advertised through technical journals).
 - Nature of market segments e.g. age, sex, culture and status
 - The size of the area to be covered.
 - The cost of the medium
 - Availability of the medium can only advertise through media that is available.
- 7. 2000 – selling good/ services to customers
 - Gives the seller an opportunity to explain the details
 - Receiving orders for goods
 - Evaluating the credit worthiness of the customers
 - Processing orders of goods and services
 - Handling complaints from customers
 - Giving advice to customers.
- 8. 2001 - Enables the seller to have goods tested
 - Gives the seller an opportunity to explain the details
 - The seller is able to provide immediate feedback, clear doubts raised by customers
 - The seller may be able to have direct personal contacts with the buyers.
- 9. 2002
 - Only those who can read that can get the advertisement
 - It is expensive and therefore not many people can afford it
 - The advert does not last long., a day or so and then it is disposed off
 - No demonstration is possible when using the newspaper
 - Advertising through the newspaper is quite expensive.
- 16. **DEMAND AND SUPPLY**
- 1. 1995- Changes in the prices of inputs-supply
 - Changes in tastes and preferences – demand

- Changes in technology – supply
- Changes in outcomes- demand
- Changes in the prices of other related goods-demand

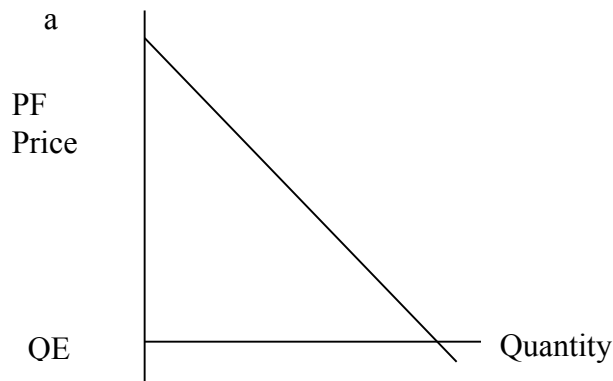
2. 1995- Demand - it states that the demand will be high when the prices are low
- Supply - It states that the supply will be high when the demands are high
- Demand and supply- It states that the demand and supply will be at equilibrium of the supply and demand curve meet.

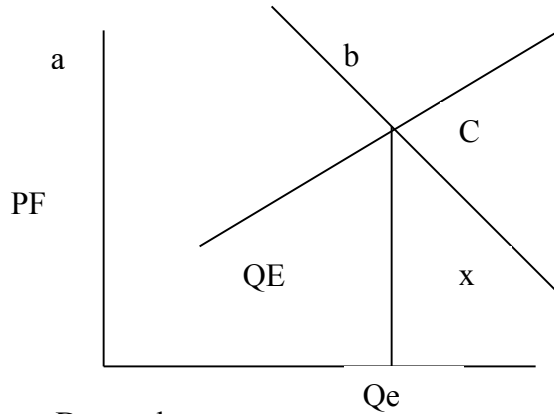
3. 1998- supply of tea fails
- Supply of petrol fails
- Supply of wool decreases.

4. 1999- Reduced taxation of production
- Favorable weather conditions
- Reduced costs of production
- Increased price of product.
- Increase in demand
- Increase in production
- Specialization
- Government policy
- Future expectations.

5. 2000 –increase in the price of the product
- Negative taste towards the product
- Decrease in the prices of complementary goods
- Increase in quantity of the product
- Depending on the season
- fall income
- Decrease in population.

6. 2001





- a) Demand curve
- b) Supply curve
- Point C is the point of equilibrium supply (quantity) and price.
- Equilibrium price (PE) and equilibrium quantity (EQ)

8. 2003 - Increase in the price of the product

- Fall in the cost of production
- Availability of cheap credit
- Government policy.
- Decrease in prices
- When the demand is high
- Future expected fall in price

9. - Future expectation in the increase of price

- Increase in price of complementary goods
- Increase in population
- Positive taste towards the product

PAST KCSE QUESTIONS ANSWERS – PAPER 2

1. - Through bargaining/ haggling between the sellers and buyers.
 - Through government price controls (fixing prices by the government)
 - Through auctioneering where different potential suppliers submit their quotations.

- Through tendering where different potential suppliers submit their quotations.
- Taxation / subsidy may change prices

17. THEORY OF THE FIRM

1. 1995 – Leads to congestion

- Cause pollution
- Increase social evils
- Leads to widespread unemployment
- Can lead to economic depression during times of war, calamities

2. 1996 – Where the firm is producing perishable products

- Where the firm is producing fragile products
- Where the raw materials are cheaper to transport than final products.
- Where the market for the produce is concentrated in the area.

3. 1997- Cost of land
 - Availability of room for expansion
 - Government policy on land utilization
 - The nature of the land
 - Proximity, auxiliary services
 - Convenience
 - Get exact value of his money
 - Receive genuine goods directly from manufacturer
 - Cheap
4. 1998- Get services for 24 hours
 - Require fast service
 - Convenience / Next To A Person
 - Receive genuine / first class goods directly from manufacturer
 - Cheap/doesn't require labour.
5. 1998 – Reduce transport cost
 - Get quality raw materials
 - Enhance continuous production
 - Avoid wastage of raw materials
 - Reduce its cost of production.
6. 1998 –Lack of capital
 - Competition techniques
 - Lack of market
 - Expensive
 - Poor management
 - Poor infrastrure
 - Lack of commercial services.
7. 2000-Provide business incentives
 - Provide credit facilities to investors
 - Provide land act reasonable cost
 - Transport
 - Communication
 - Health cases.
8. 2001- Difficult to acquire relevant labour
 - Difficult to exchange ideas
 - Difficult to get raw materials
 - Lack of competition lead to low quality
 - Difficult to get market
 - Difficult in exchanging technology.
9. 2002 – Government subsidy and incentive reduce
 - Difficult to attract professionals.
 - Security
 - Government may have to raise taxes on other areas to cover the short fail and thus burden the public.
 - Specialized service may not be land required that when firms are concentrated in one place.
10. 2003-Availabity of market

- Availability of water and power
- Security
- Communication
- Cost of land
- Government policy.

11. 2004-Provide cheap labour

- Provide efficient communication
- Reduce the rate of taxation
- Give subsidies

PAST KCSE QUESTIONS ANSWERS – PAPER 2

1. 1997-The country will achieve balanced economic development

- Creation of job opportunities in all regions of the country
- Reducing rural / urban migration
- Technology transfer to rural areas
- Location of industries in rural will lead to infrastructural development.
- May lead to establishment of subsidiary
- May lead to expanded utilization of resources
- May lead to even distribution of social amenities
- May achieve a more even distribution of income between regions.

2. 1998-Personalized services: small scale retailers provide personalized services and are therefore

able to attract and retain customers which are not offered by supermarkets.

scale

- accessibility of small scale retailers / convenience of locating small scale retailers are conveniently in urban centres.
- Credit facilities small scale retailers offer credit facilities to some of their customers which are not available to specific customer needs.
- Adaptation to specific customer needs small scale retailers easily adapt to the specific client.
They can sell goods in small units than the supermarkets.
- Running costs of small scale retailers are little and this makes it easier for them to survive unlike small markets which require huge capital to operate.
- Management: Small scale businesses the risks involved are low while in supermarkets are great.
- Starting/ initial capital starting small scale retailers a suitable for people form of low income.
- Flexibility- it is easier for small scale retailers to change from one form of business to another location than its is for supermarkets.

3. - Employment is generated for the benefit of the members of the community.

- Members of the community tend to be willing to learn skills required by the industries.

- Leads to emergence of auxiliary service industry i.e. back insurance
- Improve standards of living are likely to be experienced in the area due to rise of income.
- Infrastructure is likely to arise to serve the community
- Industries dealing in by products are likely to arise and the community would use the by – products
- Leads to development of complementary industries / auxiliary industry
- Leads to establishment of improved social services
- Leads to introduction of modern technology which the community can utilize.
- Provides wide market for the local produced goods
- May lead to exploitation of local resources which would otherwise be idle.

4. 2002- Where the raw materials are bulky

- Handling costs of raw materials as the movement to the firm will be minimal.

- Where raw materials are highly perishable
- Where the competition of raw materials is high to ensure access
- Where the government policy requires / gives incentives that industry

set up near sources of raw materials.

- Product of the market is concentrated near the source of raw materials.

5. 2003 – Improve transport system to facilitate easy movement of goods and people through

industries.

- Tax reduction: industries in rural areas from paying certain taxes to reduce the cost of production, enabling them to sell more competitive prices.
- Facilitate access to cheap credit for industries in rural areas/provision of loans at low interest avail finance at affordable rates.
- Provide land for putting up industries in rural areas at reduced rates.
- Provide training/ educational facilities in rural areas for development of labour.
- Subsidizing the cost of production of the industries in the rural areas by melting point of the cost of production.
- Provide power for running the industries
- Provide communication services to enable industries
- Provide water for running the industry
- Provide social amenities of those working in the industry
- Provide security to safeguard property for investors

- Setting up service industry to serve the other industries of banks insurance etc.
 - Reducing license fees thus reducing the cost of establishing.
- 6.2004 – Labour: When industries are closely located, a pool of labour both skilled and unskilled is availed.
- Market: The industries attract large population that offer market for the products produced in the industry.
- Infrastructure: roads, railway usually develop in the area with concentrated industries.
 - Communication: by locating of industries in one area leads to development of telephone among others.
 - Security: when industries are closely related, these are few security problems experienced as compared to the dispersed industries.

18. NET WORTH OF A BUSINESS

1. 1998 – Assets = Capital – liabilities

(a) Capital = 620,000 – 230,000
= 390,900

(b) Assets = 400,000 + 120,000
= 520,000

(c) Liabilities = 800,000 – 500,000
= 300,000

2. 1998

	Asset	Liability	Capital
a) Bought furniture	+	+	
b) Paid creditors on cash	-	-	
c) Withdraw cash for personal use	-	-	-
d) Converted a personal car for personal use	+		+

3. 1999 - M - Kshs 18,000
- N – Kshs 29,000
- P Kshs 12,000

4. 2000

Type of account	To increase	To Decrease
a) Asset A/C	Debit	Credit
b) Liability A/C	Credit	Debt
c) Capital A/C	Credit	Debt

5. 2003 X = Kshs 30,000

- Y = Kshs 1,900,00

- Z = Kshs 500,000

6. 2004 X = Kshs. 200,000

- Y = Kshs. 2,000,000

- Z = Kshs. 180,000

- T = Kshs 200,000

19. BUSINESS TRANSACTIONS

1. 2002

Description	Term
▪ Money bought into business by owner	Capital
▪ Goods bought for resale	Stock
▪ Money withdrawn by the owner for private use	Drawings
▪ Money borrowed by the owner of the business	Loan

2. 2003 - Increase

- Decrease

- No effect

3. 2004

Transaction	Increase	Decrease	No effect
▪ Buying stock in cash			x
▪ Depositing extra cash into business a/c	x		
▪ Drawing cash for private use			x
▪ Buying stock on credit			x

20. THE LEDGER

PAST KCSE QUESTION – PAPER 1

1. 1996	Dr.	Cr.
Capital		99,600
Debtors	30,620	
Creditors		25,000
Motor vehicle	80,000	
Cash	12,250	
Stock	125,270	125,270

2. 1997

San Enterprises Trial Balance As at 31.4. 1995		
	Dr	Cr.
Capital		947, 470
Cash	74,000	
Premises	870,000	
Debtors	36, 520	
Creditors		45,300
Stock	2, 250	
	992,770	992,770

3. 2002.

Kiboko traders Trial Balance		
	Dr.	Cr.
Motor vehicle	240,000	
Current liabilities		440,000
Land and building	200,000	
Current assets	420,000	
Furniture	60,000	
Capital		480,000
Total	920,000	920,000

4. 2002

Dipa Traders Trial balance as at 31 st December 2000			
	Dr.	Cr	
Buildings	100,000		
Debtors	54,000		
Capital		136,000	
Sales		85,000	
Bank overdrafts	2,500		
Purchases	85,000		
Stock		25,400	
Creditors		35,700	
General expenses	31,800		
	259,200	259,200	

5. 2000

i. Cost of sales = sales – Gross profit
 $= 360,000 - \frac{25}{100} \times 360,000$
 $= 270,000$

$$\begin{aligned}
 \text{b) Rate of stock turnover} &= \frac{\text{Cost of Sales}}{\text{Average Stock}} \\
 &= \frac{270,000}{(50,000 + 70,000) / 2} \\
 &= \frac{270,000}{60,000} \\
 &= 4.5 \text{ times}
 \end{aligned}$$

6. 1996

Dr.	Cash A/C	Cr.
	Bank	5,000

Dr.	Bank A/C	Cr.
Cash	5,000	Salaries 2,400

Dr.	Rasi Traders A/C	Cr.
M. vehicle	25,000	

Dr.	Motor vehicle	Cr.
Rasi Traders	250,000	

7. 1998

Dr.	Cash A/C	Cr.
Bal c/c	20,700	Bal c/c
20,700		
Sales	20,700	Sales
20,700		
Bal.c/d	73,900	
Bal c/d	<u>80,700</u>	
<u>80,700</u>		
	<u>73,900</u>	

Dr.	Capital A.C	Cr.
Bal c/d	<u>20,700</u>	Bal
<u>20,700</u>		
Bal c/d 20,700	<u>20,700</u>	Bal c/d
<u>20,700</u>		

Dr	Salaries A.C	Cr.
Cash	<u>8,000</u>	Bal. c. d
<u>8,000</u>		
Bal c/d	<u>8,000</u>	
<u>8,000</u>		

Dr.	Purchases A/c	Cr
Bal <u>20,000</u>		Bal c/d
22,000		
Cash	<u>22,000</u>	
<u>22,000</u>		
Bal. c/f	22,000	

Dr	Purchase A/c	Cr
Bal.	<u>80,000</u>	Bal. c/d
45,000		Cash
35,000		
80,000		
Bal. c/f	<u>80,000</u>	Bal. b/f
80,000		

8. 2004 A/C debited A/C credited
 Creditors Capital
 Cash Capital
 Purchases Bank
 Drawings Cash

9. 2004

Dr.	Cash Account	Cr
		Kshs. 20,000

Dr.	Rent Account	Cr
Kshs 20,000		

Dr.	Purchases Account	Cr
Kshs 30,000		

Dr.	Cash Account	Cr
		Kshs. 30,000

21. THE CASH BOOK

1. 1996 - Contra entry – a transaction that affects both the cash account and the

bank account

Folio column – Reference page on the relevant account

2. 1996 (i) Balance c/d (ii) Contra entry

Cash Kshs 1,680 = 1,680

Bank Kshs 3,600

3. 1997

Temple trader

Cash Boom

Date	Details	Cash 000	Bank 000	Date	Detail	Cash 000	Bank 000
95 Mar				95 Mar			
5	Sales	30	12.5	10			
15	Cash	5	12.5		Creditors		7.5
20	Cash	35		15	Bank		
	Bal	20.1	5	28	Wages	12.5	
	b/d			31	Bal	2.4	5
						20.1	12.5

4. 1998

- Separate it with other accounts

- Quick determination of work flow

- Combine cash and bank accounts

- Easy reference and double entry transactions

5. Increase

Decrease

Dr

Cr

Cr

Dr

Cr

Dr

Dr

Cr

6. 2000

Opening balances

Cash 22,000 – 8,000

= 14,000

Bank

63,000 – 36,000

= 27,700

7. 2001 cash book for the month of July, 1999

Date	Details	Bank	Cash	Date	Details	Bank	cash
July 1999				July 1999			
1	Bal b/d	6,000		1	Bal b/d		2,000
18	Debtors		80,000	22	Tel. Bills	200	
28		16,000		28	Cash		1,600
	Totals	22,000		31	Bal b/d	20,800	62,000
	Bal b/d	20,800				22,000	80,000

8. 2002

Date	Details	Bank	Cash	Date	Details	Bank	Cash
1/3							
1	Bal b/d	13,200	56,000	15/3	Creditor		
2	Sales		12,000	31/3	Rent	7,500	8,200
27	Debtors		24,500	31/3	Bal c/d	17,700	
		25,200	80,500			25,200	72,300
1/4	Bal b/d	17,700	72,300				80,500

Z=

240,000

9. 2003 – To relieve the general ledger of many records that appear
- To make it easy to refer to bank and cash balances
 - To record receipts and payments of cash in hand and at bank

10. 2000 – W – 40,000
 X – 70,000
 Y – 54,000

24. CHAIN OF DISTRIBUTION

1. 1995 – Enjoys credit facilities
 - Provide variety of goods
 - Goods are brought closer to customers
 - They store goods for the consumers.
 - Consumers can make special order for goods.
 - Enjoy personal attention from them
 - Stabilization of prices.
2. 1996 – Consumer is likely to get after sales services
 - Consumer is likely to get technical advice of how to use the goods
 - Consumer is likely to get the goods at relatively low prices
 - Manufactures may arrange the fiancé of the consumers.
 - Consumer is assured that what he is buying is genuine.
3. 1997 – Manufacturer – consumers
 - Manufacturer – retailers – consumers
 - Manufacture – agent – retailers – consumers.
4. 1998 – Nature of the produce

- Availability of middlemen
 - Government policy on the distribution.
 - Cost of the produce
 - Distance between the producer and the consumer
5. 2000 – Increased price
- Like hood of delay
 - Changes of damage to goods due to handling
 - Feedback to the manufacturer
 - Perishable goods may go bad
6. 2001- They may be bought at lower prices
- They may be provided with transport
 - They may receive cash
 - They may be given goods on credit
 - They have a chance to select quality goods
 - They are likely to get goods to ones specifications.
7. 2002 – Linkage – wholesalers act as a link between the producers and the retailers.
- Storage – offers storage facilities to the producers.
 - Breaking bulk – buys in large quantities from producers and sells them into smaller quantities to retailers.
 - Transportation – wholesalers helps in transporting goods from producers to retailers.
8. 2003- When goods are perishable
- When the manufacturers is financially strong to open up retail outside
 - When the manufacturers wishes to take charge of he marketing of the produce.
 - When the manufacturer wishes to have direct contact with the consumer.
 - When the market for the product is limited
 - When there is inefficient infrastructure.

PAPER 2 ANSWERS.

1. 1996- Where goods are expensive for middlemen (cannot afford to stock them)
- Where goods are of technical nature and the producer may want to have direct contact with the customer.
 - Where goods are perishable (and producer wants to deliver them fast to have direct contact with the customer.
 - Where goods are perishable (and producer wants to deliver them fast to the consumer)
 - where goods are perishable (and producer has his own retail outlets
 - Where the market is localized in terms of geographical location / where the producer is close to customers.
 - where the goods are produced according to consumers specifications/ special goods

- where the producer requires immediate feedback
2. 1997- AZango will provide with information regarding the market for their goods
 - The wholesalers will break on behalf of the manufacturers.
 - Zango will sell his stock faster as wholesalers buy in bulk
 - The manufacturer's supply of goods will be stabilized as wholesalers regulates the supply
 - Zango will be relieved of various risks relating to goods to fall in price, demand, non-profitable but essential services.
 3. 2000- from manufacture through own retail outlets to consumers'
 - Manufacturers sell direct to consumers
 - From manufacturer through wholesalers through independent retailers to consumers.
 - From manufacturers through wholesalers through independent retailers to consumers.
 - From manufacturer through wholesalers to consumers.
 4. 1999 – The nature of goods where perishable a direct channel to consumers is more preferred.
 - Size of the market where the market is large, if the consumers are concentrated in one area.
 - Costs where the cost of marketing and distribution are high manufacturers will dispose goods through intermediaries.
 - Lack of facilities / skills where the producer lacks facilities he will call upon intermediaries.
 - Government policy. If the government policy prohibits /required use of a certain channel then it has to be followed.
 - Nature of market depending on consumer's preferences / taste it may require a personal attention of the producer.
 - Competition: Where competition is high manufacture may have to be closer to the consumer.
 - Bulkiness: If the quantity is large along channel is used and vice versa.
 - Technical goods need to be sold direct to consumer in order to provide necessary information.
 - Profitability where producer wants to maximize profit.
 5. 2001 – Where market is spread out for the producer to reach the consumer
 - Where the producer does not have adequate capital to set up own distribution points.
 - Management problems: Where it becomes difficult to manage producers distribution outlets.
 - Poor infrastructure: making it difficult to distribute goods.
 - Government policy: Which may separate the functions which can be by the wholesaler.

- Where the producer lacks transport facilities which can be provided to advertise

- Where the producer wants to get information about the market he will use the wholesaler.

6. 2001 – Foreign producer local consumer.

- Foreign producer foreign agent / exporter local consumer

- Foreign producer local agents / importers local consumer

- Foreign producer's foreign agent local agent / import merchant local wholesaler.

- Local retailer local consumer

- Foreign producer local retailers local consumers

- Foreign producer local retailers local consumers

- Foreign producer's foreign agent local agent / local wholesaler

- Local consumer.

7. 2004 – Kabu manufacturing will be provided with information regarding the market for their goods.

- The wholesalers will break bulk on behalf of the manufacturers

- Kabu manufacturers will sell his stock faster as wholesalers buy in bulk.

- Kabu will be relieved of transport of goods

- The manufacturers supply of goods will be stabilized as wholesalers regulate the supply.

- Kabu will be provided with storage facilities

- Kabu will be relieved of various risks relating to goods to fall in price.

27. FINANCIAL STATEMENTS.

1. 1995 A) Tamwe Traders

Trading A/c		For the period ended 31 st Dec 1994	
	Opening stock	9,000	
28,000	112,000		Sales – 100 x
	Add Purchases	81,000	25
	Sales	+90,000	
	Less c. stock	- 6,000	
		84,000	
	G.profit	28,000	
		112,000	
	112,000		

2. Otwa Traders Statement of W.Capital
As at 31st Dec. 1994

Current Asset		
Stock	4,000	
Trade debtors	2,600	
Prepaid insurance	1,400	
Cash at hand	7,500	15,500
Less current liabilities		
Bank overdraft	6,000	
Trade debtors	3,000	
Accrued red	4,000	13,000

b) Working capital 2,500

Capital A/C			
	Drawing	32,000	
	Bal. c/d	162,000	Bal B/d
			50,000
			Motor Vehicle
			80,000
			Net profit
			64,000
	-		
	194,000		194,000
		Bal B/d	162,000

2. i) Cost of goods sold
 Opening stock + purchases – closing stock
 $35,500 + 190,550 - 25,000$
 $= 201,050$
 $= 201,050$

ii) Percentage of gross profit to net sales
 Net sales = Sales – Sales returns
 $251,250 = 256,050 - 4,800$
 G.P. = Net sales – cost of goods

$$50,200 = 251,250 - 201,050$$

$$\frac{50,200}{251,250} \times 100 = 20\%$$

3. 1996 – Capital = total assets – total liabilities
 = 250,000 + 12680 + 620,500 + 15,500 + 1,500 – 46,520
 = 314,660 – 46,520
 = Kshs. 295,160

4. 1996

<u>Current assets</u>	
<u>Current liabilities</u>	
<u>Stock + debtors + cash at hand</u>	
Bank overdraft + creditors	
<u>20,000 + 32,000 + 22,000</u>	
12,0000 + 25,000	
<u>74,000</u>	
37,000	
=2:1	

5. 1997 – Cost of goods sold
 Goods sold = sales – margin
 = 60,000 – $\frac{(20 \times 60,000)}{100}$ = 48,000

b) The gross profit
 G.P. = $\frac{60,000 \times 20}{100}$ = 12,000

7. 1997 Waso Traders

Balance sheet as at 30th October 1995

Assets		Capital & Liabilities
	Shs.	Shs.
Cash	2,500	Creditors 62,500
Debtors	40,000	LTL
Bank	160,230	2 year loan 40,000
Cash	20,530	Capital 920,750
Premises	800,000	
	<u>1,023,250</u>	<u>1,023,250</u>

8.1998-Kwaso Traders
 Profit & Loss Account
 As at 31.8 .97

Expenses		
Carriage on sale	4,700	G.P
130,800		
G. Exp.	18,200	Comm. Rec.
8,000		
Insurance	4,000	
N, P. b/d	111,900	
	138,800	
138,800		N.p/c/d
111,900		

9. 1998 a) $\frac{240 \times 100}{1,200,000} = 20\%$

b) $\frac{240,000 \times 100}{1,440,00} = 16.6\%$

Capital invested N.P x 100/CL
 $240,000 \times 100 = 20\% = 120,000$
 Capital employed = CE=FA + WC
 $240,000 \times 100$
 Capital employed = CE=FA+ WC
 $240,000 \times 100$
 $1,4440,00$
 $= WC. CA -CL$
 $74,000 -34,000 =40,000 = 16.6 \%$
 $C.E = 1,400, 000 + 40,000$
 $= 1, 440, 000$ or 17%

10. 1999 – Kiboko Enterprises
Trading A/C
For the year ended 30th June 1997

Opening Stock	65,000	Sales	
280,000			
Purchases	190,000	Less Sales	
Less P			
Returns 10,000	180,000	R/ns.	
4,200			
Goods available	245,000		
275,800			
Gross profit	100,800	Closing stock	70,
000			
	345,800		
345,800			

11. Rate of net profit to capital

Cost of sales

Convert margins to mark ups

Convert margins to mark ups

Convert % to fraction

$20/100 = 1/5$

Mark up – $1/5 = 1/4$

Convert $1/4$ into % = 25%

$\frac{G.P}{Sales} \times 25 \times 345,200$

Sales 100

General expenses 59, 800

NP = GP – General expenses

NP = 185,800 - 59,800 = 126,000

Return on capital $\frac{126,000 \times 100}{1,300, 000}$

= 2 %

12. 2000 – Shows asset owned a business

- shows what a business owes

- shows the sources of finance to a business

- shows the liquidity of the business

- shows the net worth of the business

- Can be used to borrow money

- Helps in decision making

13. 200 – If a capital as at 1/1/98 is 250,000
 - Add additional capital 68,000 = 318, 000
 - Capital as at 31/12/1998
 = 406,000

14.	2000		
	Opening stock	8,000	Sales
62,900			
	Add purchases	53,000	
	Less R.O	2,700	
50,300			
	Goods Available for sale	58,300	
	Less Closing Stock	12,700	
	Cost of sales		45,600
	Gross profit	b/d	<u>17,300</u>
			<u>62,900</u>
<u>62,900</u>			

15. 2000 a) cost of sale
 = sales – gross profit
 = 360 – $\frac{(25 \times 360,000)}{100}$
 = 360,000 – 90,000
 = 270,000
 b) Rate of stock turn over
 = $\frac{\text{Cost of sales}}{\text{Average stock}}$
 = $\frac{270,000}{\frac{[50,000 + 70,000]}{2}}$
 = $\frac{270,000}{60,000}$
 = 4.5 times

16. Capital = initial capital + net profit + additional investment – drawings
 = 180, 000 + 140,000 + 90,000 – 50,000
 = 410,000 – 50,000
 = 360,000

17. Gross profit = sales - cost of sales
 = 500,000 – 280,000
 = 220,000

$$\text{Gross margin} = \frac{220,000}{500,000} \times 100 = 44\%$$

18. 2002
TAJIRA TRADERS
Balance sheet as at 31st January 2001

Capital	20,000	Furniture
3,000		
Mema traders	6,000	Stock
6,000		
		Bank
12,000		
		Cash
5,000		
	26,000	
26,000		

19. 2000
Vuno Traders
Profit and loss account for the year ended 31st March 2001.

Discount allowed	7,400	Gross profit
186,200		
Carriage outward	13,000	Rent received
34,300		
Office expenses	19,600	
Salaries	57,000	
Net profit	<u>123,000</u>	
	<u>220,500</u>	
220,500		

Paper 2

1. 1997 Paka Traders
Trading Profit and Loss Account
As at 31 December 1995

Dr	Kshs	Cr.	Kshs
Opening Stock	100,000	Sales	900,000
Purchases	600,000	Purchases returns	20,000
Sales Returns	80,000		
Transportation in	40,000		
	820,000		
Closing Stock (135,000)			
G.P.c/d	235,000		
	920,000		
Expenses			

Carriage out	3,000		
Rent	60,000		
Interest Expenses	18,000		
General Expenses	7,000		
N.P.C/d	147,000		
	235,000		235,000
	N.P.B b/d	147,000	

2. 1998 G.P = Margins – Sales
 $40\% * 270,000 = \text{Kshs } 108,000$
(ii) C.O.S = Sales- GP
 $270,000 - 108,000 = 162,000$
(iii) Net Profit = GP – Expenses
Net Profit = $108,000 - 40,000 = 68,000$
(iv) Average stock = $\frac{\text{cost of goods sold}}{\text{Rate of turnover}}$
 $= \frac{162,000}{6} = 27,000$

3. 2000 (i) Solo Traders
Profit and loss Account for the year ended 31 December 1998

Dr	Kshs	Cr.	Kshs
Salaries	40,000	Gross profit	80,000
General expenses	18,000	Comm. Income	35,800
Discount	5,500		
Insurance	4,800		
Net profit	<u>47,500</u>		
	<u>115,800</u>		<u>115,800</u>

- (ii) Solo Traders
Balance Sheet As at 31 December 1998

Dr	Kshs	Cr	Kshs
F. Asset		Capital	400,000
Buildings	250,000	Net profit	47,500
Equipment	180,000		
Furniture	17,000		
C. Assets		Creditors	90,000
Stock	25,000		
Debtors	<u>65,500</u>		
	<u>537,500</u>		<u>537,500</u>

4. 2001 (i) Yohana Traders

Profit and loss Account

Dr.	Kshs	Cr.	Kshs
Opening Stock		Sales	
4,000,000			
Purchases	2,600,000		
Sales return	40,000		
	2,640,000		
Closing stock	(100,000)		
GP c/d	1,460,000		
4,000,000			
	4,000,000		
Expenses		GP c/d	
1,460,000			
	N.P b/d		

922,000

(ii) Return on capital = net profit x 100

$$\frac{\text{Net - capital}}{(950,000 + 922,000) - 80,000} = 33.02\%$$

$$\text{Current ratio} = \frac{\text{CA}}{\text{CL}} = \frac{32,000}{240,000} = 2.22:1$$

$$\text{Debtors ratio} = \frac{\text{Debtors}}{\text{Net Sales}} \times 365 \text{ days}$$

$$\frac{300,000 \times 365}{3,96,000} = 27.65 \text{ days}$$

5. 2002 (i) Current ratio = CA = 650,000 = 1:1
CL 650,000

(ii) GP mark up

$$\text{GP} = 20\% \times 2,000,000 = 400,000$$

$$\text{COS} = 2,000,000 - 400,000 = 1,600,000$$

$$\text{GP mark up} = \frac{400,000}{1,600,000} \times 100 = 25\%$$

(iii) Rate of stock turnover = C.O.S

$$\begin{aligned} &= \frac{\text{Average stock}}{\text{Average stock}} = \frac{\text{Opening stock} + \text{closing stock}}{2} \\ &= \frac{1,600,000}{150,000} = 10.66 \end{aligned}$$

6. 2003

(i) Maringo Traders
Profit and loss account as at 31 December 2001

Dr	Kshs	Cr.	Kshs
Salaries expense	132,000	Gross profit	380,000
General expense	54,000	Comm. Received	20,000
N.P.c/d	<u>214,000</u>		
	<u>400,000</u>		<u>400,000</u>

N.P. c/f 214, 000

(ii) Maringo Traders
Balance Sheet As at 31 December 2001

Dr	Kshs	Cr.	Kshs
Premises	103,000	Capital	259,000
		Net profit	214,000
		Drawings	(83,000)
C. Assets		C. Liabilities	
Stock	274,000	Creditors	93,000
Debtors	123,000	B loan	50,000
Cash at bank	<u>33,000</u>		
	<u>533,000</u>		<u>533,000</u>

7. $G.P = 25 \times 480,000 = 120,000$
 $C.O.S = Sales - GP$
 $480,000 - 20,000 = 360,000$
 $Purchases = C.O.S + closing stock - opening stock$
 $= 360,000 + 120,000 - 80,000 = 400,000$

(ii) Sarai Traders
Trading Account As at 30th April 2003

Dr	Kshs	Cr.	Kshs
Opening stock	80,000	Sales	480,000
Purchases	400,000		
	480,000		
Closing stock	(120,000)		
	360,000		
N.P c/d	120,000		
	480,000		480,000

(ii) Rate of stock turnover = $\frac{\text{C.O.S}}{\text{Average stock}}$

Average stock = $\frac{80,000 + 120,000}{2} = 100,000$

C.O.S = 360,000

Rate of Stock turnover = $\frac{360,000}{100,000} = 3.55$

8. 2004
Tangao Traders
Balance Sheet
As at December 2004

Fixed Assets		Capital = A- 1	
Motor vehicle	80,000	(255,000	
150,000		75,000)	
Plant & Machinery	70,000		
Current Assets		L.T.L	
Stock	25,000	Loan from Bank	
60,000			
Debtors	30,000	Current Liabilities	
Bank	20,000	Creditors	
15,000			
	<u>225,000</u>		
<u>225,000</u>			

9 2005
Tea Traders
Trading, Profit & Loss Account
For the year ending 31/12/04

	Kshs	Kshs
Opening Stock	25,000	Sales
800,000		
Add purchases	700,000	
Goods Available	725,000	
Closing stock	85,000	
Cost of sales (20/100 x 800,000)	640,000	
Gross Profit	160,000	
	800,000	
800,000		

10. 2005 Molop Traders
Profit and loss Account for the year ending 31/12/04

Expenses	48,000	Gross Profit
320,000		
Lighting	7,200	Commission received
9,870		
Water	9,220	Discount received
8,500		
Salaries	72,500	
Discount Allowed	4,600	
General expenses	98,000	
Net Profit	338,370	
338,370		

Molop Traders
Balance sheet as at 31/12/04

	Kshs	Kshs	Kshs
Fixed assets		Capital	3,000,000
Furniture	650,000	Add profit	98,890
Motor vehicle	2,300,000		3, 098,850
		Current liabilities	
Current assets		Creditors	396,400
Stock	25,250		
Debtors	270,000		
Bank	200,000		
Cash	50,000		
	3,495, 250		3,495, 290

30. PUBLIC FINANCE

Answers paper 2

1. 1995 - Planning activities is a necessary activity which assists organizations to
focus on future operations
 - Budgeting is important in coordinating operations in an organization from different departments
 - Budgeting assists in communicating the intended operations of the organization to interested parties
 - Budgets set standards of performance for the organization which the managers strive to achieve
 - Budgets motivate the managers as they work to achieve the target
 - Budgets helps to control expenditure as those implementing it are expected to operate within its limit
 - It helps the business to identify its areas of expenditure
 - A well planned budget can be used as a means of attracting external finances
 - It helps the business estimate the revenue

2. 2000 - In order to determine organizations earnings/ sales total receipt for a
given period of time
 - To determine all expenses/ payments
 - To determine the balance between the receipt and payment and discover if there is balance surplus or deficit in a budget
 - Determine ways of getting extra income if there is a deficit in the budget
 - Enable the organization to have a forward looking approach
 - Create staff motivation/ coordination if all are involved
 - It is required by lenders of finance/ conditions e.t.c

32. MONEY AND BANKING

PAST KCSE

1. 1995 - One cheque is drawn by customer showing total amount payable to number of
people
 - A list of individual names, their account numbers and total amount Payable
 - The bank then makes payments to individual account
2. 1995 - It is faster means of sending money
 - The sender can be compensated in case the money is lost
 - It is faster way of sending money
 - It is a convenient way of sending money
 - It can be easily traced when it gets lost
3. 1996 - Involve double coincidence of wants
 - Some items cannot be conveniently divided into smaller units

- Some goods are too heavy
- Difficult to determine fair rate of exchange

Statement	True	
(a) Accepts deposits from members of public	x	
(b) Provides safe custody for valuables	x	
(c) Issues currency for use in the country		
(d) Controls money supply in the country		
(e) Lends money to the members of the public	x	

5. 1998- Divisibility

- Portability
- Malleability
- Acceptability
- Homogeneity
- Stability
- Durability

6. 1999 – Bank rate

- Open market operation
- Reserve ration
- Credit rationing
- Moral persuasion
- Selective control
- Compulsory deposit
- Special instruction
- Margin requirement

7. 2000

- Mobilize long term saving
- Provide long term loans
- Provide investment opportunities
- Provide working capital to the public limited companies by investing in
 - Shares
 - Provide education on investment opportunities that they offer guaranteeing loan from external source

8. 2001

- High rate of interest charged on these loans
- Poor profits as a result of poor economy
- Individuals and firms may have cheaper source of loans
- Involve lengthy formalities
- Many people fear the consequences of failing to pay the loans
- Many people do not have recognized property that they can offer as security for

- loans
9. 2002 - Lack of measure of value
- Some commodities are indivisible
- Requires double coincidence of wants
- Some commodities are difficult to carry
- Problems of storage
- Lack of standard deferred payment
- Lack of unit of account
10. 2003 - Accept government deposits for safe keeping
- Issues currency on behalf of government
- Arranges and pays public debt on behalf of the government
- Advises government
11. Car Costs 20,000 dirams
4 dirams = 1 US dollar
Amount of Kshs paid
$$\frac{20,000}{4} = 5,000 \text{ US dollars}$$

Amount paid = Kshs 350,000
12. 2004 – issuing of currency
- Banker to the government
- Banker to controller commercial
- Lender of last resort
- Controlling credit
- Management of foreign exchange reserves
- Implementing government monetary policy
- Management of public debts
13. 2004 - Barter to commodity
- Commodity to metallic coinage
- Metallic to paper money (notes)
- Paper to representative money e.g. cheques
- Representative to plastic money e.g. credit cards.

PAPER 2 ANSWERS

1. 1995 - Providing capital to existing new business
- They carry feasibility studies for potential investors
- They provide advisory services on how to set up and ran invest projects
- They support investments in areas which would otherwise not be financed by other financial institutions due to risks involved
- They generate revenue to the government to pay taxes or dividends to the government
- Create employment opportunities
- Mobilization of savings investments
2. 1996 - The traders can withdraw money at nay time without notice

- Cheques are used for payments instead of cash
 - Traders can arrange for overdrafts facilities with the management of the Bank
 - The bank can pay on behalf of the trades such as standing orders
 - There is no minimum balance required in the account
 - Purchases can be made post dated cheques
4. 1997
- Accepting deposits form commercial bank
 - Advice commercial banks on financial matters
 - Supervises the operations to commercial banks
 - Facilitates the clearing of cheques
 - Gives loans to commercial banks operations
 - Sale of foreign currency
5. 1998 - commercial banks give short term descending bill while NBF don't
- Commercial banks give loans for a variety of purposes
 - Commercial banks offer current facilities NBF do not offer such Services, commercial banks issues cheques
 - Commercial banks clear cheques through the clearing houses while NBF do not
 - Commercial banks provide means of payments NBF don't
 - Commercial bank exchanges foreign currency NBF don't
 - Commercial banks provide locker facilities]
6. 1999 - Bank rates.
- This is the rate at which the central bank lends to commercial banks. It can be varied to encourage or discourage credit/ raising/ lowering bank rate
- Open market operation
- The central; bank may sell or buy securities in the market. Selling securities reduces the money supply (for lending)
- Special deposits/ compulsory deposits/ minimum reserve requirements
- The central bank require other financial institutions to have a certain percentage of deposits deposited in the central bank which can be varied to encourage / discourage credits
- Cash ratio/ liquidity ratio
- The ration of cash/ deposits may be carried to control money supply credit which can be increased to reduce money supply/ can be decreased to increase money supply.
- Moral persuasion/ Liquid assets persuasion
- The central bank may appeal/ request/ persuade/ restrain leading/ credit rationing. 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

- 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.
- 7. 2000 - Overdraft facilities – A customer who operates a current account with a commercial bank may require the bank to allow him overdraft his account
 - Discounting of bills of exchange/ promissory note may request a commercial bank to discount to pay the bill note before maturity
 - Formal loans- an individual can apply to commercial bank for a personal loan
 - Plastic money – Credit card holders may present such cards and have credit advanced to them by commercial bank
 - Treasury bills- banks advance to the government on exchange of the bill/bond
- 8. 2002 - Collateral security valued by appointed valuers
 - Account from leading bank at least six months old
 - Bank statements for the last six months busy account to determine credit Worthiness
 - Quarantine to be followed in case of default
 - Intended purpose of the loan
 - Agreement on the repayment
 - Appraisal fee/ charge to determine credit worthiness by a bank
- 9. 2002 - Accepts deposits for safekeeping
 - Licensing the operations of commercial banks
 - Supervision of banking operations
 - Provide clearing hoses facilities fro cheque
 - Giving commercial banks, loans as the tender of the last resort
 - provides advisory services, banking economic matters
 - Central bank is a source of currency for commercial bank operations
- between them
 - Buying and selling foreign currency from commercial banks
 - Acts as a mediators for commercial banks in case of dispute
- 10. 2002 - It repatriates excess foreign currency on behalf of commercial banks
 - Statutory management during financial crisis
- 10. 2002 - It is an expensive source of finance as the interest charges are very high
 - Frequent use of overdraft use of overdraft could be sign of poor management hence
 - it make it difficult to obtain credit. Bank may recall the overdraft any time
 - Overdraft are not easily available unless one is well known

- Interest repayment cannot be planned for with certainty
- Limited access- overdrafts is only given to current account holders only
- Security – the lenders may require security/ property pledge
- Limited amount are hence unsuitable for long term financing
- Repayment patterns are unplanned hence any deposits made in the account are assumed to be repaying the overdraft
- Short repayment period which affects the cash flow of firm adversely

11. 2003 -They do not provide current account (facilities) while commercial banks provide the

facilities. In commercial banks current A/C holders use cheques/
commercial bank

issues cheques while NBFI don't

- They provide long term loans while commercial banks provide short term loan while commercial provide short term loan / overdraft / discounting bills of exchange NBFI don't
- Non- bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/ supervised/ banking act.
- The NBIFs lend money for specific purpose/ specific sector while commercial bank provides general finance
- Commercial bank credit while NBIF don't create credit
- Commercial bank means of payment / transfer of money while NBFIs don't
- Commercial bank exchange foreign currency while NBFI don't
- Commercial bank provides safe (for later bankers) while NBFI don't
- Commercial bank gives letters of credit in IT while NBFI don't
- Commercial bank provides lockers facilities/ safe custody for valuables while NBFIs don't

12. 2004 - pay creditors cheques, hence safety and does not have to go to the bank

- They can get bank overdraft facility when they do not have enough cash
- They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account
- They can withdraw large sums of money without notice convenient for business
- They can make withdraws as many times as they wish thus enabling them to access money when needed.
- They can give post dated cheques if need arises, thus enabling them to be aware of their bank balances
- one can withdraw large sums of money without notice, which is convenient for the business

- One can get bank overdraft facility when one does not have enough cash
- One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the accounts
- Safety is enhanced as one pay creditors using a cheque and does not have to go to the bank

13 - One can give post dated cheques if need arises, thus enabling clearing of debts at a future date.

- One can make withdrawals as many times as they wish thus enabling them to access money when needed
- One can get issues of regular statements thus enabling them to be aware of their bank balances.
- One can withdraw large sums of money without notice, which convenient for the business.
- One can get bank overdraft facility when one does not have enough cash.
- One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
- Safety is enhanced as one pay creditors using a cheque and does not have to go to the bank.

13. 2005 - Safe keeping of valuables items. Commercial bank acts as custodian of

valuable item for the clients such as wills, title deeds, jewellery etc.

- They lend money to their clients in form of loans, overdrafts or discounting bills of exchange and promissory notes.
- They receive money deposits from their clients commercial banks operate 3 types of accounts for this purpose namely savings, current and fixed deposit account.
- They facilitate transfer of money through cheques, credit transfers standing orders etc.
- They advice their clients on financial and investment matters.
- They facilitate international payments through letters of credit.
- They act as management trustees of properties of business of deceased clients.
- They act as referees for their clients during a credit status inquiring.

3. INTERNATIONAL TRADE.

1. 1995 – Obtains loan from PTA
 - Obtains wide market for goods
 - Obtain loan from PTA bank
 - Promotes understanding between states
 - Promotes understanding between states
 - Reduced customs duty.
 - Obtains goods cheaply
 - She can get goods that she cannot produce
 - There is need for foreign exchange when importing goods from PTA members.
2. 1996- To protect infant factories
 - To avoid dumping
 - To correct balance of payment deficit
 - To raise revenue
 - To protect existing local industries.
3. 1997 – Earn foreign exchange
 - Access a wide market
 - Country can get what it doesn't produce
 - Promote good international relations
 - Wide variety goods
 - Create employment
 - Country can be assisted during calamities
 - Improve living standards
 - Leads to competition hence high quality goods.
4. 2000- Tariffs on imports
 - Subsidies to control local producers
 - Exchange control
 - Quotas
 - Total ban
 - Long import producers
 - Administration
5. 2000- Exporters to be export compensation
 - Exporters to be paid export compensation as an incentive
 - allow waivers for customs duty on raw materials meant for production of export
 - Negotiate for preferential treatment of Kenya products abroad
 - Government subsidy on some expenses
 - Establishing advisory bodies
 - Customs drawbacks
 - Revaluations of Kenya shillings
 - Simplicity of export procedures
 - Export guarantee schemes
 - Exporters producing high quality goods
 - sponsor exhibition for Kenyan goods abroad
6. 2001 – Lack of good will

- Similar products
- Bureaucracy.
- Difference in heights and measures
- Political
- Language barrier
- Cultural difference.

7.	2000		
		Statements	Documents
		- Informs buyers when goods dispatched And by what means	Advise note
invoice		- A request by seller for payment in advance	Pro-forma
		- Used to correct an undercharge in an invoice	Debit note
		- Shows details in the transaction between a seller And a buyer during a given period of time	Statement
of account			

8. 2001 - Causes exhaustion of non-renewable resources
- Threat to growth of local industry due to importation of cheaper and better goods
 - Importance of goods that have adverse effect on citizens, like consumption of harmful imported products
 - Erosion of cultural value due to coping of undesired foreign habits
 - Police blackmail due to political difference
 - Increased inflation due to importation of expensive goods
 - May lead to dumping when local market is flooded with cheap goods.

9. 2001 – When goods are sent on an agent to show selling prices
- When the seller doesn't want to give credit to the buyer
 - When payment for goods is required in advance
 - When the importer want written clearance before goods are sent
 - When goods are sent to a trader
 - When answering an inquiry letter
 - When the consignee of goods wishes to determine profitability before selling

10. 2002 – LOCO - Price of goods whenever they are laying (transport, packing expenses met by importer)
- FOR – price paid cover transport and loading for rail
 - FAS –(Free alongside ship) price paid is for transport up to alongside ship.
 - Bill of lading- documents that are given particular of goods to be shipped by a consignor to the consignee. It includes price of consignment. A document of title.

11. 2003 – Protection of consumer against exploitation (high prices and low quality)

- Carry out market research on distribution of essential goods and services
- Promotion and development of internal trade.
- Acts as a mediator for commercial banks in case of dispute between them.
- It repatriates excess foreign currency on behalf of commercial banks.
- Statutory management during financial crisis.

10 2002 – it is an expensive source of finance as the interest charges are very high

- Frequent use of overdraft could be a sign of poor management hence it make it difficult to obtain credit. Bank may recall the overdraft any time
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- Non-bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/supervised/banking act.
- The NBFIs lend money for specific purpose/specific sector while commercial bank provides general finance.
- Commercial bank credit while NBFIs don't create credit.
- Commercial bank means of payment/transfer of money while NBFIs don't.
- Commercial bank exchange foreign currency while NBFIs don't.
- Commercial bank provides safe (for later bankers) while NBFIs don't.
- Commercial banks give letters of credit in IT while NBFIs don't.

- Commercial bank provides locker facilities/safe custody for valuables while NBFIs don't.
12. 2004 – Pay creditors using cheques, hence safety and does not have to go to the bank.
- They can get bank overdraft facility when they do not have enough cash.
 - They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
 - Controlling and licensing of business
 - Controlling business rent through rent tribunals.
 - Advise business people on better production and business management through seminars, workshops, journalism etc.
 - Give loans to businessmen
12. 2003- Increasing volume of imports.
- Initiating or completing
 - Development project in the country
 - Increasing the amount by which it services foreign countries
 - Enables a country to obtain what she does not produce.
 - Enables consumers in the trading countries to obtain a variety of goods and services
 - Enables a country to obtain goods more cheaply that it can produce
 - Provides revenue to the government through taxes.
 - Enables a country to fully exploit the resources due to widened market
 - Promotes competition between imports and locally produced goods and this improves quality of goods produced.

PAPER 2

1. 1995 – The country is able to export surplus goods
- The country is able to buy what it does not produce
 - The country is able to earn foreign exchange.
 - Consumers in the country enjoy a variety of goods
 - The country is able to acquire technology from other countries
 - Country's citizens may acquire/ learn positive habits lifestyle
 - It enables a country to specialize in fields where it is best suited
 - Promotes healthy competition among local and foreign manufacturers
- e.g floods
- A country variable to get goods even during times of calamities
 - It creates employment opportunities for citizens.
 - It generates revenue through taxes.
2. 1996 – It records tangibles/ visible exports.
- It records tangible/visible exports

- It records non tangible/visible imports.
 - It records non tangible imports services.
 - Inflow of loans/grant by foreign government.
 - Inflow of private capital
 - Out flow of loans by a government to other countries
 - Monetary movement form IMF/ world Bank
3. - By participation in international trade fairs
- By using her commercial attaches to promote countries of accreditation
- By subsidizing production of export / giving boundaries through export compensation.
 - By diversifying her export/ relying on different products
 - By entering into (bilateral) trade agreement
 - By lowering duties on imported raw materials meant for export/customs drawback
 - Lending/ making finance available for export producers
 - Reduce bureaucracy in licensing of export trade
 - By establishing EPZ
4. 1998 – Terms of trade: the rate at which exports on one country exchanges with imports. ToT = Price index of exports determines whether the trade between one country and another is favorable.
- Balance of payment: the difference between both capital and current exports and imports of a country. If the value of exports is higher, the country experiences a surplus and vice versa. It determines whether a country is experiencing surplus in I
 - Exchange rate: rate at which a country's currency exchanges with another. This rate determines the value of exports and imports/ shows its indication of a country's economic strength.
 - Balance trade: the difference between the value of a country's visible tangible imports and its value of exports is higher than imports.
 - Determines whether a country is experiencing surplus/ deficit trade
- Common market: an agreement between countries that allow free movement of goods and factors of production. This allows mobilization of resources/ trade without restriction.
5. 1999 – Bill of landing: it is a document used in transporting goods by ship. It enables the holder to take possession of goods. It entitles the holder to take possession to goods imported.
- Performa invoice- a document sent in advance of goods being exported.

- Indent- an order placed with agent of exporter. It is used to assist the exporter of agent to know where to buy goods. It used to assist the agent to select on exporters.
 - Letter of credit – an official letter from a bank allowing another bank in foreign country to pay an exporter on behalf of the importer.
6. 2000 – Highlight earnings from exports than payments than payments for imports
- Low importation by citizens
 - Increased prices of export
 - Through same quality bought
 - Receipts in forms of capital transfer from abroad
 - Restricted importation.
 - Improved economy/raised gross domestic products
7. 2001- poor infrastructure which discourages investors makes local goods less competition
- High production costs which may make local products expensive
 - Insecurity: may discourage investors/discourage tourism
 - Corruption / embezzlement of funds which may add to extra costs to project
 - Shortages of energy may hamper the operations of the investors
 - Inadequate funds may make it difficult for KETA to achieve its aims
- Political interference which hinders the smooth running of KETA
 - Competition from other countries which makes it difficult for the Kenyan goods to sell.
8. 2001- High prices of imports. Lower prices exports compared to countries exports.
- Advice/fall in exchange rates / depreciation of local currency which makes the imports expensive
 - Appreciation of foreign currency which makes imports more expensive
 - Low / fall in demand for country's exports more expensive
 - Competition (from similar products of other countries in the same market which leads to decrease hence lower export prices
 - Devaluation of local currency thus making imports more expensive making exports cheaper
9. 2002- Carries out sales promotion for Kenyan goods into foreign markets
- Provides advisory services to Kenyan exporters
 - Publishers business journals in imports
 - Advises Kenyan manufacturers on the right specifications of goods acceptable in the world markets.
 - Trains/ arranges seminar/ courses on foreign trade.
 - Assists in diversification of exports

- Assists in finding markets abroad.
 - Play role in multilateral trade agreements
 - Arrange for export credit guarantee scheme for exporters
10. 2002 – Kenyans can buy/ import variety of goods from other countries
- Kenya is able to export her surplus
 - Kenya can export her human labour/ technology
 - Kenya gets foreign exchange
 - International understanding between Kenya and her trading partners
- During the time of calamity, Kenya can get assistance from other countries
- Kenya is likely to specialize
 - Kenya can import goods that it does not produce
 - Kenya can import skills
 - Kenya can import capital
 - Create employment
 - Leads to improved standards of living in technology for Kenya
 - Government earns revenue
 - Improved quality of goods.
11. 2003 – Market imports to the country
- It can be inflationary
 - It can lead to low earnings from exports
 - Can lead to high costs of bank credit
 - May discourage investments in the country
 - May lead to deteriorating terms of trade.
12. 2004 – He uses it as a document for future reference.
- He uses the bill of lading to countercheck his goods on arrival
 - He can use it to get money for clearing, once the goods have come
- He can use it as a proof of business transaction
 - He can use the bill to claim compensation in case all the goods indicated do not reach him.

BUSINESS STUDIES MARKING

SCHEME P1 2006

1. Advantages of operating a partnership from business.
 - (a) There is possibility of raising more capital
 - (b) Partners bring in different talents and skills/ specialization
 - (C) Partners can share the work load
 - (d) Where losses occur, partners share them
 - (e) Decisions are discussed by partners before implementation/
better decision
 - (f) Few legal requirements/easier to start

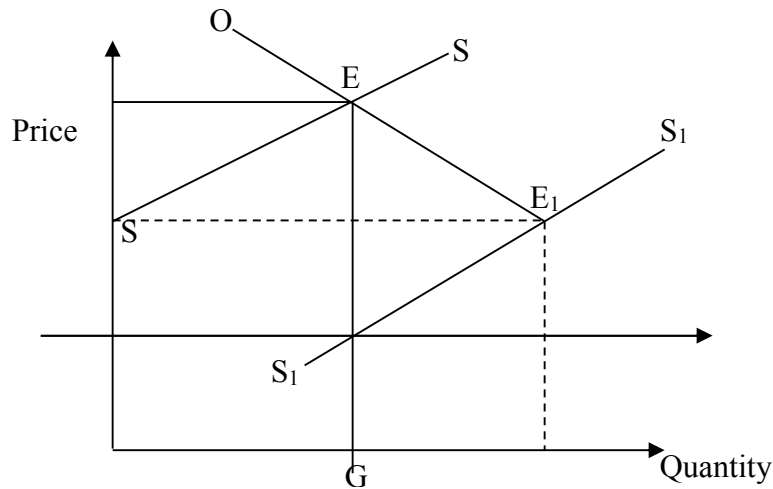
2. Risks against which a shopkeeper may insure
 - (a) Occupational hazards for employees- risk against possible harm
on employees on
duty/workman's compensation
 - (b) fire-loss of property due to fire
 - (c) Theft and burglary- loss of property due to break- ins
 - (d) Goods on transit.

3. Ways in which a government can participate in the operations of a state
corporation.
 - (a) Appointing the board of directors
 - (b) Availing financial support
 - (c) Supervision of the activities of the corporation
 - (d) Providing policy guidelines
 - (e) Auditing the accounts
 - (f) Facilitating training
 - (g) Providing legal advise

4. Considerations that a seller should take into account be fore giving
credit to a new customer.
 - (a) Reliability- check if the customer is an honest per son who can
honour the debt as
agreed/character
 - (b) Ability to pay – find out if the customer is an honest per son
who can honour credit.
 - (c) Capital- check whether the customer has assets that can cover all
his liabilities
 - (d) Collateral- checks whether the customer has resources to repay
the credit to make sure that credit is covered.
 - (e) Prevailing economic conditions-consider if the status of the
economic climate is healthy to warrant giving the credit
 - (f) Credit period
 - (g) Amount of stock available

5. Levels of production
 - (a) Levels of production
 - (b) Secondary
 - (c) Tertiary

6. Advantages of personal selling.
 - (a) Creates goods relationship between customers and seller
 - (b) The seller has a chance to explain finer details of the product
 - (c) The seller can collect information regarding the demand of the product
 - (d) Seller can persuade the customer to buy the product
 - (e) Full knowledge of the product
 - (f) Ability to tailor the product according to customers needs
 - (g) Capable of targeting a specific group.



8. Assumptions associated with perfect competition firms.
 - (a) Large number of seller and buyers exist in the market
 - (b) Production of identical (homogeneous) products by different firms.
 - (c) There is no government interference
 - (d) There is free entry and exist from the industry
 - (e) Uniformity of buyers and sellers

9.
 - (a) Cyclical employment due to relatively low general demand for goods and service
 - (b) Structural unemployment due to technological unemployment
 - (c) Seasonal unemployment-due to relatively low demand for labour at certain times of the year
 - (d) Frictional unemployment due to time lags i.e time taken in changing jobs

- (e) Involuntary unemployment – wanting jobs at prevailing wages and cannot get them.
10. Benefits to manufacturer who uses modern technology
- (a) Increase level of output
 - (b) Improvement of service delivery
 - (c) Saving on production time
 - (d) Standardization of products
 - (e) Lower production of waste
 - (f) Reduction of waste
 - (g) Better quality goods.
11. Benefits of electronic filing
- (a) Easy access
 - (b) Reduction of labor costs
 - (c) Less storage facilities
 - (d) Update with ease
 - (e) Less paper work
 - (f) Environmental friendly
 - (g) Use of network
 - (h) Less time taken
 - (i) It is safe
 - (j) Production safety
12. Social responsibilities of manufacturing firm
- (a) Participation in community programmers
 - (b) Applying appropriate waste disposal management
 - (C) Providing affordable products to the community
 - (d) Conservation of the environment
 - (e) Community development
 - (f) Provision of employment
 - (g) To engage family members in employment
 - (h) Positive cultural practice
 - (i) Encouragement from family members and friend
 - (j) Availability of infrastructure
 - (k) Availability of market
 - (l) Hobbies interests and talents
 - (m) Modern technology
13. Factors that encourage entrepreneurship in Kenya
- (a) Use of relevant business curriculum in learning institutions/vocational training
 - (b) Government support in development of entrepreneurs/ subsidies
 - (c) Existence of models in entrepreneurship/ role models
 - (e) Access to business finance /capital
 - (f) Need for a job

14. Some characteristics of economic resources
- (a) Scarcity
 - (b) Have monetary value
 - (c) Are unevenly distributed
 - (d) Are capable of alternative uses
 - (e) Can be combined in various proportions
 - (f) Have utility usefulness
15. Reasons why one would prefer a letter to telephone to send a message
- (a) Provides evidence
 - (b) Can be filed for future reference
 - (c) Relatively cheap
 - (d) Appropriate for complex messages
 - (e) Appropriate for confidential information
- 16.
- (a) Increase
 - (b) Decrease
 - (c) Not effect
 - (d) Decrease

17. Chebi traders

Trial balance as at 31 st march 2005

	Sh.	Sh.
Sales		240,000
Purchases	240,000	
Motor Van	300, 000	
Equipment	120,000	
Debtors	80,000	
Creditors		440,000
Expenses	160,000	
Capital		<u>440,000</u>
Sales	<u>900,000</u>	<u>900,000</u>
= (4 marks)		8x ¹ / ₂

18. (a) $\text{Margin} = \frac{\text{G.P}}{\text{Sales}} \times 100$

$$= \frac{500,000 - (320,000 + 80,000 + 40,000)}{500,000} \times 100 = 28\% \text{ Or } 28$$

=2:1 (b) Current ratio = $\frac{CA}{CL} = \frac{180,000}{90,000}$

(c) Rate of stock turnover = $\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{360,000}{80,000+40,000} = 3 \text{ times}$ (4 marks)

19. (a) The tax collected at source and hence predictable
 (b) It is simple to administer.
 (c) The tax has a wide base and therefore more is collected.
 (d) A small change in tax rate is not easily felt by the taxpayer.
20. (a) Increase money supply unaccompanied by proportionate increase in the output of goods and services.
 (b) Increase in government expenditure.
 (c) Abnormal speculation and hoarding goods to create artificial shortages hence raising prices of goods.
 (d) Uncontrolled increase in costs of productions.
 (e) Increase in profit margin.
 (f) Reduction in subsidy.
21. a) Providing finances to reduce budgetary deficits
 b) Provide loans for development projects.
 c) Provide finance to correct and adverse balance of payment.
 d) Provide technical expertise to support development.
22. a) Lack of adequate information.
 b) Bureaucratic rigidities.
 c) Inadequate political good will.
 d) Inadequate financial resources.
 e) Inadequate human resource.
23. a) He needs only a small amount of capital.
 b) He gives personal attention to customers.
 c) His operations can be flexible.
 d) Outlet is easy to manage
 e) There is legal requirement.
 f) He does not have to share profits with anyone
 g) Maintains business

24.

- a) 0
- b) 200
- c) 1,200
- d) 2,200

25.
Wanji traders
Balance sheet
As at 30th June 2005

	Sh.	Sh.	
Machinery	550,000	450,000	Capital
Stock	60,000		5 year loan
	270,000		
Debtors	120,000		Creditors
	60,000		
Bank	180,000		
Cash	<u>70,000</u>	<u>430,000</u>	
	880,000	880,000	<u><u> </u></u>

**BUSINESS STUDIES MARKING SCHEME
P2 2006**

- i)
 - Human resources / labour / working population / manpower
 - A country with skilled / (highly) trained / large manpower can produce quality/quantity goods/services / can generate high income.
 - A country with unskilled / or untrained / small manpower can produce low quality / quantity goods / services can generate low income.
- ii) Natural resources / land / gifts of nature / accept gift of nature
 - a country endowed with natural resources can produce more good / services / can generate income.
 - A Country not well endowed with natural resources may produce less goods /services / can generate less income.
- iii) (Level of) technology

- High level of technology may produce low quality / quantity of goods / services / generate high income.
- Low level of technology may produce low quality / quantity goods / services / generate low income.
- iv) Capital (equipment) / man – made resources / accept if manmade resources e.g. infrastructure buildings.
 - Availability of capital / manmade resources (goods) makes production easy / preserves production (resulting in increased natural income) / may generate high income.
 - Lack of capital / or makes production different / reduces production / may generate low income.
- v) Foreign investment
 - Investments from abroad may increase natural income to the country / increase production of goods / services / investments abroad may increase national income.
 - Reduction of foreign investment may reduce production of goods / services / income.
- Vi) Good governance / political stability
 - Production of goods / services / investments / income increase as a result of good governance / political stability creates confidence in investors.
 - Poor governance / political instability reduces savings / investment / damages / investment / reduce incomes / production of goods / services.
- vii) Culture / entrepreneurship
 - Culture that encourages hared / work / entrepreneurship reduces production of goods / services / may generate low income.
 - Culture that encourages hard / work / entrepreneurship reduces production of goods / services / may generate low income.

Financing a budget deficit

- i) (Inflationary financing) Borrowing from the central bank through overdrafts / short term loans / accept use of examples to explain.
- ii) Borrowing from international money markets / agencies / financial institutions / non- banking financial institutions such as IBRD / IMF / World Bank / PBR / provides funds / revenue for government / accept use of examples.
- iii) Borrowing from capital markets such as ICDC / insurance companies / AFC / NPCK / procedure by selling bonds.
- iv) Borrowing from domestic money markets such as commercial banks / selling treasury bills and / bonds / promissory notes / I.O.U.
- v) Borrowing from other countries / multilateral / Bilateral borrowing through loans / buying goods / services on credit.

- vi) Borrowing from members of the public by selling treasury bills / bonds/ promissory notes.
- vii) Grants / donations / from donor countries / finances / individuals.
- viii) Printing more currencies
- ix) Imposing conditions / new / taxation in related goods / services / increased government revenue / raise funds.

**2(b) FAULA TRADERS
TRADING, PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 ST DECEMBER, 2005**

Purchases	400,000	Sales	600,000
Less closing stock	60,000	Less sales returns	20,000
Cost of sales	340,000		
Gross profit C/D	240,000		
	580,000		
	<hr/>		<hr/>
	580,000		580,000
	<hr/>		<hr/>
General expenses	60,000	Gross profit	240,000
Depreciation – motor vehicle	120,000		
-furniture	24,000		
Rent expenses	10,000		
Net profit	46,000		
	<hr/>		<hr/>
	260,000		260,000
	<hr/>		<hr/>
	<hr/>		<hr/>

(14 x ½) =

7 marks)

**2b) FAULA TRADERS
TRADING AND LOSS ACCOUNT ENDED 31 – 12 – 2005**

Purchase	400,000	Sales	600,000
Sales returns	20,000	Closing stock	60,000
Gross profit C/D	240,000		
	<hr/>		<hr/>
	660,000		660,000
	<hr/>		<hr/>
	<hr/>		<hr/>

(7 X ½ = 3 ½ marks)

**FAULA TRADERS
TRADING, PROFITS AND ACCOUNT FOR THE YEAR ENDED
31.12.2005**

Sales	600,000	
Less return inwards	20,000	
Less cost of goods sold		580,000
Purchases	400,000	
Less closing stock	60,000	
Cost of sales		<u>340,000</u>
Gross profit C/D		240,000
Add commission		<u>20,000</u>
		260,000
<u>Less expense</u>		
General expenses	60,000	
Less depreciation	120,000	
Furniture	20,000	
Rent expenses	10,000	<u>24,000</u>
Net profit		46,000

**FAULA TRADERS
BALANCE SHEET
AS AT 31.12.2005**

Motor vehicle	600,000		Capital
700,000			
Less depreciation	120,000	480,000	Add net profit
46,000			
	<u>746,000</u>		
Furniture	240,000		
Less depreciation	24,000	206,000	Creditors
180,000			
	<u>216,000</u>		
<u>Current asset s</u>			
Stock	60,000		
Debts	120,000		
Cash	50,000	<u>230,000</u>	

**FAULA TRADERS
BALANCE SHEET AS AT 31/12.2005**

Capital	700,000
Add net profit	46,000
	746,000

Represented by:

Fixed assets	Motor Vehicle	600,000	
	Less depreciation	120,000	480,000
	Furniture	240,000	
	Less depreciation	24,000	216,000
		696,000	

Add current assets	Stock	60,000
	Debtors	120,000
	Cash	50,000
		230,000

Less current liabilities	180,000
Creditors	50,000
Working capital	740,000
Capital employed	

(10
x ½
= 5
mar
ks)

3 (a) BENEFITS OF A COMMUNITY INVOLVED IN BUSINESS ACTIVITIES

- i. There will be an opportunity to utilize available resources that would otherwise have stayed idle/the community will be able to utilize idle resources.
- ii. There will creation of employment for those engaged in trading activities/ various/different trading action
- iii. Trade will also lead to expanded / wide markets for goods / services (produced)
- iv. Variety of goods/services (for exchange will be available giving people a choice/to satisfy different consumer needs.
- v. Growing/increased income/earning of income to purchase/continue more goods/services
- vi. New business/more business opportunities (will be started as people's needs continue to increase/more business opportunities to provide support services/other services.

- vii. Increased production of goods/services making more goods/services available to the community/when these meet consumer needs.
- viii. Entrances specialization/division of labour/improve quality of goods due to exchange of goods/services/which leads to quality goods/services.
- ix. Improved technology due to exchange of ideas/skills, machinery, employment.
- x. Poorer/understanding due to interdependence/interaction.
- xi. Sale/disposal of surplus goods/services to minimize wastage.
- xii. Factors goods/services they don't produce by buying them from others.
- xiii. Improved infrastructure e.g. roads, amenities, railways e.t.c.

3 (b)

- i. Encourage members/help to save (big making regular contribution)
- ii. Provide loan facilities to members based on member's contribution.
- iii. Members receive dividends based on their shares/they give dividends to their members.
- iv. Members are educated/advised on cooperative activities/their rights/their obligations.
- v. Some SACCOS have front office banking facilities/front office services for their members.
- vi. They give interest to their members.
- vii. They charge low interest on loans.
- viii. They insure member's contributions/members loans are written off on death.
- ix. They give loans on easy terms/conditions.
- x. Members savings/new contribution is doubled upon death of a member.

4 (a)

- i. It may that the goods are produced according to customer specifications
- ii. The firm may be having their own retail outlet/distribution facilities.
- iii. The market may be localized/near (in terms of geographical location).
- iv. The goods may be expensive and middlemen cannot be able to stock them.
- v. The goods may be of a technical nature/require after sales services.
- vi. The goods may be perishable (and the firm may want to deliver them fast to the consumer).
- vii. The firm may want to have direct contact with customers/get immediate feedback/create good impression.
- viii. Where customers order for goods direct from the trader/firm
- ix. If there are no middlemen
- x. Where government policy requires goods to be sold directly to consumers.
- xi. Where the goods imported are in small quantities.
- xii. Where the size of the market is small.

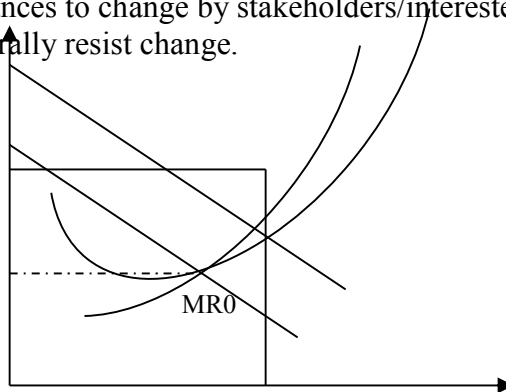
- xiii. Where the firm would maximize profits by selling directly to consumers.
- xiv. When there is stiff competition.
- xv. Where the rest of distributors time in middlemen make the price of products high/expensive

4 (b)

- i. Retaliation by other trading partners/countries leading to reduction in exports.
- ii. Low/foreign exchange earnings due to reduced exports.
- iii. Curtailed transfer of technology/factors of production that may lead to poor quality production/low quality of products/low output.
- iv. Lack of variety of/limited products which restricts consumers' choice.
- v. Poor international relations which may lead to conflicts among consumers/may not get assistance in times of calamity/needs.
- vi. Leads to increased unemployment due to reduced trading activities.
- vii. May suffer balance of payment as a result of reduced income of exports.
- viii. Reduced competition leading to low quality goods/services/inefficient firms/exploitation of consumers.

5 (a) Limitation of use of containers

- i. Specialized equipment which are expensive. The method calls for specialized equipment for handling goods which are lacking/expensive to buy/use/maintain.
Accept examples of specialized equipment e.g. handling and offloading machines.
- ii. Organization personnel/talents/training/operational/management skills needed for the method may be lacking/training may be expensive.
- iii. Volume of business may not be large enough/warrant the heavy investment/volume of business may be low.
- iv. Initial capital needed for the system/not easily available/expensive.
- v. The method requires re-degrading of existing ports/reconstructing part which is quite expensive.
- vi. Use of medium technology which is limited/lacing/not readily available/limited medium technology (in a developing country) which may slow the rate of processing goods.
- vii. General resistances to change by stakeholders/interested/affected parties of people generally resist change.



- The monopolist will produce at a point where $MRO = MC$ at point B
- CD/OQ is the quantity produced while (f, is the point which the monopolist is willing to sell.

6(a) Functions of money

- i. Used / serves as a medium of exchange. Money can be exchanged for goods/services removing the problem of barter/ can be used to buy goods/ serves as it is generally accepted as a medium of exchange.
- ii. Measure of value: Value of goods / services can be compared / estimated / determined/ calculated / assigned.
- iii. Store of value: value of goods / services can be stored in form of goods / services are recorded in terms of money.
- iv. Standard of deferred payments / money assist of conduct business on credit / where payment are made later.
- v. Unit of account. Values of goods /services are recorded on term of money.

6(b) Determine total sales

(i) Debtors control allows

Opening balance	400,000	Receipts/cash	
1,400,000			
Credit Sales	1,582,000	Returns inwards	
42,000			
		Balance c/d	
540,000			
	1,982,000		
1,982,000			

= Credit sales +cash sales

Therefore total sales = $1,982,000 + 250,000 = 1,832$
 (7x1/2 = 3 1/2 marks)

(ii) Determine total purchases

Creditors Control account			
Payments/cash	200,000	Balance b/d	800,000
Balance C/D	950,000	Credit Purchases	2,150,00
	2,950,000		2,950,00

Total purchases = Credit purchase + cash purchases
 = $2,150,000 + 320,000$
 = 2,470,000

CHERU TRADERS
TRADING ACCOUNT FOR THE PERIOD ENDED 31.12 2005

Opening stock	920,000		
Sales	1,532,000		
Purchases	2,470,000	Less returns	
40,000			
Add carriage inwards	46,000		
	1,790,000		
Total purchases	2,516,000	Gross loss	
396,000			
Less drawings	50,000		
	2,466,000		
Net purchases	3,386,000		
Less closing stock	1,200,000		
	2,186,000		
	2,186,000		

6. (c) alternative I

Receipt/ cash from debtors	1,400,000		
Add returns inwards	42,000		
Add closing balance of debtors	540,000		
	1,982,000		
Less opening balance of debtors	400,000		
Credit sales	1,582,000		
Total sales = Kshs. 582, 000+ 250,000			
= Kshs. 1,832,000			
(7x1/2 =3 ½ marks)			

Alternative II

Payment/Cash to creditors	200,000		
Add closing balance of creditors	950,000		
	2,950,000		
Less Opening balance of creditors	80,000		
	2,150,000		

Total Purchases = 21,500+ 320,000= Ksh. 2, 470,00 (6 x ½ =3 marks)

Alternative III

Total sales		
Cash receipts		1,400,000
Add return inwards		42,000
Closing balance of debtors	54,000	
Less opening balance of debtors	<u>40,000</u>	<u>140,000</u>
Credit sales		1,582,000
Add cash sales		<u>250,000</u>
		<u><u>1,832,000</u></u>

(7x ½ = 3 ½ marks)

Total purchases

Cash payments		2,000,000
Add closing balance of creditors	950,000	
Less opening balance of creditors	80,000	150,000
Credit purchases		2,150,000
Add cash purchases		320,000
		<u>2,470,000</u>

(6X ½ = 3 MARKS)

**ANSWERS TO QUESTIONS KCSE 2007
PAPER 1**

1. Complains that may be received from consumers include the following
 - a) poor quality of goods and services/ damaged
 - b) incorrect weight and measures
 - c) unfair pricing
 - d) poor hygienic conditions
 - e) Expired goods
 - f) Non- compliance to building regulations
 - g) Contra- band items. Prohibited goods
 - h) Harmful goods
 - i) Hording
 - j) Misleading advertisement
 - k) Environmental pollution
 - l) Technological sides effects
 - m) Breach of contract

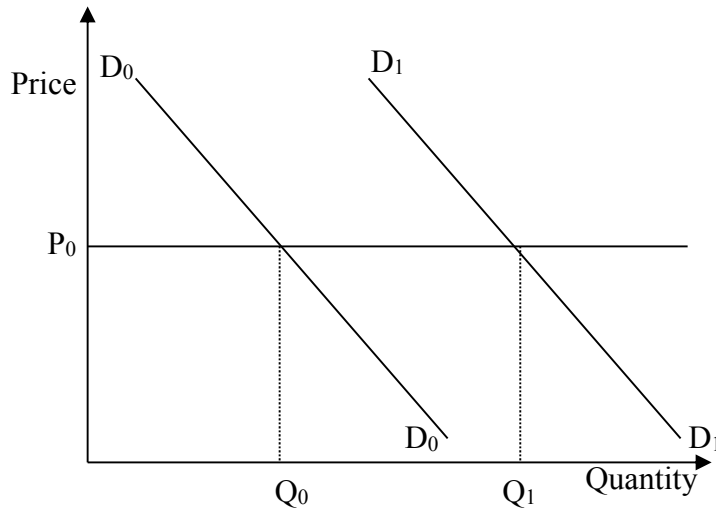
2. Solutions are
 - i. Vertical
 - ii. Informal
 - iii. Formal
 - iv. Horizontal

3. Features of a re- insurance company are
 1. Commands large financial resources
 2. Re- Insurance companies are empowered by law to insurance companies
 3. Government has a stake in re- insurance company
 4. Re- insurance company only deals with corporate insurance clients
 5. Guarantees compensation

4. Factors to consider include
 - a) Target group so as to reach the intended group
 - b) Availability of the medium – convenient to use only to medium that is available
 - c) Cost of medium – saving in method used should be considered
 - d) Reachability- How well the medium reaches the target
 - e) Time of promotion – medium that can reach many intended group
 - f) Medium used by competition – Find the strengths and weakness to improve on
 - g) Speed/ urgency
 - h) Flexible
 - i) Quality of the medium
 - j) Physical characteristics of the medium
 - k) Legal requirement/ government policy
 - l) Nature of the product

m) Duration of the promotion

5. a) More cars will be demanded and this would increase the demand for petrol at the same time



b) More petrol will be demanded as show by curve D_1D_2

6. Negative effects of production on community health

- a) Air pollution cause airborne diseases
- b) Water pollution causes water borne diseases
- c) Congestion – Congestion created as more people come to look for work (job)
- d) Noise – pollution – causing haring facilities- demand for health facilities increase
- e) Solid waste pollution – causing many diseases
- f) Environmental degradation- This may lead to health problems
- g) Social evils e.g immorality
- h) Occupational hazards
- i) Unhealthy production
- j) Global warming

7. Negative effects of an ageing pollution to an economy include

- a) Deficiency of an economically active labour/ low labour supply
- b) Increase in welfare costs
- c) Need to import labour that effect the foreign exchange reserves
- d) Dependency ratio increases
- e) Rigidity to change
- f) Fall in old for goods and services required by the youth
- g) Less progressive/ low savings and low investments

8. Account to match the descriptions is

- a) Savings account

- b) Current account
 - c) Fixed deposit account
 - d) Savings account
9. Documents for the descriptions are
- a) Catalogue
 - b) Invoice
 - c) Statements of account
 - d) Cash sale receipt
10. Parts represented by letters are
- a) Equilibrium point/MC= MR
 - b) Marginal cost curve/ MC
 - c) Average cost curve /AC
 - d) Marginal revenue = average revenue = Price = Demand
11. Circumstances include where
- a) Urgency is important
 - b) Goods are perishable
 - c) Goods are of high value/ expensive goods
 - d) Goods are to transported over long distances
 - e) Fragile goods
 - f) Where other means cannot be used
 - g) Where safety is crucial
 - h) Affordability

12. MZALENDO TRADERS

Cash book
For the month of January 2006

Date 2006	Particulars	Discount	Bash	Bank	Date	Particulars	Discount	Cash	Bank
Jan-01	Balance	Allowed	Kshs 18000	Kshs 170000	2006 Jan	ABM Tra	Received 1000	Kshs	Kshs
16	Sales	700	13300	261000	10	Bank (c)		26100	
31	Cash (c)	700	31300	196100	31	Bal c/d		5200	172100
							1000	31300	196100

13. Benefits to a business for using its own warehouse include
- a) The business maintains a continuous supply of goods
 - b) Customers are retained as they are sure of getting the goods on demand
 - c) Goods are safe from theft
 - d) Savings increases for not renting storage facilities
 - e) Goods can be processed in the warehouse
 - f) Can be tailored to suit ones specifications
 - g) Can be conveniently located
 - h) More secure front damage
 - i) Space is guaranteed

14. Books of original entry

- a) Sales journal/ debtors journal/ day book
- b) Purchase journal/ creditors journal
- c) Sales return journal/ returns inward journal
- d) Purchases returns journal/ returns outward journal

15.

Kerubo Traders			
Trading, Profit and Loss Account			
	Kshs		Kshs
Opening	24,000	Sales	
442,500			
Stock			
Purchases	<u>370,000</u>		
	394,000		
Less: Closing Stock	<u>40,000</u>		
Cost of Goods sold	354,000		
Gross profit	<u>88,500</u>		
	<u>442,500</u>		
<u>442,500</u>			
Carriage in	12,000	Gross Profit b/d	
88,500			
Sales Expenses Others	8,850		
Net profit	<u>67,650</u>		
	<u>88,500</u>		
	<u>88,500</u>		

16. Consumer price index for years 2001, 2002 and 2003

Year	Consumer Price Index (Cpi)
1. 2001	$\frac{53}{47} \times 100 = 112.77$
2. 2002	$\frac{62}{47} \times 100 = 131.91$
3. 2003	$\frac{74}{47} \times 100 = 157.45$

17. Central Bank of Kenya control amount of money in circulation by:

- a) Instructing commercial banks to only lend in priority areas/ selective credit control
- b) Practicing domestic borrowing/ open market operations
- c) Increasing interest rates on loans advanced by commercial banks/ bank rate increases
- d) Requirement that commercial banks maintain a cash ration
- e) Liquidity ratio

- f) Special/ compulsory deposits
- g) Margin requirements (higher/ lower collateral requirements)

18. Differences between a good and a service include

A good	A Service
a) Goods are tangible	Intangible
b) Quality can be standardized	Quality varies
c) Goods can be stored	Services cannot be stored
d) Goods can be separated from owner/ provider	Services cannot be separated from owner/ provider
e) Goods paid for ownership	Services paid for experience
f) Not always perishable	Always/ highly perishable

19. Factors that may influence mobility of capital include

- a) Different uses in which capital can be put to/ degree of specialization
- b) Amount of capital available
- c) Skills of knowledge available to operate capital
- d) Government policy
- e) Government goodwill (support)
- f) Time taken to modify
- g) Reward offered
- h) Security in the new location
- i) Nature of capital (fixed or liquid)
- j) Cost of moving the capital
- k) Time the capital has been in the current use
- l) Infrastructure

20. Advantages of an open office layout to an organization include

- a) Supervision enhanced
- b) Resources are evenly shared
- c) Saving on space
- d) Cheaper to construct/ easier to construct
- e) Inter- personal relationship
- f) Workflow made easy
- g) Services delivery enhanced

21. Four ways in which the running of a public corporation may be improved include

- a) Ensuring that appointment for senior and technical posts are done on merit
- b) Exercising the supervisory role of the government
- c) Continuous training of staff for development
- d) Setting performance targets to be achieved
- e) Establishing incentive system for motivation
- f) Creating public awareness

- g) Restructuring the corporations (retrenching)
 - h) Reduce policy interference
 - i) Reducing monopolistic tendencies
22. Reasons why countries may want to trade with each other is to
- a) Exchange their surpluses
 - b) Acquire goods/ they are unable to produce
 - c) Enhance international relations
 - d) Acquire much needed foreign exchange
 - e) Exchange skills and knowledge of producing certain goods
 - f) Acquire a variety of goods/ services
 - g) Acquire quality goods
 - h) When its cheaper to import
 - i) Create employment
 - j) Exploit resources optimally as there is
 - k) Enhance factors mobility
 - l) Wider market
23. Benefits if using Automated Teller Machines (ATMs) include)
- a) Saves time
 - b) Withdrawing any time
 - c) Conveniently placed
 - d) Access to account balances / extra information
 - e) Can pay utility bills
 - f) Deposits any time
 - g) Since ATM cards can be used to buy goods/ services
 - h) Cheaper to operate
 - i) Safer to use
 - j) Highly portable
 - k) Withdrawals can be done for one else behalf
24. Factors hasten economic development in a country include
- a) Industrialization
 - b) Infrastructure/ social amenities
 - c) Research and developing / planning
 - d) Education and training
 - e) Use of modern technology/ capital
 - f) Good medical facilities
 - g) Good governance/ government goodwill
 - h) Economic endowed / natural resources
 - i) Presence of a strong entrepreneurial culture
25. Elements that may comprise external environmental of a business include
- a) Political
 - b) Economical
 - c) Social- cultural
 - d) Technological
 - e) Legal structure
 - f) Customers
 - g) Intermediaries

- h) Geographical
- i) Demographical
- j) Supplies of raw materials
- k) Competition

BUSINESS STUDIES 2007

MARKING SCHEMES PAPER 2

- i) Inadequate capital/ lack of funds- initial/ operation capital may be inadequate to sustain/
run/ expand due to lack of collateral/ security
Accept examples of running cost as explanation
- ii) Poor inappropriate marketing/ strategies/ leading to low sales/ fewer customers/
Accept examples of poor marketing strategies as naming alternative naming; lack of proper planning in marketing.
- iii) Unfair/ stiff competition
Alternative: Competition may be too high for the new business – which business
is unable to cope with/withstanding / access market/inputs
- iv) Inadequate/ lack of poor/ inefficient management skills
The business may have insufficient skills to operate/ manager
Accept examples of poor management as explanation
- v) Lack of inadequate manpower
The business may not have enough manpower to operate/ manage
- vi) Lack /inadequate modern technology/inappropriate technology. This may lead to less quantity/ quality goods/ services
- vii) Unfriendly / poor management policies. May be the government policies are unfavourable to the growth/ explosion of business
Accept examples of unfavourable government policies like high taxes as explanation
- viii) Inadequate/ lack of market due to low income of buyers/ customers/ cultural practices/ beliefs
- ix) Poor pricing which might make the produce/ services too expensive to attract buyers/ too cheap to sustain the business
- x) Inappropriate product/ business for the intended market/
Accept explanation of inappropriate products/ business as explanation.
- xi) Political instability/ insecurity that may hinder smooth running of the business
- xii) Poor/ inadequate infrastructure which may hinder access the market/ inputs/
Explain poor infrastructure as naming.
- xiii) Lack of planning to accommodate future changes.
- xiv) Misallocation/misappropriation of resources leading to wastages/ misuse of resources.
- xv) Poor customer relation/ care leading to loss of market.
- xvi) Poor time management which may cause loss of business opportunities/ inability to accomplish tasks

- (b) (i) Facilities access to large markets/ worldwide/ global since many countries/ regions are connected to the internal/ online website.
- (ii) Large and small business can transact business through internet without discrimination/ restriction/ as there are no restrictions/ discriminations in the use of internet.
- (iii) A fast/ quick way of doing business through the internet thereby saving time/ facilitating urgent transactions.
- iv) Reduces paper work/ number of business transactions since many dealings are online/ making transactions less cumbersome
- v) Cheap way/ saves on cost of sending/ receiving/ storing business information products/ services
- vi) One can access other/ different business information from internet which can enhance the running of the business.

2.

- i. Taxation – Government levies different types of taxes on goods/ services from raising revenue/ on incomes
- ii. Rent/ rates/ lease income/ hiring charges received from government property such as land/buildings
- iii. Sales of assets – this includes assets like shares/ buildings/ vehicles
- iv. Loans – These are received from development partners/ international lenders/ world bank/I.M.F/local lenders
- v. Dividends/ profits – received from government investment/ business
- vi. Licenses/ fees – licenses for operating business/ fees for government services
- vii. Loyalties – generated by a country’s resources such as forests/ minerals. National parks
- viii. Grants/donation/ gifts – from the development partners/ other well wishers
- ix. Loans repayments/ interests on loans given out by the government agencies
- x. Fines/ penalties imposed by courts/ government agencies

b) i) Karani Statements Affairs
As at 30/06/2006

Fixed Assets	Kshs	Kshs	Kshs
Land and Building	2,500,000		Capital
	2,660,000		
Motor vehicles	500,000		Long term loan
	1,400,000		
Plant and machinery	600,000	3,600,000	Current Liabilities
Current Assets			Creditors
	120,000		
Stock		140,000	

Debtors	80,000	
Cash at Bank	240,000	
Cash in Hand	120,000	
		<u>4180,000</u>
	<u>4180,000</u>	

- ii) Determination of profit and loss
 Ending/ final capital = beginning capital + Net profit + additional capital less drawings
- $$2,660,000 = 2000,000 + NP + 120,000 - 140,000$$
- $$= 1,980,000 + NP$$
- $$2,660,000 - 1,980,000 = NP$$
- $$NP = 680,000$$
- Alternative final capital = 2, 660,000 = Drawings (140,000)
 = 2, 800,000 – Initial K (2,000,000)
 = 800,000 = additional K (20,000)
 = 680,000

3. a)

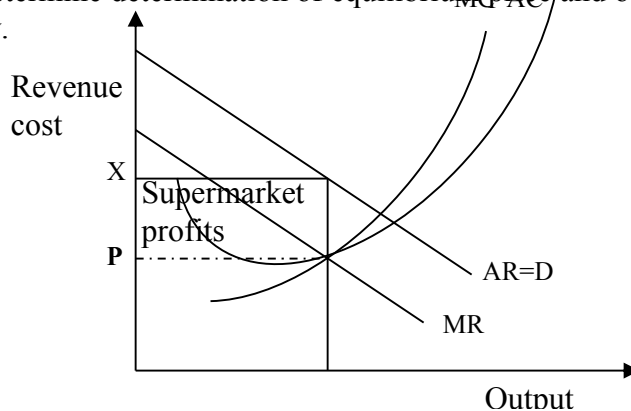
- i) Loans/ credit – give loans/ credit to farmers for crop/ livestock production/ farm development/ on easy terms/ specific purposes.
 - ii) Training/education – organize training courses/ seminars/ workshops for farmers on farm management/
 - iii) Advisory services- on farm management/agricultural improvement
 - iv) Create employment – facilitate employment by stimulating growth in agricultural improvement.
 - v) Improving production - more / variety of products are produced / of improved quality/ by financing/ carrying out research in agriculture
 - vi) Improved income by facilities growth in agricultural industry.
 - vii) Earning foreign exchange through increased exports of agricultural goods
 - viii) Generates government revenue through interests and on loans.
 - ix) Channel for donor funds to finance agricultural projects
- b)
- i) **Technology**- modern methods may increase the production of cabbages/ poor methods may decrease the production of cabbage.
 - ii) **Price of cabbages**- The higher the price more is supplied. Supplied, the lower the price the lower is supplied.
 - iii) **Government policy**- favourable, unfavourable policies- favourable policies may increases the supply of

- cabbages/unfavourable government policies may decrease the supply of related product decreases the supply of cabbages
- iv) **Price of other/related commodities/related commodities affect the supply**-if prices of related products increases the supply of cabbages may decrease/ if prices of related product decreases the supply of cabbage may increase.
 - v) **Natural factors/seasonal/climatic**-favourable factors lead to increase in supply of cabbages/unfavourable natural/seasonal/climatic factors may lead to decrease in supply of cabbage.
 - vi) **Skills/training of farmers**-Better skills/training leads to increase in supply of cabbage/poor/ skills/ training leads to low supply of cabbages
 - vii) **Cost of production**-High cost of production leads to a decrease in supply of cabbages/low costs leads to increase in supply of cabbages.
 - ix) **Expected future changes in price of cabbages**-Expected future increase in demand leads to increase in supply of cabbages/expected future decrease leads to decrease in supply of cabbages.
 - x) **Availability of inputs for cabbage production**- if inputs are available more may be supplied/ if available less will be supplied.
 - xi) **Decisions of cabbage producers**- in case of decision to produce more than there will be increase in supply/ in case of decision to produce less there will be a decrease/supply of cabbages
- 4 a) i) Entering into suitable vertical integration/amalgamation/merger with firms at different stages of production/*accept exps as explanation with firms at some level of production.*
- ii) Diversification/variety of products in order to capture to wider market/increase market share.
 - iii) Buying/acquiring other similar businesses to widen the scope of activities
 - iv) Secure loans/credit to expand its capital base.
 - v) Arrange for franchising, by acquiring rights to produce/selling goods under a name of another company
 - vi) Expand the markets to increase the volume of sales.
 - vii) Adopting appropriate technology to increase quantity/quality
 - viii) Ploughing back profits to finance its operation
 - ix) Forming cartels with similar businesses.
- b) i) Access to specialized goods from relevant department/shops/since each shop stocks/sells particular types of goods
- ii) Personal attention to customers as they have access to relevant staff

- iii) Access to auxiliary/after sale services which may be readily available within the store.
- iv) One can save time by shopping under one roof
- v) Prices of goods are relatively low enabling a customer to save/buying
- vi) One can access variety of goods under one roof.
- vii) Use of debit/credit /credit cards relieving customers the bother of carrying cash/purchase goods with cash.
- viii) Access to a new products/ information which he/she may not be aware

- 5 a)
- i) Avoid unfair competition from developed countries with superior products as it may/could lead to loss of market for their products.
 - ii) Prevent dumping of inferior goods by developed countries which may have adverse effects on the economy.
 - iii) To safeguard local employment this may suffer due to free entry of imports.
 - iv) Reduce balance of payments deficits; as a result of payment for imports exceeding receipts form exports.
 - v) Safeguard against government revenue otherwise earned through taxation of exports/imports.
 - vi) Safeguard against government revenue otherwise earned through taxation of exports/imports.
 - vii) Avoid erosion of cultural values arising from unrestricted interruption in free trade
 - viii) Avoid over exploitation of resources which may be depleted/exhausted due to increase demand in free trade.
 - ix) Avoid imported inflation which may be caused by inflow of highly priced imports.
 - x) Prevent entry of harmful goods/ services which may have adverse effects on the health of the people/accept examples if harmful goods as explanation.

b) Determine determination of equilibrium price and output under monopoly.



- 6 a) i) Handling facilities/equipments- the warehouse should be equipped with modern/necessary/appropriate equipment for ease of operation.
- ii) Security/safely for protecting goods from theft/damage by weather /to ensure safety of personnel.
- iii) Building design/structures-the design has to conform to international/acceptable standards to handle imported goods.
- iv) Management personnel – these should be properly trained/have relevant skills/enough to handle the goods.
- v) Proximity/nearness to point of entry-this included ports, border points for ease of clearance.
- vi) Existence of basic infrastructure such as good roads/power communication to enhance smooth operations of the warehouse.
- vii) Compliance to legal requirement/government policy. All relevant legal requirements have to be met to operate smoothly/avoid conflict with law enforcers
- viii) Storage facilitates/equipments-appropriate for the type of goods to be handled/involved
- ix) Documentation/recording system for proper stock control/to monitor inflow/outflow of goods.

Mugambi traders
Balance sheet
As at 31st December 2005

	Shs		Shs
Fixed assets			
Land and building			Capital
940,000			
Land and Machinery	200,000		Less Drawings
40,000	900,000		
Motor Vehicle	300,000		10 year bank loan
200,000			_____
Current assets stock	100,000		3 years ICDC loan
100,000	300,000		

Debtors	60,000	Current liabilities	
Cash at Bank	100,000	Creditors	
60,000			
Cash in Hand	20,000	Accrued Expenses	
20,000	80,000		
	<u>1,280,000</u>		<u>1,280,000</u>

- ii) a) working Capital $-CA-Cl = (280,000 - 80,000) = 200,000$
 Capital $(1,280,000 - 80,000) = 1,200,000$
 Employed (total equity and liabilities less current liabilities or total fixed assets plus working capital)
 $CE = FA + WC = 1,000,000 + 200,000$
 Alternative CE = Capital borrowed = long term liabilities
 $= 900,000 + 300,000 = 1,200,000$
- ii. Borrowed capital = 10 years loan 200,000 + 3 year ICDC
 Loan 100,000 = 300,000
 Alternative Borrowed capital = long term liabilities
 $(200,000 - 100,000) = 300,000$

BUSINESS STUDIES

K.C.S.E PAPER 1

MARKING SCHEME

1. Factors that may affect the geographical mobility of labour include:

- i. Unfavourable climatical conditions
- ii. Language barriers
- iii. Job security
- iv. Relocational costs
- v. Inadequate information about job opportunities elsewhere
- vi. Social tips/relatives/family
- vii. Security of the place
- viii. Political stability
- ix. Government policy (immigration rules)
- x. Age
- xi. Social amenities (Schools, hospitals)
- xii. Cost of living
- xiii. Availability of infrastructure
- xiv. Rewards (salaries) any 4x1= 4 mks

2. Commercial attaches promote trade in the following ways:

- i. Assisting business people to participate in external trade fairs/2 x
hibitions
- ii. Conducting market research for local products
- iii. Looking for new markets

- iv. Educate local traders on trade opportunities
 - v. Organize educational tours to abroad
 - vi. Inform exporters on the standards/price of goods/services
 - vii. Promote good relationships among trading countries
 - viii. Publish and advertise their countries export
 - ix. Keep statistics of products
 - x. Make detailed report in commercial activities
 - xi. Select buyers/agents/distributors of country
 - xii. Carry out market research
 - xiii. Improve the company's image
3. **Measures that may be taken to reverse declining sales include**
- i. Ensure that the product reaches the target market
 - ii. Redesign the salient product features
 - iii. Improve the quality of the product
 - iv. Provision of information on alternative uses
 - v. Lower the price of the product
 - vi. Ensure that the product meets the taste and preference of target group
 - vii. Review the production strategy
 - viii. Diversify the use of product
4. **The type of demand represented by statements are:**
- i) Derived demand
 - ii) Joint demand/complimentary

5. **Determination of Net worth of Saku traders**

Net worth = Total assets- Total liabilities

$$X=(300,000 + 123,700) - (125,000 + 84,500)$$

$$X= 423, 700 -209,500$$

$$\text{Net worth}= 214, 200$$

(4x1= 4 mks)

6. **Type of journals referred to are:**

- i. Sales Returns journal/returns immunals
- ii. Purchases Journal/Creditors Journal /bought journal
- iii. Crash receipt/Journal proper
- iv. General journal/Journal proper

7. **Reasons why it is beneficial to borrow from non-bank financial institutions**

- i. Gives long term loans
 - ii. Provides finance for capital development/specific projects
 - iii. Low interest rates
 - iv. Assist in management of the project.
 - v. Accept lowers vollateral values
 - vi. Give a longer grace period
- Any 2 x2 = 4mks)

8. **Items that may appear on the credit side of the current account of a country**

Include:

- i. Receipts from export of goods/visible export

- ii. Receipt from export of services/invisible exports
- iii. Receipt from investment abroad
- iv. Deficit balance. 4 x1= 4 mks

9 **Benefits that may accrue from political stability include:**

- i. High probability of achieving set goals (increased sales/increased production)
- ii. Easy to obtain capital for expansion
- iii. Cost of operation of business is low
- iv. Accessibility to the market is enhanced
- v. Continuous production activities
- vi. Easy to invest anywhere in the country/local or foreigner's
- vii. Accessibility to raw materials

10. **Measures to stop emission of toxic wastes into neighborhood**

include:

- i. Publicize the malpractice
- ii. Take legal action/sue the firm
- iii. Report to national environmental Management Authority(NEMA/Relevant authority
- iv. Education the neighbours on their rights.
- v. Boycott the firms products
- vi. Carry out demonstrations against the firm

11. Factors to consider in the choice of a means for transporting perishable

goods

- i. Unit value of the product/cost of goods
- ii. Distance to cover/destination/speed
- iii. Specialized facility
- iv. Cost of transport
- v. Urgency required at the destination/speed
- vi. Volume/quantity
- vii. Availability of the means. (1 x4=4 mks)

12. Circumstances under which face to face communication may be ineffective.

- i. Where there is age difference
- ii. Where the language has semantic problems/different languages
- iii. Where there exists a difference in frame of reference
- iv. Where the credibility of the communicating parties is in question/negative attitude/bias/prejudice
- v. Where the receiver has a problem in hearing/hearing intransparent
- vi. Unfamiliar/difficult terminologies
- vii. Noise
- viii. Poor listening
- ix. Pronunciation problems

- x. Timing
 - xi. Inability to understand gestures
 - xii. Emotional responses shynels/ fear etc
13. **Benefits that accrue to a firm located near existing firms:**

- i. Enjoyment of existing infrastructure
 - i. Access to labour
 - ii. Access to raw materials
 - iii. Collaboration with existing firms' e.g. research & development
 - iv. Auxiliary services
 - v. Access to markets
 - vi. Access to security
 - vii. Social amenities

(4x1=
4mks)

14. **Steps that can be taken to minimize expenditure on petrol include:**

- i. Pooling people who are traveling to same direction
- ii. Use of alternative sources of energy/footing/bicycled
- iii. Encourage public service vehicles with higher carrying capacity/fuel saving engine
- iv. Encourage use of vehicle/machines with a lower engine capacity /fuel saving engine
- v. Set maximum price legislation
- vi. Reduce tax on the product/subsidies

- vii. Improve road networks
 - viii. Increase tax on complementary goods
 - ix. Encourage machine maintenance
 - x. Swift off when not in use
15. **Reasons why an increase in per capita income may not lead to a rise in standard of living include:**
- i. Per capita income is an average and hence a mere statistics
 - ii. Per capita figures may be high but income may be unevenly distributed.
 - iii. Those not involved in the generation of the national income are also included in the calculation
 - iv. Generation rise in the price of commodities/inflation may affect the purchasing power of the citizen.
 - v. High taxes may erode the real value of per capita income
 - vi. May be obtained through a strain on people's health
 - vii. Expenditure pattern by the government/individual serving debts.
16. Purchases for the year.

Total Creditors a/c

		Sh.	Sh
Discount received	12,000	Balance b/d	465,
000			
Returns outwards	25,000	Purchases	
1,712,000			
Cash paid	1,500,000		
Balance c/d	640,000		
	<u>2,177,000</u>		
<u>2,177,000</u>			
Credit purchases	1,712,000		
Cash purchases	<u>800,000</u>		
Total Purchases	<u>2,512,00</u>		

10x ½ 5

mks

17. **Circumstances which would make an office manager to replace an existing**

machine with a modern one include:

- i. Obsolescence- has outlived its usefulness
- ii. Where a faster machine is required
- iii. Where maintenance a costs are higher than cost of acquiring modern machine

- iv. Where there is need for increased production
- v. Where training skills have changed
- vi. Where high quality works is required
- vii. Where he wants to save on labour
- viii. Where there is need to improve image of company
- ix. If the new one is capable of multiple use
- x. If the new machine will save on space/storage
- xi. If the machine is capable of reducing fraud

18. **Reasons for popularity of hypermarkets in Kenya include:**

- i. Easily accessible
- ii. One stop shop-A range of goods and services may be obtained
- iii. Parking space is available of auxiliary services
- iv. Operates for longer hours
- v. Accept debits/Credit cards
- vi. Attractive & convenient to shop in
- vii. Saves on land rates/ space
- viii. They offer sales services
- ix. Security guaranteed
- x. Located away from city hassles
- xi. Availability of auxiliary services.

4 x1 =(4

mks)

19. **Factors that may have contributed to the trend between S and T**

include:

- i. Improved health facilities/health education
- ii. Lower mortality rate/death rates
- iii. Improved standard of living
- iv. Improved fertility rate /birth rates
- v. Improvement in diet and nutrition
- vi. Immigration from other countries
- vii. Early marriages
- viii. Negative attitude towards family planning
- ix. In affective family planning method
- x. Cultural/religious practice favour of many children
- xi. Absence of calamities epicenes, wars/politics
- xii. Absence of calamities epicenes, wars /politics
- xiii. Ignorance/ lack of family planning methods
- xiv. Establishment of policies that increase population.

20.

Kazim's

Petty Cash Book for the first week of April

Receipts	Date	Details	Total	Cleaning	Stationery	
Bus fare						
2570	2007 April 1	Sh Balance b/d	Sh	Sh	Sh	Sh
	2	Cash				
	3	Cleaning Materials	3070			
2000	4	Bus fare	2000			
	6	Stationery	2200		2200	
			<u>7270</u>	3070	2200	
2,200			<u>5730</u>			
1300			<u>13,000</u>			

$10 \times \frac{1}{2} = 5$

mks

-Emphasis on details

- 13000-must appear to balance

21. Circumstances under which business enterprises may choose to merge:

- i. Where persistent decline in profitability exists
- ii. Where there is intention to venture into new line
- iii. Where there is need to expand capital base
- iv. Where there is need to bring on board new skills/competences
- v. Where there is need to share research information
- vi. Control output

- vii. Control a wider market /increase sales
 - viii. Lower the cost of production (e.g. raw materials labour etc)
 - ix. Either to face emergencies /kibken
 - x. When there is too much competition
 - xi. Diversification
22. i) Capital employed = CE = FA +CA – CL
- $$= 400,000 + 120,000 – 60,000 = \text{sh. } 460,000$$
- Return on CE = $\frac{NP}{CE} \times 100$ (= $\frac{100000}{460,00} \times 100$) = 21.7%
- ii) Current Ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$
- $$= \left(\frac{20,000}{60,000} \right) = 2:1$$

23. **Factors before incurring public expenditure**

- i. Maximum social benefit/equity
- ii. Waste must be discouraged/economy
- iii. Flexibility/elasticity – possibility to vary expenditure according to the circumstances.
- iv. Sanctions-expenditure must be determined by a certain authority
- v. Sound financial administration-accuracy and systematic/certain

(4 mks)

24. **Benefits of privatization of public corporations**

- i. Government obtains revenue from proceeds/ sale of shares
- ii. Offers opportunities for private citizens to participate in business
- iii. To enhance efficiency in the management
- iv. Reduce government expenditures
- v. Obtain revenue from taxes
- vi. Attain foreign aid
- vii. Attract foreign investment

25. Compensation claims

$\frac{\text{Sum insured} \times \text{loss}}{\text{Actual value}}$

$\frac{\text{Shs. } 800,000 \times 1,000,000}{\text{Shs. } 1,000,000}$

= 800,000

(4 mks)

K.C.S.E 2008 MARKING SCHEME

BUSINESS STUDIES PAPER 2

1. PUBLIC L.T.D.CO.	PARTNERSHIP
i). Membership (shareholders) minimum 7	i). members (partners) minimum 2
(ii). Shares can be transferred freely without consent of other members	ii). Shares a capital contribution transfer require consent of other members/not freely
iii). Members have limited liability	iii). No limited liability for members / at least one partner has unlimited liability for Ltd partnership
iv). Managed by (people appointed) by the Board of Directors	iv). Managed by partners themselves/ by active partners
v). regulated by articles/memorandum of association/company act	Regulated by partnership deed/partnership agreement/articles of partnership/partnership act
vi). Pay cooperation tax	Does not pay cooperation tax
vii). Can sue/be sued under its name as legal entity/ incorporated	vii). Individual partners can be sued as no legal entity unincorporated
viii). No maximum membership	viii). Maximum of 20 members / 50 for professionals/ 1 0 for bankers
ix). Capital raised from sale shares to the general public	ix). Capital raised from members contributions/partners
x). mandatory by law to publish financial statements/trading results	x), not mandatory by law to publish financial statements/ trading results

xi). Has perpetual continuity/ death/insanity/departure (withdrawal) of a shareholder	xi). Has no perpetual continuity/ death/insanity/departure (withdrawal) of a shareholder
xii). their shares can be quoted listed in the stock exchange bourse	xii).their shares cannot be quoted listed in the stock exchange bourse
xiii).Sharing of profits is based on members shares	xiii). Sharing of profit is based on agreement/ equally if no agreement
xiv). Formation procedures require legal formality	xiv). Formation procedure may not require legal formality
xv). Books of accounts must be audited by (external auditors)	xv). Books of accounts need not be audited by external auditors
xvi). Owned by shareholders	xvi). Owned by partners

b)

- High rate of unemployment - demand for jobs will increase
 - Rate of crime / social evils may rise as the youth remain idle/they are likely to resort to crime as they look for means of survival
 - Constraints/pressure on goods/services associated with young people due to increase in demand as demand may outstrip supply.
 - Accepts example of relevant goods/services as a mention*
 - Dependency ratio will rise as economically active population will shoulder a bigger economic burden
 - Reduced investment /savings/investment will decline as a result of high rate of consumption by young people/leads to low development

- Low per capita income - since national income is spread over a large non-contributing / non-productive population/ low standard of living
- Problem of raising government finance which force the government to direct resources meant for other sectors to cater for the young people
- Low labour supply as many young people may not have attained the working age

(b) THREE COLUMN CASH BOOK

Date	Particulars	Disc All.	Cash	Bank	Date	Particulars	Dis All	Cash	Bank
2006		Shs	Shs	Shs	2006		Shs	Shs	Shs
Sept 1	Bal b/d		55,000	250,000	Sept3	Ribbons		45,000	
Sept 2	Sales			35,260	Sept8	Wangila	6,000		94,000
Sept 12	Wetu	1,200		58,800	Sept 15	Salaries		34,000	
Sept 25	Bank (c)		50,000		Sept 25	Cash (c)			50,000
Sept 28	Anyango	7,500		67,500	Sept 30	Bank (c)		52,800	
Sept 30	Cash (c)			52,800	Sept 30	Bal c/d		13,700	320,360
		8,700	105,000	464,360			6,000	105,000	464,360
	Bal b/d		13,700	320,360					

20 @'72=10 marks

- N B: - *The format must be correct no interchange of columns*
Particulars /details must be correct
Dates don't have to follow chronologically
Totals on discount must be shown and earns a tick
No tick on discount if title to the discount is not complete (i.e all or rec 'd)
No interchange of discount columns
No penalty for complete omission of dates

3 (a).

- Proper plans /planning should be put in place so that good results can be anticipates to accommodate future changes
- Proper appropriate /relevant strategies so as to achieve (desired) results
(may be established)
- Setting clear goals/ objectives so as to achieve (intended) results
- Providing / allocating / using (organizational) resources efficiently/effectively
- budgeting used to avoid wastage / misuse / loses to ensure smooth operation
- Identifying the required skills (training) relevant staff for efficient / smooth

running operation

- Monitoring /evaluation / supervision / checking that planned activities are taking place so as to achieve intended results / to ensure effective operations
- Proper coordination to reduce/minimize conflict of activities/operations/ smooth operation

- Proper controlling to ensure that the required activities are carried out
- Proper time management to ensure set activities are achieved accomplished within the required time / done at the right time
- Good supplier/ customer / employee relations/ care to attract retain customers / employees / suppliers
- Corporate social responsibility / good public relations to build image / reputation
- Compliance with legal requirements in order to operate smoothly/ to avoid conflicts with law enforcement authority
- Motivation of employees to increase productivity/retain them
(Accept examples of motivation as a mention)
- Proper organization to avoid overlap/ duplication of activities
- Directing to ensure activities are geared towards achieving the set goals

Naming 1 mark - otherwise fully explained answer 2 marks

3. (b) -Tidiness in the office is maintained / office kept tidy as documents are neatly arranged
- Quick access to information / retrieval of information is made easy since documents are serialized / coded
 - Safety of information from damage by bad weather / fire/ pests etc
 - Saving on (storage) space / minimum space as documents are kept compactly
 - Prompt decision making possible /saves time in making decisions as information is readily available
 - Encourages transparency / accountability as no documents are easily misplaced / as movement of documents can be monitored
 - Security of information against lost due to theft misplacement
 - Safeguard secrets/ confidential information as documents are kept away from unauthorized access under key and lock
 - Storage / safe keeping of information documents for future reference
4. (a) -Where the producer requires/ lacks adequate (specialized storage for safety of goods to facilitate continuous production to save storage
- Where goods require bulk breaking/ where customers require goods in small quantities thus relieving him on cost burden of breaking bulk
 - Where there is need to brand/ package / blend / prepare goods for sale (before they reach consumers) to save on cost/time burden

- Where goods need to be distributed far (to reach the consumers) where the market is expensive / wide since the producer may not be able to cover/reach the whole market
- Where the producer would want to get feedback on the market status/ information and yet the cost are high/ as the wholesaler may reach most customers
- Where the producer would want to engage wholesalers to assist with advertising (products) so as to save on costs / reach a wider market

- Where the producer want to sell in bulk since wholesalers can afford / inorder to sell more/faster
- Where the produce requires/ lacks transport thus being relieved / saving on cost - Where the producer requires ready cash/ finance since wholesalers can buy in cash/ pay promptly/ to raise working capital
- Where it is a government policy to distribute through wholesalers then the produce would have no alternative. Government policy
- Where the marketing risk are many/high since the wholesalers can bear some of the risks
- Where the producer needs to concentrate/ specialize on production then the distribution can be handled by wholesalers
- Where the producer needs to maintain fewest less records by dealing with wholesalers who are few

- (i). a). Total sales = cash sales = shs. 420,200 2 marks
 b). Sales = Cash sales - drawings - 420,200 - 25,000 = 395,200 2 marks
- ii). Total purchases = Cash Purchases = Shs. 260,000 2 marks
 iii).

Commission Receivable Accounts

	Shs		shs
Bal b/d	8,400	Cash	276,400
P&cA/c	<u>38,200</u>	Blc/d	<u>20,200</u>
	46. 60Q		<u>46.600</u>

Insurance Expense account

	Shs		shs
Bal b/d	16,200	P&LA/C	27,400
P&cA/c	<u>14,800</u>	Bl c/d	<u>4,000</u>
	31. 00P		31.000

General Expenses A/c			
		Shs	Shs
Cash		50,000	Bal b/d 48,000
Bal	c/d	<u>70,000</u>	P'&IA/c 72,000
		120.	

Alternatives

Commissions receivable = shs 10,200 recorded care to an error should have been commission receivable / income somewhere award 2 marks

Commissions receivable -	cashrec's	36,400
	Add bal c/d	<u>10,200</u>
		46,600
	Less bal b/d	<u>8,400</u>
	P & I a/c comm. Re =	<u>38,200</u>

Insurance

Cash Paid	14,800
Add Bal b/d	<u>16,200</u>
	31,000
Less Bal c/d	<u>4,000</u>
P & I ac/income exp	<u>27,000</u>
	4 @ 1/2 2 marks

General Expenses

Cash p/d	50,000
add Bal c/d	70,000
	120,000
less bal b/d	48,000
p & I general exp	<u>72,000</u>
	4 (S3, J/2 = 2marks)

Commission Receivable

Cash received	36,400
Add net commission receivable	<u>1,800</u> (i.e 10,200 - 8,400)
P & I / Commission Received Rec	<u>38,200</u>
	4 (@1/2 = 2 marks)

Insurance Expenses

Cash pal	14,800
Add net insurance prepaid	<u>12,200</u> (i.e 16,200- 4,000)

General Expenses

	4@1/2=2marks
Cash paid	50,000
Add net general expenses	<u>22,000</u> (70,000 - 48,000)
P & L / General expenses	
	4 @ 1/2 = 2 marks

Nb: award for figures even if titles of accounts are not written

5. a).

- Compulsory requirement central bank may require that commercial banks deposit a certain amount of their cash with the central bank
- Selective credit control/ credit rationing the government through central bank may decide that certain specific sectors of the economy be assisted financially
- Open market operations - the government may instruct the central bank to sell government securities / stocks in the open market
- Raise their interest rate - high interest rates may be offered to deposit / savings to encourage more savings
- Raise cash / liquidity ration thereby leaving commercial banks with less money to spend
- Raising margin requirements to discourage borrowing
- Moral situation/persuasion by convincing appealing to commercial banks to reduce their lending to the public

- Directives/instructions to commercial banks to reduce lending
- Raising taxes to reduce disposable income / purchasing power
- Reducing government expenditure by suspending some projects
- Surplus budgeting by spending less than the income raised

Nb: consider only fiscal and monetary measures

b).

- Where there is need to protect local/infant/strategic industries which may not withstands competition from established foreign industries
- Where there is need to control dumping to prevent adverse effects on the economy
- Where balance of trade/ payments continue to deteriorate to reduce payments on imports
- Where goods are hazardous / harmful for consumption in order to protect health of consumers
- Where goods involves are a security risk to the country to ensure stability/order
- Where- it is necessary to counter the actions of trading partners as a retailing measure
- Where there is need to protect /safeguard cultural values which may be lost due to interaction with other countries
- Where there is need to avoid 'imported' inflation arising from overprices imports
- Where there is need to safeguard local employment which may be lost through entry of gobbles /services

- Where there is need to avoid overdependence on imports which may lead to political black mail/ safeguard political sovereignty
 - Where there is need to avoid unfair competition which may lead to loss of market for local goods /services
 - Where there is need to build reserves for strategic commodity to avoid shortages/ satisfy local demand
 - Where there is politically expenditure / necessary/where it is in the best political interest to do so in order to promote / cause good governance in another country
6. a) • (this may be applicable) where goods sold are of technical nature and may need advice demonstration
- Where expenditure is required in installation and the trade has the technical ability / know-how / back up
 - Where a product is new in the market and the trader requires (constant) feedback enables the trader to obtain the status / product performance
 - Where competition is stiff and the trader uses aft sales service as a product
 - Promotional tool / competitive edge/ with more customers // increase sales
 - Where (specialized) transport is required/ the nature of the product is such that it requires (specialized) transport and the trader can afford (readily) provide
 - Where expertise is required in maintenance / service/ spare parts and the trade is able to provide / there are no other firms that can provide
 - Where it is the policy of the business as a way of improving customer relations/ improve business image / retain market/ customer loyalty
 - Where it is a government policy, the trader has no option to avoid conflict with the law

b).

SIMBA TRADERS PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2006

	Shs		shs
Salaries	322,600	gross profit b/d	210,000
Rent	14,800	discount received	14,500
Add accrued	2,400	net loss c/d	354,850
Interest on loan	36,000		
Depreciation M/V	187,500		
Furniture	16,050		
	<u>203,550</u>		
	<u>579,350</u>		<u>579,350</u>

N.B : Wrong net loss b/d to the balance sheet , award
Capital derived from the wrong net loss correctly worked out, award for capital

ii)

SIMBA TRADERS

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST
DECEMBER 2006**

FIXED ASSETS

Shs

Motorvehicle	750,000	
Less: Depreciation		<u>187,500</u>
Furniture	160,500	
less depreciation	<u>16,050</u>	

CURRENT ASSETS

Stock	45,600
Debtors	130,200
	<u>175,800</u>

882,750

shs

562,500	Capital	800,000	
	less: Net loss	<u>354.850</u>	
		445,150	
	less drawings		<u>60,800</u>
144,450			384,350
706,950			

LONG TERM LIABILITIES

Bank loan	200,000
Or (Loan + Interest)	236,000

CURRENT LIABILITIES

Creditors	260,000	
Rent unpaid		2,400
Interest on loan due	36,000	
	<u>298,400</u>	

882,750

N.B: Penalty of minus a tick for every foreign item in the balance sheet e.g salaries Consult for any other format

BUSINESS STUDIES 2009

K.C.S.E PAPER I MARKING SCHEME

1. Factors that may affect the geographical mobility of labour include:

- xv. Unfavourable climatical conditions
- xvi. Language barriers
- xvii. Job security
- xviii. Relocational costs
- xix. Inadequate information about job opportunities elsewhere
- xx. Social tips/relatives/family
- xxi. Security of the place
- xxii. Political stability
- xxiii. Government policy (immigration rules)
- xxiv. Age
- xxv. Social amenities (Schools, hospitals)
- xxvi. Cost of living
- xxvii. Availability of infrastructure
- xxviii. Rewards (salaries) any 4x1= 4 mks

2. Commercial attaches promote trade in the following ways:

- xiv. Assisting business people to participate in external trade fairs/2 x hibitions
- xv. Conducting market research for local products
- xvi. Looking for new markets
- xvii. Educate local traders on trade opportunities
- xviii. Organize educational tours to abroad

- xix. Inform exporters on the standards/price of goods/services
- xx. Promote good relationships among trading countries
- xxi. Publish and advertise their countries export
- xxii. Keep statistics of products
- xxiii. Make detailed report in commercial activities
- xxiv. Select buyers/agents/distributors of country
- xxv. Carry out market research
- xxvi. Improve the company's image

3. **Measures that may be taken to reverse declining sales include**

- ix. Ensure that the product reaches the target market
- x. Redesign the salient product features
- xi. Improve the quality of the product
- xii. Provision of information on alternative uses
- xiii. Lower the price of the product
- xiv. Ensure that the product meets the taste and preference of target group
- xv. Review the production strategy
- xvi. Diversify the use of product

4. **The type of demand represented by statements are:**

- i) Derived demand
- ii) Joint demand/complimentary

5. **Determination of Net worth of Saku traders**

Net worth = Total assets- Total liabilities

$$X=(300,000 + 123,700) - (125,000 + 84,500)$$

X= 423, 700 -209,500

Net worth= 214, 200

(4x1= 4 mks)

6. **Type of journals referred to are:**

- v. Sales Returns journal/returns immunals
- vi. Purchases Journal/Creditors Journal /bought journal
- vii. Crash receipt/Journal proper
- viii. General journal/Journal proper

7. **Reasons why it is beneficial to borrow from non-bank financial institutions**

- vii. Gives long term loans
- viii. Provides finance for capital development/specific projects
- ix. Low interest rates
- x. Assist in management of the project.
- xi. Accept lowers vollateral values
- xii. Give a longer grace period Any 2 x2 = 4mks)

8. **Items that may appear on the credit side of the current account of a country**

Include:

- v. Receipts from export of goods/visible export
- vi. Receipt from export of services/invisible exports
- vii. Receipt from investment abroad
- viii. Deficit balance. 4 x1= 4 mks

9 **Benefits that may accrue from political stability include:**

- viii. High probability of achieving set goals (increased sales/increased production)

- ix. Easy to obtain capital for expansion
- x. Cost of operation of business is low
- xi. Accessibility to the market is enhanced
- xii. Continuous production activities
- xiii. Easy to invest anywhere in the country/local or foreigner's
- xiv. Accessibility to raw materials

10. **Measures to stop emission of toxic wastes into neighborhood include:**

- vii. Publicize the malpractice
- viii. Take legal action/sue the firm
- ix. Report to national environmental Management Authority(NEMA/Relevant authority
- x. Education the neighbours on their rights.
- xi. Boycott the firms products
- xii. Carry out demonstrations against the firm

11. **Factors to consider in the choice of a means for transporting perishable goods**

- viii. Unit value of the product/cost of goods
- ix. Distance to cover/destination/speed
- x. Specialized facility
- xi. Cost of transport
- xii. Urgency required at the destination/speed
- xiii. Volume/quantity
- xiv. Availability of the means.

(1 x4=4 mks)

12. **Circumstances under which face to face communication may be ineffective.**

- xiii. Where there is age difference
 - xiv. Where the language has semantic problems/different languages
 - xv. Where there exists a difference in frame of reference
 - xvi. Where the credibility of the communicating parties is in question/negative attitude/bias/prejudice
 - xvii. Where the receiver has a problem in hearing/hearing impaired
 - xviii. Unfamiliar/difficult terminologies
 - xix. Noise
 - xx. Poor listening
 - xxi. Pronunciation problems
 - xxii. Timing
 - xxiii. Inability to understand gestures
 - xxiv. Emotional responses shyness/ fear etc
13. **Benefits that accrue to a firm located near existing firms:**
- i. Enjoyment of existing infrastructure
 - viii. Access to labour
 - ix. Access to raw materials
 - x. Collaboration with existing firms' e.g. research & development
 - xi. Auxiliary services
 - xii. Access to markets
 - xiii. Access to security
 - xiv. Social amenities

(4x1= 4mks)

14. **Steps that can be taken to minimize expenditure on petrol include:**

- xi. Pooling people who are traveling to same direction
- xii. Use of alternative sources of energy/footing/bicycled
- xiii. Encourage public service vehicles with higher carrying capacity/fuel saving engine
- xiv. Encourage use of vehicle/machines with a lower engine capacity /fuel saving engine
- xv. Set maximum price legislation
- xvi. Reduce tax on the product/subsidies
- xvii. Improve road networks
- xviii. Increase tax on complementary goods
- xix. Encourage machine maintenance
- xx. Swift off when not in use

15. **Reasons why an increase in per capita income may not lead to a rise in standard of living include:**

- viii. Per capita income is an average and hence a mere statistics
- ix. Per capita figures may be high but income may be unevenly distributed.
- x. Those not involved in the generation of the national income are also included in the calculation
- xi. Generation rise in the price of commodities/inflation may affect the purchasing power of the citizen.
- xii. High taxes may erode the real value of per capita income
- xiii. May be obtained through a strain on people's health
- xiv. Expenditure pattern by the government/individual serving debts.

17. Purchases for the year.

Total Creditors a/c

		Sh.	Sh
Discount received	12,000	Balance b/d	465,000
Returns outwards	25,000	Purchases	1,712,000
Cash paid	1,500,000		
Balance c/d	640,000		
	<u>2,177,000</u>		<u>2,177,000</u>
Credit purchases	1,712,000		
Cash purchases	<u>800,000</u>		
Total Purchases	<u>2,512,00</u>		

10x ½ 5 mks

17. **Circumstances which would make an office manager to replace an existing machine with a modern one include:**

- xii. Obsolescence- has outlived its usefulness
- xiii. Where a faster machine is required
- xiv. Where maintenance a costs are higher than cost of acquiring modern machine
- xv. Where there is need for increased production
- xvi. Where training skills have changed
- xvii. Where high quality works is required
- xviii. Where he wants to save on labour
- xix. Where there is need to improve image of company

- xx. If the new one is capable of multiple use
- xxi. If the new machine will save on space/storage
- xxii. If the machine is capable of reducing fraud

18. **Reasons for popularity of hypermarkets in Kenya include:**

- xii. Easily accessible
- xiii. One stop shop-A range of goods and services may be obtained
- xiv. Parking space is available of auxiliary services
- xv. Operates for longer hours
- xvi. Accept debits/Credit cards
- xvii. Attractive & convenient to shop in
- xviii. Saves on land rates/ space
- xix. They offer sales services
- xx. Security guaranteed
- xxi. Located away from city hassles
- xxii. Availability of auxiliary services. 4 x1 =(4 mks)

19. **Factors that may have contributed to the trend between S and T include:**

- xv. Improved health facilities/health education
- xvi. Lower mortality rate/death rates
- xvii. Improved standard of living
- xviii. Improved fertility rate /birth rates
- xix. Improvement in diet and nutrition
- xx. Immigration from other countries
- xxi. Early marriages

- xxii. Negative attitude towards family planning
- xxiii. In affective family planning method
- xxiv. Cultural/religious practice favour of many children
- xxv. Absence of calamities epicenes, wars/politics
- xxvi. Absence of calamities epicenes, wars /politics
- xxvii. Ignorance/ lack of family planning methods
- xxviii. Establishment of policies that increase population.

20.

Kazim's

Petty Cash Book for the first week of April

Receipts	Date	Details	Total	Cleaning	Stationery	Bus fare
2570	2007 April 1	Sh Balance b/d	Sh	Sh	Sh	Sh
	2	Cash				
	3	Cleaning Materials	3070			
	4	Bus fare	2000			2000
	6	Stationery	2200		2200	
			7270	3070	2200	2,200
			5730			
1300			13,000			

10 x ½ =5 mks

-Emphasis on details

- 13000-must appear to balance

21. Circumstances under which business enterprises may choose to merge:

- xii. Where persistent decline in profitability exists
- xiii. Where there is intention to venture into new line
- xiv. Where there is need to expand capital base
- xv. Where there is need to bring on board new skills/competences
- xvi. Where there need to share research information
- xvii. Control output
- xviii. Control a wider market /increase sales
- xix. Lower the cost of production (e.g. raw materials labour etc)
- xx. Either to face emergencies /kibken
- xxi. When there is too much competition
- xxii. Diversification

22. i) Capital employed = CE = FA +CA – CL
$$= 400,000 + 120,000 - 60,000 = \text{sh. } 460,000$$

$$\text{Return on CE} = \frac{\text{NP}}{\text{CE}} \times 100 (= \frac{100000}{460,00} \times 100) = 21.7\%$$

ii) Current Ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

$$= \left(\frac{20,000}{60,000} \right) = 2:1$$

23. **Factors before incurring public expenditure**

- vi. Maximum social benefit/equity
- vii. Waste must be discouraged/economy
- viii. Flexibility/elasticity – possibility to vary expenditure according to the circumstances.
- ix. Sanctions-expenditure must be determined by a certain authority

- x. Sound financial administration-accuracy and systematic/certain

(4 mks)

24. **Benefits of privatization of public corporations**

- viii. Government obtains revenue from proceeds/ sale of shares
- ix. Offers opportunities for private citizens to participate in business
- x. To enhance efficiency in the management
- xi. Reduce government expenditures
- xii. Obtain revenue from taxes
- xiii. Attain foreign aid
- xiv. Attract foreign investment

25. Compensation claims

$\frac{\text{Sum insured} \times \text{loss}}{\text{Actual value}}$

$\frac{\text{Shs. } 800,000 \times 1,000,000}{\text{Shs. } 1,000,000}$

= 800,000

(4 mks)

BUSINESS STUDIES P2 YEAR 2009 MARKING SCHEME

1. a) Explain 5 features of sole proprietorship form of business (10 mks)
Naming 1mk 0/- 2mks
- i) Owned /formed by in person who provides the capital/starts the business.
 - ii) Faster decision making/ (ultimate) decision made by the proprietor/ alone since he/she does not need to consult/has no one to consult.
 - iii) Has limited life as its existence depends on the hope of the owner
 - iv) Business owner has unlimited capital/management skills
 - v) Owner bears all the risks/losses of the business (alone) since he /she has no one to share with
 - vi) Business owner has unlimited liability since personal property/assets may be attached
 - vii) Managed by the owner with /without assistance of family members/ employees/which is tiring/forced to work for long hours.
 - viii) Sole trader /enjoys all the profits alone since he/she has no one to share with
 - ix) Easy /simple formation as if requires few /no legal formality/might only require a trading license
 - x) Flexibility/adaptability to change/accept e.g. of change as explanation
 - xi) Secrecy/ confidentiality of information/ operation / no other people have access
 - xiii) Not a legal entity as the owner and the business are treated as one/the same.
- b) **Explain 5 measures that the government may take to improve the Volume of exports** (10 mks)
Naming 1 mark only
- i) Creation of export processing zones- Where the producers/exporters enjoy a

Variety of incentives/accept e.g. of investors as explanation.

- ii) Manufacturing under bond to encourage local manufacturers to produce exclusive for export.
- iii) Export compensation schemes/ subsidies schemes by refunding a specific % age of value of goods/services exported/meeting part of the cost of production for exports.
- iv) Providing information on international markets through publications/seminars/workshops/educational tours
- v) Financing those producing for exports by availing credit/loan to exporters.
- vi.) Participating in international trade fairs/exhibitions/shows to expose the exporters their goods/services
- vii) Use of commercial attaches/other government agencies to promote exports/advertise/look for markets for exports.
- ix) Customs drawbacks by refunding tax on imported raw materials used to produce exports.
- x) Devaluation of currency to make exports cheaper/increased demand
- xi) Improved infrastructure to facilitate export production/export trade/accept gaps of infrastructure as a mentioned
- xii) Entering into trade agreement/blocks/integration/groupings/cooperation to give preferential treatment to a country's exports
- xiii) Improving on quality/standardization/packaging to make exports more attractive
Export credit guarantee scheme to insure/ compensate exporters against risks when selling overseas.
- xiv) Export credit guarantee scheme to insure/compensate exporters against risks when selling overseas.
- xv) Tax rebates/ lowering of duties on exports/reduction of taxes on inputs used to

produce goods for export to make them cheaper/increase their demand/to reduce cost of production.

- xvi) Improve /adopt modern technology in order to increase the volume of goods for exports.

2.(a) Explain 5 demerits that may be associated with water transport

(Naming 1 mk)

- i. Relatively slow hence perishable /urgently needed goods may not be transported this way /take long when traveling
- ii. Limited availability only applicable where water is available
- iii. Waterways can be affected by adverse weather conditions such as droughts/freezing/storms/flooding.
- iv. Costs of maintaining/construction of ports/canals/waterways/harbor may be (relatively) high /expensive making it unaffordable for some countries
- v. Waterways may not be navigable due to rough terrain/
waterfalls/cataracts/rapids/shalowness/narrowness/inhabited by dangerous animals/rough waters.
- vi. High costs of units of carriage/vessels which may make them unaffordable to acquired/maintain
- vii. May be prone to piracy in the high seas /remote areas/may lead to
Losses/may leads to losses/increased in insurable costs.

Dr	Discount Allowed	Cr	Dr	Discount	Receiver	Cr	
2008	Sh	2008	Sh	2008	Sh	2008	sh
June 28 Debtors	40,000	June Bal c/d	40,000	Jun 30bal c/d	12,000	June Creditor	12,000

2(b) Dr Cash Account				Cr Bear Account			
2008 Sh		2008 Sh		2008 Sh		2008 Sh	
June /Bal/b/d	120,500	June 30 b/d	380,500	Jun 1 bal b/d	260,400	Jun 5 creditors	228,000
15 Bank	100,000			Jun 30 bal c/d	67,000	Jun 15 cash	100,000
28 Debtors	160,000						
	<u>380,500</u>		<u>380,500</u>		<u>328,000</u>		<u>328,000</u>

D Debtors Account		Cr		Dr Creditors Account		Cr	
2008 Sh		2008 Sh		2008 Sh		2008 Sh	
June bal b/d	350,000	June 28 cash	160,000	Jun 5 Bank	228,000	June bal / b/d	450,400
		28 Dis allw	40,000	Jun 5 Dis Rec	12,000		
	350,000	30 bal c/d	150,000	Jun 30 Bal c/d	210,000		
			350,000		450,400		450,400

Dr Debtor Account		Cr		Dr Creditors Account		Cr	
2008 Sh		2008 Sh		2008 Sh		2008 Sh	
June 30 bal/c/d	200,000	June 28 cash	160,000	Jun 5 bank	228,000	Jun 30 bal b/d	240,000
		Jun 28 Dis All	40,000	Jun 5 Dis Rec	12,000		
	200,000		200,000		240,000		240,000

Note / - The particulars/ details must be correct

- The title of the A/C must be there
- The dates must not be there (ignore dates)

3 a) refer to 9str paper

- i) MR curve /MC Curve/ disjoint in the MR where MC=MR curve i.e the equilibrium point.
 - ii) Above price p /kink the demand curve is more /fairly elastic and less elastic/fairly inelastic below the price P₀/K_{uk}/ if a firm raise price above P₀ /K_{erk} other competing firm swill not follow suit bul if it lowers below P₀ /K_{irk} all other low peting firms will follow suit.
 - iii) When the eligopolist forms a collusion or a celtel with competing firms they can increase/lower /reduce the price.
- b) When the oligopolies acquires a dominant position on the market/accept
egs of dominant position

(2mks)

- c) The price cannot be increased /decreased/rained because it is rigid at the kelik/OPO
 - d) The owner on roman II can be used as the answer far this section.
- 3
- b) Explain 5 ways in which the government of Kenya may reduce the level of unemployment (Naming 1 mk)
 - i) Diversification of the economy by encouraging the establishing of different industries /sectors to create employments opportunities
 - ii) Transforming agricultural sector/rural sector to curb rural urban migration/ accepts egs of transformation as a naming (to create more jobs and reduce unemployment)
 - iii) Transforming education /training sector/to improve on skills/ (this makes the graduates)acquire relevant skills.
 - iv) Establishing on employment policy by government to make it easy for people to get jobs/Accept egs of policy as mention
 - v) lending /setting of a fund to assist unemployed to stat income generating activities/accept egs of funds as a mention
 - vi) Exporting Labour by assisting unemployed people to acquire jobs abroad /countries with labour deficiency.
 - vii) Encouraging the informal /Jua Kali sector in order to promote self employment
 - ix) Delocalization/ decentralization policy for balanced regional development/reduced rural urban irrigation
 - x) Population policy to control growth/have a labour force that the economy can absorb

- xi) To improve infrastructure in order to suitable economic activities /Accept egs of infrastructure as a raring.
 - xii) Increase government expenditure to expand the size of the economy/ to finance development projects.
 - xiii) Effective use of natural resources to increase production activities accepts egs of natural resources as a mentor.
 - xiv) Income /wage policy to harmonize/eliminate differences between regions/sectors
 - xvi) Attract (Local /foreign) investments through vision incentives/to grow the economy accept egs of incentives as explanation
 - xvii) Receiving collapsed industries/projects by injector, funds/selling than /increased production activities
- 4 a) using a diagram, explain the circular flow of income in a two sector economy.

(10 mks)

House holds supply their resources (factors of provision) to various types of businesses and receive payment on the form of rent, wages and profit

On the other hand, businesses sell finished products to household and households pay for the goods and services received

The destruction must be shown.

- 4 b) Refer to question paper
- i) the name of the documentary is an invoice/debit not (3 mks)
 - ii) By paying for goods on 28th Oct 2008, the debtor qualifies for the cash discount or furniture

By paying for goods on 28th Oct 2008, the debtor qualifies for the cash discount or furniture.

$$\begin{aligned} \text{Amount paid } 268,200 \times \frac{90}{100} + 9,000 + 7,500 & \qquad \qquad \qquad (7 \text{ mks}) \\ 24,380 + 9,000 + 7,500 = \text{sh. } 257,880 & \end{aligned}$$

Or

$$\begin{aligned} \text{Kshs. } 284,700 - \frac{10}{100} \times 268,200 \\ \text{Kshs. } 284,700 - \text{Ksh. } 26,820 \\ = \text{Kshs. } 257,880 \end{aligned}$$

Or

$$\begin{aligned} \text{Furniture } 268,200 \text{ less } \frac{10}{100} & = 26,820 \\ 26,820 - 26,820 & \\ = 241,380 & \end{aligned}$$

5. (a) Explain 4 services that not the Central Bank of Kenya army after as a banker to commercial banks.

(8 mks)

- i. Advising/information/education/publishing journals for commercial banks or financial matters.
- ii. Banker to commercial banks/accepts deposits by being in custody of the reserves received from commercial basis.
- iii. Supervising/ monitoring the operations of commercial banks /banking act
- iv. Providing a central cleaning horse where commercial banks settle debts due to each other /for cheques
- v. Being a tender of the last resort to the commercial bans
- vi. Foreign exchange /buy /sell foreign currency to/ for a commercial banks
- vii. Icore of currency for commercial banks operations/replaces old currency/issue new notes/coins

- viii. Mediation/arbitration in case of disputes (between commercial banks)
- ix. Licensing- the operations of commercial banks
- x. Repatriation of excess foreign currency/profit (broad) on behalf of commercial banks
- xi. Statutory management during financial crisis /receiverships

5 b) Malamu Traders

Expenses	Sh.		Sh.
Discount allowed	142,000	Gross profit	520,000
Lighting	25,200	Rent received	120,000
Interest or loan	1,200	Net loss c/d	61,930
General expenses	102,100		
Repairs on building	60,000		
Repairs on furniture	72,030		
Repairs on motor vehicle	<u>300,00</u>		
	<u>702,530</u>		<u>702,530</u>

MALAMU TRADERS

BALANCE SHEET

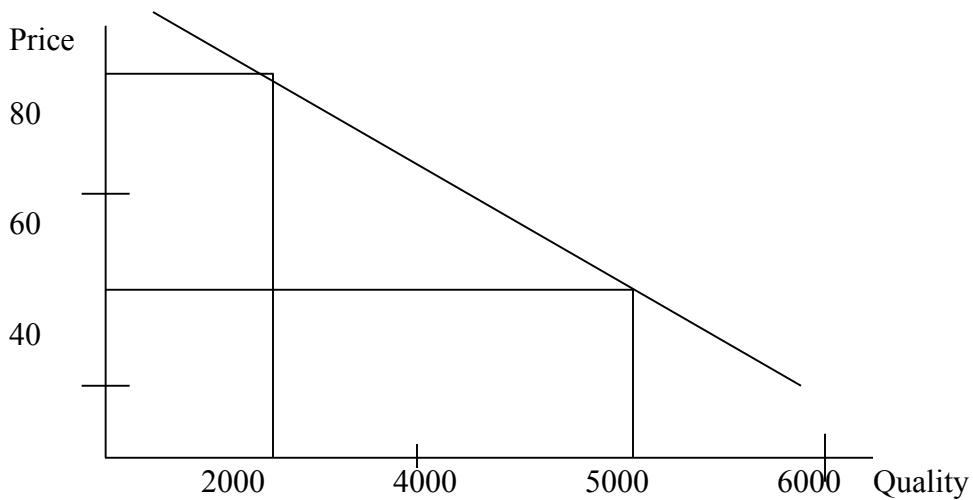
AS AT 31ST DEC 2008

Fixed Assets			Capital 1,400,000	
Building	540,000		Less loss	6,930
Furniture	408,170			1,338,070
Motor Vehicle	900,00	948,170	Loan	472,500
Current Assets				
Stock	72,500			
Debtors	116,900	189,400	Current Liabilities	227,000
		2037,570	Creditors	2,037,510

6. The following table represents the price and quality of a commodity

Month	Price	Quantity
January	80	2,000
February	40	5,000

i) Plot the above information on (5 mks)



ii) Price elasticity of demand of demand

$$\frac{(5,000-2,000)}{2,000} / \frac{(40-80)}{80}$$

$$= \frac{3,000}{2,000} \times \frac{80}{40}$$

Elasticity= 3 or -3

Or

$$\frac{2,000 - 5,000}{2,000} / \frac{80 - 40}{80}$$

Or

$$\frac{-3,000}{2,000} \times \frac{80}{40} = -3$$

$$\text{Or } - \frac{3,000}{2,000} \times 100 - \frac{80}{40} \times 100$$

Or

$$\frac{-150}{100} / \frac{50}{100}$$

Or

$$\frac{150}{100} \times \frac{100}{50} = -3 \text{ or } 3$$

Dr Total Debtors Account Cr

	Sh.		Sh
Balanced b/d	120,000	Bad debts	4,200
Interest on debtors	2,000	Cash Debts	750,000
Sales	967,200	Bal. c/d	335,000
	<u>1,089,200</u>		<u>1,089,200</u>

Dr	Total Creditors Account		Cr
	Sh.		Sh.
Payments	660,500	Balance c/d	142,500
Balance c/d	158,400	purchases	676,400
	818,900		<u>818,900</u>
Credit purchases	676,400		<u>818,900</u>
Cash purchases	135,400		
	<u>811,800</u>		

LANGAS TRADERS

TRADING PROFIT AND LOSS ACCOUNT

FOR THE YEAR

Sh.	Sh.	Sh.	
Stock (1/1/07)	75,000	sales	967,200
Purchases	811,800		<u>967,200</u>
Less closing stock	136,400		<u>967,200</u>
	750,400		
Gross profit c/d	216,500	Gross profit b/d	216,800
	<u>967,200</u>		<u>216,800</u>
	<u>967,200</u>	Bad debt received	16,000
Reduction equipment/depreciation	65,600	Interest of debtors	2,000
Salaries	48,000		
Less prepaid	(8,000)		
Interest on loan	30,000		
Add due	6,000		
Bad debts	4,200		
Net Profit c/d	89,000		
	<u>234,800</u>		<u>234,800</u>
	<u>234,800</u>		<u>234,800</u>

BUSINESS STUDIES K.C.S.E 2010

MARKING SCHEMES

BUSINESS STUDIES PAPER 1

1. Type of utility created in each
 - i) Possession utility
 - ii) Place utility
 - iii) Time utility
 - iv) Form utility (4 x 1 = 4mks)

2. Reasons why the government may find necessary to start a parastatal include:
 - i) To provide strategic goods and service
 - ii) To increase revenue collection
 - iii) To encourage import substitution industries/to discourage importation
 - iv) To encourage foreign investment
 - v) To reduce foreign influence
 - vi) To address special social needs
 - vii) To take care of sensitive ventures
 - viii) To take care of business that requires a large initial capital
 - ix) To create employment to poor
 - x) To provide goods & services all over the country
 - xi) To stimulate economic development
 - xii) To provide essential goods and services at low cat
 - xiii) To promote competition with private in security
 - xiv) To provide goods and services with low returns (low profits)
 - xv) To regulate business activities

3. Types of warehouses
 - i) Bonded warehouse
 - ii) Public warehouse
 - iii) Wholesalers warehouse
 - iv) Manufacturers warehouse

4. Factors that may have caused the shift in supply include:
 - i) A fall in the cost of production
 - ii) Fall in price of produced goods
 - iii) Technological progress
 - iv) Conducive natural factors e.g. good weather season
 - v) Government policies e.g. reduced tax and increased subsidies
 - vi) Future expectation of a fall in price
 - vii) Entry of new forms in the industry
 - vii) Increase in factor of production
 - viii) Longer time
 - ix) Less strikes
 - x) Increase in price of jointly supplied goods e.g. beef and hides

5. ENOTIKA TRADERS
BALANCE SHEET
AS AT 31ST DECEMBER 2008

Fixed Assets	480,000	Capital	300,000
Current Assets	145,220	<u>Long term liabilities</u>	
		2 year Bank loan	230,220
		<u>Current liabilities</u>	
		Creditors	<u>95,200</u>
	<u>625,220</u>		<u>625,220</u>

(5 x 1 = 5 marks)

6. Reasons why a three column ledger book is used both as journal and a ledger.
- i) Cash and bank column in the cash book act as a ledger and total balances are used to prepare trial balance like other ledger accounts (x2)
 - ii) Both discount allowed and discount received columns act as journal and their total balances are transferred to the ledger. (x2)
 - iii) Cash transactions are entered in the three column cashbook directly as they occur (x2)
7. Appropriate functions are:
- i) Management of national debt
 - ii) Lender of last resort
 - iii) Credit control (3 x 1 = 3mks)
8. Terms of sale used in international trade.
- i) Loco This means the price of goods quoted at the exporters warehouse/premises (the importer bears the cost of packaging and transport/factory price/exports)
 - ii) C.I.F Cost Insurance and Freight. Cost of Insurance and freight included up to the port of entry
 - iii) F.A.S Free Alongside Ship. Costs incurred on goods up to to the point where they are ready to be loaded onto the ship.
 - iv) F.O.Q Free on Quay. This means the price quoted include all costs incurred up to the quay. (4 x 1 = 4mks)
9. Merits of Management by Walking Around (MBWA) include:
- i) Manager has first-hand information on the goings - on in the organization
 - ii) Manager has instant feedback from the workers
 - iii) Manager can tackle issues/as they raise (problems)
 - iv) Manager can enhance interpersonal relations with the workers
 - v) Workers avoid idleness and work as they feel the presence of the manager.
 - vi) Manager can give relevant comment on performance/motivation
 - vii) Manager can identify absenteeism/lateness
 - viii) It controls misuses of resources
 - xi) To encourage utilization of local resources

xii) To earn foreign exchange

10. Reasons why the government should create an enabling environment to investors include:

- i) To minimize cost of doing business
- ii) To open new areas/hitherto neglected by investors (local foreign)
- iii) To expand the tax base and hence increase revenue
- iv) To enhance economic development in the country
- v) To promote public/private sector relationship
- vi) To create employment opportunities
- vii) To increase the level of National/increase product
- vii) To avail a variety of goods and services.

11. Distinction between insurance and assurance

Insurance	Assurance
(i) Protection offered to property (against unforeseen risks)	(i) Protection offered to life(against unforeseen risks)
(ii) Risk insured against may or not happen	(ii) Risks insured against must happen (and time is not known)
(iii) The insurance contract is renewable after every year (short term)	(iii) Insurance contract is for life an does not require renewal (long term)
(iv) Compensation is given to owner of property incase of loss/uncertain	(iv) Compensations is given to beneficiaries incase of death/certain
(v) A replacement for the good lost can be given/contract of indemnity	(v) Lost life can never be replaced/not a contract of indemnity
(vi) Has no surrender value	(vi) Has a surrender value
(vii) Policy can't be used as collateral to secure loans	(vii) Policy can be used as collateral to loans
(viii)Has no maturity date	(viii)Has a maturity date
(ix) Principle of subrogation applies	(ix) Principle of subrogation does not apply
(x) Cannot be used as a savings scheme	(x) Can be used as a savings scheme
(xi) Sum insured depends on the blanket value of the insured property/not adjustable	(xi) Sum insured depends on the ability to pay the premium/can be adjusted
(xii) Proof of insurable interest	(xii) No need of proof of insurable interest at the time of death
(xiii)Policy cannot be assured	(xiii)Policy can be assured

12. Factors that may influence the level of national income include:

- i) Availability of natural resources/natural endowment
- ii) Availability of skilled labour force/quality availability of skills
- iii) Literacy levels of the citizens in general
- iv) Level of county's industrialization
- v) Dependency ratio on the economically active portion of the population

- vi) Level of technology
 - vii) Population size (quantity of labour)
 - viii) Entrepreneurial culture/level of investment/trade
 - x) Political stability
 - x) Social cultural
 - xi) Infrastructure
 - xii) Security (4 x 1 = 4mks)
13. Difference between cash and credit transactions
- In a cash transaction both money and goods exchange hands between the buyer and seller immediately while in a credit transaction, the transfer of goods come first and payment later.
 - Cash transaction requires a cash sale receipt and a credit transaction required an invoice.
14. Matching statements on capital with types of capital
- i) Owners equity
 - ii) Working capital
 - iii) Borrowed capital (3 x 1 = 3mks)
15. Ways in which government expenditure stabilizes the economy of a country include:
- i) Provision of security: This creates an enabling environment for economic activities
 - ii) Creation and maintenance of administrative departments: These are created for effective operation of a country's economy e.g. salaries
 - iii) Social services: This enhances the welfare of the population for effective participation in economic activities.
 - iv) Spending on infrastructure - It improves efficiency in production and distribution of goods and services in the economy.
 - v) Advancement of non-interest earning capital to entrepreneurs during economic recess
 - vi) Provision of basic growth and services through subsidies.
 - vii) Promoting local industries
16. Problems associated with development planning include:-
- i) Inadequate data
 - ii) Inadequate funds
 - iii) Inadequate supply of specialists
 - iv) Political instability (conflicts)
 - v) Conflict of interests
 - vi) Inaccurate data
 - vii) Overambitious plans
 - viii) Natural catastrophes
 - ix) Lack of political goodwill
 - x) Donors withdrawal
17. Services that a wholesaler may offer to a manufacturer include:
- i) Links the manufacturer with the retailers
 - ii) Breaks bulk on behalf of manufacturer/preparing for sale
 - iii) Provides storage on behalf of a manufacturer

- iv) Provides working capital when they pay for goods
 - v) Assists in distribution of goods/offering transport
 - vi) Promoted the products on behalf of the manufacturer
 - vii) Relieves the manufacture off some risks e.g price of fluctuations, expiry of goods
 - viii) Offers valuable information about goods
18. The flower exporter would choose air transport over sea due to the following reasons
- i) Air transport is faster
 - ii) Flowers are perishable require faster means
 - iii) Flowers have a very high per unit value
 - iv) Security of air transport is relatively high
 - v) Flowers are light in weight
 - vi) Flowers are not bulky
19. The letters represent
- i) P - Income per capital
 - ii) S - Population
 - iii) R - Under population
 - iv) Q - Optimum population/optimum per capita

20.

Salaries Expenses account			
Dr.		Cr	
Balance b/d	24,800	Profit/loss a/c	20,600
Cash	48,200	Balance c/d	52,400
	73,000		73,000

(5 x 1 = 5mks)

21. Circumstances under which one would decide to start a personal business include
- i) Where there is need to create employment
 - ii) Where additional income is needed
 - iii) Where there is need to apply business skills acquired
 - iv) Where there is need to invest surplus funds
 - v) Where one has a business idea to implement
 - vi) Where one wants to become own boss
 - vii) Where there is a machine/gap
 - viii) Where there is need to used talent
 - ix) Where there is need to use of spare time
22. Ways in which a business idea can be implemented include:
- i) Creating a new good (waste materials)
 - ii) Improving on an existing good (quality)
 - iii) Improving the process of production (efficiency)
 - viii) Discouraging unnecessary noise
 - ix) Provision of adequate furniture and equipment
 - x) Provision of welfare facilities (tea, soft music, lunch, radio etc)
 - xi) Provision of special facilities for the disadvantaged

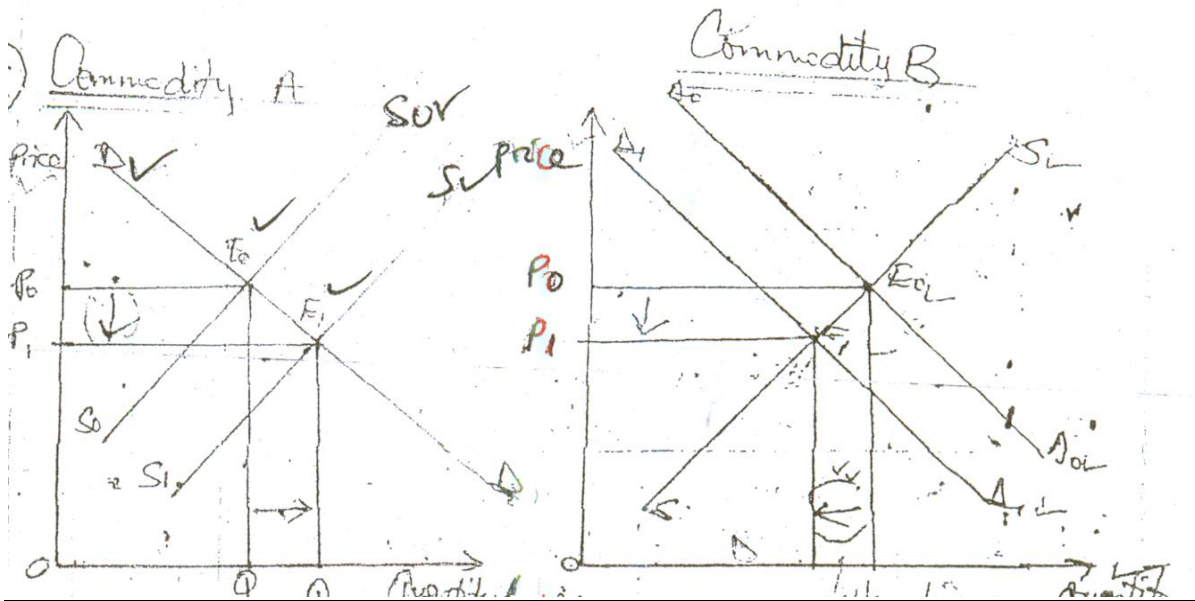
- xii) Safety measures (stickers on walls - warning)
23. Measure that manager can take to improve the working environment in the office include:
- i) Provision of proper and adequate lighting
 - ii) Maintaining tidiness in the office/cleanliness/neatness
 - iii) Provision of proper ventilation
 - iv) Provision of relevant furniture and equipment
 - v) Beautifying the office to give it a pleasant appearance
 - vii) Provision of smoking zones (any 5 x 1 = 5mks)

Alternative answers

- (i) Fair remuneration/salaries
 - (ii) Paying salaries on time
 - (iii) Involving workers in decision making
 - (iv) Organising seminars/training/workshops
 - (v) Promotion on merit/rewards
 - (vi) Avoid discrimination
 - (vii) Offering fringe benefits (housing, transport, health e.t.c)
 - (viii) Opening communication channels
 - (ix) Clear job description and specification
 - (x) Sensitize workers on work ethics
24. Challenges that may be faced when using a cell-phone (mobile phone) include:
- i) May be damaging to the ears
 - ii) Are relatively expensive to acquire
 - iii) Calls or messages sent may be tapped
 - iv) Its use may be limited where there is lack of network
 - v) May not be used under certain circumstances e.g. banking halls, public service, vehicles etc
 - vi) Possibility of loss of handset to thieves.
 - vii) Relatively expensive to operate
 - viii) Requires constant charging
 - ix) Prone to misuse e.g. frauds
 - x) Channel overloads (network congestion)
 - xi) Difficult to operate (literacy) (Any 4 x 1 = 4 mks)
25. The curves represented are:
- i) a is marginal cost curve (MC)
 - ii) b is average cost curve (AC)
 - iii) c is a average revenue curve/demand curve/price (AR)
 - iv) d is marginal revenue curve. (4 x 1 = 4mks)

BUSINESS STUDIES PAPER 2

a)



For commodity A

An increase in the supply of commodity a A tends to a decrease in its price move from P_0 to P_1 (if to e, is not labelled or use a tick) (*Don't give a tick for P and Q*)

For commodity B

Since the price A has decreased consumers are likely to buy more of s and it is demand for commodity produce from Q to Q_1 as the price also reduction from P_0 to P_1 . The effect is creating a new equilibrium quantity Q_1 and new equilibrium price creating a new equilibrium point at E_1

(b) Negative effects of inflation on the economy of a country

(i) **Discourage savings**

People tend to spend the money they have due to the falling value of money due to increase in prices

(ii) **Increase in interest rates/high cost of credit**

Due to the fact that there is less saving in the country the savings is but high interest rate to composer lenders for the fall in the value of money.

(iii) **People with fixed income hard hit/ people with fixed income supper mix**

Because the value of their income falls they will afford less goods/services increased cost of living accept e.g. of face income earners as a naming

(iv) **Lenders lose:** lenders of money receive less value of the money they advanced to debtors/where interest rates charged are fixed

(v) **Worsening balance of payment:** Exports become more expensive this leads to falling of demand for exports as people may prefer to buy cheap imports/ as people may increase demand for imports due to unfavourable terms of trade.

(vi) **Unfair/uneven distribution of income:** with the rich becoming richer /poor becoming poorer

- (vii) **Low income earners/unemployed are hard – hit:** since they may not be able to afford the basics /may result to illegal means of earning a living.
- viii) **Hampers implementation /preparation of development plans/ budget:** because more funds have to be raided due to rising prices since it is difficult to forecast expenses/meet goods.
- (ix) **Loss of confidence in the currency:** which may encourage barter trade preference for foreign currencies /necessitate change of currency
- (x). **Adverse effect on investments:** due to increased cost of operation /reduced value of earnings
- (xi) **May fuel /worsen unemployment /reduced job creation:** due to reduced production activities /closure of firms.

PRINCIPLES THAT DISTINGUISH CO-OPERATIVE SOCIETIES FROM OTHER FORMS OF BUSINESS ORGANISATIONS INCLUDE:

- (i) **Democratic central / administration/management:** decisions are made by members on a one man-one vote basis. Management committees are elected on the basis of one man- one vote.
- (ii) **Voluntary/open membership:** Membership is open
- (iii) **Limited interest on share capital:**
- (iv) **Education to members:** co-operatives are obliged /have a duty to educate their staff/ management /the members / on co-operative activities/ the economy /through seminars/ courses/ tours/ workshops/improved performance.
- (v) **Political religious neutrality:** cooperative societies are not supposed to favour align/inclined/interested with any political /religious groups
- (vi) **Co-operation with other cooperatives:** in order to share ideas/ experiences /at religious /natural /internationally level.
- (vii) **Repayment of dividends /distribution of surplus:** On pro rata basis /based on contribution
- (viii) **Service to members :** Formed to cater for members interest/welfare
- (ix) **Limit on the number of shares one can buy:** to avoid business control by one / a few members
- (x) **Non-profit motivated:** Revenue is meant to meet the expenses of the society /any excess revenues or expenditure is for the mutual of all members shared proportionately.

WAYS OF MAKING FACE TO FACE COMMODITIES EFFECTIVE INCLUDE

- (i) clarity of the message - so as to avoid misunderstanding /ambiguity
- (ii) use of non-verbal cues/gestures to clarify verbal messages
- (iii) Proximity/nearness: communicating parties being close to each other within communicating range.
- (iv) Communicating parties' use of a common language: thus enhancing understanding of the message.
- (v) Making the message concise/brief to avoid unnecessary details/retain attention/concentration.
- (vi) positive attitude : between the communicating parties/sender and receiver
- (vii) good listening/ attentiveness: to get the message being sent/presented
- (viii) use of simple language /non technical terms: language to be understood by the receiver/level of the receiver
- (ix) accuracy/ correctness of the message: to avoid misleading the receiver
- (x) Preparedness /planning: by the sender/receiver to enhance confidence.
- (xi) Adequacy/completeness to provide enough information
- (xii) Noise free /quietness to avoid distraction
- (xiii) courtesy /respect : between the sender and receiver to avoid hostility
- (xiv) Audibility: by use of appropriate equipment /voice projection to make it audible
- (xv) Tone variation: to break monotony /sustain interest

**K-100 TRADERS
TRADING PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 2008**

Opening stock	80,200		
Purchase	1,120,000	Sales	1,880,000
Adds carriage	<u>40,000</u>	Less R/inwards	<u>5,800</u>
	1,160,000		1,874,200
Less R/outwards	20,800		
Available for sale	<u>1,139,200</u>		
Less closing stock	120,000		
Cost of goods sold	<u>1,099,400</u>		
Gross profit c/d	714,800		
	<u>1,874,200</u>		<u>1,874,200</u>
EXPENSES			
Waterbill	250000	Gross profit b/d	774,800
Repairs	230000	Discount received	7,500
Carriage on sale	12,700		
Lighting	15,000		
Insurance	4,000		
General expenses	56,700		
Net profit c/d	<u>213,900</u>		
	<u>782,300</u>		<u>782,300</u>

**K-100 TRADERS
BALANCE SHEET
AS AT 30TH JUNE 2008**

	shs.	shs.		shs.	shs.
Fixed assets			Capital	4,000,000	
Furniture	3,000,000	4,000,000	Add: Net profit	<u>213,900</u>	4,213,900
Motor vehicle	<u>690,000</u>	3,690,000			
Current assets			Current liabilities		
Stock	120,000		Creditors	510,400	
Debtors	316800		Bank overdraft	<u>2,500</u>	512,900
Bank	520 000				
Cash	<u>80 000</u>	<u>1036,800</u>			
		<u>4,726,800</u>			<u>4,726,800</u>

NB.

1. Foreign items in balance sheet to be penalised
2. Wrong gross balance b/d correctly used award a tick
3. Wrong net profit correctly brought down on the balance sheet should not award a tick

(b) FACTORS CONSIDERED IN THE CHOICE OF A MEANS OF TRANSPORT

- (i) The nature type of the commodity to be transported: some goods are such that they can only be transport using appropriate/suitable means of transport /perishable goods may require fast means /special facilities (*accept completely explained example*)
- (ii) Cost: should be able to meet the cost of the means of transport chosen /choose a means that is affordable /cost effective
- (iii) Speed/ urgency: required goods/services require fast means/ choose a means that can deliver goods/services within the requirement time
- (iv) Reliability: choose a means that is certain to deliver without fail depended on to deliver.
- (v) The distance to be covered: some means of transport may not take goods to far away place/some are not convenient over short distance (*accept completely explained example*)
- (vi) Security: choose a means that is less prone to damage /less/ theft
- (vii) Means of that is possible to offer door to door service
- (viii) Value of goods/services: If of high value they may require a means that is more secured

b) Completed table

GOODS PRODUCED (TONNES)	TOTAL FIXED COST (SHS)	TOTAL VARIABLE COST (SHS)	TOTAL COSTS (SHS)	TOTAL AVERAGE COSTS (SHS)	MARGINAL COST (SHS)
0	200	0	200	-	- /00
10	200	50	250	25	50/5
20	200	80	280	14	30/3
30	200	100	300	10	20/2
40	200	140	340	8.5	40/4
50	200	200	400	8.0	60/6

iii) 30 tonnes (units) should be produced to maximise profits. This is the level at which marginal cost is equal to marginal revenue, that is shs. 20

PROBLEMS THAT MAY BE FACED WHEN MEASURING NATIONAL INCOME USING THE OUTPUT APPROACH INCLUDE:

- (i) **Inadequate /inaccurate data:** Difficulties will be experienced in (valuation)/due to unavailability/inaccuracy of output figure/lack of output records/poor record keeping.
- (ii) **Determination of goods & services to be included/difficulties regarding which goods & services to include:** Since some output may be a result of illegal activities/may not be recognized (*accept examples of illegal goods/services as an explanation*)
- (iii) **Subsistence sector/valuations output of the subsistence sector:** Since the goods/services are never priced/exchanged
- (iv) **Value of stock/unsold goods/there is a problem of what value to assign to the stock of goods:** Whether it should be valued at cost or at market price/where indirect taxes/subsidies have to be taken into consideration.

- (v) **Price fluctuations/inflation/appreciation/depreciation of goods/services:** Prices of food may vary from time to time; hence there is a problem of deciding whether to attach historical cost or market price.
- (vi) **Double counting:** Where it may be difficult to distinguish between intermediate & final output.
- (vii) **Lack of qualified personnel:** Who can be used to value/measure/collect data/output
- (viii) **Inadequate financial/capital/equipment/technology:** to be used when gathering compiling data/statistics

FACTORS AN ENTREPRENEUR CONSIDERS WHEN EVALUATING A BUSINESS IDEA

- (i) **Profit to be earned/return from investment:** There should be a reasonable profit from the investment/in order to cover all the operation expenses.
- (ii) **Existing attitudes/practices/beliefs of the target market:** The new product/service/business idea must be in line with the people's attitudes/practices/beliefs of it has to be accepted/hence marketed.
- (iii) **Technology:** The technology to be used in producing the product/offering the service should be efficient/cost-effective/available/to produce desired quantity/quality.
- (iv) **Size/availability of the market/demand:** Should be adequate/sustain the end of output/ensure/sale of products.
- (v) **Government policy/legal requirements:** Should be favourable/easy to be met/to operate smoothly
- (vi) **Channel of distribution:** This will ensure that product is available in the market/so that consumers buy it when they decide to/should be available/effective/affordable
- (vii) **Competition:** It should be fair/healthy/capable to cope with
- (viii) **Capital:** Should be adequate to start/operate/run/easy to source/raise
- (ix) **Input/supplies:** Should be readily available/affordable for continuous operations accept examples of inputs as mentioned.
- (x) **Risks involved:** should be minimal/manageable/bearable
- (xi) **Management skills:** Whether the owner has them/ can hire.
- (xii) **Pay-back period:** Duration of getting back the amount invested should be considered

BENEFITS THAT MAY ACCRUE TO A CUSTOMER WHO USES AUTOMATED TELLER MACHINE (ATMS)

- (i) Customer can withdraw money at any time/for 24hrs/for 7 days a week
- (ii) Means of payment: Customer can pay utility bills/buy goods/services (*accept examples of bills as a of payment*)
- (iii) Fees charged are low compared to over the counter services/withdrawals/hence saving on costs.
- (iv) Strategic locations: ATMs may be found even where banks are non-existent (*accept e.gs of strategic locations as explanation*)
- (v) Security: The customer has a PIN number which guarantees confidentiality/safer to carry a card than cash.
- (vi) Getting mini statement: Customer can use it to monitor his transactions with the bank.
- (vii) Customer can deposit money or cheques at any time for 24hrs & 7 days in a week.
- (viii) Saves time/faster services: Due to less paperwork/avoidance of long queues in the bank/queues may be shorter at ATMs.
- (ix) Use the Visa cards: to make interbank withdrawals
- (x) Portability: as it is light to carry ATM cards around
- (xi) Access to credit: Through the use of credit cards
- (xii) Simple/easy to operate/use: As the user is guided by the machine.

- (xiii) Transaction receipts: To show current balance/amount withdrawals/for record keeping/reveal errors
- (xiv) Accessibility/unlimited use: Since it operates throughout the day/round the clock
- (xv) Facilities movement of cash/funds from one account to another.

POSSIBLE RISKS THAT AMINA CAN INSURE HER BUSINESS AGAINST

- (i) **Accidents:** That can cause damage/loss to vehicles and other assets.
- (ii) **Fires:** Can cause loss /damage/burn vehicles/other assets
- (iii) **Cash in transit:** Can insure against loss of cash in transit to/from the bank/the business premises.
- (iv) **Pilferage by employees:** Can insure against loss of cash/other valuable though theft by employees.
- (v) **Occupational hazards:** Employees can be insured against physical harm while on duty
- (vi) **Injury to third-party/damages/losses to other peoples property:** Emanating from the fleet/the business
- (vii) **Theft/burglary (of the vehicles) other property:** Through forceful entry/unauthorised access.
- (viii) **Loss of profits/consequently loss:** Due to business interruption
- (ix) **Goods in transit:** Loss of goods to / from the business.
- (x) **Loss of a key worker:** Due to injury/absence/death/sickness

2011

BUSINESS STUDIES PAPER 1

MARKING SCHEMES

1. Types of wholesalers

- (a) Specialized wholesalers
- (b) Regional wholesalers
- (c) Rack jobbers
- (d) General line wholesalers

2. factors to consider before buying office equipment include

- a. space available
- b. use of which it may be put
- c. technological trends in industries
- d. funds available
- e. skills available /cost of buying
- f. skills available
- g. quality
- h. durability
- i. adaptability
- j. terms and conditions of pay
- k. image / prestige

3 malpractices by traders against which consumers may need protection by the government include:

- (a) selling of contraband goods /fake
- (b) Overcharging / overpricing
- (c) Selling under weight goods / quantity
- (d) Selling expired goods/harmful
- (e) Giving misleading information about the product
- (f) Hoarding
- (g) Breach of contract
- (h) Unsafe buildings
- (i) Unhygienic conditions

4 features of insurable interest include :

- (a) Presence of property rights of interest /ownership

- (b) Potential insurable risk must be present
- (c) The property must have monetary value
- (d) The insurable risk must be legal
- (e) There must be the possibility of suffering financial loss in case of a risk happening
- (f) It applies to both life and property

5. ways in reducing the level of unemployment in Kenya include :

- (a) encouraging self employment / entrepreneurship
- (b) establishment of more labour intensive industries
- (c) impart the right skills through education and training
- (d) expanding the market for goods and services
- (e) exporting surplus man power
- (f) population control
- (g) increase capital delocalization of firms attraction of foreign investors
- (h) diversification of economic activities
- (i) utilization of local resources

6. services offered by a commercial banks to its customers include:

- (a) acceptance of deposits
- (b) Safeguarding valuable items
- (c) Advancing loans / overdrafts
- (d) Offering management and consultancy services
- (e) Advisory services on financial matters
- (f) Foreign exchange services
- (g) Acts as guarantors
- (h) Trustee services
- (i) Acts as agents eg at the stock exchange
- (j) Receiving interest on behalf of the customers
- (k) Act as referees to the customers

7. sources of public finance include :

- (a) Taxes
- (b) Licences
- (c) Court fines
- (d) Donor aid and grants

- (e) Fees for government services
- (f) Treasury bonds and bills (internal borrowing)
- (g) Rent and rates for use of government property

8. Reasons why countries may trade with each other include:

- (a) To sell their surplus
- (b) To enhance bilateral ties/ create peace and understanding
- (c) To acquire what they are not able to produce
- (d) Protect special interest
- (e) To improve the quality of life of their citizens
- (f) To assist one another in calamities
- (g) To create employment
- (h) To earn revenue through taxation

- (i) To earn foreign exchange
- (j) To acquire less skills and technology

9. reasons why economic development is desirable to a country include :

- (a) Alteration of poverty
- (b) Improve infrastructure
- (c) Create employment
- (d) Increase life expectancy
- (e) Reduce rural-urban disparity
- (f) Improve the social services
- (g) To enhance self reliance
- (h) To diversify the economy to avoid reliance of one sector
- (i) Maintenance of environment

10.factors of production and rewards they earn:

Factor of production	Reward
(a) Land	Rent/royalties and rates
(b) Labour	Wages/salaries
(c) capital	Interest
d) entrepreneurship	Profits

11.circumstances under which a co-operative society may be dissolved include:

- (a) by government order /change in the law
- (b)Where the co-operative continuously make losses
- (c) where stipulated majority of members agree to dissolve it
- (d) By a court order
- (e) where the co-operative society has achieved objectives for which it was formed

12. features of a bonded warehouse include:

- a) Mostly located at points of entry into a country like the ports
- b) Stores goods that are under bond coming from other countries
- c) Guarantees payment of customs duty to customs authority
- d) Very spacious to accommodate even bulky goods like motor vehicles
- e) Must issue release warrants to owners of goods for custom clearance
- f) Works hand in hand with customs officials for inspection of goods

13. factors that may be considered when measuring the size of a firm include :

The level of volume of output

- a) The number of employees
- b) The capital invested
- c)The production methods(technology) used
- d) The market served/ number of branches
- e) The floor area covered by the firm premises
- f)The sales volume

14 ledger accounts

(a) Salim traders account

	March 10: purchases ksh 200,000
--	------------------------------------

(b) purchases account

	ksh
March 10: salim traders	200,000

(c) shah traders account

	Ksh
March 25: sales	420,000

(c) sales account

	ksh
	march 25: shah traders 420,000

15. Amount paid

Invoice price	Ksh 12,000
Less: trade discount (12,000 x 5%)	<u>600</u>
	11,400
Less : cash discount (11,400 x 10%)	<u>1,140</u>
	10,260

16. calculation of rate of return on capital

$$\begin{aligned}
 C &= A-L \\
 &= 500,000 - (150,000 + 100,000) \\
 &= 500,000 - 250,000 \\
 &= 250,000
 \end{aligned}$$

$$\begin{aligned}
 \text{ROROC} &= \frac{NP}{C} \times 100 \\
 &= \frac{50,000}{250,000} \times 100 \\
 &= 20\%
 \end{aligned}$$

Amina traders
Trading account
for the year ended 31 st December, 2006

	ksh	ksh		ksh
opening stock		75,000	sales $\frac{320,000}{100} \times 125$	
purchases	260,000			400,000
Add: carriage	12,500	<u>272,000</u>		
		347,500		
Less closing stock		<u>27,500</u>		
Cost of goods sold		320,000		
Gross profit				
$\frac{320,000}{100} \times 25$		<u>80,000</u>		
100,000		<u>400,000</u>		<u>400,000</u>

18. benefits that a farmer may get by transporting her produce to the market by road includes
- a) Relatively flexible
 - b) Relatively cheap
 - c) Relatively available
 - d) Relatively fast
 - e) Variety of means of road transport
 - f) No fixed time schedules
 - g) No fixed routes
19. causes of the declining supply of sukuma wiki include:
- a) Falls in the price of kales (sukuma wiki) may have discouraged producers (farmers) as they opt to produce other goods
 - b) There may have been an outbreak of diseases affecting the sukuma wiki
 - c) There may have been prolonged drought which affects the sukuma wiki
 - d) There may have been increased cost of farm inputs like fertilizer and seeds
 - e) The farmers could be using inappropriate technology to produce the sukuma wiki
 - f) This may just the ploughing time and many farmers have not yet planted sukuma wiki
20. ways in which households may contribute to national income of a country include:
- a) Consumption of goods
 - b) Payment of taxes
 - c) Provision of labour
 - d) Provision of savings for investment/ capital
 - e) Provision of land
 - f) Provision of entrepreneurship
21. Circumstances in which trader may use oral communication include:
- a) When there is need to negotiate a deal /convince
 - b) When there is need to explain the use and features of a product
 - c) When there is need for immediate feed back

- d) When there is need to give an immediate compliment
- e) When selling over the counter

22.Reasons why firm may remain small include:

- I. Target market is small
- II. Limited production capacity/ capital
- III. Nature of the product
- IV. Owners decision to remain small
- V. Inadequate appropriate technology
- VI. Its flexible
- VII. Secrecy
- VIII. Easier to manage
- IX. Fast decision making

23. Two –column cash book for the month of January

RECEIPTS				PAYMENTS			
Date	details	cash	bank	date	details	cash	bank
2007		ksh	ksh	2007		ksh	ksh
Jan 1	balance b/d	25,250		jan 1	balance b/d		150,000
5	sales	21,500		28	creditor	20,000	80,000
16	debtor		360,000	31	balance c/d	26,750	130,000
		<u>46,750</u>	<u>360,000</u>			<u>46,750</u>	<u>360,000</u>
Feb 1	balance b/d	26,750	130,000				

24. Benefits that accrue to a trader who advertises products in a newspaper include:

- (a) Wide coverage –message can reach a lot of people
- (b) Evidence of the message exists
- (c) Graphical details can be included
- (d) A trader has a chance to compete with other traders
- (e) A trader has a chance of increasing sales

25.calculation of the increase in consumer price index

$$\text{Base year } 2006 = 100\%$$

$$\frac{1600}{1200} \times 100 = 133\%$$

$$\text{Increase } (133 - 100) = 33\%$$

BUSINESS STUDIES PAPER 2 2011

MARKING SCHEMES

1.(a) Explaining types of inflation

- (i) Demand- Pull inflation-(refers to a progressive increase in the general level of prices) brought about by an expansion in demand. There is too much money chasing -for few goods/caused by excess demand.
- (ii) Cost push inflation – (A progressive increase in the general price level) brought about by general increase in the cost of production which is -passed on /transferred to consumers .
- (iii) Imported inflation -(refers to an increase in domestic prices) resulting from importation of (primary) goods/service /inputs/higher prices from countries suffering –Inflation which increases Cost of production /passed on to consumers.
- (iv) Structural inflation.- refers to persistent rise in prices) resulting from failure of the economy to meet the general increase in demand / caused by govt policy that brings imbalance between demand and supply /makes its not to respond to dd

1.b factors that may hinder the development of a country

- i. Low demand for goods / services/ limited market which discourage production activities-(hence interfering with development),
- ii. inadequate/lack of capital which leads to low level of investment/production,
- iii. Negative social cultural practices which may hinder production/consumption of certain goods /services.- Accept examples of negative social cultural practices as a mention,
- iv. Inadequate/lack of foreign exchange which limits access to imports / negatively affecting production /consumption
- v. limited entrepreneurial abilities /skills /cultures resulting into inefficiency in production,
- vi, **poor** management /planning / policies of resources arising from inadequate skills/ leading to wastage /poor investments
- vii. Inadequate /shortages of natural resources which hinders production activities
- vii .Use of inappropriate /poor/lack of appropriate technology which compromises the quantity/ quality of goods/services produced.
- ix Poor governance / corruption, due lack of accountability/ integrity / lead to misappropriation / embezzlement of resources /funds.
- x poor infrastructure which hinders movement /mobility of factors of production /goods /services
- ix . High population(growth rate) which leads to high dependency ratio/low. savings/ investments accept any negative implication of high population as an explanation. .
- xii Shortage/inadequate [skilled) manpower / labour leading to low production/productivity/ under utilization of resources.
- xiii Political Instability/insecurity which hinder investments /discourages production.

.xiv Over reliance of foreign aid/countries which may lead to political blackmail /in availability

xv. Lack of political will /support/political Interference (in development). due to vested/ selfish Interest .

2.circumstances under which containers may be used to transport goods

- (i) where bulky/ goods/ large volume / many goods are to be (imported) goods are to be transported
- (ii) for ease of fast loading /offloading where specialized equipment are available (for handling containers) accept examples of equipment as an explanation
- (iii) to avoid damage of goods /where safety of goods needs to be guaranteed since containers are strong /enclosed
- (iv) where goods are special as special containers are available /can be designed for them
- (v) to avoid theft of goods /where security of goods need to be guaranteed /goods of high value / goods that are risky require high level of security
- (vi) where there is need to save on insurance cost /premiums as chances of theft /damage /to goods are minimal
- (vii) where there is need to save on transport /handling costs due to use of machines /less labour /large carrying capacities
- (viii) where the firm can afford the cost /use of the containers in order to enhance its operations
- (ix) to save on space / when containers /goods are well arranged

2. b 1 procedure for making an insurance claim

- (i) notifying / reporting the insurer of the loss suffered /occurrence of risk
- (ii) filling a claim form from the insurer
- (iii) carrying out investigations /survey to determine /ascertain the cause of loss
- (iv) insurance company making a report /finding /assessment /calculation of compensation
- (v) payment of the claim /compensation

(ii) Determination of compensation

$$\text{Compensation} = \frac{\text{sum insured} * \text{actual loss}}{\text{Value of property}} = \frac{900000 * 500000}{1200000} = 375000$$

NB where a student comes with a formula and no working give a tick

3a Factors to consider when choosing a method of promoting a product

- (i) cost (of the method) The organization should choose a promotion method that is affordable /cost effective /cheaper
- (ii) Geographical area of coverage/ extent of market /distance to be covered

- (iii) Target groups /type of consumers /nature of market segment the organization must choose a method that appeals to the relevant target groups
- (iv) speed of the medium or method in relation to urgency of the message /time factor
- (v) Nature of the product / type of product different may be chosen depending on the nature of the product /technical products may require demonstrations /personal selling / firms should choose a method that is appropriate for the type of the product

vi) nature of the message the organization should choose a method that will best / effectively present the various aspects of the message

(vii) Number of consumers/size of the market The firm should choose a method that can effectively serve the number of consumers available /the size of market to be reached

(viii) Intended impression /impact .A firm may choose; a medium that can best achieve the desired impression/impact

(ix) Frequency/Duration of the message if the message requires repetition /lasts long/short affirm should choose a medium that is appropriate

(x) Availability of the method. A firm can only choose. a method that is available

xi) Government Policy. The firm may have no option but to comply with government directive/ requirements

xii) methods used by competitors / level of compensation

3. b. Features of economic resources

- i) Scarcity/limited in supply, they are found in small quantities compared to the many uses into which they have to be put /hence not sufficient to satisfy all human wants
- ii) monetary value. They have a price /reward attached to them / which have to be paid for their use /transfer / for recording
- iii) Uneven /unequal distribution. they are not distributed uniformly in the society /hence some people /regions /countries have more other resources than others
- iv) combinability /complimentality .they can be used in different proportions to produce goods /services /they can be used jointly
- v) usefulness /have utility . They are used to satisfy human wants /to produce goods /services
- vi) Transferability / they may be transferred / from one person to another in terms of ownership /possession
- vii) multipurpose . have alternative uses
- viii) mobility /some can be moved from one region /place to another geographically
- ix) Exhaustibility /Renewability some resources get depleted/ finished /restored /recycled /regenerated.

4.a.Benefits that may accrue to an organization that adopts an open office plan includes:

- i) Easy supervision . it is easy to monitor employees performance since they are in the same room
- (ii) Economy of space. More floor space is available since space has not been lost through partitions /can

accommodate more staff

- (iii) Minimal cost /its cheap to construct / maintain / decorate
- (iv) Sharing of resources /facilities /equipment /it makes possible for joint use of office facilities hence enables the firm to save on cost of acquisition
- (v) Fast /easy communication between workers /department is made easier/faster since there are no physical barriers between them / they are found in the same room
- (vi) easy reorganisation /flexibility. Its easy to rearrange /redesign the office when need arises.
- (vii) enhanced team work /employees work as a team/ learn to be together by sharing ideas /consulting each other /promotes friendship /personal understanding
- (viii) faster flow of work due to reduced movement/working close to one another

- (ix) minimizes /discourages misuse of office resources /corruption thus promoting accountability /ethics /integrity
- (x) minimizes /discourages laziness /idleness /laxity since they can see each other /check /monitor each other
- (xi) easy /faster location of staff since the work in the same room.

4b)circumstances under which a partnership may be dissolved

- (i) Temporary partnership/(/expiry of time / accomplishment of purpose /where the partnership was formed for a definite time /for a particular purpose)hence the expiry of time / accomplishment of purpose terminates the partnership
- (ii) mutual /voluntary agreement among partners / where the partners agree among themselves(to terminate the partnership) then they may have no alternative for whatever reason.
- (iii) bankruptcy/ insanity of a partner where (a court declares) the value of one of the partner's property insufficient to settle his or her debts. /due to loss of contractual capacity.
- (iv) change in law/ governmentt policy that makes the operation of the partnership illegal.
- (v) permanent inability of a partner to perform /fulfill part of the partnership agreement either as a result of diseases /ill health /incapacitation
- (vi) internal dissension /disagreement among partners disagree irreconcilably then the partnership may be terminated /continuously /perpetually
- (vii) persistent losses in operation /where the business has continued to operate at a loss then it is terminated hence making it difficult to meet its financial obligations
- (viii) court orders (where the partnership was formed under) due to fraud /mistake /misrepresentation /breach of law /partnership agreement court of law may order it dissolution.
- (ix) request by one /some partners to dissolve the partnership hence having to abide by their wish /granting their wish
- (x) withdrawal /admission of a partner which changes the status of the partnership
- (xi) death of a partner which alters the composition of a partnership /which may necessitate a new agreement /arrangement

5a. factors that may influence the choice of channel for distributing flowers

- (I) nature of the flowers / product. Flowers are perishable and therefore need a short / direct channel (in order to be distributed quickly)/to safeguard them from damage they need a short /direct channel.

- (II) Cost /profit maximization / cost of different channels of distribution should be considered and the cheaper channel used /affordable /cost effective channel is used.
 - (III) Extend /coverage /distance /proximity of the market. If consumers are widespread /far then urgent /long channels may be necessary to reach them
 - (IV) Nature /taste /preferences of consumers specifications which may require the personal attention of the producer hence use of a shorter channel
 - (V) Competition /where competition is high /stiff the producer(will have to be close to the consumers and will therefore)use a short / direct channel of distribution
 - (VI) Quantity /output /volume /scale of production . if the quantity of flowers to be sold is large the more middlemen / intermediaries may be required /where volume is small choose a short /direct channel
 - (VII) Availability of technical personnel /distribution resources .if the producer does not have the required technical personnel /distribution resources then he may have to use a long channel /middlemen /agents /if available short / direct channel is used
- NB accept examples of distribution resources as a naming

5 b. reasons for maintaining books of original entry

- (i)To reduce details to be recorded in the ledger accounts /to reduce the bulkiness of the ledger
- (ii)Act as back up data from which other information may be extracted if need arise /for future reference
- (iii)contain information in details /description of transactions (such as units, trade discounts and terms of sale)
- (iv) the journal is used to trace / locate errors made when recording transactions
- (v) to ensure that double entry is adhered to
- (vi) to minimize /discourage fraud /enhance accountability
- (vii) acts as diary /record transactions as they occur
- (viii) used to prepare control /total accounts

6a. causes of unfavorable balance of payments for most developing countries

- i) (reliance on) primary products /raw materials /agricultural produce for export /most developing countries (mainly) export primary / agricultural products which fetch low prices in the international market /lower their export receipts
- (ii) Heavy /high importation of finished) goods /most developing countries heavily /highly import (finished manufactured) goods whose values are very high /spend more on them
- (iii) (low levels of technology most developing countries rely on low levels of technology on production which) lower /poor quality of their export hence lowering their value /demand /receipts
- (iv) (too much reliance on) foreign borrowing /aid /borrowing yet such loans are repaid with interest

- (v) (susceptibility to) /natural calamities /many developing countries are easily affected by natural disasters /drought which adversely affect their production
- (vi)high demand /preference towards foreign goods /imports most consumers in developing countries (in belief that they are of better quality) hence end up spending more on them
- (vii) unfavourable world economic order/policies /low bargaining power /the developing countries have very little say in international trade forums / cannot influence the world economic order in their favour hence end earning less on exports /spending more on imports
- (viii) low /poor foreign investment in the country /inability to attract foreign investment leading to low capital inflows /low foreign receipts
- (ix) decrease in demand for exports hence lowering the countries earning
- (x) low production /output of export goods /services /low volume of exports leading to lower export earnings
- (xi) devaluation /depreciation of foreign currencies which encourages less export earnings
- (xii) appreciation /revaluation of local currency which leads to lower export earnings
- (xiii) political instability/insecurity which may interfere /lower export earnings
- (xiv) restrictive/protectionism policies by other country that lead to fewer / exports earnings
- (xv) withdrawal of foreign aid /grants leading to capital flight /outflows
- (xvi) poor governance /policies /corrupt practices leading to low export earnings /low capital outflows
- (xvii) unfavourable terms of trade leading to low export earnings /high expenditure on imports

Rehema traders

Balance sheet

As 31 December 2007

Ksh	ksh	capital	ksh
Fixed assets		capital	600000
Motor van 200000		less drawings	10000
Furniture 140000	340000	net capital	590000
Current assets		liabilities	
Stock 160000		creditors	<u>210000</u>
Debtors 80000			210000
Account receivable			
Debtors furniture 20000			
Cash 200000			
	<u>460000</u>		
	<u>800000</u>		<u>800000</u>

K.C.S.E
BUSINESS STUDIES 2012
MARKING SCHEME PAPER 1

1. Circumstances under which cash with order may be used include:
- (a) When the business is being conducted through post/mail order business.
 - (b) When the buyer is new to the seller.
 - (c) When the buyer's credit worthiness is in doubt.
 - (d) When it is the seller's policy not to advance credit.
 - (e) When the seller wants to avoid the high cost of debt collection.
2. Benefits that a farmer may derive from being a member of a producer co-operative society include
- (a) May receive inputs (e.g. fertilizer) at fair prices.
 - (b) The society may get better prices for the member's produce.
 - (c) May get transport facilities for produce to the market.
 - (d) May get better storage facilities for the produce.
 - (e) The society may grade, package and process the produce for the member.
 - (f) May receive input on credit from the society.
3. Benefits of globalization to a business enterprise include
- (a) Facilitates application of better technology for improved products.
 - (b) Encourages collaboration among businesses from different countries
 - (c) Makes it possible to share new production techniques/skills among the countries of the world.
 - (d) Enables the sharing of new skills among businesses.
 - (e) Facilitates the sharing of research findings by business globally/ information.
 - (f) Enables business enterprises to take advantage of resources found in other parts of the world without relocating there (Any 3x1=3marks)
4. Ways in which consumers may protect themselves against exploitation include:
- (a) Inspecting/checking goods before buying.
 - (b) Enlightening themselves about their rights as consumers,
 - (c) Familiarizing themselves with the obligations of traders.
 - (d) Forming consumer associations.
 - (e) Reporting cases of exploitation by traders to relevant authorities.
 - (f) Avoiding traders identified as exploiters
- (Any 4 x 1 = 4 marks)**
5. **Circumstances under which the following communication services may be used are:**
- (i) Paging - when there is need to call a person to attend to an emergency in a specific location
 - (ii) Facsimile (fax) - where there is need to send a copy of a printed document urgently.
 - (iii) Radio call when there is need to give co-ordinated information through a central point

**Marigi Traders
Trading Account
for the year ended 30th June 2009**

	Shs		Shs	
Opening Stock		165,000	Sales	980,600
Purchases		<u>720,000</u>		
		885,000		
Less Closing stock		<u>100,520</u>		
Cost of goods sold		784,480		
Gross profit $\left(\frac{20}{100} \times 980,600\right)$		196,600		
		<u>980,600</u>		<u>980,600</u>

7. Tools of monetary policy that may be used by a government to reduce excess money in circulation include:
- (a) Open market operations - to sell government securities through the Central Bank.
 - (b) Bank rate - raising interest rate on loans to banks.
 - (c) Cash/Liquidity ratio can be raised for commercial bank
 - (d) Directives - can be given to commercial banks to reduce money supply.
 - (e) Raising margin requirement - raise the value of assets required as security for loans.
 - (f) Selective credit control - freeze lending to some sectors of the economy.
- (Any 4x1 = 4marks)**
8. Circumstances under which each of the following types of inflation may occur include:
- (i) Creeping inflation
 - (a) When the general price levels rise gradually/ single digit over a period of time usually at single digit.
 - (b) Where the value of money tends to be stable over time the effects; on the economy is not severe.

(Any 1x2 = 2 marks)
 - (ii) Hyper inflation
 - (a) Where the general price rise at high rate/ usually more than two digits.
 - (b) Where there is drastic loss in the value of money effect on the economy is very severe.

(Any 1 x 2 = 1 marks)
9. Forms of economic integration include:

- (a) Common Markets to have a common currency to increase free trade and full mobility of factors of production.
- (b) Free Trade Areas - where barriers such as tariffs and quotas are removed.
- (c) Customs Unions - member countries charge common external tariffs.
- (d) Economic Union - where common economic institutions like banks are set to deal with monetary policy.

(Any 4x1 = 4 marks)

10. Problems of development planning that a country may experience include:

- (a) Inadequate data on economic performance.
- (b) Unreliable data which may not be useful in planning.
- (c) Less qualified personnel to cope with the tasks of development planning
- (d) Private sector activities are not easily coordinated.
- (e) Political rigidity
- (f) Inappropriate use of technology

(Any 4x1 = 4marks)

11. Benefits that a farming community would get from Nyaboke's shop include

They can buy farm inputs from the shop

(b) They can buy consumer goods from the

They can get goods on credit.

(d) They can sell some of the farm produce to Nyaboke.

(e) The shop can be used as a communication centre

(a)

(c)

(Any 4x1 = 4 marks)

12. Features of indirect production include:

- (a) Goods are produced for sale
- (b) Goods are produced in large quantities /surplus
- (c) There is specialization in production.
- (d) High quality goods are produced.
- (e) Modern technology is extensively used / used of machines
- (f) Promotes interdependence

(Any 4 x 1 = 4 marks)

13. Factors that may lead to the success of a business include:

- (a) Availability of capital.
- (b) Developed infrastructure.
- (c) Availability of skilled labour
- (d) Government support.
- (e) Access to markets.
- (f) Aggressive marketing.
- (g) Proper management of the business/ debts.
- (h) Availability of security.
- (i) Ideal location
- (j) Fair competition
- (k) Availability of raw materials/ stock.
- (l) Good public relations
- (m) Being creative/ innovative/ enterprises/ technology/ proper management.

(Any 4 x 1 = 4 marks)

14. Ways in which a good filing system facilitates the operations in an office include:
- (a) Easy retrieval of information
 - (b) Office is kept tidy.
 - (c) Information is preserved for future reference
 - (d) Security of documents is ensured
 - (e) Facilitates quicker decision making.
 - (f) Ensures confidentiality of information by controlling access by unauthorized people.
15. Benefits that a country gets by encouraging trade among her citizens include:
- (a) Facilitates exchange of goods between people from different regions
 - (b) Creates employment opportunities
 - (c) Earns tax revenue from businesses.
 - (d) Enhances relationships between communities.
 - (e) Opens up remote areas.
 - (f) Encourages specialization.
 - (g) Improves the standards of living for citizens.
16. Challenges that may be encountered in measuring national income using the output approach include:
- (a) Deciding on what goods and services to include in measuring national income.
 - (b) Inadequate out put data.
 - (c) Some activities earning income are considered illegal and not included in the measurement of national income.
 - (d) Determining the value of national output
 - (e) How to value output in the subsistence sector.
 - (f) Deciding on the price to use for the goods that have been kept as stock.
17. Measures that a government may take to reduce the mortality rate in a country include:
- (a) Availability of modern medicine/ better healthcare
 - (b) improved standards of lining
 - (c) Minimizing internal conflicts and wars. .
 - (d) Improving environmental sanitation.
 - (e) Sensitization on public and personal hygiene. /vaccination.
 - (f) Disaster preparedness eg on floods, fires, collapsing buildings
 - (g) Creation of enabling environment to alleviate poverty.
 - (h) Apply measures to reduce road accidents.
 - (i) Control use of drugs and alcohol
 - (j) Control crimes.

18.

**Highlife General Stores
Balance Sheet**

as at 31st December 2008

	Sh.	Sh.		Sh.	Sh.
Fixed Assets			Capital		870,000
Land and building	650,000				
Motor Van	150,000	800,000	Long term liabilities		
			10 year bank loan		500,000
			228		

Current Assets

Stock	470,000		Current liabilities		
Debtors	350,000		Creditors	220,000	
Cash	50,000		Bank overdraft	80,000	
		<u>870,000</u>			<u>300,000</u>
		<u>1,679,000</u>			<u>1,670,000</u>

(10 x 1/2 - 5 marks)

19. Entries to be made:

- (i) Credit entry.
- (ii) Credit entry.
- (iii) Debit entry.
- (iv) Debit entry.

(4x1 = 4 marks)

20. Documents to issue:

- (i) Invoice.
- (ii) Debit Note.
- (iii) Receipt.
- (iv) Credit Note.

(4x1 = 4 marks)

21. Conditions under which a warehouse may be considered to be operating efficiently include:

- (a) The warehouse should be conveniently located
- (b) The warehouse should be managed by qualified personnel.
- (c) Operational procedures and guidelines should be in place.
- (d) Security system should be in place
- (e) Should have suitable buildings and equipment.
- (f) Should have optimum equipment eg cold room
- (g) Comply with the law
- (h) Adequate space
- (i) Proper record keeping / inventory
- (j) Good transport system
- (k) Good communication network.

22. Advantages of promoting sale through the internet include:

- (a) A firm can advertise goods universally.
- (b) Access to world markets for increased sales.
- (c) Instant receipt of orders from all over the world
- (d) Payment received through electronic fund transfer (EFT).
- (e) Reduced paperwork on customer records.
- (f) Reduced cost of sales promotion.
- (g) It is easier to update/ edit.
- (h) It is a combining of written audio, vision and motion facilities.
- (i) It is a faster delivery activities.

Any 4 x 1= 4marks)

23. Methods of determining prices other than the forces of demand and supply include:

- a) Bargaining/Haggling
- b) Abiding by government policy.
- c) Tendering - offers are invited to quote for a price. Goods are sold to buyers with the quotation that best meets Zawadi's expectations.
- (d) Bidders make offers for goods and the bidder with the highest offer takes the goods (sale by auction).
- (e) Retail price maintenance - sell goods according to the dictates of the producer.

(Any 4x1 = 4 marks)

24. Factors that a firm may consider when deciding on the goods to produce include:

- (a) Expected demand – where demand is low, a firm will only produce a few goods or not produce at all.
- (b) Availability of capital sources this would help decide on the level of production.
- (c) Time period - the firm must consider whether short or long term production is required.
- (d) Availability of labour supply of the relevant skills would be required.
- (e) Cost of raw production - the firm must consider availability and cost of buying and transporting materials
- (f) Government policy - the firm must abide by the rules and regulations of the country.
- (g) Availability of raw materials
- (h) Level of competition.
- (i) Profitability
- (j) Effects of goods on the environment
- (k) Seasonality in production
- (l) Social cultural factors
- (m) Price of the goods
- (n) Level of technology

(Any 4 x 1 = 4 marks)

25. Features of a perfectly competitive market include:

- (a) Large number of buyers and sellers.
- (b) The buyers and sellers have, perfect knowledge of the market conditions.
- (c) No government interference in the market.
- (d) No transport costs are incurred.
- (e) Free entry and exit of firms.
- (f) Homogeneity of products
- (g) There is perfect mobility of factors of production
- (h) No shortage nor excess in supply or demand
- (i) Uniformity of buyers and sellers.
- (j) Both buyers and sellers are price takers.

K.C.S.E
K.C.S.E BUSINESS STUDIES
PAPER 2 MARKING SCHEME

- 1. a) Benefits of division of labour to an organization. (10 marks)**
- i) Less time is spent in (completing a job)/ saves time/ faster/ quicker/ speed
 - ii) There is minimal charging from doing one work to another.
 - iii) Increased production/ quantity/ output – people become more adapt/ expert/ specialist at their jobs as they do it repeatedly hence increasing productivity.
 - iv) Standardized goods/ uniform goods – goods produced are of uniform quality due to use of machines/ mechanization.
 - v) Increased mechanization/ use of machines/ work can be done automatically
 - vi) Better/improved/enhanced management – this facilitates control/ co- ordination/planning/ directing/ accountability/ staffing/ evaluation/ organization/ supervision.
 - (vii) High/ quality goods/ services (produced) – people concentrate in doing jobs which they are best suited/ repeating same task/ repeating same task/ specialization.
 - viii) Increased/ creating/ invention/ innovation – the organization may tax workers talents and skills) which may help to modify existing products/ develop new products/ initiate new methods of production/ technology/ discover new markets.
 - ix) Involved efficiency due to better use of resources/ image/ reputation of the organization.
- b) Ways in which a computer may be used in an office. (10 marks)**
- i) Data processing – as it sorts/ organizes/ analyses/ gives meaningful outputs. (NB Accept examples of data processing of explanation eg (preparing payroll calculations, ledger account)
 - ii) Storage of information/ filling – a computer has various storage devices/ information can be kept for future reference/ computer discs (NB accept examples of storage/ devices/ importation of filling as explanation)
 - iii) A tool for communication – a computer to the internet/ other work station/ sharing of information. NB accept examples by communication such as emails/ website/ facebook/ twitter.
 - iv) Production of documents/ data to produce soft that copies NB accept of document as explanation.

- v) Assist in research- a computer provides a link with sites) where information can be sourced for the research purposes.
- vi) Assist in decision making – since it has special programmes/ models/ facilitate the decision making process (for managers) by giving meaningful output.
- vii) Capacity building/ can be eyed for training/ staff developing/ it is a tool for training during start or presentation induction.
- viii) Leisure/ recreation/ entertainment – the computer has accessories for games/ music/ movies/ which can be used for relation (while working)
- ix) Data input/ capture/ by typing/ scanning/ photographing/ recording.

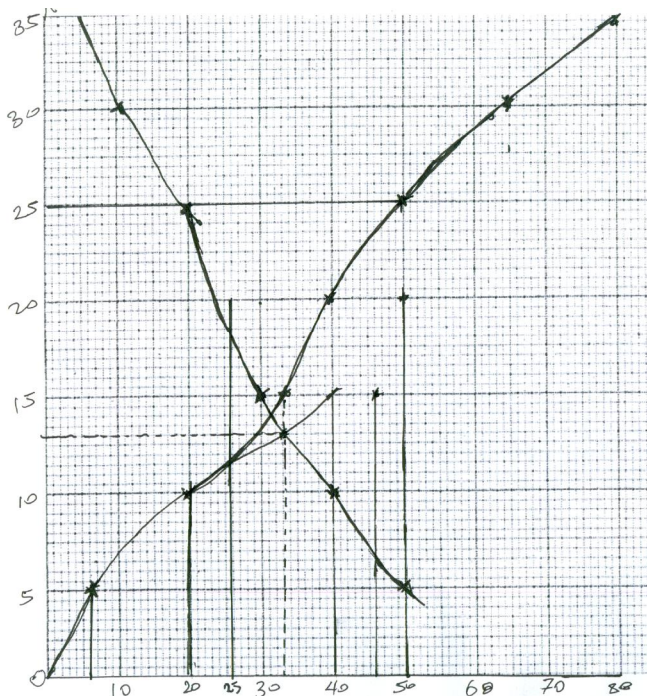
2 a) each plotted $14 \times \frac{1}{2} = 7m$
 + label price quantity = 1m (2ticks)
 + show $\frac{1}{2} \times 2 = 1m$
 + show equilibrium between = 1m
 10m

Demand and supply schedules for predict in a week.

Vertical scale; 1cm rep sh. 5

Horizontal scale; 1cm rep 10, 000tonnes

- a) the curves must be drawn to attract a tick
- b) if curves not named still award if correct plotting.
- c) if candidate does not label Q_e and E but correctly shown still award.



b) Merits of direct taxes to the government. (10 marks)

- i) Economical/ cheap to collect – it provides higher revenue at lower costs of administration since collection is (executed) at the source (eg PAYE)/ involving less personnel.
- ii) Certainty – As the government knows the amount of tax/ the manner/ time of payment/ budget/ plan for it/ it is difficult to evade.
- iii) Convenience – It is deducted at the source / at regular intervals (making it easy and very convenient).
- iv) Price stability/ it is used tool for maintaining stable prices/ controlling inflation by affecting disposable income/ influencing (aggregate) demand.
- v) Fairness/ - the progressive nature of direct taxes distributes burden equitably/ the government is able to redistribute wealth by having taxing those who earn more as opposed by those earning little.
- vi) Simple(to determine understand/ calculate – every wage level daily into predictable tax brackets.
- vii) Easy to administer – as the collection parts are also fewer (as opposed to collecting tax directly from individual/ less documentation.
- viii) It is elastic – it can expands with increased income/ population/ with change/ incomes/ population/ contract with decrease incomes/population.
- ix) Flexibility – it can easily be changed to suit the needs of the government/ economic conditions.

3. a) Disadvantages that a country would suffer if she restricted trade with other countries. (10 marks)

- i) Reduced competition – leading to low quality goods/ services
- ii) Reduced/ low consumer goods – trade restriction reduces the availability of goods/ services available to consumer leading to low state of living.
- iii) Retaliation/ trading partners are likely to retaliate – leading to loss of business (between two involved/ reduced export/ imports)
- iv) Reduced/ low investment – due to limited trading opportunities
- v) Reduced limited market – hence under exploitation of available resources/ reduced production capacity.
- vi) Inappropriate allocation of resources – It may force to use her resources in areas where she has no comparative/ not best suited in.
- vii) Costly of the government – (This may happen) if measures are used (to enhance restriction by encouraging import substitution) meet part of the costs.
- viii) Reduced/ loss of government revenue earned from import/ export services not exported.
- ix) Leads to increased unemployment due to reduced trading activities.
- x) Poor international relations which may lead to conflicts/ friction, among countries/ may not get assistance in times of calamities.

- x) Curtailed transfer of technology/ factors of production that may lead to poor quality goods low quantity of products.
 - xi) Reduced/ limited supply of goods/ services which may adversely affect consumers (access examples of adverse effect as explanation)
 - xii) Encourages smuggling/ black marketeering leading to loss of revenue/ entry of counterfeit goods/ services.
- b) factors that may promote entrepreneurship in Kenya. (10 marks)
- i) Government support/ favourable government policies/ funding regulation (of business activities) may encourage the emergence expansion of business venture NB accept examples of favourable government policies.
 - ii) Training/ in education entrepreneurship/ trainees are equipped with skills/ knowledge – to undertake entrepreneurial activities to start businesses.
 - iii) Entrepreneurial culture/ cultural practices – that encourage entrepreneurship through early exposure to business activities opportunities/ positive attitude towards business.
 - iv) Presence of role model interaction with successful business people who may inspire/ create interest in entrepreneurship/ business ownership.
 - v) Availability of capital/ loans/ credit facilities for start expanding a business (may facilitate entrepreneurship)
 - vi) Political stability/ non political interference – that creates a confused environment for starting/ running expanding business.
 - vii) Availability of market/ market information
 - viii) Availability of security- that ensured safety of businesses/ property/ business owners.
 - ix) Healthy/ fair competition – that business owners can withstand/ safe with.
 - x) Good government that ensures transparency/ accountability in conducting business activities.
 - xi) Availability of technology that can lead to the production of desired quality/ quantity of goods/services.
 - xii) Employment creation – for self/ others.
 - xiii) Independence/ needs for self reliance through earning income/ livelihood.

4. a) Characteristics of property insurance. (10 marks)

- i) It is a contract of insecurity – the owner of the insurance property a compensated/ resorted for the loss of the property (upon occurrence of the risk).
- ii) It is a term contract – The insurance contract ends after a specific period of time usually one year/ must be renewed for the policy to continue being in force.
- iii) Policy cannot be assigned (to the next of kin/ to another individual) – the owner of the policy can not transfer it in case of safe/ change of ownership of property
- iv) It has no surrender value – should be insured terminate the policy before the contract expires/ he/ she is not entitled to any refund from the insurer.

- v) There must be insurable interest in the property (to be insured) insured must be in a position to suffer financial loss eg the risk covered happening(in order to claim compensation)
 - vi) There is a minimum limit to the amount of compensation – It can be upto the value of the insured property insafe of over insurance/ the sum insured in case of under insurance.
 - vii) The policy can not be used as cultural/ security – to get loan credit.
 - viii) Uncertainty of the risk – as the risk may or may not occur/ occurrence of the risk is not guaranteed.
- b) Elements of effective communication. (10 marks)
- i) Sender – this is a source of the message.
 - ii) Message – this is the information to be communicated.
 - iii) Channel – this is the medium/ means to be used in conveying the information/ message.
 - iv) Encoding – this is the process of forming/ generating the message.
 - v) Decoding – this is the process of interpreting the message so recorded
 - vi) Reciever/ recipient – the party/ person to whom the message is sent.
 - vii) Feedback – this is the receivers reaction/ response to the message.
 - viii) Clarity – the message should not be vague/ ambiguous
 - ix) Precision by avoiding unnecessary details.
 - x) Preparedness – sender (carefully) think through/ plan the message before sending it.
 - xi) Accuracy/ correctness – message should be factual/ error free
 - xii) Timeliness/ proper timing – message should be presented at the right/ appropriate time.
 - xiii) Completeness of the message- should contain all the relevant facts/ details

5. a)

Laketi Traders Profit & loss Account
Dr FOR THE YEAR 2009.

EXPENSES		Gross profit b/d	1,960,200
Commission allowed	12400	Discount received	66,100
Insurance	7,500		
Lighting	4,600		
Salaries	78,000		
General expenses	<u>112,800</u>		
Net profit c/d	<u>2,026,300</u>		<u>2,026,300</u>

- ii) Kiosk – the person can put up a simple/ semi permanent structure to sell goods.
- iii) Tied shop/ stores- the person can operate from a permanent building to sell products of a particular manufacturer/ producer/ provider.
- iv) Market stall/ store – the person can hire a permanent benefit/ stall/ lock up from a county council/ municipal market.
- v) Carteen – the person can rent/ build a room in an institution to sell goods/ services from different producers.
- vi) Mobile shop/ stores – the person can acquire/ hire a motor vehicle/ van/ lorry from where to sell goods by moving from one place to another.
- vii) Automatic vending machines – one can hire/ buy coin operated machines for selling goods / services.
- viii) Exhibition stalls/ stores/ shops – one can hire small room/ booth in a building to sell goods/ services.

b) Circumstances in which a firm may acquire monopoly power. (10 marks)

- i) If the firm has a secretive production technique – this denies other firms the use of the technique/production/ sale of the product.
- ii) If the firm has control over strategic inputs/ raw materials – this makes the firm have the sole access to inputs/ raw materials used in production of the commodity.
- iii) If the firm enjoys greater/ substantial economies of scale it enables the firm to produce at a lower cost than other firms.
- iv) If the firm is set up as state monopoly/ legal rights of production of a particular product by the government thus shifting out competition competitors.
- v) If the market is best served by one firm more economically other firms entering the market may make losses due to low sales hence the firm remain dominant.
- vi) If the firm has patent right/ copy rights – copy rights- when bars other firms from producing/ selling the products.