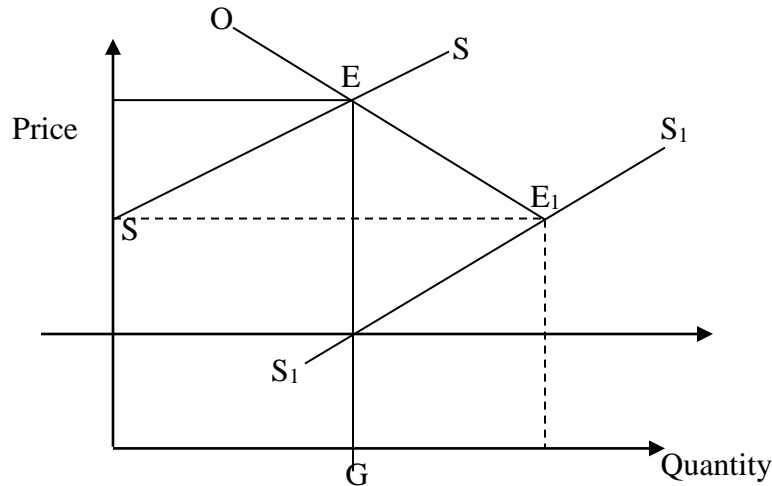


BUSINESS STUDIES MARKING SCHEME P1 2006

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 before giving credit to a new customer.
 - (a) Reliability- check if the customer is an honest person who can honour the debt as agreed/character
 - (b) Ability to pay – find out if the customer is an honest person 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
 - (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		440,000	
Sales	<u>900,000</u>	<u>900,000</u>	8x ¹ / ₂ = (4 marks)

18. (a) $\text{Margin} = \frac{\text{G.P}}{\text{Sales}} \times 100 = \frac{500,000 - (320,000 - 80,000 - 40,000)}{500,000}$

$= \frac{140,000}{500,000} \times 100 = 28\% \text{ Or } 28$

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

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

$= 3 \text{ times} \quad (4 \text{ marks})$

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.		Sh.
Machinery		450,000	Capital	550,000
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>		
		<u>880,000</u>		<u>880,000</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 –	120,000		
motor vehicle			
-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
Less expense		
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
				746,000
Furniture	240,000			
Less depreciation	24,000	206,000	Creditors	180,000
<u>Current asset s</u>				
Stock	60,000			
Debts	120,000			
Cash	50,000	230,000		
		<u>926,000</u>		<u>926,000</u>

N.B

If a candidate writes motor vehicle 480,000 and not motor vehicle less depreciation 2 ticks.

If a candidate writes furniture 216,000 and not furniture less depreciation 2 ticks.

If a candidate gets wrong net profit but correctly transfers accept.

If a candidate writes the figure for capital 740,000 give a tick

Foreign terms substitute e.g. General in Balance sheet.

(10 x ½ = 5mks)



FAULA TRADERS
BALANCE SHEET AS AT 31.12.2005

Fixed assets

Motor vehicle	600,000	480,000
Less depreciation	120,000	
Furniture	240,000	<u>216,000</u>
Less depreciation	24,000	<u>696,000</u>

Add current Assets

Stock	60,000
Debtors	120,000
Cash	<u>50,000</u>
	<u>230,000</u>

Less Current Liabilities

Creditors	180,000	
Working capital		<u>50,000</u>
Capital employed		<u><u>746,000</u></u>

Financed by

Cash	700,000	
Add net profit	46,000	
Capital employed		<u><u>746,000</u></u>

(10 x ½ = 5 Marks)

Alternative

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	
		<u>230,000</u>	



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

(10 x ½ = 5 marks)

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.



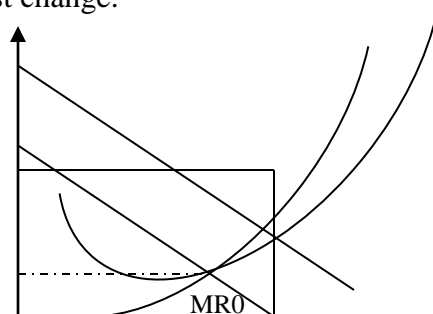
- v. The goods may be of a technical nature/require after sales services.
- vi. The goods may be perishable (and the firm may want to deliver them fast to the consumer).
- vii. The firm may want to have direct contact with customers/get immediate feedback/create good impression.
- viii. Where customers 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/lacking/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

- 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.
- Measure of value: Value of goods / services can be compared / estimated / determined/ calculated / assigned.
- Store of value: value of goods / services can be stored in form of goods / services are recorded in terms of money.
- Standard of deferred payments / money assist of conduct business on credit / where payment are made later.
- 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
	<u>1,982,000</u>		<u>1,982,000</u>

= Credit sales +cash sales

Therefore total sales = $1,982,000 + 250,000 = 1,832$

($7 \times 1/2 = 3 \frac{1}{2}$ 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
	<u>2,950,000</u>		<u>2,950,00</u>

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		<u>1,790,000</u>
Total purchases	2,516,000	Gross loss	396,000
Less drawings	50,000		
	<u>2,466,000</u>		
Net purchases	3,386,000		
Less closing stock	1,200,000		
	<u>2,186,000</u>		<u>2,186,000</u>

6. (c) alternative I

Receipt/ cash from debtors	1,400,000
Add returns inwards	42,000
Add closing balance of debtors	540,000
	<u>1,982,000</u>
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
	<u>2,950,000</u>
Less Opening balance of creditors	80,000
Credit purchases	<u>2,150,000</u>

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>
Credit sales	<u>1, 582,000</u>
Add cash sales	<u>250,000</u>
	<u>1,832,000</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
Total purchases		<u><u>2, 470, 000</u></u>

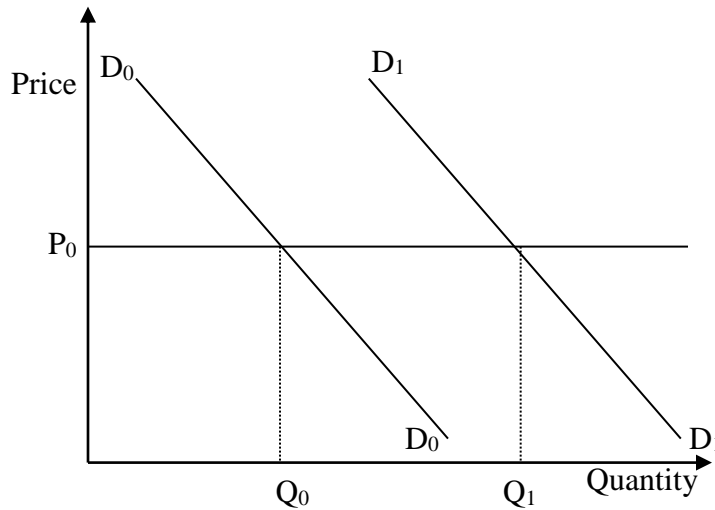
(6X ½ = 3 MARKS)



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

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

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

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

8. Account to match the descriptions is

- Savings account
- Current account
- Fixed deposit account
- Savings account

9. Documents for the descriptions are

- Catalogue
- Invoice
- Statements of account
- 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	Particulars	Discount	Bash	Bank	Date	Particulars	Discount	Cash	Bank
		Allowed	Kshs	Kshs	2006		Received	Kshs	Kshs
Jan-01	Balance		18000	17000	Jan 10	ABM Tra	1000		
16	Sales	700	13300	26100	31	Bank (c)		26100	
31	Cash (c)					Bal c/d		5200	172100
		700	31300	196100			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 from 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 Stock	24,000	Sales	442,500
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:

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

$$2,660,000 = 2,000,000 + NP + 120,000 - 140,000$$

$$= 1,980,000 + NP$$

$$2,660,000 - 1,980,000 = NP$$

$$NP = 680,000$$

Alternative final capital = 2,660,000 = Drawings (140,000)

$$= 2,800,000 - \text{Initial K (2,000,000)}$$

$$= 800,000 = \text{additional K (680,000)}$$

$$= 680,000$$

3. a)

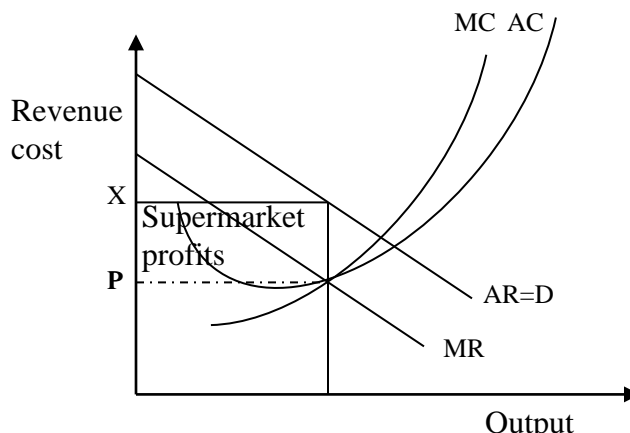
- i) Loans/ credit – give loans/ credit to farmers for crop/ livestock production/ farm development/ on easy terms/ specific purposes.



- 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 increase 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 safely 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	Shs
Fixed assets		Capital	940,000	
Land and building		Less Drawings	40,000	900,000
Land and Machinery	200,000	10 year bank loan	200,000	
Motor Vehicle	300,000	3 years ICDC loan	100,000	300,000
Current assets stock	100,000	Current liabilities		
Debtors	60,000	Creditors	60,000	
Cash at Bank	100,000	Accrued Expenses	20,000	80,000
Cash in Hand	20,000			
	<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



- i. 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 I 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. **Measurers that may be taken to reserve 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 fast 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 immunnals
- 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 impaired
- vi. Unfamiliar/difficult terminologies
- vii. Noise
- viii. Poor listening
- ix. Pronunciation problems
- x. Timing
- xi. Inability to understand gestures
- xii. Emotional responses shyness/ 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			
	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:

- 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 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

$$= 400,000 + 120,000 - 60,000 = \text{sh. } 460,000$$

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

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**

- 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**

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

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

$$= 800,000$$

(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 it 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 eggs 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.

2(b) Dr Cash Account Cr				Dr Bear Account Cr			
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		
		30 bal c/d	150,000	Jun 30 Bal c/d	210,000		
	<u>350,000</u>		<u>350,000</u>		<u>450,400</u>		<u>450,400</u>

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		
	<u>200,000</u>		<u>200,000</u>		<u>240,000</u>		<u>240,000</u>

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 30 bal c/d	12,000	June Creditor	12,000

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/Kuk/ if a firm raise price above



P_0 /Kerk other competing firm will not follow suit but if it lowers below

P_0 /Kirk 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.

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

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
		Loan	472,500

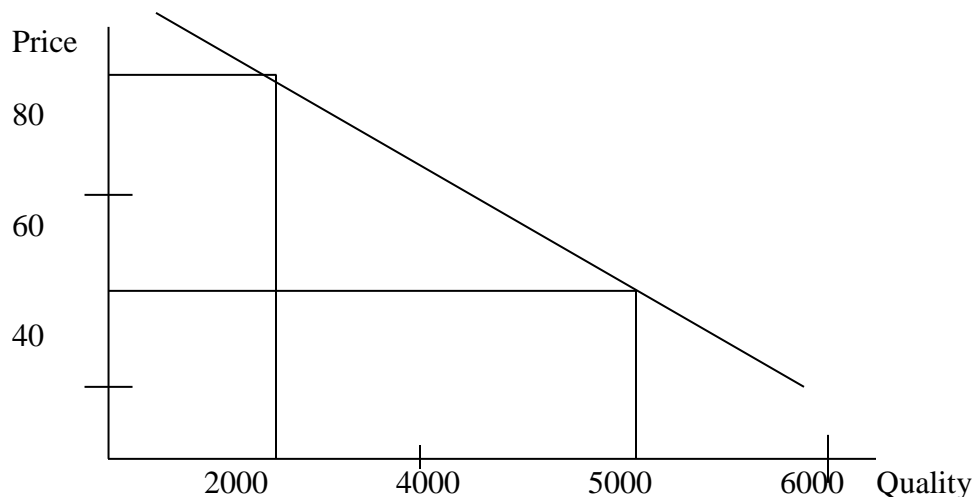


Motor Vehicle	900,00	948,170		
Current Assets				
Stock	72,500			
Debtors	116,900	189,400	Current Liabilities	227,000
		2037,570	Creditors	2,037,510

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

$$\frac{(5,000-2,000)}{2,00} \div \frac{(40-80)}{80}$$



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

Elasticity= 3 or -3

Or

$$\frac{2,00 - 5,000}{2,000} / \frac{80 - 40}{80}$$

Or

$$\frac{-3,00 \times 80}{2,000 \quad 40} = -3$$

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

Or

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

Or

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

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
		<hr/>



Sales	<u>967,200</u>	Bal. c/d	335,000
	1,089,200		1,089,200

Dr	Total Creditors Account		Cr
	Sh.		Sh.
Payments	660,500	Balance c/d	142,500
Balance c/d	158,400	purchases	<u>676,400</u>
	818,900		<u>818,900</u>
Credit purchases	676,400		
Cash purchases	<u>135,400</u>		
	811,800		
	<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	886,800		
Less closing stock		136,400		
		750,400		
Gross profit c/d		216,500		
		<u>967,200</u>		<u>967,200</u>
Reduction equipment/depreciation	65,600		Gross profit b/d	216,800
Salaries	48,000		Bad debt received	16,000
Less prepaid	(8,000)	40,000	Interest of debtors	2,000
Interest on loan	30,000			
Add due	6,000	36,000		
Bad debts		4,200		
Net Profit c/d		89,000		
		<u>234,800</u>		<u>234,800</u>

