

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
  - viii) Increase in factor of production
  - ix) 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	95,200
	<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 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 and does not require renewal (long term)
(iv) Compensation is given to owner of property in case of loss/uncertain	(iv) Compensation is given to beneficiaries in case 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 country'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) Promotes the products on behalf of the manufacturer
- vii) Relieves the manufacturer of 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
	<u>73,000</u>		<u>73,000</u>

(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 use 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)

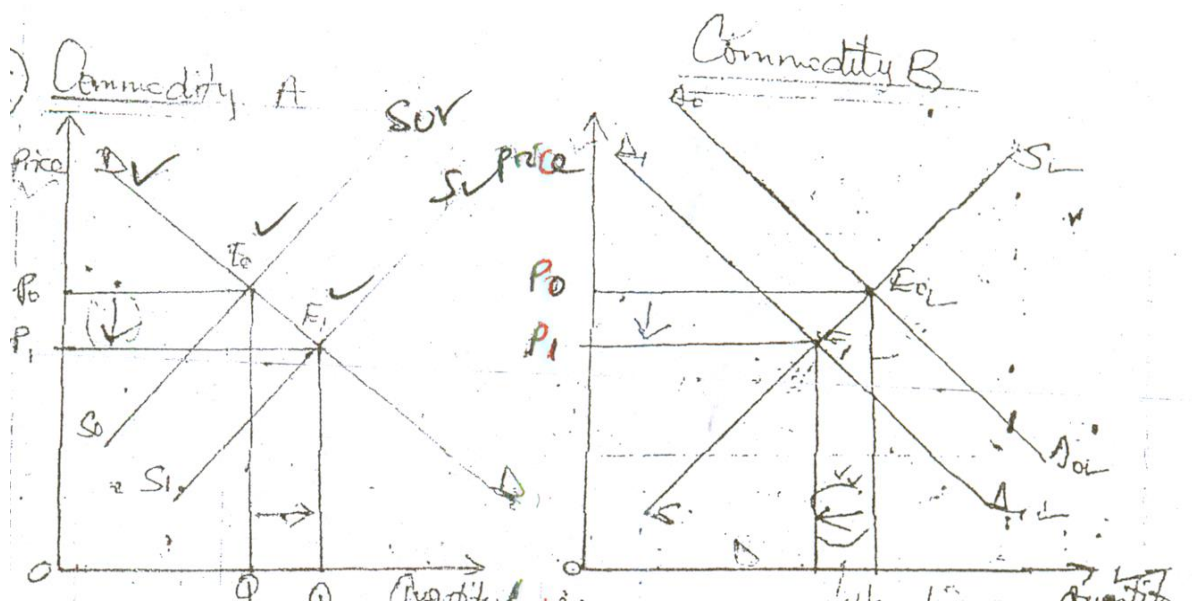


iii) c is a average revenue curve/demand curve/price (AR)

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	<u>20,800</u>	1,139,200		
Available for sale		<u>1,219,400</u>		
Less closing stock		<u>120,000</u>		
Cost of goods sold		1,099,400		
Gross profit c/d		<u>714,800</u>		
		<u>1,874,200</u>		<u>1,874,200</u>
<b>EXPENSES</b>				
Waterbill	250000		Gross profit b/d	774,800
Repairs	230000		Discount received	<u>7,500</u>
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**

Fixed assets	shs.	shs.	Capital	shs.	shs.
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			
<b>Current assets</b>			<b>Current liabilities</b>		
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

