

## MARKING SCHEMES 1995 – 2007

### 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 though 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 sued 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

Digging clay soil

Level of production

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 they 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 info	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
b) Indicates the process to be followed in calling meetings	True True
c) Contains details of electron procedures	False 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

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 x x	
e) Redeemable		
f) May be cumulative		

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 accompany 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 K	sDate 200	Details	Inv. N	oTotal K	Travel K	Postage K	Stationery K	Office E	Ledger A	Folio
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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					
		Registratio	8	40		40				
				1150						
					360	140	200	320	130	

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.		
Date	Details	Kshs	Date	Details	Kshs			
2006								
7/1	Petty Cash	140						

Ledger A/C

Dr.			Cr.		
Machinery A/C			Expenses A/C		
Date	Details	Kshs	Date	Details	Kshs
2006					
7/1	Petty cash	330			

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 produce 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 goods 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**

- 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
- 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
- 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
- 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 glass 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 extra 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.

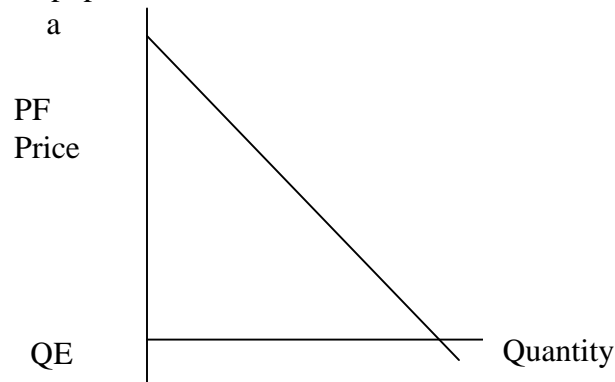
- Free samples/ gift: free samples/gifts may attract customers
  - Variety of goods: traders may keep different types of goods to satisfy the various needs to customers.
  - Organizing prize winning competition - Maintaining cleanliness of the premises.
4. 1998 – The trader will reach many people/wide coverage/ audience because many 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.

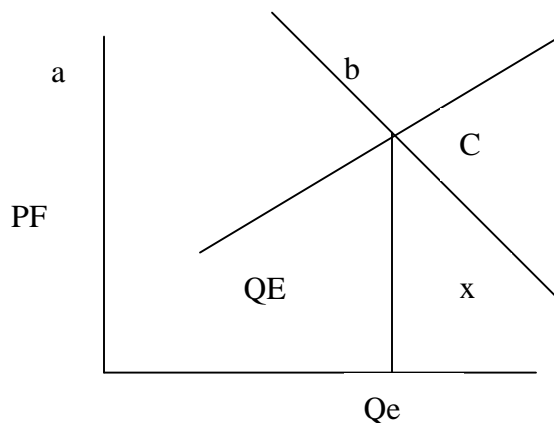
## 16. DEMAND AND SUPPLY

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

6. - Decrease in population.  
2001



7 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-Availability 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.
  - 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 if the community tends 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 foe 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 available.

- 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

$$\begin{aligned} \text{(a) Capital} &= 620,000 - 230,000 \\ &= 390,900 \end{aligned}$$

$$\begin{aligned} \text{(b) Assets} &= 400,000 + 120,000 \\ &= 520,000 \end{aligned}$$

$$\begin{aligned} \text{(c) Liabilities} &= 800,000 - 500,000 \\ &= 300,000 \end{aligned}$$

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 x
Buying stock on credit			

**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

	Dr	Cr.
Capital		947, 470
Cash	74,000	
Premises	870,000	
Debtors	36, 520	
Creditors		45,300
Stock	<u>2, 250</u>	
	<u>992,770</u>	<u>992,770</u>



2  
= 4.5 times

60,000

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>73,900</u>	<u>80,700</u>

Dr. Capital A.C Cr.

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	80,000
35,000		Bal. b/f	80,000
Bal. c/f	<u>80,000</u>		

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		





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 though wholesalers through independent retailers to consumers.
  - From manufacturers through wholesalers through independent retailers to consumers.
  - From manaufacturere 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 produces 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 if 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 retailes 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 <sup>st</sup> Dec 1994	
Opening stock	9,000	Sales – <u>100 x 28,000</u>	112,000
Add Purchases	81,000	25	
Sales	+90,000		
Less c. stock	- 6,000		
	84,000		
G.profit	<u>28,000</u>		
	<u>112,000</u>		112,000

2. Otwa Traders Statement of W.Capital  
As at 31<sup>st</sup> 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 B/d	50,000
Bal. c/d	162,000	Motor Vehicle	80,000
		Net profit	64,000
	-		
	194,000		194,000
		Bal B/d	162,000

2. i) Cost of goods sold
- $$\begin{aligned} & \text{Opening stock} + \text{purchases} - \text{closing stock} \\ & 35,500 + 190,550 - 25,000 \\ & = 201,050 \\ & = 201,050 \end{aligned}$$

- ii) Percentage of gross profit to net sales
- $$\begin{aligned} \text{Net sales} &= \text{Sales} - \text{Sales returns} \\ 251,250 &= 256,050 - 4,800 \\ \text{G.P.} &= \text{Net sales} - \text{cost of goods} \\ 50,200 &= 251,250 - 201,050 \\ \frac{50,200}{251,250} \times 100 &= 20\% \end{aligned}$$

3. 1996 – Capital = total assets – total liabilities
- $$\begin{aligned} & = 250,000 + 12,680 + 620,500 + 15,500 + 1,500 - 46,520 \\ & = 314,660 - 46,520 \\ & = \text{Kshs. } 295,160 \end{aligned}$$

4. 1996
- Current assets

—————  
 Current liabilities

Stock + debtors + cash at hand  
 Bank overdraft + creditors

$$\frac{20,000 + 32,000 + 22,000}{12,000 + 25,000}$$

---

74,000

37,000

=2:1

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

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

---

100

7. 1997 Waso Traders

Balance sheet as at 30<sup>th</sup> 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)  $\frac{240 \times 100}{1,2000,000} = 20\%$

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

For the year ended 30<sup>th</sup> 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



- Trading A/C
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%  
 $\frac{G.P}{Sales} \times \frac{25}{100} \times 345,200$

General expenses 59, 800  
 NP = GP – General expenses  
 NP = 185,800 - 9,800 = 26,000  
 Return on capital  $\frac{26,000 \times 100}{1,300,000}$   
 = 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  
=  $\frac{\text{Cost of sales}}{\text{Average stock}}$   
= 270,000

$$= \frac{[50,000 + 70,000]}{2}$$

$$= \frac{270,000}{60,000}$$

$$= 4.5 \text{ times}$$

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 31<sup>st</sup> 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 31<sup>st</sup> 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>		
220,500	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

(ii) Solo Traders

Balance Sheet As at 31 December 1998

Dr	Kshs	Cr	Kshs
F. Asset			
Buildings	250,000	Capital	400,000
Equipment	180,0000	Net profit	47,500
Furniture	17,000		
C. Assets			
Stock	25,000	Creditors	90,000
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

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>

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

$$\frac{\text{Net - capital}}{(950,000 + 922,000) - 80,000} \times 100 = 33.02\%$$

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

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

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

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

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 30<sup>th</sup> 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		
	<u>480,000</u>		<u>480,000</u>

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

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

$$\text{C.O.S} = 360,000$$

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

8. 2004  
Tangao Traders  
Balance Sheet  
As at December 2004

Fixed Assets		Capital = A- 1	
Motor vehicle	80,000	(255,000	150,000
Plant & Machinery	70,000	75,000)	
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	
	<u>800,000</u>	<u>800,000</u>

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			
Stock	25,250	Creditors	396,400
Debtors	270,000		
Bank	200,000		
Cash	50,000		
	3,495, 250		3,495, 290

**30. PUBLIC FINANCE**

Answers paper 2

- 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

- 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

4. 1997	Statement	True	False
(a)	Accepts deposits from members of public	x	
(b)	Provides safe custody for valuables	x	
(c)	Issues currency for use in the country		x
(d)	Controls money supply in the country		x
(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                       |                    |
| 20,000                                    | = 5,000 US dollars |
| <hr style="width: 10%; margin-left: 0;"/> |                    |
| 4   |                    |
| 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 any 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 from 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 discounting 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 requires 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 ratio of cash/ deposits may be varied 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 lending/ 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 credit squeeze/ credit expansion 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 facilities for 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
  - Buying and selling foreign currency from commercial banks
  - Acts as a mediators 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 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 enhance 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
	- A request by seller for payment in advance	Pro-forma invoice
	- 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 - Overdrafts are not easily available unless one is well known.
  - Interest repayment cannot be planned hence 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.
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- They provide long term loans while commercial banks provide short term loans/overdrafts/discounting bills of exchange NBFIs 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 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 than 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 - A country variable to get goods even during times of calamities e.g floods - 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 from 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

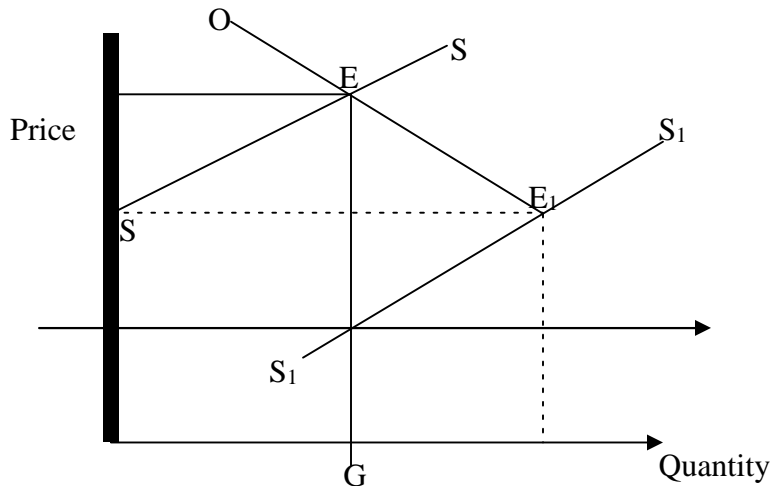
4. 1998 – Terms of trade: the rate at which exports on one country exchanges with imports. ToT = Price index of exports determines whether the trade between one country and another is favorable.
  - Balance of payment: the difference between both capital and current exports and imports of a country. 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 lading: 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
  - Publishes 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
  - (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	900,000	900,000

8x<sup>1</sup>/<sub>2</sub> = (4 marks)

18. (a)  $\text{Margin} = \frac{\text{G.P}}{\text{Sales}} \times 100$  =  $\frac{500,000 - (320,000 - 80,000 - 40,000)}{500,000}$
- =  $\frac{140,000}{500,000} \times 100 = 28\%$  Or 28
- (b) Current ratio =  $\frac{\text{CA}}{\text{CL}} = \frac{180,000}{90,000} = 2:1$



$$\begin{array}{rcl}
 \text{(c) Rate of stock turnover} & = & \frac{\text{CL} \quad 90,000}{\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{360,000}{80,000+40,000}} \\
 & & = \quad 3 \text{ times} \quad \quad \quad (4 \text{ marks})
 \end{array}$$

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 30<sup>th</sup> 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>		
		<b><u>880,000</u></b>		<b><u>880,000</u></b>
		<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 hard / 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**

**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/>
	260,000		260,000
	<hr/>		<hr/>

(14 x ½) = 7 marks)

**TRADING, PROFIT AND LOSS ACCOUNT**

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/>		
	660,000		
	<hr/>		
	660,000		
	<hr/>		
	660,000		
	<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		340,000
Gross profit C/D		240,000
Add commission		<u>20,000</u>
		260,000
<b>Less expense</b>		
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
		746,000	46,000
Furniture	240,000		
Less depreciation	24,000	206,000	Creditors
		180,000	
<b><u>Current asset s</u></b>			
Stock	60,000		
Debts	120,000		
Cash 50,000	230,000		

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926,000

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926,000

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**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	696,000

**Add current Assets**

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

**Less Current Liabilities**

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

**Financed by**

Cash	700,000	
Add net profit	46,000	
Capital employed		<u>746,000</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	
			230,000	
			<hr/>	
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 be 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

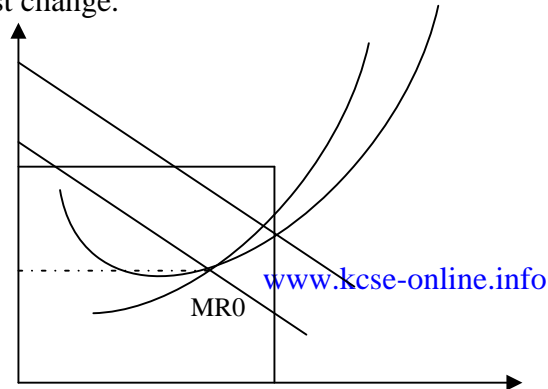
4 (b)

- 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**

- 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 ½ 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	<u>40,000</u>
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		
	<u>2,186,000</u>		
	2,186,000		
	<u>2,950,000</u>		
Less Opening balance of creditors	<del>80,000</del>		
	<u>2,150,000</u>		
Credit purchases	<u>2,150,000</u>		
Credit sales	1,582,000		
Add cash sales	<del>250,000</del>		
	<u>1,832,000</u>		
 Total purchases	 <u>2,470,000</u>		

**6. (c) alternative I**

Receipt/ cash from debtors	1,400,000
Add returns inwards	42,000
Add closing balance of debtors	540,000
	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

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	40,000
	140,000

(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

(6X ½ = 3 MARKS)

**ANSWERS TO QUESTIONS KCSE 2007 PAPER 1**

1. Complains that may be received from consumers include the following
- poor quality of goods and services/ damaged
  - incorrect weight and measures
  - unfair pricing
  - poor hygienic conditions
  - Expired goods

- f) Non- compliance to building regulations
- g) Contra- band items. Prohibited goods
- h) Harmful goods
- i) Hoarding
- 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

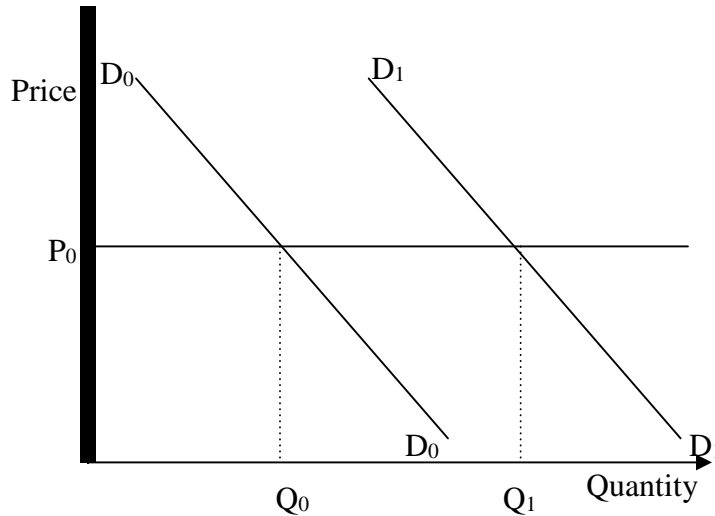
3. Features of a re- insurance company are

- 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

- 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	Particulars	Discount	Bash	Bank	Date	Particulars	Discount	Cash	Bank
2									
Jan-01	Balance	Allowed	Kshs 18000	Kshs 17000	2006 0Jan 10	ABM Tra	Received 1000	Kshs	Kshs
16	Sales	700	13300	26100	10 031	Bank (c)		26100	
31	Cash (c)					Bal c/d		5200	172100
		700	31300	19610	0		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 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>		
Carriage in	12,000	Gross Profit b/d	<u>442,500</u>
Sales Expenses Others	8,850		88,500
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/ pro v	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

	Kshs	Kshs	Kshs	Kshs
Fixed Assets				
Land and Building	2,500,000			Capital
Motor vehicles	500,000			2,660,000
Plant and machinery	600,000	3,600,000		Long term loan
				1,400,000
Current Assets				Current Liabilities
Stock		140,000		Creditors
Debtors		80,000		120,000
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

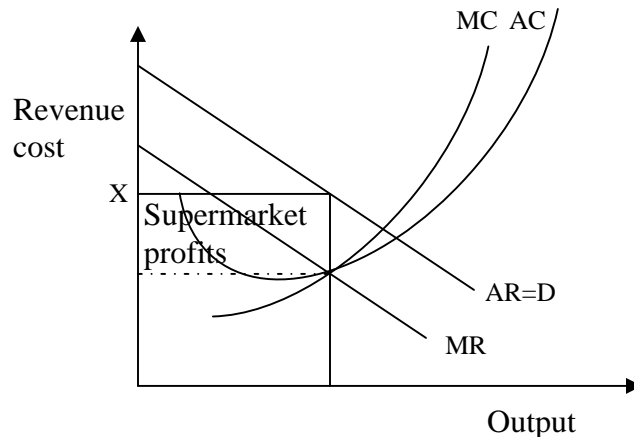
b)

- 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 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 sake 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 gods 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 31<sup>st</sup> December 2005**

	Shs		Shs
Fixed assets			
Land and building		Capital	940,000
Land and Machinery	200,000	Less Drawings	<u>40,000</u>
Motor Vehicle	300,000	10 year bank loan	200,000
Current assets stock	100,000	3 years ICDC loan	<u>100,000</u>
Debtors	60,000	Current liabilities	
Cash at Bank	100,000	Creditors	60,000
Cash in Hand	<u>20,000</u>	Accrued Expenses	<u>20,000</u>
	<u>1,280,000</u>		<u>1,280,000</u>

- ii) a) working Capital –CA-CI =(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)

$$CE=FA+WC=1,000,000+200,000$$

$$\text{Alternative CE= Capital borrowed=long term liabilities} \\
= 900,000+ 300,000=1,200,000$$

$$\text{ii. Borrowed capital} = 10 \text{ years loan } 200,000+3 \text{ year ICDC Loan} \\
100,000=300,000$$

$$\text{Alternative Borrowed capital=long term liabilities} \\
(200,000 -100,000)=300,000$$



## **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. 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 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

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

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

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 x 1= 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

Cost of operation of business is low

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 1300

13,000

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			

10 x 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

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

$$\text{Return on CE} = \frac{\text{NP}}{\text{CE}} \times 100 = \frac{100,000}{460,000} \times 100 = 21.7\%$$

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

Sum insured x loss

Actual value

Shs. 800,000 x 1,000,000

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
- 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		Bank Account		Cr	
2008	Sh	2008	Sh	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	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						450,0400

Dr		Debtor Account		Cr		Dr		Creditors Account		Cr	
2008	Sh	2008	Sh	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				

Dr		Discount Allowed		Cr		Dr		Discount Receiver		Cr	
2008	Sh	2008	Sh	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  $P_0$ /Kuk/ if a firm raise price above  $P_0$  /Kerk other competing firm swill not follow suit bul 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 an employment policy by government to make it easy for people to get jobs/Acccept eggs of policy as mention
  - v) lending /setting of a fund to assist unemployed to start income generating activities/accept eggs 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 eggs 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 eggs 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 eggs 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 28<sup>th</sup> Oct 2008, the debtor qualifies for the cash

discount or furniture

By paying for goods on 28<sup>th</sup> 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

$$\text{Kshs. } 284,700 - \frac{10}{100} \times 268,200$$

$$\text{Kshs. } 284,700 - \text{Ksh. } 26,820$$

$$= \text{Kshs. } 257,880$$

Or

$$\text{Furniture } 268,200 \text{ less } \frac{10}{100} = 26,820$$

$$26,820 - 26,820$$

$$= 241,380$$

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 31<sup>ST</sup> DEC 2008**

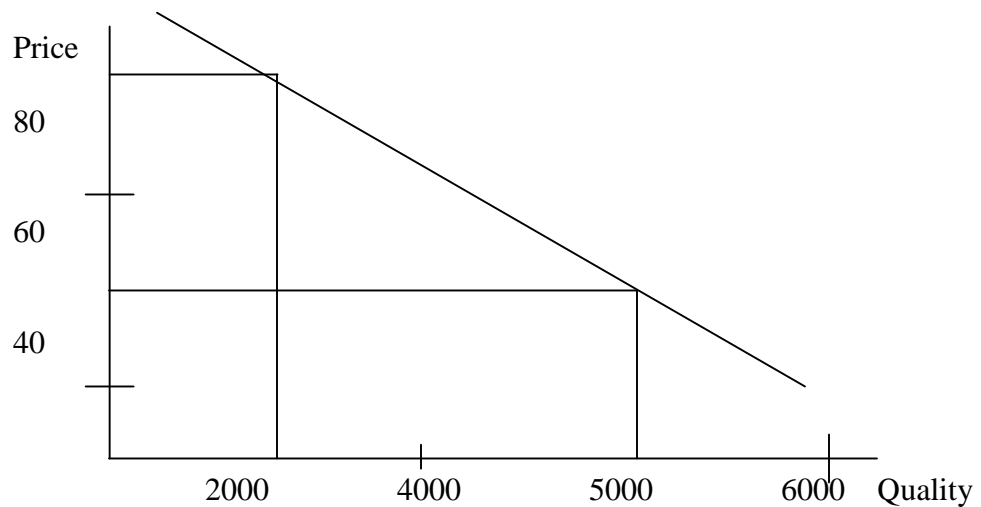
Motor Vehicle	900,00	948,170	
Current Assets			
Stock	72,500		
Debtors	116,900	189,400	Current Liabilities
	2037,570		Creditors
			2,037,510

Fixed Assets		Capital	1,400,000
Building	540,000	Less loss	6,930
Furniture	408,170		1,338,070
		Loan	472,500

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

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

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

Elasticity= 3 or -3

Or

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

Or

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

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

Or

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

Or

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

	Sh.		Sh
Balanced b/d	120,000	Bad debts	4,200
Interest on debtors	2,000	Cash Debts	750,000
			_____
	_____		_____
	_____		_____

Dr		Total Debtors Account		Cr
Sales	967,200	Bal. c/d		335,000
		<hr/>		
	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>
				<u><u>          </u></u>
Credit purchases	676,400			
Cash purchases	135,400			
	811,800			
	<u><u>          </u></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			<u>216,500</u>	
			<u>967,200</u>	<u>967,200</u>
Gross profit b/d	216,800			
Reduction equipment/depreciation		65,600		
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		<u>36,000</u>	
Bad debts			4,200	
Net Profit c/d			<u>89,000</u>	
	234,800	234,800		