**JOSPA RELEASE VOLUME 1**

**REVISION BUSINESS STUDIES PAPER 2**

***10 Sample Papers + Answers***

**SAMPLE PAPER 1**

**BUSINESS STUDIES PAPER 2**

**565/2**

1. a) Explain **FIVE** benefits a person gets as a result of taking a whole life policy with an insurance company. 10mks

b) A commodity X has an abnormal demand curve and a normal supply curve. With an aid of a diagram explain the effects on the equilibrium quantity and price caused by an increase in supply. 10mks

2. a) Explain **FOUR** circumstances when a manufacturer would prefer promoting sales of his products using personal selling method. 8mks

b) Maendeleo Traders have the following information in their books of account on 31st December 2002.

Kshs.

Stock (01/01/2002 6,000

Sales 100,000

Return-in 2,000

Return-out 2,800

Carriage-in 1,000

Carriage-out 1,500

Purchases 88,000

Stock (31/12/2002) 4,000

Commission earned 3,500

Discount allowed 2,200

Sundry expenses 4,000

Discount received 4,400

Postage 800

Stationery 1,200

**REQUIRED**

(i) Prepare a trading profit and loss account for Maendeleo Traders 10mks

(ii) Calculate - Mark –up 1mk

(ii) - ROSTO 1mk

3. a) Explain **FIVE** differences between public corporations and co-operative societies 10mks

b) Explain **FIVE** sources of monopoly. 10mks

4. a) Explain **FIVE** factors that can contribute to the expansion of firms in a given industry. 10mks

b) Highlight **FIVE** principles of taxation. 10mks

1. a) Below are the national income estimates of country Q during the year 2004.

**Value in Kshs. 000,000**

EXPORTS - 125,000

Consumption expenditure - 312,000

Investment - 150,000

Government spending - 208,000

Imports - 105,000

Depreciation - 5,000

Net indirect taxes - 25,000

Given that the country has a population of 30 million people,

i) Calculate the GNP per capita of the country. 4mks

ii) Outline **FOUR** limitations of using GNP per capita in measuring the standards of living in a country. 8mks

b) Explain **FOUR** services offered by wholesalers to producers. 8mks

6. a) Discuss **FIVE** functions of the central Bank. 10mks

b) Highlight **FIVE** factors that have contributed to the continued popularity of postal service in Kenya. 10mks

**MARKING SCHEME**

**SAMPLE PAPER 1**

**565 / 2**

1. a) Benefits of whole life policy

- Dependants will be paid sum assured on maturity

- Payment of premiums waivered in case of disability.

- Termly (period) bonus paid to assured

- Can opt for surrender value incase he wants to terminate prematurely

- Policy can be used as security of getting loan

- Enjoy tax benefits and relief.

b) (i)

`

Price

Do So

S1

P0

P1 So

S1 Do

Quantity

Q1 Q0

DoDo 1mk

SoSo 1mk

S1S1 1mk

The equilibrium Quantity decrease from Qo to Q1

Equilibrium price reduces from P0 to P1

2. a) Circumstances favouring personal selling

- Need to seal immediate contract

- Need to get immediate feedback

- Need to demonstrate on usage of good esp. technical goods.

- Need to counter stiff competition through persuasion

- If market is small and concentrated.

b) **Maendeleo traders**

**Trading profit and loss account**

**For the period ending 31st – 12 – 2002**

|  |  |
| --- | --- |
| Opening stock 6000ü  Purchases 88,000ü  Return out 2,800ü  Net purchase 85,200ü  Carriage in 1000ü  86200 86,200  C.O.G.A.S 72,200ü  Closing stock 4,000ü  C.O.G.S 68200ü  Gross profit 29,800üü    98,000  Discount allowed 2,200ü  Sundry expenses 4,000ü  Postage 800ü  Stationery 1200ü  Net profit 29,500üü | Sales 100,000ü  Return –in 2,000ü  Net sales 98,000  98,000  Gross profit 29,800ü  Commission earned 3,500ü  Discount received 4,400ü |
| **37,700** | **37,700** |

1. Mark – up GP = 29,000 = 43.69%

COGS 68,200

1. ROSTO = COGS = 6820

AS 6000 + 4000 = 13.64 times

2

3a) **Public corporations** **Co-op societies**

|  |  |
| --- | --- |
| - Formed by act of parliament  - aim to offer essential services  - Mostly monopolies  - managed by state appointed directors  - Initial capital from the government  - Profit & loss government | * Formed under co-op ACT * Aim to service member interest * Are not monopolies * Managed by elected committee member * Initial capital from members contribution * Profit and loss to members |

b) - Exclusive access to raw materials

- Exclusive knowledge/ access to the technology

- High capital requirement that others cannot afford.

- Govt okeyed / created monopoly

- Cut – throat competition that knock out competitors.

4a) Factors contributing to expansion of firms

- Increase in the population of consumers

- Improvement in transport and communication network

- Increased sources of capital needed for expansion

- Improvement in the service industry which support firms

- Increased availability of raw- materials for production

b) Principles of taxation

- Productivity: - must yield high collection

- Certainty: - time for reception must be anticipated

- Equality: - must ensure everybody pay due tax

- Convenience: - should be at the time when tax payers are able to pay

- Flexibility: - must have ability to be varied incase of changes in economy

- Economy:

- Simplicity:

- Diversity.

5.a) i) GNP = C + G +1 + X – M

ü

= ( 312000 + 208000 + 150000 + 125000 – 105000)

= Ksh 690 000 millionsü

Per capital GNP= GNP

Population size

= Ksh 690 000 millionsü

30 millions people

= Ksh 23000ü

(ii) - National income and wealth is never equally distributed among residents of a country.

* Material welfare of the people cannot be measured on a mathematical scale in the same way as per capital GNP.
* Wants and tastes of people living in a country are never exactly the same.
* Prices of products in different parts of a country do vary leading to different costs of living
* The purchasing power of the people is sometimes lowered through taxes and increased through subsides
* Sometimes an increase in quantity of output is achieved through a decrease in product quality.
* Sometimes a rise in production is realized through stressful, dangerous and unpleasant working conditions.

b) Services by wholesalers to producers

- They finance producers by buying goods

- Take over storage expenses from producer

- Save producers risks of pricing, losses by buying goods

- Prepares goods for sale on behalf of producers

- Help in getting market feed back from consumers

- Transport goods for producers

1. a) Functions of central bank

- Banker to the government

- Financial advisor to the government

- Lender of last resort to commercial banks

- Banker to commercial bank

- Offer clearing house services to com. Bank

- Lender to government

- Custodian of foreign exchange reserve

- Issue of replacement of currency

1. Popularity of postal services

- Have a wide network therefore serve wide region

- Have low charges on its services therefore affordable to many

- offer variety of services to cater for peoples different needs

- Are reliable in services, items assured of reaching

- Safety of goods against loss minimizes losses.

**SAMPLE PAPER 2**

**BUSINESS STUDIES PAPER 2**

**562/2**

1. (a) Explain FIVE services offered by commercial banks to business people. ( I0mks)

(b) Describe FIVE factors that affect the elasticity of demand.

2. (a) Study the diagram given below which shows equilibrium of a firm and answer the questions that follow.

(i) State the market structure represented by the above diagram. [ 1 mk]

(ii) With a reason, state whether the firm is operating in the short run or long run. (lmk]  
(iii) Outline FOUR features of the above market structure. (8mks)  
(b) Kenya's development plans are praised world wide. Highlight FIVE problems that  
hinder their implementation. [ I 0mks]

3. (a) Explain FIVE ways traders can adopt to prepare goods for sale. [ 1 0mks]  
(b) Explain FIVE benefits that Kenya is likely to get from free trade. [ I 0mks )

4. (a) Describe FIVE circumstances under which limited liability companies can be

liquidated. [I 0mks]  
(b) Discuss FIVE: insurance policies that a wholesaler in Lodwar town can take.

[l0mks]

5. (a) Highlight FIVE measures that a government may use to control inflation.

(10mks]  
(b) Discuss FIVE causes of under employment in Kenya. [ l0mks]

6. (a) Explain FIVE circumstances under which one may use signs in communication. [I0mks]

(b) The following information has been extracted from the books of Otieno Traders on 3 Ist may, 2006.

**Shs.**

Salaries 15 000  
Discount received 16 000  
Purchases 195 000  
Returns inwards 4 970  
Returns outwards 3 000  
Sales 268 970  
Stock ( Ist June 2005) 24000  
Stock (31st May 2006) 46000  
Discounts allowed 5 000  
Insurance 14000  
Commission earned 30 000  
General expenses 11 000  
Mortgage loan 80 000

**Additional information:**

(i) Interest on mortgage loan 20% p.a.

(ii) Outstanding salaries Shs. 5 000

(iii) Prepaid insurance Shs. 4 000

**Prepare:**

A trading profit and loss account for the year ended 31st May 2006. [ I 0mks)

**MARKING SCHEME**

**SAMPLE PAPER 2**

**565/2**

I. (a) Services offered by Commercial banks to business people.

• Accept deposits and keep money safely i.e. Account services.

• Lending money

• Provides means of payment/ transfer of money e.g. standing orders, cheques, credit cards, etc.

• Making FOREX available to importers

• Collecting money on behalf of clients e.g. rent dividends, etc.

• Provide safe custody for valuables e.g. title deeds, jewellery, certificates, wills, etc.

• Acting as guarantors of referees when looking for credit.

. Advantages of hawkers over unit shop traders.

• Hawkers incur less operational expenses e.g. no rent.

• Require less capital to start e.g. Sh. 500.00

• Prices are negotiable i.e. not fixed

• Make on the spot decision/ flexible

• Looks for market every where

• Sell strictly on cash hence no bad debts

• Are more persuasive and convincing

2. Uses of computers in communication.

• Internet: Interconnection of several computers over a wide area facilitating flow of information e.g. E-mail.

• Internet: interconnection of computer within a small geographical location to ease communication in different departments.

• Website: A virtual location in the internet to make information available for prospective buyers.

• Tele-conferencing: Holding conferences through computers as participants are in

different geographical areas.

3.

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **Internal** | **External** |
|  | (a) Ö |  |
|  | (b) | Ö |
|  | (c) Ö |  |
|  | (d) | Ö |

4. Advantages of endowment policy over whole life policy.

• Period is short

• Assured enjoys the savings a lone

• Sum-assured is payable at intervals which are pre-determined

• It is a saving plan

5. Factors causing supply curve shifting to the right.

• Poor technology

• Increase in cost of production

• Lack of factors of production

• High taxes

• Low subsidies

• Unfavourable climate

• Unfavourable season/ off peak season

6. Relevance of infrastructure in business location.

• To ensure steady supply of goods and services

• To guarantee security

• For quick delivery of goods and services to the market

• For easy/ quick delivery of raw materials

• For easy mobility of workers/ traders

• To reduce transport and communication costs.

7. Advantages of internal memo over letters.

• Brief

• General/ i.e. information is meant for all

• Suitable to pass information between departments

• Cheap

8. Differences between partnership and private limited companies.

**Partnership** **Private Ltd Co.**

- Formation is easy Too involving

- Membership is mainly 2-20 Membership mainly 2-50

- Not a legal entity It is a legal entity

- Activity not restricted Activity restricted to MOA

- Capital base is altered ONLY by partners Capital base can only be altered during AGM

- Unlimited liabilities Limited liabilities

- Any partner can act on behalf of the partnership Only authoriized directors can act on behalf of Co.

9. Geographical factors hindering mobility of Labour

• Language barrier

• Adverse climatic conditions

• Ignorance

• Social ties to the family and community

• Security

• Political factors

• Government policy e.g. migration rules

• Transport cost

10. Ways in which the government assists in developing entrepreneurial skills.

• Providing grants of cheap credit

• Provision of good infrastructure/ security

• Provision of relevant education and training/ regular workshops

• Protection of local markets/ passing anti-dumping laws

• Lower taxation crucial business

• Supporting local research and innovations/ patenting local technologies

• Signing bilateral and multilateral agreements

11. Sources of public finance.

Fines

Rent and rates

License fees

Dividends and profits from government investments

Taxes

Interests earned on loan advanced by the government

Government borrowing

Proceeds from sale of government assets

12. Limitations of billboards

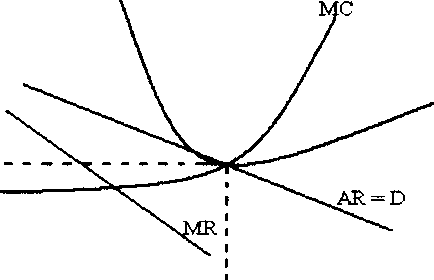
• Expensive

• Speeding motorists may not be able to read them

• Security measures required

• Unsuitable to rural-folk (people)

13..



**AC**

pe

qe

14. Factors accounting for the under-development of Kenya.

• Inadequate arable land and industrial minerals eg. Iron ore and coal, gold oil etc.

• Limited market due to low savings.

• Unfair world economic order/ trade liberalization that has led to the collapse of local industries.

• Lack of entrepreneurial skills

• Poor government policy/ corruption in high places/ unattractive investment climate.

• Lack of infrastructure which increases production costs.

• Rapid population growth which exerts too much pressure on limited resources

15. Problems encountered in measuring national income.

• Exclusion of all unpaid services e.g. house help, self-employment.

• Subsistence production not accounted for

• Some activities that generate wealth but are considered illegal are excluded eg. Prostitution, illicit brews, drug trafficking, etc.

• Difficult to accurately value stock of inventory

• Inflation can lead to an increase NI i.e. problem of changes in prices.

• Difficult to measure the cost of wear and tear of capital goods i.e. Depreciation.

• Difficult to evaluate the net effect of foreign trade (X-M)

16. Benefits of ATM.

• Fast and efficient

• Provide 24hrs service

• Reduce wage bill

• Top secret is allowed to consumers A/C

• Due to its cheapness it attracts more customers

17. Circumstances under which consignment can be air-lifted.

• If distance involved is great or long.

• Incase goods are required urgently.

• Where the consignment is valuable and needs security

• Where products are perishable

• Where there is no other alternative means

18. Functions of a bill of landing.

• Evidence that goods have been received by the ship owner.

• Evidence that contract has been entered between the ship owner and the shipper.

• Enables the named person therein/ his agent to claim goods when they arrive at the port of distribution.

19. Difficulties faced in the satisfaction of human wants.

* Unlimited wants

• Scarce resources

• Opportunity cost

• Recurrent

• Vary with time, age, gender etc.

• Habitual

20. TERMS

(a) Departmentalization

(b) Job specialization

(c) Delegation

(d) Co-ordination

21..

|  |  |  |  |
| --- | --- | --- | --- |
|  | **ASSETS** | **CAPITAL** | **LIABILITIES** |
| (a) | Increase | Increase | No effect |
| (b) | Decrease/ Increase | No effect | No effect |
| (c) | Decrease | No effect | Decrease |
| (d) | No effect | No effect | Increase/ decrease |

**Pheroze**

**Statement of affairs**

**At at 01/01/2004**

|  |  |  |  |
| --- | --- | --- | --- |
| Premises | 250 000 | Creditor | 1 56 000 |
| M/ Vehicle | 120000 | Rates due | 12000 |
| Stock | 49000 | Rent received in advance | 18000 |
| Prepayment (salary) Debtors  Cash in hand | 7000  13400  38000 | Expenses owing  Capital | 24000  267 400 |
| 477 400 | 477 400 |
|  |

V3x 12 = 4mks

21. **Total debtors control A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Shs. |  | Shs. |
| Balance b/d | 12000 | Bad debts | 2000 |
| Dishonoured cheques | 14000 | Dis. Allowed | 15000 |
|  |  | Cash | 45000 |
|  |  | Ret. Inwards | 3000 |
|  |  | Balance c/d | 18000 |
| Credit sales | 57000 |  | 83000 |
|  |  |

Total debtors control A/C

|  |  |  |  |
| --- | --- | --- | --- |
|  | Shs. |  | Shs. |
| Balance b/d | 12000 | Bad debts | 2000 |
| Dishonoured cheques | 14000 | Dis. Allowed | 15000 |
|  |  | Cash | 45000 |
|  |  | Ret. Inwards | 3000 |
|  |  | Balance c/d | 18000 |
| Credit sales | 57000 |  | 83000 |
|  |  |

24. **CASH BOOK**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Date-: | PARTICULARS | D/A1I | CASH | BANK |  | DATH | PARTICULARS | S/Rcc | CASH | BANK | | 2006 |  |  |  |  |  |  |  |  |  | 28 800 | | May 1 | Balance b/f |  | 1 2 000 | 65 000 |  | May 18 | Miami Traders | 1 200 |  |  | | 12 | Hjore | 2 000 |  | 48000 |  | 27 | bank "C" |  | 10000 |  | | 20 | Sales |  | 18000 |  |  |  |  |  |  |  | | 27 | Cash "C" |  |  | 1 0 000 |  |  |  |  |  |  | |  |  | 2 000 | 3JLOJQ | 121000 |  | 31 | Balance c/f |  | 20 000 | 94 200 | | June 1 | Balance b/f |  | 20 000 | 94 200 |  |  |  | . 1 200 | 30 000 | 123 000 | |
| 25. A => s = 596 222 |
| B => r = 1 692 070 |
| C=> q = 2 090 790 |

(b) Factors affecting elasticity of demand.

• The necessity of the commodity

• Ease of substitute

• Durability of commodity

• Habitual commodities

• Consumers' income

• Significance of the commodity on the individual's total expenditure.

2. (a)

(i) Perfect competition

(ii) Short run because it is supernormal profits ie AR>AC

(iii) - Large number of buyers and sellers

- Homogeneous/ uniformity of the products

- Perfect knowledge of the market

- Freedom of entry or exit

- Uniformity of buyers and sellers

- No government interference

- No excess supply/ demand

- Perfect mobility of factors of production

- No transport costs

(b) Problems hindering implementation of development plans.

• Reliance on donor funding

• Lack of domestic resources

• Local people NOT involved in planning

• Natural calamities

• Inflation

• Over-ambitious plans e.g. Kenya should be industrialized by the year 2010

• Lack of co-operation among the executing parties

• Lack of political will

3. (a) Ways of preparing goods for sale.

• Breaking bulk

• Packing

• Branding

• Sorting

• Grading

• Blending

(b) Benefits of free trade.

• Specialization

• Provision of cheap and quality goods

• Efficient allocation of resources

• International peace and understanding

• Creation of employment

• Living standards are improved

• Leads to industrialization

4. (a) Circumstances under which limited liability companies are liquidated.

• Bankruptcy

• Ultra-vires

• Amalgamation

• Court order

• Decision by share holders

• Completion of intended purpose/ period

(b) Insurance policies.

• Fire insurance policy

• Bad debt policy

• Fidelity guarantee policy

• Comprehensive motor vehicle policy

• Consequential loss policy

• Cash/goods in transit policy

• Public liability policy

• Personal accident policy

5. (a) Measures taken by government to control inflation.

• Tax increase

• Export control

• Import control

• Price control

• Selling treasury bonds

• Increasing bank reserves

• Increasing bank rates

• Import substitution to curb import inflation

• Imposing tariffs

• Imposing impact quotas

• Rationing FOREX

• Bureaucratic obstacles

(b) Causes of under-employment in Kenya.

• Poor technology use in Kenya leading to low productivity/ use of poor tools or equipment.

• Low staff motivation

• Lack of alternative jobs where one can be fully utilized

• Overstaffing

• Trade union advocacy to employ more

• Lack of political pressure to create more jobs.

6. (a) Circumstances under which one may use signs in communication.

• When the recipient is deaf

• If communicator is dumb

• Incase communicating a secret message

• Where communicators are far apart but can see each other

• When silence is vital e.g. in hospitals

• Where environment is noisy e.g. in factory

**Otieno Traders**

**Trading, profit and loss account**

**As at 31/5/2006**

|  |  |
| --- | --- |
| **Shs.**  **Opening stock 24, 000**  **Add**: Purchases 195 000  Less return out 3 000 192 000  Goods available 216 000  **Less**: Closing stock 46 000  Cost of goods sold 170 000  Gross profit c/ d 94 000  264 000  **Operating expenses**  Salaries 15 000  Add: Outstanding 5000 20 000  Disc. Allowed 5 000  Insurance 14 000  Less: Prepaid 4000 10 000  General expenses 11 000  Mortage interest ( 20 / 100 x 80 000) 16 000  Total expenses 62 000  Net profit c/d 78 000  140 000 | **Shs.**  Salaries 268 970  **Less:** Return inwards 4 970  264 000  Gross profit b/d 94 000  Add: Discount received 16 000  Comm. Returned 30 000    140 000 |

**SAMPLE PAPER 3**

**BUSINESS STUDIES PAPER 2**

**565/2**

**BUSINESS STUDIES**

1. a) Explain FIVE ways in which central Bank of Kenya regulates the operations of commercial banks in Kenya. 10mks

1. The table below represents a farmer’s supply of cabbages in a local urban center.

|  |  |
| --- | --- |
| **Year** | **Quantity of cabbages (Tonnes)** |
| 2001 | 20,000 |
| 2002 | 15,000 |
| 2003 | 10,000 |

Assuming the price remained constant, explain five possible reasons for the trend in the supply of cabbages. 10mks

2. a) Explain FIVE differences between a public corporation and a public limited company.

10mks

b) The following trial balance was prepared from the books of Triumphant NO-TABLES Enterprises as at 31st Dec. 2005.

**Triumphant Notables Enterprises**

**Trial Balance**

**As at 31st Dec. 2005**

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| Sales | 900,000 |  |
| Purchases | 600,000 |  |
| Returns inwards | 80,000 |  |
| Returns outwards |  | 20,000 |
| Carriage inwards | 40,000 |  |
| Carriage outwards | 3,000 |  |
| Stock (Jan 2005) | 100,000 |  |
| Rent |  | 60,000 |
| Delivery van |  | 180,000 |
| Bank |  | 60,000 |
| Creditors |  | 170,000 |
| Debtors | 120,000 |  |
| Interest Expenses | 18,000 |  |
| General expenses | 7,000 |  |
| Capital |  | 178,000 |
|  | 1,268000 | 1,268,000 |

Stock on 31 Dec. 2005 was valued at sh. 135,000. Prepare a trading profit and loss accounts for the year ended 31 Dec. 2005. 10mks

3. a) Highlight five reasons why a distributor of consumer goods would prefer to locate his or her warehouse near the consumers. 10mks

b) Explain five factors that have limited the adoption of containerisation in the transportation of goods. . 10mks

4. a) Explain five benefits that accrue to a company by using a prize winning competition to promote its products. 10mks

1. The following transactions relate to Expert Traders for the month of may 2005.

May 5: Sold goods on credit to Paul sh. 12,000 and Jane sh. 16,000

8: Bought goods on credit from Shah traders sh. 40,000

10: Purchased goods on credit from Grace sh. 34,000 and Peter traders sh. 31,050

16: Goods worth sh. 6,000 were returned to Shah traders and goods worth sh. 3,000 to Grace.

20: Goods sold on credit to Paul sh. 8,000 Tom sh, 11,000 and Joseph sh. 13,000.

26: Goods returned by Betty sh. 2000

Prepare the relevant journals. 10mks

5. (a) The following assets and liabilities relate to Manyonge a trader who does not maintain a complete set of accounts.

1998 shs.

Outstanding general expenses 8,250

Creditors 32,000

Debtors 18,000

A cashbook summary extracted on the same revealed the following.

**Receipts**

Cash sales - sh 35,000

Purchase - sh.31,200

Paid creditors - 54,000

At the end of the year, the following information was available:

Discount received amounted to sh. 7,600

Discount allowed shs. 2,500

Creditors sh. 25,000

Debtors shs. 23,000

Outstanding general expenses shs 10,700

**Prepare:**

1. General expenses Account
2. Total Debtors Account
3. Total creditors Account.

(b) Outline six measures that a country may take to reduce unemployment.10mks

6. Country Z is a developing country and it intends to liberalize its economy. Discuss the effects of such a trading policy to the economy of the country. 20mks

**MARKING SCHEME**

**SAMPLE PAPER 3**

**565/2**

1. Ways in which the central bank of Kenya regulates the operation of commercial bank in Kenya.

a) i) Bank rate

By varying the bank rate, the central bank gives an indication to the commercial banks as to the rates and interests to charge to their customers

1. Cash or liquidity ratio

By varying the cash or liquidity ratio, the bank may either increase or decrease credit expansion

1. Special deposits/ compulsory deposits

By calling for special deposits from commercial banks, it reduces the cash base for them, and therefore reduces their ability to lend

1. Selective credit control/ credit rationing

The central bank can determine the ceiling or priority sectors where the lending has to be channeled

1. Direct supervision/ instruction

The central bank can direct supervision of commercial banks, to ensure that they follow the laid down regulations

1. Open market operations

The central bank buys and sells treasury bills, to increase or decrease the lending ability of commercial banks

1. Moral persuasion

Under special circumstances, the central bank may persuade commercial banks to regulate their lending habits

b) Possible reasons for the trend in the supply of cabbages i) Unfavorable weather, leading to a reduction in the production of cabbages

ii) Increase in the cost of producing cabbages

1. Application of poor technology in cabbage production
2. Increased competition from other substitutes to cabbages
3. A shift in the farmer’s priority, from cabbage production to other things
4. Unfavorable government policy, like increase in subsidies or increase in taxation

2. Difference between a public corporation and a public limited company

a) i) A public corporation is formed under an Act of Parliament, while a public limited

company is formed under the company’s act

ii) A public corporation is fully owned by the government, while a public limited company is owned by private persons who own shares

1. A public corporation is initially financed by the state or through state guarantees, while a public limited company is financed through the issue of shares, selling debentures or other loans
2. A public corporation has its management appointed by the government while in a public limited company, shareholders elects the directors
3. A public corporation is set up to offer essential services to the public, while the public limited company is formed to make profits
4. Profits made by public corporations go back to the government, while profits made by public limited companies go to the shareholders as dividends

vii) Public corporation’s financial statements are presented in parliament, while public limited companies must publish their financial statements in the press

1. **Nzwili Traders**

**Trading, profit and loss account**

**For the year ended 31st Dec 2005**

|  |  |
| --- | --- |
| Opening stock 100,000  Purchases 600,000  Less returns out 20,000 580,000  Add carriage in 640,000 40,000  Goods available for sale 720,000  Less closing stock 135,000  Cost of sales 585,000  Gross profit c/d 235,000  820,000 | Sales 900,000  Less returns in 80,000  Net sales 820,000    820,000 |
| Carriage outwards 3,000  Rent 60,000  Interest expenses 18,000  General expenses 7,000  Net profit 147,000  235,000 | Gross profit b/d  235,000  235,000 |

3. Reasons why a distributor of consumer goods would prefer to locate her warehouse near the consumer

a) i) **Transport cost**

She may save on transportation, since her vehicle would not have to move over long distances

1. **Minimal damages**

The possibility of the goods getting damaged is low, since the distance over which the goods are moved is less*\*TRZ\**

1. **Continuous supply**

The distributor is in a better position to ensure the continuous supply of the goods and hence meet the needs of consumers

1. **More sales/ profit**

The distributor is likely to sell more goods, since the retailers can easily get to her conveniently, and even buy in small quantities that would have been uneconomical to buy from far

1. **Minimal loss**

There is less possibility of loss of goods on transit, since the distance is short

b) Factors that have limited the adoption of containerization

i) **Initial cost/ expensive**

The initial cost of acquiring the containers is high

1. **Volume of business**

This may be too small to warrant such an investment

1. **Equipment**

The specialized equipment for handling containers is expensive to buy

1. **Ports**

It requires total re-designing of existing ports which could be quite expensive or the technology may be lacking

1. **Skilled personnel**

The management skills that are required to monitor the system may be lacking, or are expensive to acquire or hire

4. Benefits of using a prize – winning competition for a company to promote its products

a) i) Inc**reased sales**

Many people buy the products, to increase their chances of winning

1. **Prolonged duration of the competition**

The date of the draw can be postponed to allow for more sales

1. **Creation of consumer brand loyalty**

People may become used to buying the products during the period of the competition, and are likely to continue buying the products after the competition

1. **Promoting a company’s image**

These competitions tend to help create a good company image

1. **Cost**

It is relatively cheaper to use this kind of promotion compared to others, because of the value of the prizes

1. **Creation of product awareness**

The competition creates product awareness to potential consumers of the products

1. **Sales journal**

|  |  |  |
| --- | --- | --- |
| **DATE** | **Particulars** | **Amount** |
| **Date**  May 5  May 11  May 20  May 11  May 11  **Total to sales a/c** | Paul  Jane  Paul  Tom  Joseph | 12,000  16,000  8,000  11,000  13,000  60,000 |

**Purchases journal**

|  |  |  |
| --- | --- | --- |
| **DATE** | **Particulars** | **Amount** |
| May 8,  May 13  May 11  Total to purchase a/c | Shah Traders  Grace  Peter Traders | 40,000  34,000  31,000  105,000 |

**Sales Returns journal**

|  |  |  |
| --- | --- | --- |
| **DATE** | **Particulars** | **Amount** |
| May 10  May 26  Total to sales a/c | Paul  Betty | 3,000  2,000  4,000 |

**Purchases Returns journal**

|  |  |  |
| --- | --- | --- |
| **Date** | **Particulars** | **Amount** |
| May 16  May 16  Total to purchase a/c | Shah traders  Grace | 3,000  6,000  9,000 |

5 a) **General expenses account**

|  |  |
| --- | --- |
| Bank/ cash 35,000  Balance c/d 10,700  45,700 | Balance b/d 8,250  37,450  45,700 |

**Total debtors account**

|  |  |
| --- | --- |
| Balance c/d 18,500  Credit sales 140,000  158,500  **Total sales** = 140,000+31,200 =Sh.301,000 | Bank 138,000  Discount 2,500  Balance c/d 23,000  158,500 |

**Total creditors account**

|  |  |
| --- | --- |
| Bank/ Cash 54,000  Discount received 7,600  Balance c/d  25,000  86,600  **Total purchases** = 54,600+31,200 =Sh.85,600 | Balance b/d 32,000  Credit purchases 54,600  86,000 |

b) Measures that a country may take to reduce unemployment

i) Increase government expenditure to stimulate aggregate demand, hence the level

of production

ii) Encourage local private investment to increase productivity

1. Adopt measures that will attract foreign capital into the country so as to create more employment opportunities
2. Find market for locally produced goods through aggressive export promotion in order to expand production capacities of local industries
3. Protect local industries from foreign competition, in order to maintain employment levels
4. Diversify the economy

6.a) Positive effects of liberalization

i) Opening up their economies to the global economy has enabled many developing

countries to develop competitive advantage in the manufacturing of certain products

ii) Countries that have opened up their economies experience faster growth and more poverty reduction

1. In countries where the economy has been opened up, new jobs are created for unskilled workers, rising them into a growing and expanding middle class
2. Countries with open economies benefit from improved access to other countries markets
3. Countries that liberalize their economies are free to join the world trade organization

b) Negative effects of trade liberazation

i) Local infant industries may suffer and die out from the increased competition from

more established foreign companies

ii) Dumping of goods may be practiced by the developed economies under the guise of free trade

1. There is a danger of increased dependency on foreign goods, whose supply may be quite uncertain
2. Liberalization is a one sided game that allows developed countries the unfair advantage of flooding the internal markets of other countries with their finished products

**SAMPLE PAPER 4**

**BUSINESS STUDIES PAPER 2**

**565/2**

1. (a) Explain four negative effects of economic development (8mks*)*

(b) Outline six factors that influence decisions on what goods and services to produce

(12mks)

1. (a) Use the demand and supply schedule given below to draw a diagram showing the following
   1. Demand and supply curves
   2. Equilibrium quantity, equilibrium price and equilibrium point
   3. Excess demand and excess supply

|  |  |  |
| --- | --- | --- |
| **Price** | **Quantity demanded** | **Quantity supplied** |
| 450 | 10 | 70 |
| 400 | 20 | 60 |
| 350 | 30 | 50 |
| 250 | 40 | 40 |
| 150 | 50 | 30 |
| 50 | 60 | 20 |
| 10 | 70 | 10 |

(8mks)

(b) Explain six functions of micro finance institutions (12mks)

1. (a) Describe five features of perfect competition (10mks)

(b) Outline five factors that influence the level of national income (10mks)

1. (a) Explain five factors influencing the choice of distribution channel 10mks)

(b) The following transactions were carried out by Kiplangat traders during the month of July 2005.

July 1: Started a business with Shs. 10,000 in cash

2: Opened a bank account for the business by depositing Shs. 20,000 from personal savings

10: Bought goods worth Shs. 10,000 and paid by cheque

20: Sold goods worth Shs. 20,000 which were paid for in cash

26: Paid Shs. 5,000 as salary to a worker by cheque

27: Took Shs. 5,000 in cash for personal use

Enter the above transactions in their respective ledger accounts and balance them off

(10mks)

1. (a) Explain six measures to solve unemployment problems in Kenya (12mks)

(b) The following table shows relationship between output, total cost, marginal cost, the average fixed cost, average variable cost and total cost

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Unit of output** | **Total fixed cost Shs.** | **Total variable cost Shs.** | **Total cost Shs.** | **Average fixed cost Shs.** | **Average variable cost Shs.** | **Marginal costs Shs.** |
| 0 | 100 | 0 | - | - | - | 0 |
| 1 | 100 | 110 | (a) | (e) | (j) | - |
| 2 | 100 | 260 | (b) | (g) | (k) | (m) |
| 3 | 100 | 380 | (c) | (h) | (l) | (n) |
| 4 | 100 | 460 | (d) | (i) | (m) | (o) |

Draw a similar table and use the information provided to complete it (8mks)

1. (a) Enter the following transactions in the petty cash book of Maendeleo stores for the month of July 2003 using the following analysis columns

Telephone and postage, office stationary, traveling expenses and office expenses. The business operates the petty cash book on an imprest system of 4000/= replenished on a weekly basis

July 1st-Received a cheque from the cashier to start the imprest

July 1st-Paid for taxi hire250/= and 130/= for office cleaning

July 2nd-Bought postage stamps for 210/= and a ball of string for use in the office 100/=

July 3rd-Postage of a parcel cost 100/= and paid a telephone bill 900/=

July 4th Purchased envelopes for 150/= and one ream of photocopying paper 500/=

July 5th-Paid for bus fare 500/= and made a telephone call costing 50/=

July 6th-purchased a window cleaning cream for 250/= paid bus fare 200/=

July 8th-Received a cheque to replenish the imprest

July 8th-Bought various office stationary for 400/=

July 9th-Purchased postage stamps for 210/= and paid 950/= telephone bill

July 10th-paid train fare 600/= and taxi fare 250/=

July 11th Paid for office cleaning 150/=

July 12th- Purchased two reams of writing paper 600/= and office dusters 300/=

July 14th - Obtained a cheque from the cashier to replenish the imprest

**Required**

Prepare the petty cash book for the two weeks 8mks)

1. The following trial balance relates to Leshao traders for the year ended 31st January 2005

**PARTICULARS DR CR**

Capital 110,000

Land and buildings 70,000

Machinery 21,600

Furniture 20,000

Debtors 78,000

Creditors 50,000

Opening stock 1,100

Bank 60,000

Cash 9,000

Sales 15,400

Sales returns 400

Purchases 8,000

Purchases returns 1,200

General expenses 1,200

Carriage inwards 400

Carriage outwards 900

Rent received 2,500

Commission received 1,000

Salaries and wages 6,000

Electricity 700

Insurance 1,500

Postage 300

Drawings 1000

Bank loan 100,000

**Total 280,100 280,100**

**Note**: Closing stock on 31st January 2005 was valued at Kshs. 2,500

Prepare

1. Trading, profit and loss account for the year ended 31st January 2005 (8mks)
2. Balance sheet as at 31st January 2005 (4mks)

**MARKING SCHEME**

**SAMPLE PAPER 4**

**565/2**

1. a) i) Degradation of the environment

ii) Overcrowding in slums

1. Rendering knowledge and skills obsolete
2. Creating social tensions e.g. income inequality, political instability, social habits and beliefs change

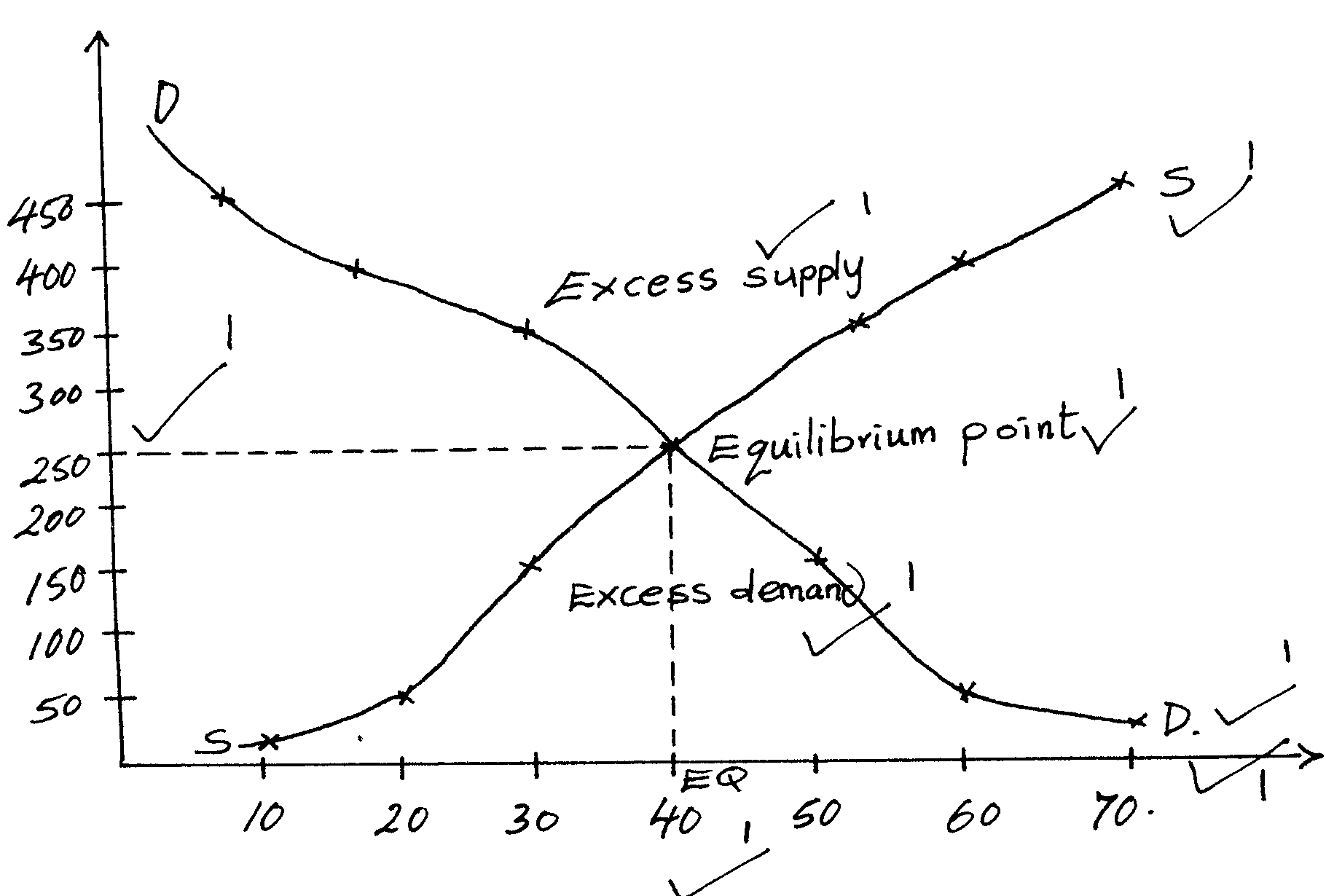
b) i) Demand patterns:- If a commodity has a demand, it will certainly be produced

ii) Profitability of the venture:- The business can only continue with those products that yield some profits

1. Level of competition:- Young firms produce goods whose competition is minimal
2. Government policies:- The government encourage or discourage the production of certain goods and services
3. Economic factors:- e.g. state of inflation, size of national income, income distribution e.t.c.
4. Availability of technology:- Appropriate technology determine what goods or services a firm can produce
5. Social cultural factors:- These factors have to do with the peoples core beliefs and attitudes
6. Availability of factors of production:- e.g. land, capital, labour and entrepreneurship
7. Environmental issues:- Production process should not pollute the environment
8. Cost of production
9. Amount and type of capital in the business – financial and physical capital facilitates the production process

*Must be well explained*

1. a)



EP

Equilibrium price = 250

Equilibrium quantity demanded and supplied = 40

Award as follows:-

Equilibrium price (250) 1 mk

Equilibrium quantity (40) 1 mk

Supply curve 1 mk

Demand curve 1 mk

Excess supply 1 mk

Excess demand 1 mk

Equillibrium point 1 mk

Use of correct scale 1 mk

3. a) i) Large number of buyers and sellers

ii) Homogeinity (Uniformity) of the product

1. Perfect knowledge of the market
2. Freedom of entry or exit
3. Uniformity of buyers and sellers
4. No government interference
5. No excess supply or demand
6. Perfect mobility of factors of production
7. No transport costs
8. No preferential treatment

3. b) i) Size of the working population

ii) Innovative and technical knowledge

1. National resources such as gold, oil, fertile soils, power, favourable climate e.t.c.
2. Capital equipment such as computerized machinery and other modern equipments increase output of goods and services
3. Political stability flourishes business activities in the country. Promote confidence and encourage production hence high income level
4. Terms of trade i.e. favourable balance of payments (BOP) boosts the national income and vice versa
5. Foreign investments refer to a country’s investment in other countries. Those countries with a lot of foreign investment and a lot of investments abroad, are likely to have high national income because of the high net inflows
6. Entrepreneurship – Entrepreneurs have the ability to organize factors of production which have a bearing on the country’s national income

4. a) i) **The value and the technical nature of the product**:- Technical and high value goods

sell directly to the final consumer

ii) **Nature of product:** - Perishable commodities are usually sold directly to the consumer or through retailer

iii) **The intermediaries:** - As different intermediaries perform functions differently, the firm may have to select the channel that would be convenient to it

iv) Resources and size of the firm: - Size of the firm determines the size of its market and the channel to be used

1. **Competitors:** - Where a firm wishes to have its product compete directly with that of a competitor, it would select a channel that is used by the competitor
2. **Government policies**: - The distribution of certain products is controlled by government policies. Where such products are involved, the chain op distribution should be consistent with government policy
3. **Geographical distribution of consumers**:- If consumer’s are concentrated within a small region, then a shorter chain of distribution would be appropriate
4. **Fashion, tastes and preferences**: - If a commodity has a high risk due to changes in fashion, it will need to be sold as fast as possible, thus a shorter chain of distribution

**b) Capital Account**

**Dr Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 31st | Bal c /d |  | 30000P  30000 | 2005  Jan 1st  Jan 2nd  Feb 1st | Cash  Bank  Bal b /d |  | P10000  P20000  30000  30000 |

**Dr Cash Account Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 1st  Jan 20th  Feb 1st | Capital  Sales  Bal b /d |  | 10000P  20000P  30000  25000 | 2005  Jan 27th  Jan 31st | Drawings  Bal c /d |  | P5000  P25000  30000 |

**Bank Account**

**Dr Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 2nd  Feb 1st | Capital  Bal b /d |  | 20000P  20000  5000 | 2005  Jan 10th  Jan 26th  Jan 31st | Purchases  Salaries  Bal b /d |  | P10000  P5000  P5000  20000 |

**Dr Purchases Account Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 10th  Feb 1st | Bank  Bal c /d |  | 10000P  10000  10000 | 2005  Jan 31st | Bal c /d |  | P10000  10000 |

**Dr Sales account Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 31st | Bal c /d |  | Shs  20000P  20000 | 2005  Jan 20th  Feb 1st | Cash  Bal c /d |  | Shs  20000P  20000  20000 |

**Dr Salaries account Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 26th  Feb 1st | Bank  Bal c /d |  | 5000P  5000  5000 | 2005  Jan 31st | Bal c/d |  | 5000P  5000 |

**Dr Drawings account Cr**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **F** | **AMOUNT** | **DATE** | **DETAILS** | **F** | **AMOUNT** |
| 2005  Jan 27th  Feb 1st | Cash  Bal c /d |  | 5000P  5000  5000 | 2005  Jan 31st | Bal c /d |  | 5000P  5000 |

5. a) i) Managing population growth

ii) Diversification of agriculture and industrial activities

1. Education opportunities e.g. training in different courses
2. Provision of social amenities in rural areas
3. Creation of employment opportunities in many sectors
4. Delocalization of industries
5. Use of appropriate technology
6. Use of labour intensive techniques
7. Encouraging employment creation in the private sector
8. Adopting relevant education system as per the labour market e.g. 8.4.4 system
9. Increasing government expenditure on projects that would create jobs e.g. road and dams construction
10. Encouraging direct foreign investment

b) a) TC=TFC +TVC

= 100+110 =210P

1. TC= TFC+TVC

=100+260=360P

1. TC=TFC+TVC

=100+380=480P

1. TC=TFC+TVC

=100+460=560P

1. AFC=TFC

Q

100 =100P

1

1. AFC=TFC

Q

100 =50P

2

1. AFC=TFC

Q

= 100 =33.3P

3

1. AFC= TFC

Q

= 100 =25P

4

1. AVC= TVC

Q

= 110 =110P

1

1. VC=TVC

Q

= 260 =130P

2

1. AVC=TVC

Q

380 = 126.7P

3

1. AVC= TVC

Q

= 460 =115P

4

1. MC =DTC

DQ

= 360-210 = 150 = 150P

2-1 1

1. MC =DTC

DQ

= 480-360 = 120 = 120P

3-2 1

1. MC =DTC

DQ

= 560-480 = 80 = 80P

4-3 1

6. a) **PETTY CASH BOOK**

**Dr Cr**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| DATE | PART | FOLIO | AMOUNT | DATE | PART | FOLIO | TOTAL | TEL&  POST | OFF  STATION | TRAV EL  EXp | OFF EXP |
| JUL 1  Jul 8  Jul 8 | Bank  Bal c /d  Bank  Bal b /d | CB1 | 4000  4000P  660P  3340P  4000  540 | Jul 1  Jul 1  Jul 2  Jul 2  Jul 3  Jul 3  Jul 4  Jul 4  Jul 5  Jul 5  Jul 6  Jul 6  Jul 7  Jul 8  Jul 9  Jul 9  Jul10  Jul10  Jul 11  Jul 12  Jul 12  Jul 13  Jul 13 | Tax hire  Office clean  Postage stamp  String  Parcel  Telephone bill  Envelopes  Photocopy paper  Bus fare  Telephone call  Window cream  Bus fare  Total  Bal c/ d  Office station  Post stamps  Telephone bill  Train fare  Taxi fare  Office cleaning  Writing paper  Office duster  Total  Bal c /d |  | 250  130  210  100  100  900  150  500  500  50  250  200  3340P  660  4000  400  210  950  600  250  150  600  300  3460P  540  4000 | 210P  100P  900P  50P  1260  210  950  1160 | 150P  500P  650  400  600  1000 | 250P  500P  950  600  250  850 | 130P  100P  250P  480  150  300  450 |

6. b) **LESHAO TRADERS**

**TRADING, PROFIT AND LOSS ACCOUNT**

**FOR THE PERIOD ENDED 31ST JAN 2005**

|  |  |
| --- | --- |
| Shs  Opening stock P 1100  Purchases 8000P  Add: carriage inwards 400  8400  Less: purchases returns 1200P 7200P  Cost of goods available for sale 8300P  Less closing stock 2500P  Cost of goods sold 5800P  Gross profit c /d 9200P  15000  General expenses 1200P  Carriage outwards 900P  Salaries and wages 6000P  Electricity 700P  Insurance 1500P  Postage 300P  Net profit 2100P  12700 | Sales P 15400  Less sales returns P 400  P 15000  15000  Gross profit b /d P 9200  Rent received P 2500  Commission received P 1000  12700 |

**LESHAO TRADERS**

**BALANCE SHEET**

**AS AT 31ST JAN 2005**

|  |  |
| --- | --- |
| Fixed assets Shs  Land and building 70000P  Machinery 21600P  Furniture 20000P  111,600  Current assets  Stock 2500P  Debtors 78,000P  Bank 60,000P  Cash 9000 P 149,500  261,100 | Shs  Capital 110,000P  Add: net profit 2100P  112,100  Less drawings 1000P  111,100  Long term liabilities  Bank loan 100,000P  Current liabilities  Creditors 50000P  261100 |

**SAMPLE PAPER 5**

**565/2**

**BUSINESS STUDIES PAPER 2**

1. (a) Describe five factors that determine price elasticity of demand. (10mks)

(b) A farmer in Kitale has maize to transport to Mombasa. He could either use road or railway transport. Explain to him five merits of using road instead of railway to transport the maize.

(10mks)

1. (a) From the balances extracted from Malimingi Traders books, you are required to prepare a statement of affairs as at 31/12/2005.

**1/1/2005 31/12/2005**

Ksh Ksh

Stock 200,000 250,000

Debtors 40,000 50,000

Premises 60,000 50,000

Creditors 70,000 40,000

Motor vehicle 400,000 350,000

Net profit \_\_\_\_\_\_\_ 40,000

Drawings \_\_\_\_\_\_\_ 10,000

(8mks)

(b) Explain five factors that influence the level of the National Income of a country.(10mks)

3. (a) Explain five roles of the central Bank of Kenya to the country. (10mks)

(b) From the following account balances extracted from the books of Mwema Traders for the year ended 31st Dec. 2005. Prepare a trading and profit / loss accounts.

**shs**

Rates 50,000

Water 60,000

Wages 80,000

Discount on debtors 6,000

Stock 1/1/2005 800,000

Stock 31/12/2005 40,000

Purchases 600,000

Carriage on purchases 100,000

Sales during the year 2,000,000

Return into the business 2,000

Commission received 4,000

Carriage outwards 1,000

General expenses 6,000

Repairs to vehicles 20,000

Bank loan interest 5,000

(10mks).

4. (a) Explain five circumstances under which an insurance contract may be terminated. (10mks)

(b) Explain five negative consequences of a rapidly increasing population. (10mks)

5. (a) With the aid of diagrams, explain the relationship between the industry’s equilibrium and a firm’s equilibrium under perfect competition. (10mks)

(b) Highlight five points on the importance of a local purchase order. (10mks)

6. (a) Explain any five principles of government expenditures. (10mks)

(b) The following are transactions of Sukuma Week business for the month of June 2005.

**June**

1st Purchased stock for sh. 84,000 in cash and was given 2% cash discount.

2nd paid workers’ wages by cheque shs. 20,000

3rd Sold goods worth sh. 240,000 and received cash after allowing 4% cash discount.

4th Received sh. 400,000 by cheque from a debtor after 2% cash discount allowed.

5th Bought office furniture for sh. 20,000 in cash.

6th sold an old business van for sh. 320,000 receiving the money through the bank

7th Purchased more stocks worth sh.20,000 by cheque.

8th Withdrew sh. 40,000 from bank to cash till.

9th Took sh. 80,000 to bank from the business.

10th Took stock of goods worth sh. 2000 from the business for personal use.

11th Paid electricity bill worth sh 3750,in cash sh. 2000 and the rest by cheque.

12th Received a cheque from Mwendwa a debtor worth sh. 60,000 in settlement of his debt

of sh. 66000.

13th Was given a loan of sh. 100,000 in cash from his bankers.

14th Received payment from a debtor Poro sh. 46,000 by cheque.

15th All the cash at bank was taken to the business for office use except sh. 50,000.

Required: Enter the above transactions in the two-column cash book. (10mks)

**MARKING SCHEME**

**SAMPLE PAPER 5**

**565/2**

1 a) - **Availability of close substitutes**. If the substitute is available in the relevant price

range, quantity demanded will be elastic.

- **The number of users of a commodity.** The greater the number of users of a commodity the greater its elasticity

- **The length of adjustment time.** The longer the time allowed for adjustment in the quantity demanded for a commodity the greater its price elasticity is likely to be.

- **The level of prices**. If the ruling price is at the upper end of the demand curve, quantity demanded is likely to be more elastic than if it was towards the lower end.

- **Proportion of a consumers’ income spent on the commodity**. Where the proportion is very small the quantity demanded will be inelastic.

- **The extent in which a product is habit forming**. Incase of addiction, price elasticity of demand is likely to be low.

b)

- Road is faster than railway which is slower, so he can deliver his goods (maize) in good time to avoid damage.

- If the farmer has small quantity of maize to transport, it could be more convenient to transport by road.

- Road is flexible in that maize can be collected at his door-step or delivered at door step of the same.

- No fixed time or schedule and therefore collection / delivery can be done conveniently to both parties.

- The farmer can consider owning/ hiring his own trucks and Lorries hence he can have more control over transport problems

- Due to fewer time in offloading in road transport chances of loss/damage/pilferage are minimized or cost of handling is minimized.

2 a) i) **Maji mingi traders**

**statement of affairs as at 1st Jan 2005**

|  |  |
| --- | --- |
| **Assets** |  |
|  | **Capital 630,000 P1**  **P** |
| Stock 200,000 P ½ | Creditors 70,000 P ½ |
| Debtors 40,000 P ½ |  |
| Premises 60,000P ½ |  |
| Motor vehicle 400,000P ½ |  |
| **700,000P** ¼ | **700,000**P ¼ |

ii) **Maji mingi traders**

**statement of affairs as at 1st Jan 2005**

|  |  |
| --- | --- |
| **Assets** |  |
| Stock 250,000½ | **Capital 630,000**½ |
| Debtors 50,000½ | **Add. N.P 40,000**½ |
| Premises 50,000½ | **Less drawn 10,000**½ |
| Motor vehicles 350,000½ | **Net capital 660,000**½ |
|  | **Creditors 40,000**½ |
|  |  |
| **700,000** 1⁄ 4 | **700,000**1⁄ 4 |

2. b) - Quantity and quality of factors of production

* + The quantity and quality of e.g. land ,will determine the quantity and quality of agricultural products hence the size of national income.
  + State of technical know how/ technology – A country with poor technology will have low national income.
  + Political stability-Essential pre-requisites for maintaining production at the highest level.
  + Entrepreneurship- Availability of entrepreneurs who have the ability to organize other factors of production will have a bearing on the country’s National income
  + Labor supply- Quality and quantity work force in a country. More skilled labor force will produce higher quality goods and services.
  + Capital- Amount and quality of available machines will lead to higher national income.

3. **a) Roles of Central Bank**

- It spurs economic growth and development as it ensures commercial banks are well run.

- The central bank stabilizes currency and the economy through imports and export policies

- It ensures smooth operations of the money market by adopting policies which enables people to get short term loans from development.

- It ensures equitable development of the country as it makes finance available or focus on areas that need special attention.

- It regulates and finances banks and other financial institutions. This ensures them needed finance for expansion of economic activities in the country.

- They regulate money supply in the country which is important in ensuring that there is enough finance for investment.

1. **Mwema Traders**

**Trading Profit/lossP accounts**

**For the year ended 31/12/05**

|  |  |
| --- | --- |
| Os 800,000**P** | Sales 2,000,000**P** |
| Add purchases 600,000**P** | Less SR 2000**P** |
| Add C.I 100,000 700,000**P** | Net sales 1,998,000**P** |
| C GAS 1500,000**P** |  |
| Less c/s 40,000**P** |  |
| Cos 1460,000**P** |  |
| GP c/d 5,38,000**P** |  |
| **1,998,000** | **1,998,000** |
| **Expenses** |  |
| Rates 50,000**P** | GP b/d 538,000**P** |
| Water 60,000**P** | Comm received 4,000**P** |
| Disc. All 6,000**P** |  |
| Carriage out 1,000**P** |  |
| Gen. exp 6,000**P** |  |
| Repairs 20,000**P** |  |
| Bank loan int 5,000**P** |  |
| NP c/d 394,000**P** |  |
| **542,000** | **542,000** |
|  | N. p b/d 394,000 |
|  |  |

4a) - When the insured fails to renew the contract.

- When the insurance company is finally wound up

- When the policy matures thus signifying the end of the policy arrangement

- If the insured decided to discontinue the contract thus stopping to be party to the

contact

- Where the insured ceases to have insurable interest in the property i.e. incase the property is sold

- When the insured has not acted in utmost good faith and is discovered

- When the court of law of orders termination of contract thus rendering it null and void

- When the risk insured has occurred and compensation period thus bringing an end to the contract.

1. - **Dependency burden**: When increase of population is caused by new births and

elederly

people living longer, a big proportion of population is to be supported by the few working adults.

- **Low living standards**: The standard of living usually decline because of the level of savings declining.

- **Unemployment**: With rapid increase in population, the majority of the people are young and therefore dependants.

- **Social problems:** Due to overcrowding in the residential areas which is caused by a rapid increase in population, social problems such as housing, pollution, crime e.t.c.

- **Food shortages**: Population increase can outdo the rate of food production.

- **Strain on social amenities**: Rapid population growth creates strain on social facilities e.g. schools, hospitals e.tc.

5. a)

D**Pindustry** S**P** Revenue**P** **Firm**

MC**P**

Cost AC**P**

Price**P P e** P = ATR =**P** AR

**S**

p

D**P**

O

qe**P Qty qe Qty**

i) In the industry, the equilibrium price and output are determined by the interaction of the forces of dd and ss (ope and oqe)

ii) An individual firm in the industry will take the price as given (ope)

iii) However to determine the equilibrium output, it will equate MC=MR=AR, hence it will produce Oqe

5b) - LPO is evidence of contract between the seller and the buyer.

- LPO indicates the quantity of each item required by the buyer.

- LPO shows cost per item and total value of goods requested by the buyer.

- LPO assists the buyer to verify the goods delivered.

- It indicates the terms and conditions of sales arranged between the buyer and the

seller.

- It helps the seller to write the invoice requesting the buyer to pay for the goods.

- A verbal LPO enables the seller to write both bought and sold notes document to confirm purchase and sale arrangement between seller and buyer.

6a) - **Maximum benefit**: Govt should spend its revenue on projects that benefit many

people in the country.

- **Economical use**: A good public expenditure principle ensures that costs of administration are minimal to the amount of revenue available

- **Elasticity/Flexibility**: Public expenditure should respond readily both upwards and downwards to changes of the economy.

- **Sound proper financial management**: It is achieved by insuring that public accounts are maintained accurately through auditing and proper accountability.

- **Sanctions**: Before public expenditure can be incurred, it must be approved by relevant authority.

- **Budgeted control**: All expenditures should be properly reported with their deficities and surplus from budgeted figures.

**Sukuma wiki business**

**Two column cash book for the month of June 2005**

**b)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Cash** | **Bank** | **Date** | **Details** | **Cash** | **Bank** |
| 2005  June |  |  |  |  |  |  |  |
| 3 | Sales | 230400**P** |  | 1 st | purchases | 82320**P** |  |
| 4 | Debtor |  | 400,000**P** | 2nd | Wages |  | 20,000**P** |
| 6 th t | Van |  | 320,000**P** | 5th | Furniture | 20,000**P** |  |
| 8 th | Bank(L1) | 40,000**P** |  | 7th | purchases |  | 20,000**P** |
| 9 th | Cash(L2) |  | 80,000**P** | 8th | Cash (l) |  | 40,000**P** |
| 12 th | Mwedwa |  | 60,000**P** | 9th | Bank(c) | 80,000**P** |  |
| 13 th | Loan | 100,000**P** | 46000**P** | 10th | Drawing / | 20,000**P** |  |
| 14 th | Poro |  |  | 11th | electricity | 2000**P** | 1750**P** |
| 30 th | Bank(l3 ) | 774250**P** |  | 30th | Cash (c) |  | 4250**P** |
|  |  |  |  | 30th | Bal c/d | **958 330P** | **50,000P** |
|  |  | **1144650** | **906000** |  |  | **1144650** | **906000** |
| 31st July | Bal b/ d | **958330** | 5 50,000 |

**SAMPLE PAPER 6**

**BUSINESS STUDIES PAPER 1**

**565 / 2**

1. a) Discuss FIVE functions of the budget as a planning tool. 10mks

1. Explain five adverse effects of a large population on the economic development of a

country. 10mks

2. a) Explain FIVE reasons for trade restrictions. 10mks

b) Highlight FIVE differences between a private limited company and public corporation 10mks

3. a) Explain FIVE uses of national income statistics.

b) Discuss FIVE advantages of mobile phones in communication 10mks

4. a) Describe FIVE steps followed in personal selling. 10mks

b) Explain FIVE contributions of appropriate technology to the success of business enterprise. 10mks

5. a) Discuss FOUR types of marine Insurance. 8mks

b) Enter the following information to the relevant books of original and post to the ledger

10mks

Feb 1 Sales to Ng’eno goods worth shs.4500 invoice no. 458

Feb 4 Sales to Njuguna goods worth shs.7,200 invoice no 213

Feb 12 Credit sales Ng’eno shs.8,000 invoice no. 469

Feb 17 Invoice no.214 to P.K Ndoto shs.9,200

Feb 24 Credit note no.102 from J. Ngeno shs.450

6. a Explain FIVE shortcomings of self employment 8mks

1. from the following trial balance of Utumishi enterprises, draw up a trading, profit and loss for the year ended 31st December, 2004

**Utumishi**

**Trial balance**

**As at 31-12-2004** *\*NDI\**

General expenses 41,700

Opening stock 28,000

Motor expenses 51,450

Salaries 249,200

Insurance 27,440

Purchases 1,286,950

Sales 1,877,050

Motor vehicle 196,000

Creditors 361,200

Debtor 286,300

Premises 1,400,000

Cash at bank 96,250

Cash in hand 1,750

Capital 1,704,290

Drawings 304,500

3,942,540 3,942,540

Stock on 31st Dec. 2004 was valued at sh.40,000

**MARKING SCHEME**

**SAMPLE PAPER 6**

**565 / 2**

1. a) Functions of a budget as a tool of planning

- Outlining government expenditure- If details various expenditure programmes & all development programmes

- Outlining government revenue- If details various sources of government revenue

- Enabling the government planning- a budget enables the government to plan various activities & programmes that lead to economic growth & economic development in a country.

- Provides a measure of evaluating projects

- Basic resource allocation function a budget makes it possible to have an overview of choices priority in areas of need

- Stimulating economic activity e.g through deficit budget.

- It is an instrument used by the government to regulate the economic no matter such as price stability & income redistribution

- Stimulates the effort of the people

- Presentation of a case for additional foreign development aid

- Introducing changes in taxation system

- Regulating money supply – so as help in controlling inflation

- Approval mechanism in built in the budgetary process providing a basis for accountability in the use by public funds

b) - Negative effects of a large population

* poor education and training
* High levels of unemployment
* Increase in the levels of crime
* Poor housing
* Lack of good infractucture
* Poor services of delivery
* Increase in land fragmentation

2. a) Reasons for trade restrictions

- Prevent dumping of goods in the country

- Protect infant industries

- Correct deficit in balance if payment

- Conservation of foreign exchange reserve

- Creation of employment

- Raising government revenue

- Protect strategic industries from competition

- Preserves morals and culture

- Encourage diversification of industries

* For native security.

b) Difference between a private limited company and a public corporation

|  |  |
| --- | --- |
| **Public corporation** | **Private limited company** |
| It is formed by an act of parliament | It is formed under the company’s act |
| It is not profit – motivated provides services to the general public. | It is profit motivated |
| It is financed by the government | Capital is raised through the sale of shares |
| Board of directors is appointed by the government | Directors are elected by shareholders |
| Losses are subsidized / borne by the government | Losses may lead to collapse of business |
| It is owned by the government | It is owned by shareholders |

3. a) Uses of N.I statistics

- Indicators of the standards of living

- To compare the standards of living of different countries

- Assessing the performances of the economy overtime i.e measure economic growth

- Assisting the government in planning the economy i.e making economic policies, preparing

national budget and development plans

* N.I statistics provide information on the distribution of income which helps the government to

address income disparities.

* N.I statistics provide information on the types of factor incomes within the economy
* N.I statistics assists entrepreneurs to understand market trends and thereby make appropriate investment decisions
* Provides information on the relative sizes of the various sectors & economy and their contribution.

1. Advantages of mobile phones in communication

* It is portable hence convenient
* Has short message services
* Can be used for other purposes e.g. calculator watch e.t.c
* Can be used anywhere where there is network
* Cheap / affordable
* Can be used for storing information.

4.a) Steps involved / procedure of personal selling

A Identifying customers through newspapers

Post records, interviews and meetings

Preparing the presentation – know the product well e.g. quality, quantity ,uses etc.

B Establishing customer’s contract – get the best time when customer may be receptive

Arousing interest in the product, arouse deserve to make a purchase.

C Dealing with objection – handle objection pertaining to price , quality, design, color etc.

D Closing the sale- ask the prospect to make a firm commitment to purchase the product.

E After-sales services- sales person should follow up any terms or condition provided in the order

e.g. delivery dates & installation

4. b) Contributions of appropriate technology to success of business enterprises

- Facilities management control- IT facilities transmission of information which is important in decision making the computers, pages, telephones etc.

- Simplifies business transactions – technology reduces the complexity of many business transactions that would otherwise be time- consuming e.g. ATMs. E- ticketing, etc

- Diversifies the types of goods and services available

- Facilities the efficiency and effectiveness of business production process / harassed output automation of business operations has resulted in increase levels of output.

- Improves services delivery especially where customers in retail outlets concerned.

- Facilities control of business operations e.g. automation machines are able to detact deviations in the production process

- Standardization – Products produced by machines are standardized and their quality can be maintained.

- Facilitates mobility within and outside the business premises e.g. of escalators, lifts, vehicles, rains, aircrafts, etc.

5. a) Types of marine insurance

- Hull insurance – is a cover to the body of a ship against loss or damage that may be caused by sea perils.

- Cargo insurance- this provides coverage for goods on transit against loss or damage.

- Freight Insurance – is coverage for transportation services by the shipowner to consignor or consignee who might default in paying such freight charges.

- Shipowner’s liability- this type of cover is available to a ship owner in order to insure against claims that might be brought against his / her in case his/ her ship, or the negligence of his / her employees, has caused damage to or loss of other people’s property third party insurance.

b)

**Books of Original Entry**

**Sales Day book**P

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Invoice No. | L.F | Amount |
| Feb 1 | Ngano | 458 |  | 4,500P |
| Feb 4 | Njuguna | 213 |  | 7,200P |
| Feb 12 | Ngeno | 469 |  | 8,000P |
| Feb 17 | P.K Ndoto | 214 |  | 9,200P |
|  | Total transferred to Sales Account |  |  | **28,900**P |

**Sales Returns JournalP**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Credit Note | L.F | Amount |
| Feb 24 | Ngeno  Total transferred to Sales Returns Account | 102 | | 450P |
|  | **450**P |

**Sales AccountP**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Particulars | Sh. | Date | Particulars | Shs. |
|  |  |  | Feb 28 | Sales journal | 28,900P |

**Sales Returns AccountP**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Particulars | Sh. | Date | Particulars | Shs. |
| Feb 28 | Sales Returns Journal | 450**P** |  |  |  |

6.a) Shortcomings of self- employment

- Possible loss of invested funds

- Long working hours

- Uncertain income

- Routine chores 8 mks

b) **UTUMISHI ENTERPRISES**

**TRADING, PROFIT AND LOSS A/CP**

**FOR THE YEAR ENDED 31-12-2004**

|  |  |
| --- | --- |
| Opening stock 28,000**P**  + purchases 1286,950  G.A.F.S 1,314,950**P**  - Closing stock 40,000**P**  Cost of sales 1,274,950  Gross profit 602,100**P**  1877,050  General expenses 41,700**P**  Motor expenses 51,450  Salaries 249,200  Insurance 27,440  Total expenses 369,790**P**  Net profit 1,507,260**P** | Sales 1,877,050**P**  1,877,050 |
| **1,877,050P** | **1,877,050P** |

12 mks

**SAMPLE PAPER 7**

**BUSINESS STUDIES PAPER 2**

**565/2**

**Paper 2**

1. (a) Explain six circumstances which may make an insurance company not to compensate the

Insured in the event of loss. (12mks)

(b) Explain four factors that influence the incidence of tax. (8mks)

1. (a) Explain five monetary instruments used by the government to reduce the supply of money in

an economy. (10mks)

(b) Explain five reasons why firms with popular products find it necessary to continually advertise

the same products. (10mks)

1. (a) The Kenya shilling has been depreciating in relation to the Sterling pound.

(i) Define the term depreciation. (2mks)

(ii) Explain four disadvantages of this process to Kenya's economy. (8mks)

(b) Explain five assumptions of monopolistic competition. (10mks)

1. (a) Discuss five causes of unemployment in Kenya. (10mks)

(b) Air transport is popular among businessmen even though it is expensive. Explain five reasons

why businessmen opt for air transport. (10mks)

1. (a) Explain five characteristics of under-development. (10mks)

(b) Explain five advantages that accrue to a country as a result of foreign firms locating their

enterprises in the country. (10mks)

1. The following information relates to Soittara Enterprises for the year ending 31st December 2005.

Sh.

Gross profit 18000

Transport out 3000

Discount allowed 2000

Rent received 5000

Sundry expenses 3000

Salaries 5000

Insurance 2200

**Required:**

1. (i) Prepare the profit and loss account for Soittara Enterprises for the year ending 31st December

2005. (5mks)

(ii) Give the importance of the profit and loss account. (5mks)

1. Discuss five problems encountered when computing the consumer price index of commodities.

(10mks)

**MARKING SCHEME**

**SAMPLE PAPER 7**

**565 / 2**

**Paper 2**

1..a) When insured had no insurable c interest in the property destroyed as he will not suffer financial loss / when the property does not belong to him

ii) When the insured did not disclose all the relevant facts when filling the proposal forms.

iii) When the property has been destroyed by an act of God.

v) W hen the policy was not in force at the time of lose or premium had not been paid

vi) When the loss occurred due to willful action by the insured i.e. when the insured purposely causes the loss or contributes to the loss.

vi) When the insurance company is insolvent / bankrupt hence unable to meet its financial obligation

vii) Late claim where the insured fails to c aim within the stipulated period/ time

vii) Improper procedures where the insured fails to follow the l aid down (legal) procedure when claiming.

b.i) Price control

Its prices are fixed any tax that is levied on goods and services is borne by the producer. If the prices are not fixed the producer can shift some of the tax burden to the consumer

ii)Time

In the short run the producer bears all the tax burden since he fears that an increase in price may lead to a fall in demand In the long run he can adjust his output and also shift some burden to consumers

iii) Nature of tax

All direct taxes are borne by the paver but indirect taxes are shared between producer and consumer

iv) Market form / type of market

A monopolist is able to shift the whole burden to consumer because he is the only producer In perfect competition the producer shares the burden w ith the consumer

2 a) (i) Open market operations

The Central Bank sells government securities to the public in exchange of money This reduces money supply in the economy.

(ii) Bank rate

Through the Central Bank, the government authorizes Commercial banks to increase interest rates on loans. This discourages borrowing consequently reducing money supply.

(iii) Special / compulsory deposits

The Central Bank increases Commercial banks deposits. This leaves them with

little money to lend

(iv ) Reserve requirement / cash ratio / liquidity ratio

When this is increased by the Central Bank, the Commercial banks are left with

little money to lend.

(v) Margin requirement

This is the difference between the total value of security and total amount of loan advanced. The CBK can instruct the Commercial banks to raise this margin to) discourage borrowing

(vi) Selective credit control

The CBK restricts the commercial banks to lend to a few investors, which will

reduce monev in circulation

(vii) Moral Suasion / publicity ./ directives / requests

The CBK mav appeal to Commercial banks to exercise caution in their lending

activities m order to conform to the prevailing economic situation

2 b) i) To briny to notice new customers on the existence of the product

II) To increase demand so as to justily mass production that leads to economies of scale

iii) To educate the consumers on the proper use of the product

iv) To retain market / consumer loyalty

v) To cope with competition

vi) To announce changes / improvements of the product

vii) To announce new uses of the product

v iii) To create / maintain company image /' reputation

ix) To correct any misleading information about the product

1. To caution the consumers about imitations
2. To remind the consumers about availability of the product

3. a) i) Depreciation is the loss of value of a country's currency against another country's currencv

**NB:** Loss of value must be highlighted in the answer/defn  
Comparative currency

ii) Disadvantages

- It can be enllatimany

- Low export earnings

- Discourages local investors / investments

- It leads to low domestic savings

- Low of confidence in the local currency

- Poor / deteriorating terms of trade

- Leads to high cost of Bank credit e g interest will rise

- Leads to reduction in the real income

- Standard of living will deteriorate

b) i) Large number of sellers in the market who operate independently

ii) There is product differentiation

iii) There are no barriers to entry or exit from industry

iv ) Firm set their own prices depending on cost of production and demand for the product in the market

1. No firm has control over the factors of production
2. I he firms engage in non-price competition
3. They acquire the factors of production at prevailing market conditions

*4.* a) (i) High population growth rate

(ii) Low aggregate demand for goods and services

(vi) Mininium wage laws

( iv ) Shortages of capital

(v) Inappropriate education system

(vi) Inappropriate technology

b) (i) When the goods are perishable

(ii) If the goods are of a high value

(iii) If the goods are fragile

(iv) If the goods are required urgently

(v) If the distance involved is very long

(vi) When it is the only mode of transport available

(vii) When the goods require maximum handling

5. a) - Dorminance of MNC's

- Low levels of savings

- High level of dependency

- Inequalities of income and wealth distribution

- Insufficient access to export market

- Mainly a source of raw materials

- Inadequate infrastructure

- Low per capita income

- Deficiency of capital equipment/ resources

- Excessive dependence in agriculture

- Rapid rate of population growth

- Large scale unemployment

- Underutilisation of natural resources

- (Generally foreign trade oriented

- Imbalanced import and export sector

- Low levels of technology and skills

- Inappropriate education system

- Low labour remuneration

- Brain drain

5. b) - Creation of employment opportunities

- Acquisition of technology / skills

- Exploitalion of natural resources e g Tiomin

- Improvement of infrastructure

- Earns revenue to the government through taxation

- Diversification of the economy

- Improves the balance of payment position

- Improves the standards of living via variety of goods produced

- Provision of market for locally produced goods

- Provides International relations hence unity

**SOITTARA ENTERPRISES**

Profit and Loss Account

For the period endings 31 . 12 . 2005

|  |  |
| --- | --- |
| **Dr** | **Cr** |
| **Shs**  Discount Allowed 2000  Transport out 3000  Sundry Expenses 3000  Salaries 5000  Insurance 2200  Net Profit 7800 | **Shs.**  Gross Profit / b/d 18000  Rent received 5000 |
| **23000** | **23000** |

NB: Any wrong entry deduct *'/2* mark each.

- It indicates the gross profit or loss profit forward from the trading account

- It discloses other incomes earned by the business besides gross profit

- It gives a business s overhead or operating expenses

- It facilitates the determination of either net profit or loss.

- The information contained in it assists owners in making relevant decisions concerning the operations of the business

- Enables the businessman pay the correct amount of taxes as required *by* the law.

i) The problem of weights/ selection of the commodities to use

ii) The basket and weighting are rarely estimates i.e. does not reflect reality

iii) The prices of the commodities change frequently / become unrealistic with increases

with change from the reference date

iv ) The chosen basket is only applicable to the base year

v) *D*ifficulties in recording price of every single type good or service.

**SAMPLE PAPER 8**

**BUSINESS STUDIES PAPER 2**

**565/2**

**Paper 2**

1. a) Discuss FIVE reasons for the existence of small firms in an economy. 10mks

b) Discuss FIVE causes of inflation in a country. 10mks

2. a) Explain FIVE benefits that would accrue to a business person who transports goods by liners rather than tramp streamers. 10mks

b) Explain FIVE sources of finance open to Kenya government. 10mks

3. a) Highlight FIVE indicators used to evaluate a country’s economic development.

10mks

1. Prepare a duly balanced three column cash book from the following information.

Jan 1: Balance b/d cash shs.4,000 bank shs 27,000

“ 4 Settled Olweny creditors account of shs. 8,000 by cheque having deducted 6%

cash discount.

“ 8: Received shs. 6000 cash from Mutoma traders

“ 16: Deposited shs. 4,500 to the bank account

“ 24: Withdrew shs. 9,200 from the bank for private use.

“ 29: Received shs. 19,950 from Kawawa by a cheque after allowing 5% discount.

“ 31: Banked all the cash leaving only sh 1,500 in the office.

10mks

4. a) Explain FIVE methods of trade restriction. 10mks

1. Highlight FIVE problems encountered when measuring the national income of a country.

10mks

5. a) Discuss FIVE roles played by commercial banks in facilitating home trade. 10mks

1. The following information relates to the business of Omondi for the week ended 3oth May,

2004.

2004

May 25: Started business with shs.24,000

“ 26: Bought goods for shs. 18,000

“ 27: Cash sales shs. 18,900

“ 28: Paid for rent sh. 150 cash

“ 29: Received cash shs. 5625 from sales

“ 30: Paid commission shs. 900

Required:

1. Ledger accounts to record the transactions above.
2. Trial balance as at 30th May, 2004. 10mks

6. a) Outline FIVE reasons why a business would like to operate its own warehouse.

10mks

b) The following Trial balance was extracted from the books of Likoni Traders on 31st

December 2004.

Likoni Traders Trial balance as at 31st December, 2004

Dr Cr

Shs Shs

Purchases 70,000

Capital 88,800

Returns inwards 1,500

General expenses 5,200

Cash in hand 2,500

Return outwards 2,400

Bank Overdraft 7,500

Salaries 14,000

Debtors 10,500

Creditors 8,500

Fixed Assets 82,000

Sales 95,000

Stock (1:04) 12,500

Bad debts 4,000

202,200 202,200

Additional information

Closing stock was valued at shs. 6,500

Salary outstanding was shs. 2,800

Prepare

1. Trading, profit and loss account for the period ended 31st December, 2004. 6mks
2. Balance sheet as at 31st December 2004 4mks

**MARKING SCHEME**

**SAMPLE PAPER 8**

**565/2.**

1. a) i) The size of the market / the extent of market for goods / services . where the demand

for the product is small / small market.

ii) Nature of the product where the nature of the product dictates the size of market.

* 1. Simplicity of the organization where the firm intends to take advantage of the market simplicity.
  2. Flexibility where the owner of the firm wishes to maintain flexibility so as to take advantage of new opportunities.
  3. Quick / fast decision making. To avoid delay in decision making.
  4. Rising cost of product. Where the cost of production is on the rise too fast.
  5. Legal constraint. Where the law restricts the growth of a firm.

b) i) Increase in the demand for goods / services without corresponding increase in supply of these goods / services (i.e. demand- pull inflation)

(ii) Increase in the cost of factors of production such as labour / raw materials / taxes (i.e. Cost- push inflation)

(iii) Increase in the cost of imported finished goods / raw materials (i.e. imported inflation)

(iv) Increase in the supply of money and there is no corresponding increase in the output of

goods/ services / when there is a lot of money in the economy.

(v) Increase in hoarding / black market / smuggling these create artificial shortages of goods

Which in turn lead to price increases.

1. a) i) It has fixed schedule / timetable, which enable the trader / shipper to plan the

transportation.

ii) It has fixed fare / rates, which enables the trader to budget his finances well.

* 1. Its freight charges/ rates are relatively low / cheaper.
  2. It can carry bulky / heavy / more goods at a time
  3. They are more reliable than tramps, making the traders more confident.
  4. They cover longer distances.
  5. It provides discounts to its regular users.

b) i) Taxes / duties levied on imports / exports

ii) Fines imposed by courts on offenders

iii) Rent / rates paid for the use of govt. property.

iv) Licence fees paid by those who want to operate business.

v) Dividends / profits earned from govt. investments

vi) Proceeds from sale of govt. property

* 1. Interests on loans advanced by the govt. on firms.
  2. Government internal / external borrowings
  3. Grants / Aids received by the government.

1. a) i) Improved level of literacy
   * 1. Improved / increased standards of living
     2. Improved infrastructure.
     3. Improved methods of production
     4. Improved health care
     5. Reduced infant mortality rates
     6. Increase life expectancy
     7. Reduced in equalities in income distribution
     8. Change in people’s attitude, making them more receptive to changes.

b) **Three column cash book**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars | Folio | Disc | Cash | Bank | Date | Particulars | Folio | Disc. | cash | Bank |
| Jan 1 | Balance b/d |  |  | 4,000ü | 27,000ü | Jan 4 | Olweny T |  | 480ü |  | 7,520  ü |
| Jan 8 | Mutoma |  |  | 6,000ü |  | Jan 16 | Bank |  |  | 4,500  ü |  |
| Jan 16 | Cash |  |  |  | 4,500ü | Jan 24 | Drawing |  |  |  | 9,200  ü |
| Jan 29 | Kawawa |  | 1050 |  | 19,950ü | Jan 31 | Bank | C |  | 4,000  ü |  |
| Jan 31 | Cash | c |  |  | 4000ü |  | Bal. c/d |  |  | 1,500  ü | 38,730  ü |
|  |  |  | **1050ü** | **10,000** | **55,450** |  |  |  | **480**ü | **10,000** | **55,450** |
|  | Bal. b/d |  |  | 1,500ü | 38,730 |  |  |  |  |  |  |

N/B particulars should be correctly recorded.

4 a) i) Imposition of tariff barriers

ii) Use of government subsidies

1. Control of foreign exchange
2. The use of quota system to control imports
3. The application of strict product standards regulations
4. The application of total ban to control the importation of certain products
5. Enacting legislation to restrict trade
6. The creation of lengthy procedures to discourage importers.

b) i) It is not easy to estimate the amount of depreciation

ii) It is not easy to estimate the value of the subsistence output since they are not exchanged .

1. Double counting may occur when using either income or output approaches.
2. Individuals / firms may not give complete / accurate data
3. There may be change in the value of money during inflationary times
4. There arises a problem of what to include in the national income statistics

5. a) i) Lending in terms of direct loans / overdrafts / discounting bills of exchange.

ii) Transfer of money in terms of cheques / standing orders / credit transfers/ telegraphic transfers etc.

1. Collecting money on behalf of traders
2. Remitting money on behalf of traders
3. Providing custody of valuable documents of traders
4. Selling shares on behalf of business
5. Providing useful business advice / investment advice to their customers / traders
6. Acting as referee on behalf of business.
7. Providing night-safe services / facilities
8. Acting as guarantors for traders
9. Sells foreign currency to traders engaged in foreign trade.

5.b) **Dr**. **Capital Account** **Cr.**

|  |  |
| --- | --- |
| 2004 Bal c/d 24,000. | 2004 Cash 24,000 ü |
| **24,000** | **24,000**  Bal. b/d |

**Dr**. **Cash Account** **Cr.**

|  |  |
| --- | --- |
| 2004 | 2004 Shs. |
| May 25 Capital 24,000ü | May 26 Purchases 18,000ü |
| May 27 sales 18,900ü | May 28 Rent 150ü |
| May 29 sales 5,625ü | May 30 commission 900ü |
|  | May 31 bal c/d 29,475 |
| **48,525** | **48,525** |
| Bal. b /d 29,475 |  |

) **Dr**. **Purchase Account** **Cr.**

|  |  |
| --- | --- |
| 2004 Shs. | 2004 shs. |
| May 26 cash 1**8,000** ü | Bal. c/d **18,000** |
| Bal. b/d 18,000 |  |

**Dr**. **Sales Account** **Cr.**

|  |  |
| --- | --- |
| 2004 Shs. | 2004 shs. |
| Bal c/d **24,525** | May 27 cash 18,900 ü |
|  | May 29 cash 5625 ü |
| **24,525** | **24,525**  Bal b/d 24,525 |

**Dr**. **Rent Account** **Cr.**

|  |  |
| --- | --- |
| 2004 shs. | 2004 Shs. |
| May 30 cash 900 ü | Bal. c/d 900 |
| Bal. b/d 900 |  |

**Dr**. **Commission Account** **Cr.**

|  |  |
| --- | --- |
| 2004 shs. | 2004 Shs. |
| May 30 cash 900 ü  Bal. b/d 900 | Bal. c/d 900 |

**Omondi**

**Trial Balance**

**As at 30th May 2004**

**Dr. Cr.**

|  |  |  |
| --- | --- | --- |
| Capital |  | 24,000ü |
| Cash | 29,475ü |  |
| Purchases | 18,000ü |  |
| Sales |  | 24,525 |
| Rent | 150ü |  |
| Commission | 900ü | \_\_\_\_\_\_ |
|  | **48,525**ü | **48,525** |

6a). i) To cut down / reduce cost of living space in other warehouses.

1. To exert control over its warehouses / stock
2. To enable it store special goods
3. To avoid delay in the clearance / release of goods from the hired warehouse
4. To avoid extra charges levied by the hired warehouse.
5. To enable it prepare its goods to meet the required standards
6. To accommodate more goods in the warehouse
7. To bring in special equipment for handling / accommodate its goods/ stock

b) **Likoni Traders**

**Trading, profit and loss account**

**For the period ended 31st December, 2004**

|  |  |
| --- | --- |
| **Shs**  Opening stock 12,500ü | **Shs**  Sales 95,000ü |
| Add purchases 70,000ü | Less returns inwards 1,500ü |
| Less returns outwards 2,400 ü 67,600 |  |
| Cost of goods available 80,100 |  |
| Less closing stock 6,500ü |  |
| Cost of sales 73,600 |  |
| Add G. profit c/d 19,900 ü  93,500 | 93,500 |
| **Expenses:** | Gross profit b/d 19,900 |
| General expenses 5,200ü |  |
| Salaries 14,000ü | Net loss 6,100ü |
| Add outstanding salary 2,800ü |  |
| Bad debts 4,000ü |  |
| **26,000** | **26,000** |

**Likoni Traders**

**Balance sheet**

**As at 31st December, 2004**

|  |  |
| --- | --- |
| **Shs.**  Assets | **Shs**  Capital 88,800 |
| Fixed Assets 82,000 | Less net loss 6,100 |
| **Current Assets** | 82,700ü |
| Cash in hand 2,500ü | **Current liabilities** |
| Debtors 10,500ü | Bank Overdraft 7,500ü |
| Stock 6,500ü | Creditors 8,500ü |
|  | Salary outstanding 2,800ü |
| 101,500 | 101,500 |

**SAMPLE PAPER 9**

**BUSINESS STUDIES PAPER 2**

**565 / 2**

1. a) Artur is an importer of an assortment of goods from different countries.

Explain five benefits he may enjoy while his goods are stored in a bonded warehouse. 10mks

b) Explain five principles of taxation. 10mks

2. a) Explain five reasons to justify the use of economic barriers to control free trade.

10mks

b) Explain five emerging trends related to product promotion. 10mks

3. a) By use of a well labelled diagram, explain the case of a firm earning above normal

profits in a perfectly competitive market structure. 8mks

b) Explain six demerits of inflation to a developing country. 12mks

4. a) Explain five ways in which the central bank of Kenya regulates the operations of banks

in Kenya. 10mks

b) Explain five factors which are likely to influence the level of national income in Kenya. 10mks

5. a) Explain four challenges facing the transport industry in Kenya today. 8mks

1. Enter the following transactions in the purchases Journal of silver springs Agrovet and post to the ledger for the month of October 2004

October 1st : Purchased a stock of 100 bags of Maclick at sh. 1200 per bag on credit from

Muraya Traders; Invoice no.100.

**4th** :Purchased on credit from Unga feeds 50 bags of bran animal feed at sh. 2000

per bag; Invoice no 115. A trade discount of 15% was allowed.

**11th** : Purchased 70 packets of Ridomil on credit from Alpha Ltd at sh. 300 per

packet. A trade discount of 10% was allowed; Invoice no.169.

**24th** : Bought on credit 30 bags of layers marsh at sh. 4000 each from Chick point at

a trade discount of 20%; Invoice no. 132. 12mks

6. a) The following trial balance was extracted from the books of Kitika traders as at 30/06/2005.

KITIKA TRADERS

TRIAL BALANCE

AS AT 30/06/2005

|  |  |  |
| --- | --- | --- |
| Sales  Purchases  Return inwards  Return outwards  Carriage inwards  Carriage outwards  Stock (1st July, 2004)  Rent  Delivery van  Bank  Creditors  Debtors  Discount allowed  General expenses  capital | DR (SHS)  600,000  80,000  40,000  3,000  100,000  60,000  180,000  60,000  120,000  18,000  7,000 | CR(SHS)  900,000  20,000  170,000  178,000 |
|  | 1,268,000 | 1,268,000 |

Additional information

(i) Stock on 30/06/05 was valued at shs 135,000

(ii) Outstanding Rent shs 7000

Required

Prepare the profit and loss account for the year ended 30/06/2005 and the balance sheet 12mks

b) Perth a management consultancy firm has adviced Ponda Mali Company Ltd. to adopt a comprehensive code of conduct. Explain four significances of this on Ponda Mali Company Ltd. 8mks

**MARKING SCHEME**

**SAMPLE PAPER 9**

**565 / 2**

**BUSINESS STUDIES**

1.a) Benefits of a bonded warehouse to an importer.

- Goods can be prepared for sale while in storage

- Owner can look for market while the goods are still in storage

- Some goods lose weight while in the warehouse so the duty to be paid becomes lower if it is based on weight.

- Burden to pay duty passes on to the buyer if the goods are sold while still on bond.

- The importer is allowed time to make arrangements for payment of customs duty

- Security is provided for goods so the importer is relieved of the task of providing the same

- Some goods improve in quality while in the warehouse e.g. Tobacco, wine etc.

*Any five well explained points x 2Total (10mks)*

1. Principles of taxation
   * Equitable
   * Certain
   * Convenient
   * Economic
   * Elastic
   * Flexible

- Diversified A*ny five well explained points x 2Total (10mks)*

2.a) Reasons to justify the use of barriers to control free trade ( 10mks)

i) To correct balance of payments deficit; When a country is facing B.O.P disequilibrium the government may introduce measure such as duties, Quotas, or high tariffs to discourage importation of goods

ii) To protect domestic / infant industries; newly established local industries need to be given time to grow and countries may impose restrictions to give this industries an opportunity to establish themselves before they compete at international level

1. To discourage dumping; Dumping has the effect of suppressing small industries due to unfair competition as consumer prefer to buy the cheap goods. Most countries impose high tariffs to discourage dumping.
2. To raise government revenue; Tariffs may be used by the government to raise income especially when imposed on essential commodities whose demand is fairly inelastic . Importers will continue buying the goods despite the higher prices/ tariff rate.
3. To create employment ; Tariffs imposed on imported goods make them more expensive and may trigger demand for domestic goods this tends to encourage local investment more economic activity thus creating. Employment opportunities in the country.
4. To expand the domestic market; trade barriers may be used to encourage the consumption of locally produced goods and thus expand the market for domestic products due to an increase in demand.
5. To stimulate investment; protective measures may be adopted by a country to turn round the economy in times of recession / depression in an effort to achieve economic recovery.
6. To protect socio- cultural values; A ban may be imposed on foreign goods such as porn films and illicit drugs that tends to compromise the Health, culture and moral values of a country
7. To protect strategic industries e.g. Agricultural sector.
8. To encourage industrial diversification and reduce overdependence
9. To ensure national security ; the government may protect some industries e.g. those that extend provision to security force.
10. To preserve balance of trade and foreign exchange reserves. ***Any 5 points x2 =( 10mks***

2.b) Emerging issues in product promotion; (10mks)

i) There is very stiff competition among sellers of similar products e.g mobile phone services providers.

ii) Modern technology e.g the use of internet and networking has revolutionised the methods of product promotion

1. Consumer awareness has greatly increased and product promotion has become more accurate truthful and ethnical
2. Many business are seeking publicity in the media e.g T.V and Newspapers
3. Many business organizations have embraced public relations as a tool of product promotion
4. Exhibition and trade fairs have widely been used as ways of product promotion
5. More emphasis has been put in the use of posters, billboards and brochures as a way of product promotion because of increased literacy
6. There has been increased use of the electronic media – ie. Radio and T. V especially in advertising ***Any 5 points x 2 = 10mks***

3.a) - Firms are price takersP

- Equilibrium price is determine by the interaction of the demand and supply curves

- P = TR = ARP

q

- dd = AR = MRP

PP COSTSP

D S REVENUE MCP ATCP

PP

PP

A P

P1 P1  dd =AR= MR

C B

S D

O q1 Out put Q P O q1 QP

A) INDUSTRY B) FIRM

CBAP1 – Above normal profitsP

( ½ x 16 ticks = 8mks)

3.b) Demerits of inflation to a developing country

- Wastage of time

- Increase in wages and salaries

- Reduction in profits

- Decline in standards of living

- Loss to creditors

- Retardation in economic growth

- Adverse effects on balance of payments

- Loss of confidence in the monetary system. A*ny 6 points well explained x 2.TOTAL*

*(12mks****)***

4.a) Ways through which the central bank regulates commercial banks

i) Bank rate

1. Cash or liquidity ratio
2. Special deposits / compulsory deposits
3. Selective credit control / credit rationing
4. Moral persuasion
5. Open market operations
6. Direct supervision / instruction***Any 5 points well explained x 2 TOTAL (10mks)***
7. Factors which influence the level of a country’s national income.
   1. **Labour supply**-; Quantity and quality of the labour force . more people are expected to generate higher income, similarly, more skilled labour force is expected to generate more income and vice versa.
   2. **Capital**- With more capital resources especially of high quality, a country is expected to generate more income. Kenya & other LDC’s sufficient capital
   3. **Entrepreneurship**- If more citizens are willing to venture into production, the country’s national income will be affected positively.
   4. **Land**- Includes all natural resources and hence forms a basis for production. With enough natural resource endowment, a country can generate higher incomes.
   5. **Level of technology**- Higher of more advanced techniques in production translate into higher output hence a higher national income.
   6. **Political stability**- a country at peace can always attract both local and foreign investment .The investors contribute in the generation of national income.

***(Mention – 1mkExplanation – 1mk Any 5 five points well explained – 10mks)***

5.a) Challenges facing the transport industry (8mks)

i) Congestion and traffic jams;- Result from narrow roads and poor planning causes delays and waste of time.

ii) Poor and delapitated roads;- Some roads are in a state of disrepair while most in rutal areas are impassable during the rainy season. This increases the cost of transport to cater for increases wear and tear.

1. Road carnage and highway robbery have led to loss of life and property / goods.
2. Pipeline leakages / spills and damage by saboteurs has led to losses, high monitoring costs and environmental pollution.
3. The collapse of Kenya railways due to mismanagement has led the discontinuation of up- country commuter trains and inconveniencing passenger transport
4. Strikes in almost all sectors e.g. Kenya railways, matatu’s aviation and the dock workers have led to inefficiency in the industry.
5. Inadequate handling facilities at ports unclaimed goods and slow transit inland have led to congestion at ports.
6. Exhorbitant landing fees and inappropriate run-ways have limited the maximum utilization of Kenyas airports e.g. Eldoret.
7. Motor vehicle emissions and matatu noisy operations cause air and noise pollution

***Any 4 points x 2 =( 8mks)***

b)i) **PURCHASES JOURNAL (PJ)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** | **INVOICE NO.** | **FOLIO** | **AMOUNT (shs)** | **TOTAL (Shs)** |
| 2004  PP  October 1  4  11  24  31 | Muraya traders  Unga feeds  less trade discount  Alpha ltd  less trade discount  Chick point  Less trade discount  Dr. to purchase A/C | 100  115  169  312 | PL1  PL2  PL3  PL4  GL | 100,000P  15,000P  21,000P  2100P  120,000P  24,000P | 120,000P  85,000P  18,900P  96,000P  319,900PP |

14 TICKS X ½ = 7 MKS

ii) **PURCHASES LEDGER (GL)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| DATE | DETAILS | FOLIO Amount (shs) |  | DATE DETAILS | FOLIO | **Amount (shs)** |
| 2004  Oct 31 | Total creditors | PJ 319,000P  MURAYA |  | TRADERS (PL1) |  |  |
|  |  | UNGA |  | 2004  OCT 1 PURCHASES  FEEDS (PL2) | PJ | 120,000P |
|  |  | ALPHA |  | OCT 4 PURCHASES  LTD (PL3) | PJ | 85,000P |
|  |  | CHICK |  | OCT 11 PURCHASES  POINT (PL4) | PJ | 18,900P |
|  |  |  |  | OCT 24 PURCHASES | PJ | 96,000P |

5 ticks x 1 = (5mks)

a) i)

**KITIKA TRADERS**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 30 / 06 / 2005**

|  |  |
| --- | --- |
| **SHS SHS**  Opening stock 100,000P  Purchase 600,000P  Add carriage inwards 40,000P  640,000  Less Returns outwards 20,000P 620,000  Goods available for sale 720,000P  Less closing stock 135,000P  Cost of sales 585,000  Gross profit c/d 235,000P  820,000  **EXPENSES.**  Carriage outwards 3,000P  Rent (60,000 + 7000) 67,000P  Discount Allowed 18,000P  95,000  General expenses 7,000P  Net profit c/d 140,000P  235,000P | **SHS SHS**  Sales 900,000P  Less Return Inwards 80,000P  Net sales 820,000  820,000P  Gross profit b/d 235,000  235,000P    Net profit b/d 140,000 |

16 ticks x ½ = (8mks)

**KITIKA TRADERS**

**BALANCE SHEET**

**AS AT 30 / 06 / 2005**

|  |  |
| --- | --- |
| **SHS SHS**  **FIXED ASSETS**  Delivery van 180,000P  **CURRENT ASSETS**  BANK 60,000 P  DEBTORS 120,000P  STOCK 135,000 P 315,000  495,000 | **SHS SHS**  Capital 178,000P  Add Net profit 140,000P  **CURRENT LIABILITIES**  Creditors 170,000P  Outstanding Rent 7,000 P 177,000      495,000 |

8 ticks x ½ = (4mks)

b) Roles of ethics in business

- It encourages good working relationship among workers

- It encourages good working relationship between employer and Employees

- Ensuring professionals relate well to their clients

- Ensuring the rights of individuals in a working environment are protected.

- Ensure workers protect and uphold the good reputation of the business organization.

- Helps workers develop the right skills and right attitudes towards work.

***Any well explained points***

***Each 2 mks = Total 8 mks***

**SAMPLE PAPER 10**

**BUSINESS STUDIES PAPER 2**

**565/2**

1. a) Discuss **five** importances of entrepreneurship to an economy (10mks)

b) Explain **five** measures that the government may take to curb inflation. (10mks)

2. a) Discuss **five** problems linked to rapid population growth. (10mks)

b) Explain **five** factors that may hinder economic development. (10mks)

3. a) Explain the differences between non-banking financial institutions and commercial banks. (10mks)

b) Discuss **five** circumstances under which an insurance company would not compensate the insured in the event of loss. (10mks)

4. a) Highlight **five** situations where demand may increase with increase in commodity price. (10mks)

b) Give **five** reasons for differences in terms of trade between countries. (10mks)

5. a) Explain **five** benefits of localization of industries. (10mks)

b) Explain **five** reasons why consumers need protection against malpractices by some traders. (10mks)

6. a) Explain **five** ways in which the government can influence the price of a commodity. (10mks)

b) Oriabengi shop sells all its goods at a margin of 20%. For the year ended 30th April 2006, its trading activities were as follows:

Purchases 800,000

Sales 950,000

Net profit 5% of sales

Closing Stock 200,000

Calculate:-

1. The gross profit
2. Opening stock
3. Mark-up percentage
4. Net profit (10mks)

**MARKING SCHEME**

**SAMPLE PAPER 10**

**565/2**

1a) **Importance of entrepreneurship to an economy.**

- Creation of employment opportunities since the enterprises formed will require human labour hence reduce the unemployment problem

- Leads to formation of small business which leads to development of skills

- Increases participation of Kenyan citizens in economic activities thus reducing foreign dominance.

- Leads to increase in savings and investments by local Kenyans which encourage use of local resources which would have remained idle.

- Leads to development of small scale business in rural areas hence alleviating the problems of rural to urban migration.

- Small scale business helps in distribution of income in the society as the successful entrepreneurial ventures encourages other people to start their own.

- Entrepreneurship improves standards of living since most of the people are engaged in employment. ***Any 5 x 2 =10mks***

b) **Measures that the Government may take to curb inflation.**

- Price control measures.

- Regulating imports

- Controlling exports of essential commodities.

- Decreasing general taxes on essential commodities.

- Decreasing general taxes on commodities

- Increasing bank reserves.

- Increasing interest rates in order to discourage borrowing. ***Any 5 explained @ 2mks=10mks***

2.a) **Problems linked to rapid population growth:**

- Income per capital is affected leading to decline at a certain level.

- The government may find it difficult to provide adequate essential social services.

- There may be unemployment or over-employment due to migrants- this may lead to low standards of living.

- Consumption and saving is affected by increased population leading to reduced savings.

- Increased dependency ratio results on account of low infant mortality coupled with increased life expectancy leading to ageing population.

- Income inequalities arise with very few rich people and a majority of poor people.

- It may lead to overexploitation of natural resources leading to environmental degradation.

Rapid population growth therefore leads to a vicious cycle as below:

High dependency ratio

Rapid population growth

Low incomes (per capita income)

Poverty

Low savings

Low Investment

***Any 5 points explained@2mks=10mks***

b) **Factors that may hinder Economic development**

- Lack of raw materials / resource endowment

- Inadequate capital

- Reliance on poor technology

- Political instability.

- Lack of physical infrastructure

- Socio- cultural constraints.

- Limited entrepreneurial abilities

- Poor nutrition and diseases

- Administrative constraints

- Foreign exchange constraints ***Any 5 explained @ 2 mks=10mks***

3a) Differences between commercial banks and non-banking institutions

**Commercial banks** **Non- banking institution**

|  |  |
| --- | --- |
| * Provide current account facilities to the customers * Provide short-term and medium term finance . * Provide finance that is not restricted to any activity * Provide foreign exchange transactions to their customers * Do not participate in capital market trade.   - Participate in clearing house activities | - They do not provide current account facilities  -Provide medium and long term finance  -Provide finance that is restricted for specialized purpose  -Do not provide foreign exchange transactions  -Can participate in capital market trade  Do not participate in clearing house activities. |

***Any 5 corresponding differences @ 2mks each (10mks)***

b) **Circumstances under which an insurance company would not compensate the insured.**

- When insured had no insurable interest in the property destroyed.

- When the loss is not as a result of the risk insured.

- When the insurance company is insolvent / bankrupt.

- When the policy was not in force at the time of the loss.

- Late claim, where the insured fails to follow the legal procedure when claiming.

- When the property has been destroyed by an act of God

- When the insured didn’t disclose all the relevant facts when filling the form.

- When the loss occurred due to willful action by the insured. (Deliberate).

***Any 5 @ 2mks =10mks***

4.a) **Situations where demand may increase with increase in price.**

- Goods of ostentation i.e goods consumed for prestige.

- Inferior goods i.e good of low quality.

- Giffen goods i.e. goods of inferior quality consumed with quality goods.

- Expectation of future shortages.

- Expectation of further increases of prices.

- Necessities i.e goods that one cannot do without

- Habitual goods and services

***Any 5 @ 2mks=10mks.***

b) **Reasons for differences in terms of trade between countries.**

- Nature of the commodity being exported.

- Nature of the commodity being imported.

- Demand for a country’s exports.

- Existing world economic order.

- Total quantity supplied.

***Any 5 @ 2mks = 10mks***

5.a) **Advantages of localization.**

- Encourages establishment of support business enterprises banks.

- Creation of a pool of labour force.

- Other firms act as market for the produced goods/ services.

- Creation of employment opportunities.

- Development of the necessary infrastructure e.g roads, health, education facilities.

- Easy access to raw materials ***Any 5 @ 2mks =10mks.***

**b)Reasons for consumer protection.**

i) Overpricing of goods / unfair prices consumers need protection to stop traders

from exploiting them through high prices ( for the goods they sell)

1. **Underweight goods / undersize goods/ less services**.

Some traders may sell

underweight goods/ undersize goods/ less services to make more money/ cheat customers.

1. **Inferior/ low/ poor quality goods/ services**.

Some traders may cheat by selling inferior low/ poor quality goods

1. Misleading / false advertisements consumers need protection from those traders

who may cheat them through misleading/ false advertisements.

1. **Harmful / unhygienic goods/ services.**

Goods unfit for conservation may be sold to customers and cause them harm.

1. **Socially unacceptable goods / services**.

Example of such goods/ services e.g pornography. Some traders may sell offensive goods that injure the morality of the society.

1. **Hoarding of goods/ services.**

Some traders may hinder/ refuse to sell goods/ services thus creating artificial shortages.

1. **Breach of contract**.

Some traders may fail to fulfil meet their contractual obligation / guard against unfair repossession / harassment.

1. **Unlicensed traders.**

Some traders may sell illegal goods / services.

1. **Unsafe building.**

Some traders may put up dangerous/ poor buildings.

1. Inhygienic environment / permits traders to sell good/ services in dirty environment / unhealthy environment. ***Any 5 x 2 =10mks***

6 .a) **Ways in which the government can influence the price of a commodity.**

i) **Price control.**

The government may wish to control prices, especially of essential commodities in order to either encourage the consumption of the commodity or to protect the consumers against exploitation.

1. **Taxation.**

The imposition of increased in tax on a commodity has the effect of increasing its cost and hence its price. An the other hand withdrawal of tax on a commodity would reduce its price

1. **Subsidies.**

The government may meet part of the production cost of a commodity by offering subsidies to producers. This has the effect of lowering the cost of production.

iv) **Auction.**

This refers to the situation where the price of a commodity is set through bidding. Buyers are given an opportunity to suggest the price.The other the highest bidder buys the commodity.

v) **Tendering.**

This refers to a situation whereby buyers are invited to quote their prices independent of each other all the tenderts received are opened at a particular started time. ***Any 5 x 2 = 10mks***

b) i Gross profit = sales –cost of goods sold √½

Margin = G.P x 100 √½

Sales

20% = G.P x 100 √½

950,000

190,000 = G.P √√1 ***5*** *ticks @½ marks 2 ½ mks*

ii) **Opening stock**

Since C.O.S =Opening stock + purchase – closing stock√½

Value of opening stock

=C.O.S = sales – G.P √½

C.O.S = 950,000 – 190,000 √½

=760,000

:. 760,000 =Opening stock + 800,000

=200,000√½

760000 = Opening stock + 600,000 √½

760,000 – 600,000 = Opening stock√½

**160,000** = Opening Stock√√1

c) Mark –up percentage

Mark –up = G.P x 100√½  
 C.O.S

= 190,000 x 100√½

760,000

= **25%√√1**

1. Net profit

Net profit is 5 % of sales

\N.P = 5/100 x 95000√½

= **47,500**  **(1*5*** *ticks @½ marks 7½ mks)*

**(= 10mks)**

*END*