

565/2

**BUSINESS STUDIES
MARKING SCHEME**

Paper 2

Oct. / Nov. 2006

2 ½ hours

1. (a)

- i) - Human resources / labour / working population / manpower
 - A country with skilled / (highly) trained / large manpower can produce quality/quantity goods/services / can generate high income.
 - A country with unskilled / or untrained / small manpower can produce low quality / quantity goods / services can generate low income.
- ii) - Natural resources / land ./ gifts of nature / accept gift of nature
 - A country endowed with natural resources can produce more good / services / can generate income.
 - A Country not well endowed with natural resources may produce less goods /services / can generate less income.
- iii) - (Level of) technology
 - High level of technology may produce low quality / quantity of goods / services / generate high income.
 - Low level of technology may produce low quality / quantity goods / services / generate low income.
- iv) - Capital (equipment) / man – made resources / accept if manmade resources e.g. infrastructure buildings.
 - Availability of capital / manmade resources (goods) makes production easy / preserves production (resulting in increased natural income) / may generate high income.
 - Lack of capital / or makes production different / reduces production / may generate low income.
- v) - Foreign investment
 - Investments from abroad may increase natural income to the country / increase production of goods / services / investments abroad may increase national income.
 - Reduction of foreign investment may reduce production of goods / services / income.
- vi) - Good governance / political stability
 - Production of goods / services / investments / income increase as a result of good governance / political stability creates confidence in investors.
 - Poor governance / political instability reduces savings / investment / damages / investment / reduce incomes / production of goods / services.
- vii) - Culture / entrepreneurship
 - Culture that encourages hared / work / entrepreneurship reduces production

- of goods / services / may generate low income.
- Culture that encourages hard / work / entrepreneurship reduces production of goods / services / may generate low income.

(b) Financing a budget deficit

- i) (Inflationary financing) Borrowing from the central bank through overdrafts / short term loans / accept use of examples to explain.
- ii) Borrowing from international money markets / agencies / financial institutions / non- banking financial institutions such as IBRD / IMF /World Bank / PBR / provides funds / revenue for government / accept use of examples.
- iii) Borrowing from capital markets such as ICDC / insurance companies / AFC / NPCK / procedure by selling bonds.
- iv) Borrowing from domestic money markets such as commercial banks / selling treasury bills and / bonds / promissory notes / I.O.U.
- v) Borrowing from other countries / multilateral / Bilateral borrowing through loans / buying goods / services on credit.
- vi) Borrowing from members of the public by selling treasury bills / bonds/ promissory notes.
- vii) Grants / donations / from donor countries / finances / individuals.
- viii) Printing more currencies
- ix) Imposing conditions / new / taxation in related goods / services / increased government revenue / raise funds.

2. (a)

FAULA TRADERS
TRADING, PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 ST DECEMBER, 2005

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px 10px;">Purchases</td> <td style="text-align: right; padding: 2px 10px;">400,000</td> </tr> <tr> <td style="padding: 2px 10px;">Less closing stock</td> <td style="text-align: right; padding: 2px 10px;">60,000</td> </tr> <tr> <td style="padding: 2px 10px;">Cost of sales</td> <td style="text-align: right; padding: 2px 10px;">340,000</td> </tr> <tr> <td style="padding: 2px 10px;">Gross profit C/D</td> <td style="text-align: right; padding: 2px 10px;">240,000</td> </tr> <tr> <td></td> <td style="text-align: right; padding: 2px 10px;">580,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; padding: 2px 10px;">580,000</td> </tr> <tr> <td style="padding: 2px 10px;">General expenses</td> <td style="text-align: right; padding: 2px 10px;">60,000</td> </tr> <tr> <td style="padding: 2px 10px;">Depreciation – motor vehicle</td> <td style="text-align: right; padding: 2px 10px;">120,000</td> </tr> <tr> <td style="padding: 2px 10px;">-furniture</td> <td style="text-align: right; padding: 2px 10px;">24,000</td> </tr> <tr> <td style="padding: 2px 10px;">Rent expenses</td> <td style="text-align: right; padding: 2px 10px;">10,000</td> </tr> <tr> <td style="padding: 2px 10px;">Net profit</td> <td style="text-align: right; padding: 2px 10px;">46,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; padding: 2px 10px;">260,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 3px double black; padding: 2px 10px;">260,000</td> </tr> </table>	Purchases	400,000	Less closing stock	60,000	Cost of sales	340,000	Gross profit C/D	240,000		580,000		580,000	General expenses	60,000	Depreciation – motor vehicle	120,000	-furniture	24,000	Rent expenses	10,000	Net profit	46,000		260,000		260,000	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px 10px;">Sales</td> <td style="text-align: right; padding: 2px 10px;">600,000</td> </tr> <tr> <td style="padding: 2px 10px;">Less sales returns</td> <td style="text-align: right; padding: 2px 10px;">20,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; padding: 2px 10px;">580,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 3px double black; padding: 2px 10px;">580,000</td> </tr> <tr> <td style="padding: 2px 10px;">Gross profit</td> <td style="text-align: right; padding: 2px 10px;">240,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; padding: 2px 10px;">260,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 3px double black; padding: 2px 10px;">260,000</td> </tr> </table>	Sales	600,000	Less sales returns	20,000		580,000		580,000	Gross profit	240,000		260,000		260,000
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(14 x ½) = 7 marks)

(b)

FAULA TRADERS
TRADING AND LOSS ACCOUNT ENDED 31 – 12 – 2005

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(7 X ½ = 3 ½ marks)

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

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

FAULA TRADERS
BALANCE SHEET
AS AT 31.12.2005

Motor vehicle	600,000		Capital	700,000
Less depreciation	120,000	480,000	Add net profit	<u>46,000</u>
				746,000
Furniture	240,000			
Less depreciation	24,000	206,000	Creditors	180,000
	<u> </u>			
 <u>Current assets</u>				
Stock	60,000			
Debts		120,000		
Cash	50,000	230,000		
	<u> </u>	<u> </u>		
	<u>926,000</u>	<u>926,000</u>		

N.B

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

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

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

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

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

(10 x ½ = 5mks)

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

- i) There will be an opportunity to utilize available resources that would otherwise have stayed idle/the community will be able to utilize idle resources.
- ii) There will be creation of employment for those engaged in trading activities/ various/ different trading action
- iii) Trade will also lead to expanded / wide markets for goods / services (produced)
- iv) Variety of goods/services (for exchange will be available giving people a choice/ to satisfy different consumer needs.
- v) Growing/increased income/earning of income to purchase/continue more goods/ services
- vi) New business/more business opportunities (will be started as people's needs continue to increase/more business opportunities to provide support services/other services.
- vii) Increased production of goods/services making more goods/services available to the community/when these meet consumer needs.
- viii) Encourages specialization/division of labour/improve quality of goods due to exchange of goods/services/which leads to quality goods/services.
- ix) Improved technology due to exchange of ideas/skills, machinery, employment.
- x) Poorer/understanding due to interdependence/interaction.
- xi) Sale/disposal of surplus goods/services to minimize wastage.
- xii) Factors goods/services they don't produce by buying them from others.
- xiii) Improved infrastructure e.g. roads, amenities, railways e.t.c.

(b)

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

4. (a)

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

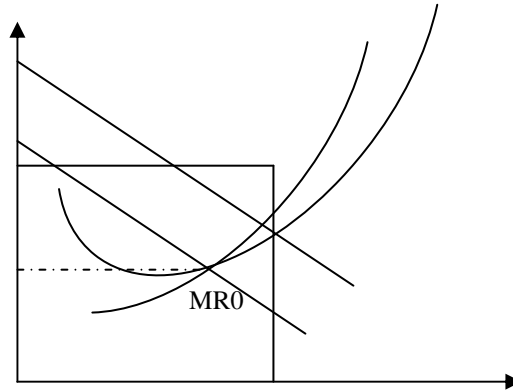
(b)

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

5. (a) Limitation of use of containers

- i. Specialized equipment which are expensive. The method calls for specialized equipment for handling goods which are lacking/expensive to buy/use/maintain. Accept examples of specialized equipment e.g. handling and offloading machines.
- ii. Organization personnel/talents/training/operational/management skills needed for the method may be lacking/training may be expensive.
- iii. Volume of business may not be large enough/warrant the heavy investment/ volume of business may be low.

- iv. Initial capital needed for the system/not easily available/expensive.
- v. The method requires re-degrading of existing ports/reconstructing part which is quite expensive.
- vi. Use of medium technology which is limited/lacking/not readily available/limited medium technology (in a developing country) which may slow the rate of processing goods.
- vii. General resistances to change by stakeholders/interested/affected parties of people generally resist change.



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

6. (a) Functions of money

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

(b) Determine total sales

(i) Debtors control allows

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

= Credit sales +cash sales

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

(7x1/2 =3 1/2 marks)

(ii) Determine total purchases

Creditors Control account

Payments/cash	200,000	Balance b/d	800,000
Balance C/D	950,000	Credit Purchases	2,150,00
	<u>2,950,000</u>		<u>2,950,00</u>

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

CHERU TRADERS

TRADING ACCOUNT FOR THE PERIOD ENDED 31.12 2005

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

(c) alternative I

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

	1,982,000
Less opening balance of debtors	400,000
Credit sales	1,582,000

Total sales = Kshs. 582, 000+ 250,000
= Kshs. 1,832,000

(7x1/2 =3 ½ marks)

Alternative II

Payment/Cash to creditors	200,000
Add closing balance of creditors	950,000
	<u>2,950,000</u>
Less Opening balance of creditors	<u>80,000</u>
Credit purchases	<u><u>2,150,000</u></u>

Total Purchases = 21,500+ 320,000= Ksh. 2, 470,00

(6 x ½ =3 marks)

Alternative III

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

(7x ½ = 3 ½ marks)

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

(6X ½ = 3 MARKS)

565/2
BUSINESS STUDIES
MARKING SCHEME
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2 ½ hours

1.

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

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

2.

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

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

Fixed Assets	Kshs	Kshs	Kshs	Kshs
Land and Building	2,500,000		Capital	2,660,000
Motor vehicles	500,000		Long term loan	1,400,000
Plant and machinery	600,000	3,600,000	Current Liabilities	
Current Assets			Creditors	120,000
Stock		140,000		
Debtors		80,000		
Cash at Bank		240,000		
Cash in Hand		120,000		
		<u>4180,000</u>		<u>4180,000</u>

ii) Determination of profit and loss

Ending/ final capital = beginning capital + Net profit + additional capital less drawings

$$\begin{aligned}
 2,660,000 &= 2000,000 + NP + 120,000 - 140,000 \\
 &= 1,980,000 + NP \\
 2,660,000 - 1,980,000 &= NP \\
 NP &= 680,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Alternative final capital} &= 2,660,000 - \text{Drawings (140,000)} \\
 &= 2,800,000 - \text{Initial K (2,000,000)} \\
 &= 800,000 = \text{additional K (} \hat{=} 20,000) \\
 &= 680,000
 \end{aligned}$$

3.

- i) Loans/ credit – give loans/ credit to farmers for crop/ livestock production/ farm development/ on easy terms/ specific purposes.
- ii) Training/education – organize training courses/ seminars/ workshops for farmers on farm management/
- iii) Advisory services- on farm management/agricultural improvement
- iv) Create employment – facilitate employment by stimulating growth in agricultural improvement.
- v) Improving production - more / variety of products are produced / of improved quality/ by financing/ carrying out research in agriculture
- vi) Improved income by facilities growth in agricultural industry.
- vii) Earning foreign exchange through increased exports of agricultural goods
- viii) Generates government revenue through interests and on loans.
- ix) Channel for donor funds to finance agricultural projects

b) i) **Technology**- modern methods may increase the production of cabbages/ poor

methods may decrease the production of cabbage.

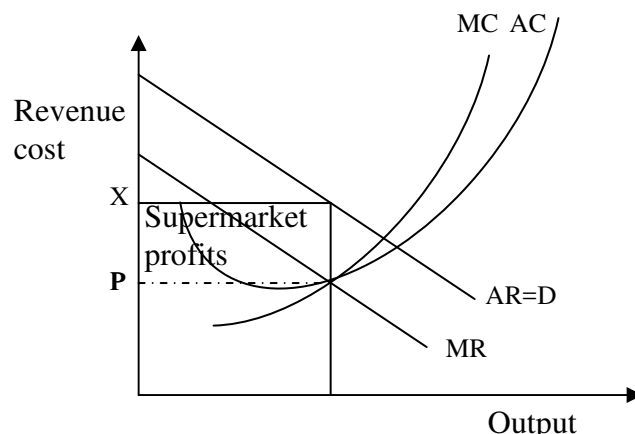
- ii) **Price of cabbages**- The higher the price more is supplied. Supplied, the lower the price the lower is supplied.
 - iii) **Government policy**-favourable, unfavourable policies-favourable policies may increases the supply of cabbages/unfavourable government policies may decrease the the supply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

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

5. (a)

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

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



6. (a)

- i) Handling facilities/equipments- the warehouse should be equipped with

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

Mugambi traders
Balance sheet
As at 31st December 2005

	Shs		Shs
Fixed assets			
Land and building		Capital	940,000
Land and Machinery	200,000	Less Drawings	40,000
Motor Vehicle	300,000	10 year bank loan	200,000
Current assets stock	100,000	3 years ICDC loan	100,000
Debtors	60,000	Current liabilities	
Cash at Bank	100,000	Creditors	60,000
Cash in Hand	20,000	Accrued Expenses	20,000
	1,280,000		80,000
	1,280,000		1,280,000

- ii) a) working Capital –CA-Cl =(280, 000-80,000)=200,000
- Capital (1,280,000-80,000)=1,200,000

Employed (total equity and liabilities less current liabilities or
total fixed assets plus working capital)

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

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

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

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

565/2

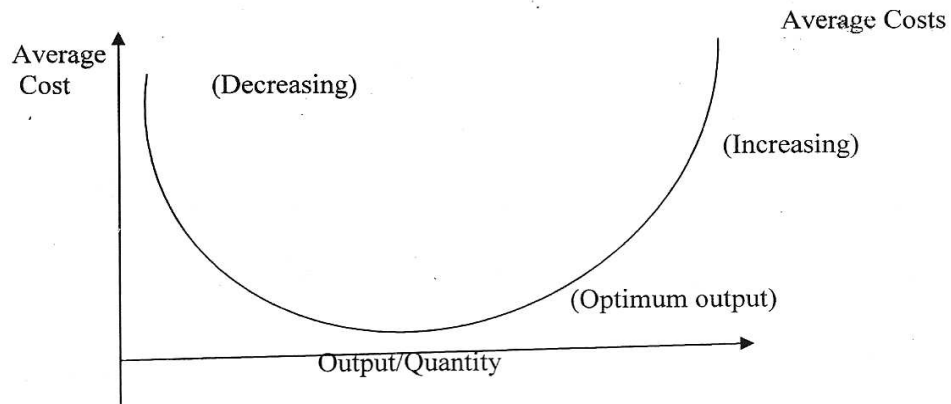
**BUSINESS STUDIES
MARKING SCHEME**

Paper 2

Oct. / Nov. 2008

2 ½ hours

public limited company	partnership
(i) Membership is a minimum of seven Shareholders	(i) Membership is a minimum of two partners
(ii) Shares can be transferred freely without consent of others members	(ii) shares/capital contribution can only be transferred with consent of other partners
(iii) Members have limited liability	(iii) No limited liability for partners (At least one partner has unlimited liability incase of limited partnership)
(iv) Managed by people appointed by the board of directors	(iv) Managed by partners themselves (Active partners)
(v) Regulated by Articles/memorandum of Association/Company Act	(v) Regulated by partnership deed/ Partnership agreement/articles of partnership/partnership Act
(vi) Pay corporation tax (vii) Has legal entity/can sue or be sued under its name	(vi) Does not pay corporation tax (vii) Has no legal entity/individual Partners can be sued
	Any 5 x 2 = 10 marks



For a firm with fixed production capacity, the average costs are high in the beginning as they are divided among few production units. As production increases, the average costs fall, since the costs are divided among more production units (the firm experiences economies of scale).

The average costs will then fall to a minimum level then start to rise again as more costs are incurred over time (the firm experiences diseconomies of scale). **(10 marks)**

(a)

High rate of unemployment as demand for jobs outstrips the available job opportunities. **Rate** of crime/social evils may rise. As the youth remain idle, they are likely to resort to crime and other social evils as they look for means of survival.

Constraints on goods/services associated with young people as demand outstrips supply. Dependency ratio will rise as economically active population will shoulder a bigger burden. Reduced savings/investments. Investments will decline as a result of high rate of consumption by young people. This may lead to low development.

Low per capita income. Since the National Income will be spread over a large non-contributing population which may lead to a low standard of living.

Problem of raising government revenue which may force the government to divert resources meant for other sectors to cater for the young.

Low labour supply as many young people may not have attained the working age nor acquired the required skills and experience. **(10 marks)**

(b)

Date	Particulars	Dis	Cash	Bank	Date	Particulars	Disc Rec'd	Cash	Bank
Sept. 1	Balance b/d	Shs	Shs 55,000	Shs 250,000	Sept.3	Ribbons	Shs	Shs 4,500	Shs
Sept 2	Sales			35,260	Sept. 8	Wangila	6,000		94,000
Sept 12	Wetu	1,200		58,800	Sept. 15	Salaries		34,000	
Sept. 25	Bank(c)		50,000		Sept.25	Cash(c)			50,000
Sept. 28	Anyango	7,500		67,500	Sept.30	Bank(c)		52,800	
Sept.30	Cash (c)			52,800	Sept.30	Bal.c/d		13,700	320,360
		<u>8,700</u>	105,000	<i>mm</i>			6,000Q	105,000	<i>mm</i>
		<u>Q</u>							
Oct. 1	Bal. b/d		13,700	320,360					

(20 x */2 = 10 marks)

(a)

Proper planning is put in place so that good results can be anticipated and also accommodate future changes.

Relevant strategies may be established so as to achieve desired results.

Setting clear goals and objectives so as to achieve the intended results.

Providing and using organizational resources efficiently and effectively. This involves budgeting to avoid wastage and misuse.

Proper time management to ensure set activities (tasks) are accomplished within the required time.

Good supplier/customer/employee relations to attract and retain them (suppliers, employees and customers).

Corporate social responsibility is fostered. This builds on the image and reputation of the Company Compliance with legal requirements in order to operate smoothly and avoid conflict with law enforcement authorities.

Motivation of employees to increase productivity.

Proper organization to avoid overlap/duplication of duties.

Proper direction to ensure activities are geared towards achieving the set goals.

Identifying the required skills/training relevant staff for smooth running of the organization

Monitoring/evaluating/checking that planned activities take place in order to achieve desired results.

Proper co-ordination to reduce conflicts.

(Any 5x2=10 marks)

(b)

Tidiness is maintained in the office as documents are arranged neatly.

Quick access to information since documents are coded/serialized.

Safety of information from damage by bad weather, fire etc is minimized.
Saves on storage space since documents are kept in a compact manner.
Encourages prompt decision making as information is readily available.
Encourages transparency and accountability since the movement of documents can be monitored.

- Security of information/documents against loss from theft and misplacement,
- Safeguards secret and confidential information as documents are kept away from unauthorized access.
- Facilitates storage/safekeeping of information/documents for future reference.

(Any 5x2=10 marks)

(a)

- Where the producer lacks adequate storage. The wholesaler may relieve the producer of the storage costs.
- Where goods require bulk breaking. The wholesaler may re-package the goods in smaller quantities as required by customers.
- Where there is need to prepare goods for final sale. The wholesaler may pack, brand, blend, grade sort and weigh goods to the relief of the producer.
- Where the market is wide and the goods have to be distributed far. The wholesaler will reach the consumer more easily.
- Where the producer would want feedback on the market status. The wholesaler may reach consumers through the retailers and get feedback regarding the product more easily.
- Where the producer would want to engage wholesaler to assist with advertising so as to save on costs.
- Where the producer wants to sell in bulk since the wholesalers can afford to buy in large quantities.
- Where the producer lacks transport, the wholesaler would relieve him of the cost.
- Where it is the government policy to distribute through wholesalers then the producer would have no choice.
- Where the marketing risks are high since the wholesalers can bear some of the risks.
- Where the producer wants to concentrate/specialize in production, then the distribution can be handled by wholesalers.
- Where the producer needs to maintain fewer records by dealing with wholesalers who are few.

(Any 5x2=10 marks)

(b) (i) Sales - Cash Sales - Drawings
420,200-25,000
Sh.395,200

(ii) Purchases (m) Cash Purchases Shs.
260,000

Commission receivable A/c

	Shs.	Shs.	
Balance b/d	8,400	Cash	36,400
Profit and Loss	<u>38,200</u>	Balance c/d	<u>10,200</u>
	46,600		46,500

(N.B. Accept vertical format)

(iv) Insurance

(10 marks)

	Shs		Shs
Balance b/d	16,200	Profit and Loss A/c	27,000
Cash	<u>14,800</u>	Balance c/d	<u>4,000</u>
	<u>31,000</u>		<u>31,000</u>

5. (a)

- Compulsory deposits/special deposits/increase minimum reserve requirements. The Central bank may require that commercial banks deposit a certain amount of their cash with the central bank.
- Selective credit control/credit rationing. The government through the central bank may require that certain sectors of the economy be assisted financially.
- Open market operations. The government may instruct the central bank to sell government securities/stocks/bonds in the open market/stock exchange.
- Raise interest rates - High interest rates may be offered for savings to encourage more deposits.
- Raise cash/liquidity ratio thereby leaving commercial banks with less money to lend.
- Raising the bank rate leading to credit/loans becoming more expensive.
- Raising margin requirement to discourage borrowing.
- Moral suasion by government appealing to commercial banks to reduce lending to the public.

- Reducing government expenditure by suspending some projects.
- Raising taxes to reduce disposable income hence lower purchasing power.
- Surplus budgeting by spending less than the income raised. (*Any 4x2=8 marks*)

(b)

- Where there is need to protect local/infant industries which may not withstand competition from established foreign industries.
- Where there is need to control dumping to prevent adverse effects on the economy.
- Where balance of trade/payment continues to deteriorate to reduce payment on imports.
- Where goods are hazardous/harmful for consumption in order to protect the health of consumers.
- Where goods involved are a security risk to the country to ensure peace and stability.
- Where it is necessary to counter the actions of trading partners as a retaliatory measure.
- Where there is need to avoid imported inflation arising from overpriced imports.
- Where it is politically expedient to do so in order to promote good governance in another country.
- Where there is need to safeguard local employment which may be lost through entry of cheap imports.
- Where there is need to avoid overdependence on imports which may lead to political blackmail.
- Where there is need to avoid overexploitation of resources which may cause their depletion.
- Where there is need to build reserves of strategic commodities to avoid shortages in meeting local demands. (*Any 6x2=12 marks*)

6. (a)

- Where goods sold are of technical nature and may need advice/demonstration on use.
- Where expertise is required in installation and the trader has technical knowledge/ability/backup.
- Where the product is new in the market and the trader requires feedback on the product's performance.
- Where competition is stiff and the trader uses after sales services as a product promotional tool to win more customers and increase sales.
- Where expertise is required in maintenance/service/repairs and the trader is able to provide the service.
- Where it is the policy of the business as a way of improving customer relations and improve business image.

- Where it is the government policy, the trader will have no option.
- Where the nature of the product is such that it requires specialized transport and the trader can provide it. (Any 4x2—8 marks)

Simba traders , Profit and Loss Account

	Shs	Shs	Shs.	Shs
Salaries		322,600	Gross profit b/d	; 210,000
Rent	14,800		Discount received	14,500
Add. owing	<u>2,400</u>	17,200	Net loss c/d	354,850
Interest on loan		36,000		
<u>Depreciation</u>				
Motor vehicle	187,500			
Furniture	<u>16,050</u>	203,550		
		<u>579,350</u>	<u>579,350</u>	

Simba traders
Balance sheet
As at 31st December 2016

	fixed assets	shs	shs		shs	shs
	motor vehicle	750,000		Capital	800,000	
	less: Depreciation	187,500	562,500	Less : Net	354,850	
	Furniture	160,500		Less : Drawing	60,800	
384,350	less: Depreciation	16,050	144,500	L.T. Liabilities		
	Current Assets			Bank Loan		
	Stock	45,600		S.T. Liabilities		
200,000	debtors	130,200	<u>175,800</u>	Creditor s	260,000	
				Rent unpaid	2,400	
				Interest Due	36,000	<u>298,400</u>
			882,750			882,750

BUSINESS STUDIES P2

YEAR 2009

MARKING SCHEME

1. (a) Explain 5 features of sole proprietorship form of business

Naming 1 mk 0/ -2mks

- i. **Owned / formed by in person** who provides the capital / starts the business
- ii. **Faster decision making / (ultimate) decision** made by the proprietor / alone since he \ she does not need to consult / has no one to consult.
- iii. **Has limited life** as its existence depends on the hope of the Owner.
- iv. Business unit is **usually small** due to limited capital / management skills.
- v. **Owner bears all the risks / losses of the business (alone)** since he / she has no one to share with.
- vi. Business owner has **unlimited liability** since personal property / assets may be attached.
- vii. **Managed by the owner** with /without assistance of family members / employees / which is tiring / forced to work for long hours.
- viii. **Sole trader / enjoys all the profits alone** since he /she has no one to share with.
- ix. **Easy / simple formation** as it requires few / no legal formality / might only require a trading license.
- x. **Flexibility / adaptability** to change / accept egs of change as explanation.
- xi. **Secrecy / confidentiality** of information / operation / no other people have access.
- xii. **Not a legal entity** as the owner and the business are treated as one / the same.

b) Explain 5 measures that the government may take to improve the volume of exports.

(10 marks)

Naming 1 mark only

- i. **Creation of export processing zones** — where the producers / exporters enjoy a variety of incentives / accept e.g. of investors as explanation.
- ii. **Manufacture under bond** to encourage local manufacturers to produce exclusive for export.
- iii. **Export compensation schemes / subsidies schemes** by refunding a specific % age of value of goods / services exported / meeting part of the cost of production for exporters
- iv. **Providing information on international markets** through publications / seminars / workshops / educational tours.
- v. **Financing those producing for exports** by availing credit / loans to exporters.

- vi. **Participating in international trade fairs / exhibition** / show to expose the exporters / their goods / services.
- vii. **Use of commercial attaches other government agencies** to promote exports / advertise / look for markets for exports.
- viii. **Reduction of bureaucracy / red tape** through simplification of export procedures.
- ix. **Customs drawbacks** by refunding tax on imported raw materials used to produce exports.
- x. **Devolution of currency** to make exports cheaper / increased demand.
- xi. **Improved infrastructure** to facilitate export production / export trade / accept ease of infrastructure as mentioned.
- xii. **Entering into trade agreement / blocs / integration grouping cooperation** to give preferential treatment to certain exports.
- xiii. **Improving quality / standardization / packaging** to make exports more attractive.
- xiv. **Export credit guarantee scheme** to insure / compensate exporters against risks when selling overseas.
- xv. **Tax** rebates / lowering of duties on exports / reduction of taxes on inputs used to produce goods for export to make them cheaper / increase their demand / to reduce cost of production.
- xvi. **Improve / adopt modern technology** in order to increase the volume of goods for exports.

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

(Naming 1 Mk.)

- (i) Relatively slow hence perishable / *urgently* needed goods may not be transported this way / takes long when traveling.
- (ii) Limited availability only applicable where water is available.
- (iii) Waterways can be affected by adverse weather conditions such as droughts / freezing / storms / flooding.
- (iv) Costs of maintaining / construction of ports / canals / waterways / harbor may be (relatively) high/expensive making it unaffordable for some countries.
- (v) Waterways may not be navigable due to rough terrain / waterfalls / cataracts / rapids / shallowness / narrowness / inhabited by dangerous animals / rough waters.
- (vi) High costs of units of carriage / vessels which may make them unaffordable to acquire / maintain.
- (vii) May lack flexibility to offer door to door services / some vessels follow regular / fixed time schedules

- (viii) May be prone to piracy in the high seas / remote areas / may lead to losses / increased in insurable costs.

(b) Preparation of a ledger account.

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

Dr Debtors Account		Cr		Dr Creditors Account		Cr	
2008	Sh	2008	Sh	2008	Sh	2008	Sh
June bal b/d	350,000	June 28 cash	160,000	Jun 5 Bank	228,000	June bal / b/d	450,400
		28 Dis allw	40,000	Jun 5 Dis Rec	12,000		
		30 bal c/d	150,000	Jun30 Bal c/d	210,000		
	<u>350,000</u>		<u>350,000</u>		<u>450,400</u>		<u>450,0400</u>

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

Note / - The particulars / details must be correct.

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

3(a) Refer to 9str paper

- i. MR Curve / MC Curve / disjoint in the MR where MC= MR Curve i.e. the equilibrium point.
- ii. Above price P_o / kink the demand curve is more / fairly elastic and less elastic / fairly inelastic below the price P_o / Kink / if a firm raise price above P_o / kink other competing firm swill not follow suit but it lowers price below P_o / kink all other low peting firms will follow suit.
- iii. (a) When the oligopolist forms collusion or a cartel with competing firms they can increase / lower / reduce the price.
(b) When the oligopolies acquire a dominant position on the market / accept the position of dominant position.

2 mks.

(c) The price cannot be increased / decreased / raised because it is rigid at the kelik / OPO

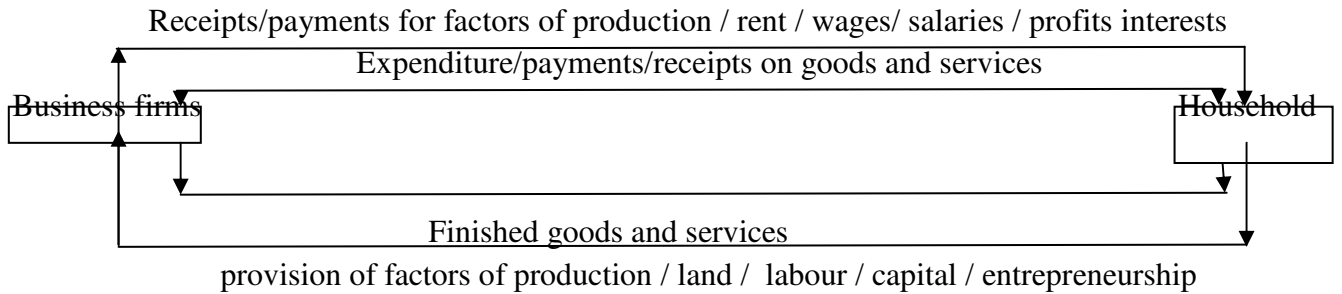
(d) The owner on roman II can be used as the answer for this section.

3 (b) Explain 5 ways in which the government of Kenya may reduce the level of unemployment. Naming 1mk

- i. Diversification of the economy by encouraging the establishing of different industries / sectors to create employment opportunities.
- ii. Transforming agricultural sector / rural sector to curb rural urban migration / accept effects of transformation as a naming (to create more jobs and reduce unemployment)
- iii. Transforming education / training sector to improve on skills / (this makes the graduates) acquire relevant skills.
- iv. Establishing an employment policy by government to make it easy for people to get jobs / accept effects of government policy as mentioned.
- v. Lending / setting of a fund to assist unemployed to start income generating activities/ accept effects of funds as a mention
- vi. Exporting Labour by assisting unemployed people to acquire jobs abroad / countries with labour deficiency.
- vii. Encouraging the informal / Jua Kali sector in order to promote self employment.
- viii. Delocalization / decentralization policy for balanced regional development / reduced rural urban migration.
- ix. Population policy to control growth / have a labour force that the economy can absorb.
- x. To improve infrastructure in order to stimulate economic activities / Accept effects of infrastructure as a naming.
- xi. Increase government expenditure to expand the size of the economy / to finance development projects
- xii. Effective uses of natural resources to increase production activities accept effects of natural resources as a mention.
- xiii. Income / wage policy to harmonize / eliminate differences between regions / sectors.
- xiv. Protect local / infant industries against unfair competition.
- xv. Attract (Local / foreign) investments through various incentives / to grow the economy accept effects of incentives as explanation.
- xvi. Receiving collapsed industries / projects by injecting funds / selling them / increased production activities.
- xvii. Using a diagram, explain the circular flow of income in a two sector economy.

10 mks.

4. (a)



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

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

The destruction must be shown

4(b) Refer to question paper

(i) The name of the documentary is an invoice / debit note 3 marks

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

$$\begin{aligned}
 \text{Amount paid } & 268,200 \times 90 + 9,000 + 7,500 & \text{7 marks} \\
 & 241,380 + 9,000 + 7,500 \\
 & = \text{Sh. } 257,880
 \end{aligned}$$

Or

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

$$\begin{aligned}
 & \text{Ksh } 284,700 - \text{Ksh. } 26,820 \\
 & = \text{Ksh. } 257,880
 \end{aligned}$$

Or

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

- 5(a) Explain 4 services that not the Central Bank of Kenya army after as a banker to commercial banks. 8 marks
- i. Advising/ information / education / publishing journals for commercial banks or financial matters.
 - ii. Banker to commercial banks / accepts deposits by being in custody of the reserves received from commercial basis.
 - iii. Supervising / monitoring the operations of commercial banks banking act
 - iv. Providing a central cleaning horse where commercial banks settle debts due to each other / for cheques.
 - v. Being a tender of the last resort to the commercial banks.
 - vi. Foreign exchange / buy / sell foreign currency to / for commercial banks.
 - vii. Icore of currency for commercial banks operations / replaces old currency / issue new notes /coins.
 - viii. Mediation /arbitration in case of disputes (between commercial banks)
 - ix. Licensing— the operations of commercial banks.
 - x. Repafriation of excess foreign currency / profits (broad) on behalf of commercial banks.
 - xi. Statutory management during financial crisis / receiverships.

5 b (i) Malamu Traders

For the year ended 31st Dec, 2005

Expenses	Sh		Sh
Discount allowed	142,000	Gross Profit	520,000
Lighting	25,200	Rent received	120,000
Interest or loan	1,200	Net loss c/d	61,930
General expenses	102,100		
Repairs on building	60,000		
Repairsorr furniture	72,030		
Repairs on motor vehicle	300,000		
	7022530		702 530

**MALAMU TRADERS
BALANCE SHEET
AS AT 31st DEC 2008**

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

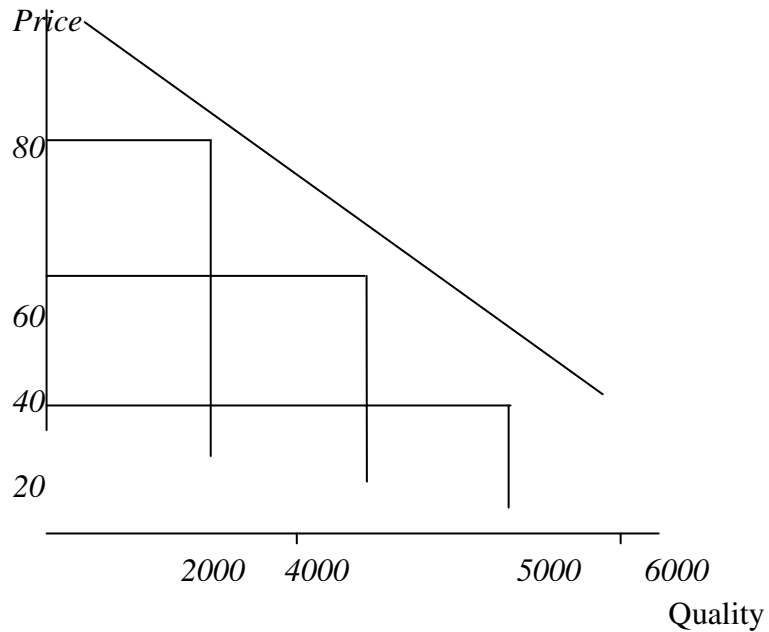
Dr		total Debtors Account	Cr		
		Sh			Sh
Balance b/d		120,000	Bad debts		4,200
Interest on debtors		2,000	Cash Debts		750,000
Sales		<u>967,200</u>	Bal. c/d		<u>335,000</u>
		<u>1,089,200</u>			<u>1,089,200</u>

Dr		Total Debtors Account		Cr
		Sh		
Payments		660,500	Balance c/d	142,500
Balance		158,400	Purchases	<u>676,400</u>
		818,900		<u>818,900</u>
credit Purchase		676,400		
Cash Purchases		<u>135,400</u>		
		<u>811,800</u>		

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

Month	price	quantity
January	80	2,000
February	40	5,000

(i) Plot the above information on a graph



(ii) Price elasticity of demand

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

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

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

Elasticity=3 or -3

Or

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

Or

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

Or

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

Or

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

565/2

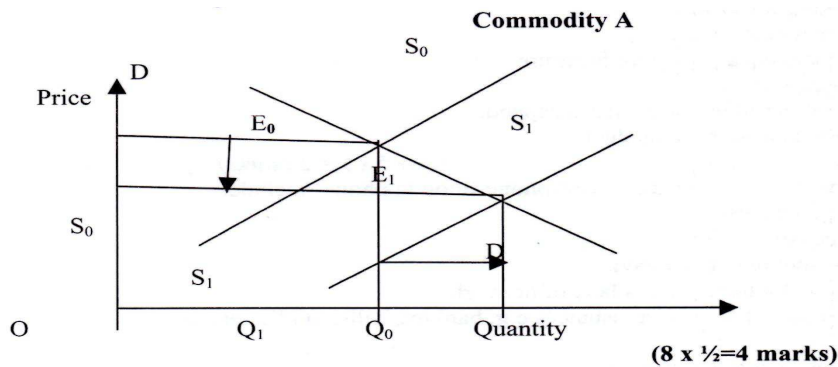
**BUSINESS STUDIES
MARKING SCHEME**

Paper 2

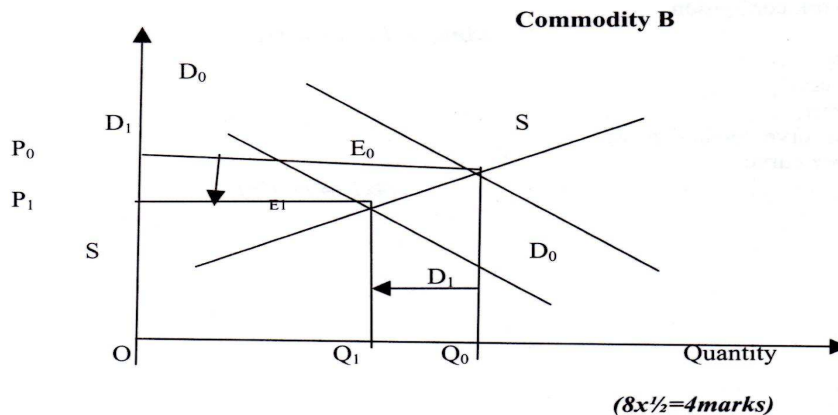
Oct. / Nov. 2010

2 ½ hours

1 a)



Since the price of A has decreased, consumers are likely to buy more of A and less of B.



For commodity A

An increase in the supply of commodity A tends to a decrease in its price move from P₀ to P₁ (if to e, is not labelled or use a tick) (*Don't give a tick for P and Q*)

For commodity B

Since the price of A has decreased consumers are likely to buy more of B and it is demand for commodity B reduce from Q₀ to Q₁ as the price also reduction from P₀ to P₁. The effect is creating a new equilibrium quantity Q₁ and new equilibrium price creating a new equilibrium point at E₁

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

(i) **Discourage savings**

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

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

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

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

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

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

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

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

(vii) **Low income earners/unemployed are hard – hit:** since they may not be able to afford the basics /may result to illegal means of earning a living.

viii) **Hampers implementation /preparation of development plans/ budget:** because more funds have to be raided due to rising prices since it is difficult to forecast expenses/meet goods.

(ix) **Loss of confidence in the currency:** which may encourage barter trade preference for foreign. currencies /necessitate change of currency

(x). **Adverse effect on investments:** due to increased cost of operation /reduced value of earnings

(xi) **May fuel /worsen unemployment /reduced job creation:** due to reduced production activities /closure of firms.

2(a) PRINCIPLES THAT DISTINGUISH CO-OPERATIVE SOCIETIES FROM OTHER FORMS OF BUSINESS ORGANISATIONS INCLUDE:

(i) **Democratic central / administration/management:** decisions are made by members on a one man-one vote basis. Management committees are elected on the basis of one man- one vote.

(ii) **Voluntary/open membership:** Membership is open

(iii) **Limited interest on share capital:**

(iv) **Education to members:** co-operatives are obliged /have a duty to educate their staff/ management /the members / on co-operative activities/ the economy /through seminars/ courses/ tours/ workshops/improved performance.

(v) **Political religious neutrality:** cooperative societies are not supposed to favour align/ inclined/interested with any political /religious groups

- (vi) **Co-operation with other cooperatives:** in order to share ideas/ experiences /at religious /natural /internationally level.
- (vii) **Repayment of dividends /distribution of surplus:** On pro rata basis /based on contribution
- (viii) **Service to members :** Formed to cater for members interest/welfare
- (ix) **Limit on the number of shares one can buy:** to avoid business control by one / a few members
- (x) **Non-profit motivated:** Revenue is meant to meet the expenses of the society /any excess revenues or expenditure is for the mutual of all members shared proportionately.

**(b) WAYS OF MAKING FACE TO FACE COMMUNITIES EFFECTIVE
INCLUDE**

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

3. A) i)

K-100 TRADERS

TRADING PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30TH JUNE 2008

Opening stock		80,200		
Purchase	1,120,000		Sales	1,880,000
Adds carriage	40,000		Less R/inwards	<u>5,800</u> 1,874,200
	<u>1,160,000</u>			
Less R/outwards	20,800	1,139,200		
Available for sale		<u>1,219,400</u>		
Less closing stock		120,000		
Cost of goods sold		<u>1,099,400</u>		
Gross profit c/d		<u>714,800</u>		
		<u>1,874,200</u>		<u>1,874,200</u>
EXPENSES				
Waterbill	250000		Gross profit b/d	774,800
Repairs	230000		Discount received	7,500
Carriage on sale	12,700			
Lighting	15,000			
Insurance	4,000			
General expenses	56,700			
Net profit c/d	<u>213,900</u>			
	<u>782,300</u>			<u>782,300</u>

K-100 TRADERS

BALANCE SHEET

AS AT 30TH JUNE 2008

Fixed assets	shs.	shs.		shs.	shs.
Furniture	3,000,000		Capital	4,000,000	
Motor vehicle	690,000	3,690,000	Add: Net profit	213,900	4,213,900
Current assets			Current liabilities		
Stock	120,000		Creditors	510,400	
Debtors	16,800		Bank overdraft	2,500	
Bank	520 000				512,900
Cash	80 000	<u>1,036,800</u>			
		<u>4,726,800</u>			<u>4,726,800</u>

NB.

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

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

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

4. a)Benefits that a member country may get from economic integration include:

- Large market - The country gets additional market to sell her goods and services.
- Promotion of peace - member countries have a deeper understanding of each other thus enhancing peace.
- Increased mobility of factors of production. Labour, entrepreneurship and capital will to and from other countries with minimum restriction.
- Improved infrastructure There is likelihood that member countries will improve their infrastructure.
- Opportunity to deal with any deficits in production - Member countries can get what they don't have from other countries.
- Increased variety of goods and services - due to increased range of goods at the disposal of the citizens of the member countries, they are able to satisfy varied needs since they have a wider choice.
- Shared research information and common services - This reduces the cost of doing business and improves production by eliminating duplication.
- Creation of employment. This is a result of increased economic activity.
- Encourages specialization. Member countries concentrate on what they can produce better.

- Increased economic bargaining power. This may lead to better balance of payment and terms of trade.

(Any 5x2) =10 marks

b) Completed table

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

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

5. A)

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

- (i) **Inadequate /inaccurate data:** Difficulties will be experienced in (valuation)/due to unavailability/inaccuracy of output figure/lack of output records/poor record keeping.
- (ii) **Determination of goods & services to be included/difficulties regarding which goods & services to include:** Since some output may be a result of illegal activities/may not be recognized (*accept examples of illegal goods/services as an explanation*)
- (iii) **Subsistence sector/valuations output of the subsistence sector:** Since the goods/services are never priced/exchanged
- (iv) **Value of stock/unsold goods/there is a problem of what value to assign to the stock of goods:**
Whether it should be valued at cost or at market price/where indirect taxes/subsidies have to be taken into consideration.
- (v) **Price fluctuations/inflation/appreciation/depreciation of goods/services:** Prices of food may vary from time to time; hence there is a problem of deciding whether to attach historical cost or market price.
- (vi) **Double counting:** Where it may be difficult to distinguish between intermediate & final output.
- (vii) **Lack of qualified personnel:** Who can be used to value/measure/collect data/output

(viii) **Inadequate financial/capital/equipment/technology:** to be used when gathering compiling data/statistics

b)

FACTORS AN ENTREPRENEUR CONSIDERS WHEN EVALUATING A BUSINESS IDEA

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

6. A)

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

- (i) Customer can withdraw money at any time/for 24hrs/for 7 days a week
- (ii) Means of payment: Customer can pay utility bills/buy goods/services (*accept examples of bills as a of payment*)
- (iii) Fees charged are low compared to over the counter services/withdrawals/hence saving on costs.
- (iv) Strategic locations: ATMs may be found even where banks are non-existent (*accept e.gs of strategic locations as explanation*)
- (v) Security: The customer has a PIN number which guarantees confidentiality/safer to carry a card than cash.
- (vi) Getting mini statement: Customer can use it to monitor his transactions with the bank.

- (vii) Customer can deposit money or cheques at any time for 24hrs & 7 days in a week.
- (viii) Saves time/faster services: Due to less paperwork/avoidance of long queues in the bank/queues may be shorter at ATMs.
- (ix) Use the Visa cards: to make interbank withdrawals
- (x) Portability: as it is light to carry ATM cards around
- (xi) Access to credit: Through the use of credit cards
- (xii) Simple/easy to operate/use: As the user is guided by the machine.
- (xiii) Transaction receipts: To show current balance/amount withdrawals/for record keeping/reveal errors
- (xiv) Accessibility/unlimited use: Since it operates throughout the day/round the clock
- (xv) Facilities movement of cash/funds from one account to another.

b)

POSSIBLE RISKS THAT AMINA CAN INSURE HER BUSINESS AGAINST

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

565/2

**BUSINESS STUDIES
MARKING SCHEME**

Paper 2

Oct. / Nov. 2011

2 ½ hours

1. (a) Explaining the types of inflation

(i) Demand-Pull inflation

Refers to a progressive increase in the general level of prices brought about by an expansion in demand. There is too much money chasing very few goods,

(ii) Cost-Push inflation

A progressive increase in the general price level brought about by a general increase in the cost of production,

(iii) Imported inflation

Refers to an increase in domestic prices resulting from importation of primary goods and inputs at higher prices,

(iv) Structural inflation

Refers to a persistent rise in prices resulting from failure of the economy to meet the general increase in demand.

(4x2 = 8 marks)

(b) Factors that may hinder the development of a country include:

(i) Low demand for goods and services which discourages production activities hence interfering with development.

(ii) Inadequate capital which leads to low levels of development

(iii) Negative sociocultural practices which may hinder production and consumption of certain goods and services,

(iv) Inadequate foreign exchange which limits access to imports hence affecting production and consumption.

(v) Limited entrepreneurial abilities resulting into inefficiency in production.

(vi) Poor management of resources arising from inadequate skills, corruption and poor governance which limit the extent of growth and development,

(vii) Poor nutrition and disease prevalence which renders some of the people unproductive as well as channelling much of the income into provision of health care instead of investment,

(viii) Use of inappropriate technology which compromises the quantity and quality of goods and services produced.

(Any 6x2=12 marks)

2. (a) Circumstances under which containerization may be used to transport goods include:
- (i) Where bulky goods are imported. Bulky goods are usually transported by sea where containers are used.
 - (ii) Where specialized equipment are available for handling containers,
 - (iii) Where container terminals are available - containerization require container terminals which are specially built to handle them,
 - (iv) Where specialized means of transport like railways are available,
 - (v) Where security of goods need to be guaranteed. Goods of very high value and those that are risky require high level of security which is guaranteed by containers,
 - (vi) Where skilled personnel are available. The handling of containers require specially trained workers to handle and manage them.
- (Any 5x2=10 marks)

- (b) for making an insurance claim
- (i) Notifying the insurer of the loss suffered.
 - (ii) Filling a claim form from the insurer.
 - (iii) Carrying out investigation to determine or ascertain the cause of loss.
 - (iv) Insurance company making a report.
 - (v) Determination and payment of the claim.
- (5x1=5 marks)

- (ii) Determination of compensation

Compensation- $\frac{\text{Sum assured}}{\text{value of property}} \times \text{Actual loss}$

$$\frac{900,000}{1,200,00} \times 500,000$$

$$= \text{Ksh } 375,000$$

(5x1=5 marks)

3. (a) Factors to consider when choosing a method of promoting a product include:
- (i) Cost of the method. The organization should choose a promotion method that is affordable,
 - (ii) Geographical area of coverage. The organization should choose a method that will reach the customers in their various locations,
 - (iii) Target group. The organization must choose a method that appeals to the relevant target group,

- (iv) Speed of the medium or method in relation to urgency of the message. The organization should choose a method that will reach the customers within the desired time frame,
- (v) Nature of the product. Different methods may be chosen depending on the nature of the product e.g. technical products may require demonstrations best achieved through personal selling,
- (vi) Nature of the message. The organization should choose a method that will best present the various aspects of the message.

(Any 5 x 2 = 10 marks)

(b) Features of economic resources include:'

- (i) Scarcity. They are found in small quantities compared to the many uses into which they have to be put and hence not sufficient to satisfy all human wants,
- (ii) Monetary Value. They have a price attached to them which have to be paid for their use.
- (iii) Uneven distribution. They are not distributed uniformly in society, hence some people, regions or countries have more of the resources than others,
- (iv) Combinability. They can be used in different proportions to produce goods and services.
- (v) Usefulness. They are used to satisfy human wants (have utility)
- (vi) Transferability. They may be transferred from one person to another in terms of ownership.

(Any 5x2= 10 marks)

4. (a) Benefits that may accrue to an organization that adopts an open office plan include:

- (i) Easy supervision. It is easy to monitor employee's performance **since** they are in the same room,
- (ii) Economy of space. More floor space is available since space has not been lost through partitions.
- (iii) Minimal cost. It is cheap to construct and maintain,
- (iv) Sharing of resources. It makes possible for joint use of office facilities,
- (v) Easy communication. Communication between workers and departments is made easier and faster since there are no physical barriers between them,
- (vi) Easy reorganization. It is easy to re-arrange the office when need arises,
- (vii) Enhanced teamwork. Employees work as a team and learn to be together.

(Any 5 x 2 = 10 marks)

- (b) Circumstances under which a partnership may be dissolved include:
- (i) Expiry of time or accomplishment of purpose. Where the partnership was formed for a definite time or a particular purpose, the expiry of time and accomplishment of purpose terminates the partnership,
 - (ii) Mutual agreement among partners - where the partners agree among themselves to terminate the partnership,
 - (iii) Bankruptcy of a general partner - where a court declares the value of one of the general partner's property insufficient to settle his or her debts,
 - (iv) Change in law that makes the operations of the partnership illegal.
 - (v) Permanent inability of a general partner to perform or fulfil his part of the partnership agreement either as a result of disease, insanity or death,
 - (vi) Internal dissension among partners - where partners disagree irreconcilably, then the partnership may be terminated,
 - (vii) Persistent losses in operation - where the business has continued to operate at a loss, then it is terminated,
 - (viii) Fraud, mistake or misrepresentation - where the partnership was formed under fraud, mistake or misrepresentation, a Court of Law may order its dissolution.

(Any 5x2= 10 marks)

5. (a) Factors that may influence the choice of a channel for distributing flowers include:
- (i) Nature of the flowers - flowers are perishable and therefore need a short channel in order to be distributed quickly.
 - (ii) Cost. The cost of different channels of distribution should be considered and the cheapest channel used,
 - (iii) Nature of the market. If consumers are widespread, then agents may be necessary to reach them.
 - (iv) Tastes and preferences of consumers. Consumers may have specific preferences which might require the personal attention of the producer hence use of a shorter channel.
 - (v) Competition. Where competition is high, the producer will have to close to the consumers and will therefore use a short channel of distribution.
 - (vi) Quantity. If the quantity of flowers to be sold is large, then more middlemen may be required.
 - (vii) Availability of technical personnel. If the producer does not have the required technical personnel, then he may have to use a longer channel.

(Any 6x2= 12 marks)

- (b) Reasons for maintaining books of original entry include:
- (i) To reduce details to be recorded in the ledger accounts.
 - (ii) Act as back-up data from which other information may be extracted if need arise,
 - (iii) Contain information which act as reference such as units, trade discounts And terms of sale,
 - (iv) The general journal is used to correct errors made when recording transactions.
 - (v) The three-column cash book is used as a book of original entry as well as a ledger.

(Any 4x2 = 8 marks)

6. (a) Causes of unfavorable balance of payment for most developing countries include:

- (i) Reliance on primary products for export. Most developing countries mainly export primary agricultural products which fetch low prices in the international market,
- (ii) Heavy importation of finished goods. Most developing countries import finished manufactured goods whose value are very high hence spend more on them.
- (iii) Low levels of technology. Most developing countries rely on low levels of technology in production which compromises the quality of their exports and also lowering their value.
- (iv) Too much reliance on foreign borrowing. Most developing countries Finance their development projects through heavy borrowing yet such loans are repaid with heavy interests.
- (v) Susceptibility to natural calamities. Many developing countries are easily affected by natural disasters like drought which adversely affect their production.
- (vi) Preference towards foreign goods. Most consumers in developing countries prefer goods manufactured in foreign countries in the belief that they are of better quality,
- (vii) Unfavourable world economic order. The developing countries have very little say in international trade forums and cannot influence the world economic order in their favour.

(Any 5 x 2 - 10 marks)

b)

Rehema traders

Balance sheet

As at 31 December 2007

	kshs	kshs		kshs
fixed assets				
motor van	200000		CAPITAL	590,000
furniture	140000	340000		
			Current liabilities	210,000
current assets			creditors	
stock	160000			
debtors	100000			
cash	20000	460000		
		800000		800000

10 x 1= 10mks

**BUSINESS STUDIES
MARKING SCHEME**

Paper 2

Oct. / Nov. 2012

2 ½ hours

1. (a) Benefits of division of labour to an organization include:
- (i) Less time is spent in completing a job - there is less movement by workers while changing from doing one work to another,
 - (ii) Increased production- people become more adept at their jobs as they do it repeatedly hence increasing productivity,
 - (iii) Standardized goods - goods produced are of uniform quality which enhances customer satisfaction and the firm's image,
 - (iv) Increased use of machines - work can be automated leading to lower costs of production. (v) Enhanced management - this facilitates control, co-ordination and accountability,
 - (vi) High quality goods produced - people concentrate in doing jobs for which they are best suited which improves quality of output,
 - (vii) Increased creativity and innovation - the organization may tap workers talents and skills which may help to modify existing products, develop new products, initiate new methods of production or discover new markets.
 - (viii) Improved efficiency due to better use of resources.

Any 5 x 2 = 10 marks

- (b) Ways in which a computer may be used in an office include:

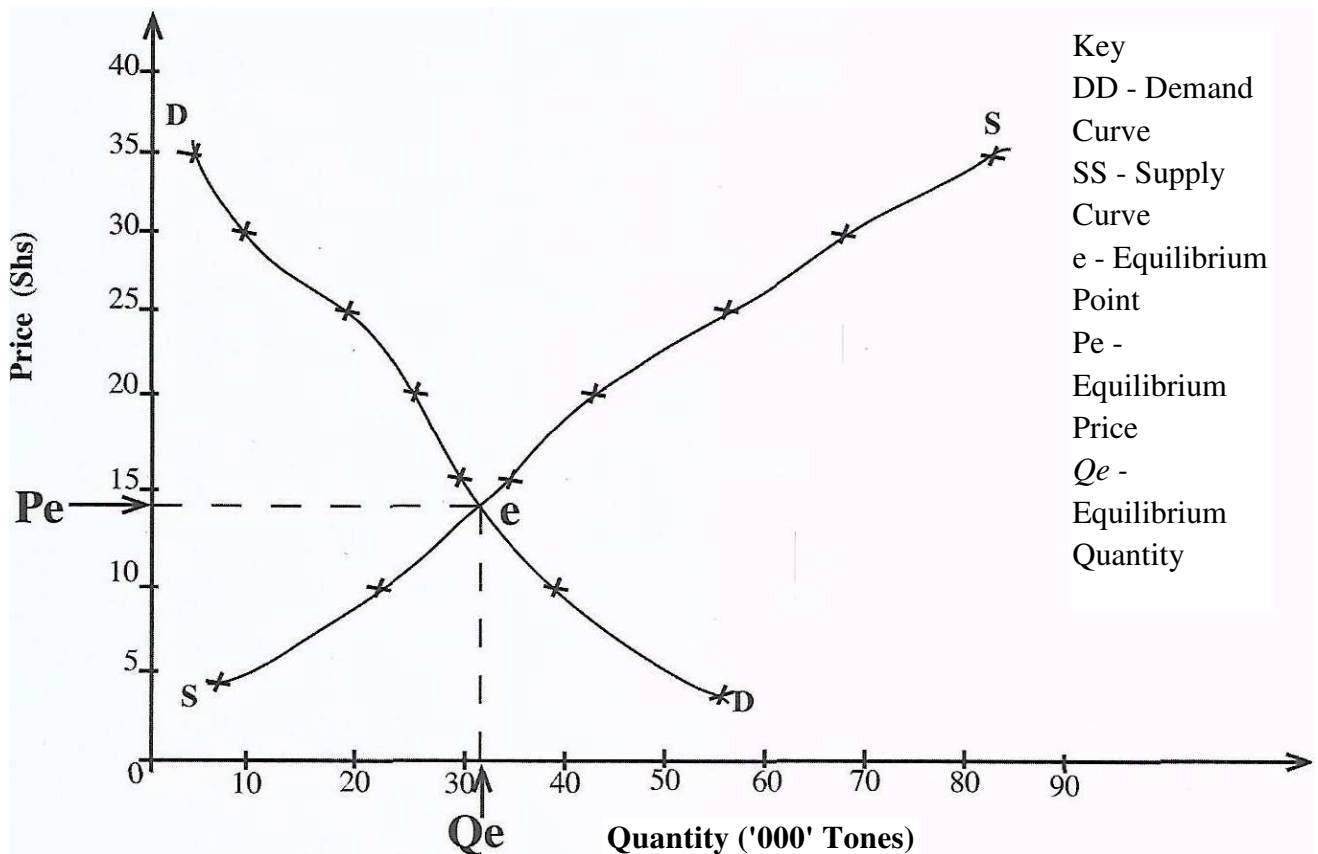
- (i) Data processing - data can be keyed into the computer which then sorts, organizes, analyzes and gives meaningful output,
- (ii) Storage of information - a computer has various storage devices where information can be kept for future reference,
- (iii) A tool for communication - A computer can be linked to the internet and other work stations to enhance sharing of information,
- (iv) Production of documents - can be used as a word processor to produce both soft and hard copies.
- (v) Assist in research - a computer provides a link with various sites where information can be sourced for research purposes.
- (vi) Assist in decision making - it has special programmes and models which may facilitate the decision making process for managers,

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- (vii) Can be used for training and staff development - it is a tool for training during staff orientation and presentation,
- (viii) Entertainment - the computer has accessories for games, music and movies which can be used for relaxation while working.
- (ix) A tool of supervision can be used to monitor employee activities on-line.

Any 5 x 2 = 10 marks

2. (a) The demand and supply curves for product X showing its market equilibrium.



- (b) Merits of direct taxes to the government include:

- (i) Economical to collect - it provides higher revenue at lower costs of administration since collection is executed at the source e.g. PAYE.
- (ii) Certainty - the government knows the amount of tax, the manner and time of payment, hence budget and plan for it. It is also difficult to evade,
- (iii) Convenience - it is collected from the source at regular intervals making it

- easy-and very convenient,
- (iv) Price stability - it is a useful tool for maintaining stable prices by affecting disposable income and consequently influencing aggregate demand,
 - (v) Equity - the progressive nature of direct taxes distributes tax burden equitably, thus the government is able to redistribute wealth by heavily taxing those who earn more as opposed to those earning little.
 - (vi) Simple to determine - Every wage level falls into predictable tax brackets. (
 - (vii) Easy to administer - It is very difficult to evade hence very easy to administer as the collection points are also fewer as opposed to collecting tax directly from individuals
 - vii) It is elastic - it expands with increased income and population.

3. Disadvantages that a country would suffer if she restricted trade with other countries include:

- (i) Development of monopolies - Monopolies may emerge due to lack of competition from possible rivals exposing consumers to exploitation,
- (ii) Reduced consumer choice - trade restrictions reduces the variety of goods And services available to consumers leading to lower standards of living,
- (iii) Trading conflicts - trading partners are likely to retaliate, leading to conflicts between the countries involved,
- (iv) Poor quality goods - protected domestic industries may produce poor quality goods and services due to lack of competition from established industries.
- (v) Lack of growth of infant industries - overprotected infant industries may no grow from infancy always seeking for continued protection,
- (vi) Reduced production capacity - this results from the reduced market as a result of the trade restrictions hence under-exploitation of available resources,
- (vii) Misallocation of resources - it may force a country to use her resources in areas where she has no comparative advantage,
- (viii) Costly to the government - this may happen if measures like subsidies are used to enhance restrictions by encouraging import substitution,
- (x) Encourages smuggling which leads to entry of counterfeit goods and loss of government revenue.

Any 5 x 2 = 10 marks

(b) Factors that may promote entrepreneurship in Kenya include:

- (i) Government support - favourable government policies on funding and regulation of business activities may encourage the emergence and expansion of business ventures,
- (ii) Training in entrepreneurship - trainees are equipped with skills and knowledge to undertake entrepreneurial activities,
- (iii) Cultural practices - some cultural practices encourage entrepreneurship through early exposure to business activities.
- (iv) Role models - interaction with successful business people may inspire entrepreneurship.
- (v) Availability of capital - capital for starting and expanding a business may facilitate entrepreneurship.
- (vi) Peer group influence - people may be encouraged to venture into business if they associate with friends who encourage them to do so.
- (vii) Availability of market - people venture into business to satisfy customers where there is a gap in their needs.
- (viii) Good infrastructure - This facilitates access to markets,
- (ix) Political stability. This encourages investment and fosters security.

Any 5 x 2 = 10 marks

4. (a) Characteristics of property insurance include:

- (i) The value of premium charged is dependent on the degree of risk. Higher premium will be paid for risks of high degree and vice versa.
- (ii) It is a contract of indemnity - the owner of the insured property is compensated for the loss of the property upon occurrence of the risk.
- (iii) It is a short term contract - the insurance contract ends after a specific period of time usually one year and must be renewed for the policy to continue being in force,
- (iv) The owner of the property insured is the only one to be compensated - it cannot be assigned to a next of kin or to another individual,
- (v) It has no surrender value - should the insured stop payment of premium before expiry of the contract, he/she is not entitled to any refund from the insurer,
- (vi) There must be an insurable interest in the property to be insured. The insured must be in a position to suffer financial loss in the event of the risk covered happening in order to claim compensation,
- (vii) There is a maximum limit to the amount of compensation - This can be upto the value of the insured property in case of over insurance and the sum insured in case of under insurance,
- (ix) The risk insured is uncertain - it may or may not occur.

Any 5x2= 10 marks

- (b) Elements of effective communication include:
- i) Sender - This is the source of the message.
 - ii) Message - This is the information to be communicated.
 - iii) Channel - This is the medium to be used in conveying the information/message.
 - iv) Encoding - This is the process of forming / generating the message.
 - v) Decoding - This is the process of interpreting the message so received.
 - vi) Receiver - This is the party (person) to whom the message is sent.
 - viii) Feedback - This is the receivers reaction or response to the message.

5. (a)

Laketi Traders'
Profit and Loss Account
For the year ended 31st December 2009

	Shs		Shs
Expenses			
Commission allowed	12,400	Gross profit b/d	1,960,200
Insurance	7,000	Discount received	66,100
Lighting	4,600		
Salaries	78,000		
General expenses	117,800		
Net profit c/d	<u>1,806,000</u>		
	2,026,300		
			2,026,300

Laketi Traders'
Balance Sheet
As at 31st December 2009

	Shs	Shs	Shs	Shs
Fixed Assets				
Premises	850,000		Capital	1,000,000
Motor vehicle	800,000		Add: Net profit	1,806,000
Equipment	550,500			<u>2,806,000</u>
Furniture	350,000	2,550,500	Current Liabilities	
			Creditors	820,000
Current Assets				
Stock	75,000			
Debtors	650,500			
Bank	200,000			
Cash in hand	150,000	1,075,500		
	<u>3,626,000</u>			
				<u>3,626,000</u>

(b) Characteristics of services include:

- (i) Varying quality over time - it is very difficult to standardize the service offered hence the quality cannot be uniform from time to time,
- (ii) Service cannot be stored for future use - service is only consumed at the time it is being offered and any unused service capacity cannot be stored,
- (iii) Service cannot be touched - it is intangible and can only be felt or experienced,
- (iv) Service cannot be separated from the service provider - the provider must directly offer the service to the user,
- (v) Service is perishable - service can only be offered at the time the provider is available,
- (vi) Services cannot be owned by the buyer - ownership cannot be transferred from the provider to the buyer. The buyer only pays for the experience,
- (vii) Services are mobile since they can be provided at different locations.

Any 4x2 = 8 marks

6. b) Types of small scale retail shops that a school leaver may start include:

- (i) Single/unit shops - where the person can sell a wide range of goods in a small fixed shop,
- (ii) Kiosk - the person can put up a simple semi-permanent structure and sell fast moving goods,
- (iii) Tied shop - the person can operate from a permanent building but sell products of a particular manufacturer,
- (iv) Market stall - the person can hire a permanent bench/stall from the county council/municipal market from where to sell goods.
- (v) Canteen - the person can rent a room from an institution and stock goods from different manufacturers.
- (vi) Mobile shop - the person can acquire or hire a vehicle from where to sell goods by moving from one place to another,
- (vii) Automatic vending machines - can hire or buy coin-operated machines for selling goods.

Any 5 x 2 - 10 marks

(b) Circumstances in which a firm may acquire monopoly power include:

- (i) If the firm has the sole right to a production technique. This denies other firms the use of the technique.
- (ii) If the firm has control over strategic inputs. This makes the firm to have sole access to inputs used in the production of the commodity,
- (iii) If the firm is the only one with large capital required for the venture. Other firms may not be able to raise the capital leaving the field to one firm,

- (iv) If the firm enjoys economies of scale. This enables the firm to produce at a lower cost than the other firms.
- (v) If the firm is set up as a parastatal and given exclusive rights of production of a particular product by the government,
- (vi) If firms merge. When firms join together to form one large firm, this gives them advantage due to size,
- (vii) If it is the first firm in a small market that is served by one firm more economically. New firms entering the market may make losses due to low sales hence the original firm remains dominant,
- (viii) If the firm has patent rights/copyright which bars other firms from producing/ selling the products.

Any 5 x 2 = 10 marks

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**BUSINESS STUDIES
MARKING SCHEME**

Paper 2

Oct. / Nov. 2013

2 ½ hours

1 (a) Benefits that may accrue to a country with a large proportion of skilled labour force include:

- (i) Saving on foreign exchange that would have been used to pay expatriates/ imported labour.
- (ii) Production of high quality goods/services as the workers are experts in their respective areas.
- (iii) Increased output of goods/services as the workers are competent due to exploitation of resources.
- (iv) Reduction in cost of production since the labour tends to be efficient/less wasteful.
- (v) Increase in purchasing power/demand due to higher incomes/salaries earned.
- (vi) Reduction in dependency ratio since the employment rate is higher.
- (vii) Enhances creativity/innovation/research leading to new/improved/variety of goods/services.
- (viii) Promotes specialization/division of labour leading to faster production.
- (ix) Eases/simplify setting of wage/employment policy due to abundance/ availability of skilled labour/may reduce labour strife/unrest.
- (x) Increased government revenue due to income taxes levied.
- (xi) Increased foreign exchange due to export of skilled labour.
- (xii) Enhances entrepreneurial culture since skilled labour is more willing to undertake risks.
- (xiii) Adaptability/flexibility as they are ready to embrace changes.

(b) Characteristics of an efficient tax system are:

- (i) Equity - the tax should be fair and just/people should be taxed according to their income.
- (ii) Economical - it should be cheap and easy to administer/cost effective/cost of collecting should be lower than the revenue.
- (iii) Convenient - method of payment should be convenient to the tax payer/ favourable to tax payer.
- (iv) Certainty - tax payer/collector should know what, when and how to pay/collect.
- (v) Flexibility - where tax is used as an instrument of national policy, it should

be adaptable to all circumstances.

- (vi) Simplicity - it should be easily understood.
- (vii) Elasticity - proceeds from taxation should be capable of expanding/contracting in line with changes in income/population.
- (viii) Diversity/wide base. There should be wide range/variety of taxes/should net many tax payers.
- (ix) Difficult to evade. Should not create loopholes for people to avoid.
- (x) Should regulate the economy.

Any 5 @ 2 = 10 marks

2 (a) Benefits that Kenya may get as a member of COMESA include:

- (i) Free flow of goods and services.
- (ii) Expanded market for goods and services.
- (iii) Reduced costs of operating businesses as a result of increased scale of operation.
- (iv) Production of competitive/quality goods and services.
- (v) Possibility of political cooperation.
- (vi) Increased variety of goods to choose from.
- (vii) Improved infrastructure to facilitate conduct of business.
- (viii) Creation of employment opportunities due to increased trading.
- (ix) Attracts investment due to greater demand.
- (x) Lower prices of goods due to abolition of tariffs.
- (xi) Encourages specialization where countries enjoy comparative advantage.

(b) Factors that may hinder economic development in Kenya include:

- (i) Inaccessibility to appropriate technology leading to low quality/quantity.
- (ii) Inadequate research data.
- (iii) Poor development planning.
- (iv) Inadequate skilled labour force.
- (v) Inadequate natural resource endowment.
- (vi) Brain drain-skilled man power seeking greener pastures elsewhere.
- (vii) Low demand for goods/services.
- (viii) Negative socio-cultural practices.
- (ix) Inadequate/lack of foreign exchange.
- (x) Poor governance/corruption.

3 (a) Benefits that may be realized by a country as a result of government policy to relocate industries to rural areas include:

- (i) Increased availability of variety of goods and services as a result of new businesses in the area.

- (ii) Availability of auxiliary services - citizens would enjoy more and better auxiliary services like transport.
- (iii) Increased job opportunities - there will be more jobs available that would reduce unemployment.
- (iv) Increased utilisation of locally available resources - locally available factors of production will be used and the citizens would earn rewards associated with them.
- (v) Improved standard of living as development of the rural areas increases the quality and variety of goods and services.
- (vi) Reduced congestion in towns - this would benefit the few citizens remaining in the city.
- (vii) Balanced economic development as economic activities are spread throughout the country.
- (viii) Transfer of technology to rural areas which leads to production of better quality goods/services.
- (ix) Creation of market for goods/services produced in rural areas.

Any 5 @ 2 = 10 marks

(b) (i)

Soilo Traders			
Trading, Profit and Loss Account			
For the year ending 31st December 2010			
	Shs		Shs
Opening stock	75,000	Sales	500,000
Add: Purchases	395,000		
Goods available for sale	<u>470,000</u>		
Less: Closing stock	<u>170,000</u>		
Cost of Goods Sold	<u>300,000</u>		
Gross profit c/d (40% x 500,000)	<u>200,000</u>		
	<u>500,000</u>		<u>500,000</u>
General expenses	60,000	Gross profit b/d	<u>200,000</u>
Net profit	<u>212,000</u>	Rent income	<u>72,000</u>
	<u>272,000</u>		<u>272,000</u>

(11 x ½ = 5½ marks)

(b) (i)

**Soilo Traders
Balance Sheet
As at 31st December 2010**

	Shs	Shs		Shs	Shs
<u>Fixed assets</u>			Capital	1,000,000	
Machinery	360,000		Add: Net profit	<u>212,000</u>	1,212,000
Furniture	<u>430,500</u>	790,500			
<u>Current assets</u>			<u>Current Liabilities</u>		
Stock	170,000		Creditors		101,550
Debtors	62,250				
Bank	202,000				
Cash	<u>88,800</u>	<u>523,050</u>			
		<u>1,313,550</u>			<u>1,313,550</u>

(9 x ½ = 4 ½ marks)

4 (a) Advantages of advertising to the consumer include:

- (i) Consumers become aware of existence of a product and where it can be found.
- (ii) Consumers enjoy high quality goods resulting from competitive advertising.
/Producers seek to maintain very high standards of quality.
- (iii) Makes it easy for consumers to choose products from a variety offered in the market based on their advertised quality and contents.
- (iv) Protects consumers from exploitation since they are aware of prices and quality of items and can therefore enforce their rights.
- (v) Communicates changes about the producer like new product lines, change of name and physical address. This enhances convenience for the customers.
- (vi) Educates the consumers on the proper use of products where advertising messages involve demonstrations of product usage.
- (vii) Entertainment by use of drama/music/plays.
- (viii) Aiding budget/planning as they are made to know about price and existence of goods.
- (ix) May enjoy lower prices due to competition.
- (x) Correct misconceptions hence assist in making decisions. Any 5 @ 2 = 10 marks

(b)

Jumo Traders
Three Column Cash Book

Dr					Cr				
Date	Details	Discount Allowed	Cash	Bank	Date	Details	Discount Received	Cash	Bank
		Shs	Shs	Shs			Shs	Shs	Shs
Jan 1	Bal b/d		22,500	250,000	Jan 15	Ndaru Traders	16,000	184,000	
2	Sales		465,200		20	Bank (c)		200,000	
5	Kamau Traders	23,750		451,250	25	Wages		144,000	
20	Cash (c)			200,000	28	Mbago Traders	45,000		255,000
29	Bank (c)		250,000		29	Cash (c)			250,000
30	Cash (c)			150,000	30	Bank (c)		150,000	
					31	Bal c/d		59,700	546,250
		23,750	737,700	1,051,250			61,000	737,700	1,051,250

(20 x ½ = 10 marks)

5 (a) Circumstances under which a trader may use air transport:

- (i) Perishable nature of goods since they go bad/get damaged.
- (ii) Goods are of high per unit value since they are prone to theft.
- (iii) Urgency - where goods require to arrive at the destination promptly.
- (iv) Security - where security of goods is of valuable consideration.
- (v) Where other means of transport are unavailable.
- (vi) Where distance to be covered is too large.
- (vii) Where it is the policy of the business which needs to be followed.
- (viii) Where destination is remote making it inaccessible by other means.

Any 6 @ 2 = 12 marks

(b) Ways through which a public limited company may be dissolved include:

- (i) A resolution by the shareholders to dissolve the company. When there is a unanimous decision by the shareholders to wind up the company during the annual general meeting.
- (ii) Change in the country's law that renders the activities of the company illegal/unlawful. When the laws of a country bars certain activities that the company may have been involved in.
- (iii) Inability to repay financial debts on infringement of stakeholders' rights.
- (iv) Amalgamations/mergers - a company may be dissolved if it combines with another and a new one replaces the one combining/creates a new entity.
- (v) Take overs/acquisition/absorption - a company may be dissolved if it is taken over by another/or by the government through acquisition of majority shares hence redirection of its activities/loss of identity.
- (vi) Realization of sustained / continuous losses. A company may be dissolved when

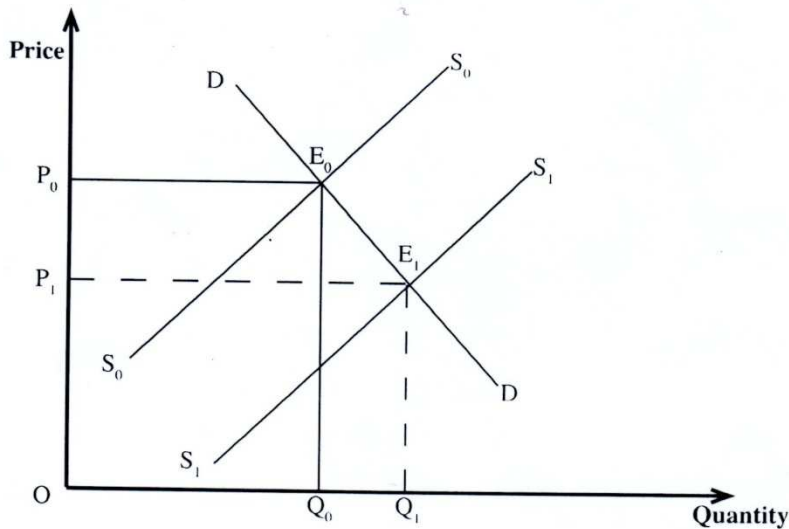
it makes losses continuously to the extent of not being able to meet its recurrent expenditure/insolvency.

- (vii) Court order for infringing on the law/granted to a complaint raised by stakeholders/acting ultravires.
- (viii) Completion/fulfilment of task/activity/objective (for which the company was formed) hence making its continued existence unnecessary.
- (ix) Failure to commence business within one year after incorporation thus contravening the company's act.

Any 4 @ 2 = 8 marks

6.

- (a) The effect of an increase in the supply of a commodity while the demand remains constant:



Other factors remaining the same, the price of a commodity will fall from P_0 to P_1 as the quantity supplied changes from Q_0 to Q_1 . This creates a new equilibrium E_1 from E_0 as supply curve shifts to the right from S_0 to S_1 . The increase in supply causes excess supply/surplus. This lowers price to the new equilibrium price P_1 and equilibrium quantity Q_1 .

Diagram - 16@ $\frac{1}{2}$ = 8 marks

Explanation - 4 @ $\frac{1}{2}$ = 2 marks

Total = 10 marks

b)

- (i) Firms are interdependent in decision making. Firms keenly observe each others' actions/decision hence acting in any way triggers counter reactions (from other firms).
- (ii) Firms deal in products that are homogenous or similar. The products are close substitutes of each other and are only differentiated in terms of aspects like colour/packaging/shapes/pricing/branding.
- (iii) Firms may engage in non-price competition/collusive oligopoly. The firms under oligopoly may avoid price wars hence only compete via other means like aggressive advertising/after sales services/market segmentation/fixing quotas.
- (iv) Unpredictability of behaviour/uncertainty since firms under oligopoly keep reacting to market changes differently/actions taken by other firms within the market may take others by surprise.
- (v) The market is made up of a few large firms since such firms operating under oligopoly tend to have a large capital outlay/make extensive use of modern technology in their production activities/control substantial share of the market.
- (vi) There are limiting factors such as large capital investment required to be a player in this market/the level of technology involved may keep off possible entrants into the market/intimidation/collusion.
- (vii) Firms may engage in price wars/rivalry/cut throat competition which may lead to survival/collapse of some firms.
- (viii) May lead to price rigidity/kinked demand occasioned by fear of other firms' reactions.
- (ix) There may be price leadership where the dominant firm dictates the market price/rules the market.

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BUSINESS STUDIES

Paper 2

Oct. / Nov. 2014

2 ½ hours

1. (a) Benefits that a firm may enjoy by preparing a business plan

- i. Sourcing for finance/capital/loans/credit/it can be used to convince financial institutions/investors to fund the firm's operations
- ii. A tool for evaluation. It can be used to determine whether the firm is achieving its goals/objectives/helps to make necessary adjustments
- iii. A tool for management. It can be used for structuring/the implementation of the functions. A tool for planning /organizing /directing/staffing /coordinating /budgeting/communicating/controlling
- iv. Gives then firm a competitive edge. It enables the firm to get a better understanding of the market/ competitors
- v. Enhances efficiency in the use of resources of the firm, it ensures that the resources available are allocated /used in the best way possible
- vi. Motivational tool. It inspires the management/employees/creates team work in accomplishing the objectives of the firm.
- vii. Frame work/ for implementing a new business. Thus assisting management in decision

(b) Demerits that a country may suffer when the government becomes a major investor in business include;

- i. Discourage private investment. the move may discourage private investment due to the unfair competition /acquisition of monopoly powers/favourable laws
- ii. Poor quality goods and services. The quality of goods and services may be compromised due to lack of competition/government employees also lack enthusiasm since there is not profit motive.
- iii. Limited choices for consumers. Where the government is the only provider of goods service, consumers may be denied a variety to choose from.
- iv. Inefficiency. Leading to poor productivity; wasteful of resources / continuous loss /due to unqualified state/poor supervision.
- v. Burden to tax payers. The investments may drain public resources/increase in government expenditure in situations where the enterprise is not able to sustain itself (hence burdening the tax payers)
- vi. Lack of accountability. Managers of government run businesses tend to misappropriate and emblezzle public funds/ insure public funds
- vii. Unstable management/government run businesses are prone to frequent changes in their management occasioned by changing political leadership

(any 5x2= 10 marks)

**2. (a) NDOVU TRADERS
THREE COLUMN CASH BOOK**

Date	Details	Discount allowed	Cash (shs)	Bank (shs)	Date	Details	discount received	Cash (shs)	Bank (shs)
Jan 1 st	Bal b/d		30,000	75,000	Jan 2 nd	Purchase		15,500	
Jan 5 th	Chui	1,250	23,750		Jan 8 th	Drawings			8,900
Jan 11 th	Maro	800		16,000	Jan 17 th	Furaha	900	29,100	
Jan 15 th	Sales		24,250		Jan 20 th	Cash			15,000
Jan 20 th	Bank		15,000		Jan 25 th	Wages		21,000	
Jan 22 nd	Koko	1,000		39,000	Jan 30 th	Bal c/d		27,400	106,100
		<u>3,050</u>	<u>93,000</u>	<u>130,000</u>			<u>900</u>	<u>93,000</u>	<u>130,000</u>
	Bal b/d		27,400	106,100					

(24 x ½ = 12 marks)

(b) Reasons for which traders observe ethical practice in product promotion include;

- i. To avoid misleading the consumers by making false claims about their products
- ii. To ensure that consumers are not offended by not making use of appeals that go against their cultural values
- iii. To avoid exploiting certain groups like children since they lack the knowledge /experience to understand /and evaluate the purposes of (persuasive) appeals
- iv. To avoid negative influence of the consumers (values and lifestyles) that may lead to immorality/ill health/ glorifying the image of the alcohol and cigarettes.
- v. To avoid portraying rival businesses negatively/sabotaging competition in an attempt to capture the market/gain undue advantage/ensure health competition.
- vi. To create a positive image/reputation hence maintaining customer loyalty.
- vii. To abide by the laws of the country/to avoid law suits/conflicts/friction within law enforcement against government
- viii. To avoid environmental pollution /degradation; by not hindering/making excessive noise /using environmental friendly promotion materials.

(Any 4x2=8marks)

3. (a) Objectives that may be attained by establishing firms in different parts of the country include;

- i. To reduce rural-urban migration (setting up firms in several parts of the country) may curb the influx of people from rural to urban areas. This helps to retain the productive population in the rural areas/accept correct value addition or explanation
- ii. To utilize local resources (establishing firms in various parts of the country) will enhance the use of idle resources in those areas; raise standards of living

- iii. To create employment/job opportunities. This is a sure way of creating employment opportunities in several parts of the country
- iv. To provide balanced regional/development (creating firms in various parts of the country) will ensure that all parts grow/develop at the same rate/time
- v. To promote development of infrastructure(setting up of firms) will encourage the growth of infrastructure like roads/power/water/railway/communication in various parts of the country
- vi. To promote development of social amenities as schools/health facilities (when firms are set up in various parts of the country) social amenities will also be developed
- vii. To reduce social problems. Migration to particular areas with firms is discouraged hence avoiding congestion and other associated problems
- viii. To promote urban growth. It will encourage the establishment of urban centres in different parts of the country hence encourage growth of market economy/commercial activities/accept any benefits of urbanization expansion
(any 5x2=10marks)

(b) Accounting documents that are used in home trade include;

- i. **Invoice.** This is a document sent by the seller to a buyer demanding payment for goods supplied. It shows details of the goods (quantity, unit price, value, discount given, net payment and terms of payment) Sold/bought on credit/source document for sale.
- ii. **Debit note.** A document sent by the seller to the buyer to correct,,,,,, undercharge. It is used when the invoice shows a lesser amount than what is actually owed/additional invoice/when empty containers have not been returned (and hence to be charged)
- iii. **Credit note.** A document sent by the seller to the buyer to correct an overcharge/ it is used when goods are returned to the seller/because they are defective/not the ones ordered /they were not required
- iv. **Receipt.** This is a document issued by the seller to the buyer when payment is made (for goods /services)
- v. **Consignment note.** To support hire carriage services/shows transport charges
- vi. **Bank deposit slip.** Evidence of paying money into the bank/source document for cash receipt
- vii. **Bank statement.** a summary/details of transaction between traders and bank
- viii. **Statement of account.** This is a document sent by the seller to the buyer showing details of transaction for the month with a running balance shown with each entry/closing/opening balance

- ix. **Payment voucher.** A document used to validate payment for service /goods rendered. It is issued by a cashier and signed by the service provider/payee/recipient/documenting goods for petty cash book.
- x. **Remittance advice note.** This is a document that accompanies a cheque issued for settlement of a debt. It provides information on the payment
- (any 5x2 =10 marks)

4. (a) Calculating;

i. Turnover = sales-returns inwards
 = 1,155,000 – 30,000
 = Kshs. 1,125,000
 (4x ¼ =1mark)

ii. Rate of stock turnover (ROSTO)
 Rosto = $\frac{\text{Cost of goods sold}}{\text{Average stock}}$
 Cost of goods sold = opening stock+ purchases+ carriage inwards- closing stock
 Rosto= $\frac{430,000 + 930,000 + 10,000}{(430,000 + 470,000) \div 2}$
 = $\frac{880,000}{40,000}$
 = 22
 (6x ½ =3marks)

iii. Mark up = $\frac{\text{GP}}{\text{Cost of goods sold}}$
 = $\frac{240,000}{880,000}$
 = $\frac{245,000}{88,000}$
 =]]]]] = 27.84%
 = 28%
 (4x ½ =2marks)

iv. Margin = $\frac{\text{GP}}{\text{Sales}}$
 = $\frac{245,000}{1,125,000}$
 = $\frac{49}{225} = 21.77\%$

$$= 21.8$$

$$= \underline{22\%}$$

(4x ½ =2marks)

v. Net profit = Gross profit – Expenses
 = 245,000 (25,000+100,000+25,000)
 = 95,000 (4x ½) =2marks)

(b) Guidelines that should be followed by the government in its expenditure include

- i. Maximum benefit/optimal/maximum social benefit government spending should benefit as many people as possible
- ii. Flexibility. Should be capable of being changed to accommodate prevailing (economic) circumstances
- iii. Economy. Should be cost effective in order to minimize wastage
- iv. Equity. Should aim at distributing incomes/resources fairly
- v. Sanction. Government/public spending must be approved by the relevant authority/parliament to enhance accountability.
- vi. Accounting/proper accounting records should be kept to facilitate financial management
- vii. Productivity. A larger proportion of the national income should be spent on development projects/ projects that yield (high) returns
- viii. Surplus. Expenditure should be less than the total revenue collected
- ix. Elasticity. Should be capable of expanding depending on the size of the economy. (any 5x2=10marks)

5. (a) Disadvantages that a developing country may suffer by liberalizing foreign trade include

- i. May lead to dumping of inferior products into the country
- ii. May cause over exploitation of resources leading to their depletion
- iii. May lead to loss of jobs due to closure of firms cannot cope with stiff competition
- iv. May contribute to worsening balance of payment situation as developing countries have fewer/lowly valued exports
- v. Cultural values/beliefs/morals may eroded due to culture
- vi. Entry of harmful goods. Goods with harmful ingredients such as beauty creams and drugs may find their way into the country.
- vii. Slow economic development. The country may stagnate due to influx of foreign goods/services

- viii. Brain drain. The developing country loses skilled personnel to better developed countries who provide better pay/amenities/working conditions.

(any 5x2=10marks)

(b) Features of monopolistic competition include

- i. Many sellers/buyers. The market is comprised of many sellers/buyers who operate independently /which allows level play ground in the market
- ii. Free entry/exit form market. There are no barriers to entry into /exit from the market
- iii. Commodities sold are very close substitutes/firms sell similar products, but which are highly differentiated by names/shapes/colour/oduor and packaging
- iv. All firms earn normal profits in the long run. Since supernormal profits attracts new firms
- v. Firms are independent. there is little interdependence in terms of pricing/quantities to produce/output decision
- vi. Entry or exit of a single firm does not significantly affect the market. None of the firms can influence the market supply by joining or leaving the industry/by decrease/increase
- vii. No single firm has control over the factors of production. All firms acquire the factors at the prevailing market rates and conditions
- viii. Wide knowledge of the market. Buyers/sellers are aware of the prices/quantities and other market factors

(10 marks)

6. (a) Sources of finance for a public limited company apart from the sale of shares include;

- i. Borrowing from financial institution/banks to be paid over a long period
- ii. Trade credit. Buying goods for re-sale on credit so as to pay at a later date
- iii. Hire purchase. Buying goods and paying for them on installments basis
- iv. Debentures. Borrowing from members of the public for which interest is paid at a fixed rate and over a predetermined period of time.
- v. Sale/public lease back. Selling an asset like a building and then hiring it back for activities specified period of time
- vi. Retained profits. Earnings/profits made are not shared out as dividends but ploughed back into the business.
- vii. Bank overdraft. Negotiated/borrowed from banks to finance short term obligation
- viii. Mortgage; Loans secured against (immovable fixed) property assets
- ix. Factoring; obtaining a loan against value of debtors
- x. Discounting bills of exchange/promising note. Receiving payment from financial institutions at a discount against bills of exchange before their maturity.

- xii. Use of reserves provisions. The company may make use of funds set aside for depreciation, tax and bad debts to finance its day to day operations.

(any 5x2 = 10 marks)

(b) Factors that may have caused a decline in the demand for wooden furniture include;

- i. Decline in consumer incomes. This may reduce their purchasing power hence less able to afford the furniture
- ii. Fall in the price of substitutes. Furniture made from other materials like plastic/metal may be cheaper.
- iii. Increase in the price of wooden furniture. This makes the furniture to be out of reach for most consumers
- iv. Government policy/law regulation. The government may have increased rates on timber products hence making the furniture more expensive
- v. Unfavourable change in tastes/preferences/fashion. Consumers may be purchasing more plastic and metallic furniture
- vi. Decline in population/a decrease in population will lead to reduced numbers of potential and actual customers.
- vii. Expectations of a future fall in price. Consumers may be anticipating a fall in price in the future hence currently suspend buying/postpone/differ
- viii. Low season; which may lead to fewer sales/low sale
- ix. Introduction of new substitute products; which would take away buyers for the wooden furniture
- x. Decreasing in advertising/product promotion; which may lead to fewer buyers.

(any 5x2= 10 marks)