

28.0 BUSINESS STUDIES (565)

Business Studies is comprised of Commerce, Accounting, Economics and Office Practice which were formerly tested as separate subjects. It also borrows from Entrepreneurship. One of the major objectives of Business Studies is to expose the candidates to broad areas of study and leave them to specialize at post secondary level. For those who may not go for further education, the objective is to enable them be self-reliant and partake of national development through entrepreneurship.

Business Studies was tested in two papers. Paper 1 (565/1), had 25 short answer structured items and was marked out of 100 marks. Paper 2 (565/2), had six extended answer questions out of which the candidates were expected to attempt five questions. The paper was also marked out of 100 marks.

28.1 GENERAL CANDIDATES' PERFORMANCE

The table below shows candidates' overall performance in Business Studies (565), in the year 2009.

Table 33: Candidates' Overall Performance in the year 2006, 2007, 2008 and 2009

Year	Paper	Candidature	Maximum Score	Mean Score	Standard Deviation
2006	1		100	54.46	18.61
	2		100	38.02	18.19
	Overall	110,630	200	92.47	35.00
2007	1		100	64.03	18.76
	2		100	46.27	15.54
	Overall	118,361	200	110.29	32.00
2008	1		100	43.79	15.96
	2		100	31.65	16.81
	Overall	127,500	200	75.45	31.28
2009	1		100	38.93	15.77
	2		100	31.95	15.35
	Overall	147,212	200	70.85	29.75

From the table above, the following observations can be made:

- 28.1.1 The subject is very popular as attested to by the candidature which was 147,212. This was an increase in candidature as compared to the year 2008 when enrollment was 127,500.
- 28.1.2 Performance of candidates in the subject was below average with a mean score of 70.85.
- 28.1.3 Candidates performed better in paper one (565/1), when compared with Paper 2 (565/2) as per the respective means of 38.93 and 31.95. This implies that most candidates find it easier to tackle the short answer questions in Paper 1 (565/1) as compared to the extended answer questions in Paper two (565/2).

Generally the paper registered a drop in overall performance with the mean being 70.85 as compared to the previous year 2008, when the mean was 75.45. This report discusses some of the questions that candidates found challenging in the two papers offered for the Business Studies examination.

28.2 PAPER 1 (565/1)

Question 8

State **four** items that usually appear on the credit side of the current account of a country

The question required the candidate to give only those items that are recorded on the credit side of the current account of a country.

Weaknesses

The question was poorly performed since most candidates did not realize that a country only keeps one current account from international trade transactions. Most of them thought it was a bank account, while some who knew gave items that are normally recorded in the debit side of the current account.

Expected Responses

- (i) Receipts from exports of goods
- (ii) Receipts from exports of services
- (iii) Receipts from investments abroad
- (iv) Deficit balance.

Advice to Teachers

Teachers should ensure that they cover the balance of payment accounts and that the candidates are well versed in the contents of the current accounts.

Question 14

Country X has been experiencing an upward trend in the price of petrol as a result of a rise in inflation. State **four** steps that can be taken to minimize expenditure on this product. (4 marks).

This question required the candidates to give the steps that can be taken to reduce expenditure on petrol.

Weaknesses

The question was poorly performed as most candidates gave responses related to how to curb inflation and not how to reduce expenditure on petrol.

Expected Responses

- Pooling people who are travelling to the same direction.
- Use of alternative sources of energy.
- Encourage use of public service vehicles with higher carrying capacity.
- Encourage public service vehicles/machines with lower engine capacity/fuel saving engines.
- Set maximum price through legislation.
- Reduce price on petrol/give subsidy.
- Improve road network.
- Encourage regular maintenance of vehicles/machines.
- Switch off engines when not in use.

Advice to Teachers

Teachers should expose learners to emerging issues and current problems affecting business activities in their environment. Candidates must be made to apply their knowledge of business studies to tackle real problems in society.

Question 18

Outline **four** reasons why hypermarkets are becoming increasingly popular in Kenya.

This question only required candidates to give advantages of hypermarkets.

Weaknesses

Many candidates did not understand the meaning of hypermarkets and therefore gave answers that were not relevant.

Expected Responses

- Easily accessible.
- One-stop shop. A range of goods and services may be obtained.
- Parking space is available.
- Availability of auxiliary services.
- Operate for longer hours.
- Accept credit/debt cards.
- Offer after-sales services.
- Security is guaranteed.
- Located away from the hassles of the costly.
- Attractive and convenient to shop in.
- Saves on land rates.

Advice to Teachers

Teachers should cover the syllabus thoroughly. Hypermarkets is part of the large scale retailers contained in the syllabus and should therefore be taught. Use of field trips to expose students to such business ventures should be employed to improve their grasp of such topics.

28.3 PAPER 2 (565/2)

Question 2(b)

The trial balance of Zakayo Traders as at 1st June 2008 is given below:

	Dr	Cr
	<u>Shs</u>	<u>Shs</u>
Stock	76,500	
Creditors		450,000
Debtors	350,000	
Bank	260,400	
Fixed Assets	970,200	
Cash	120,500	
Capital		1,300,000
Lighting due		27,200
	<u>1,777,600</u>	<u>1,777,600</u>

During the month, the following transactions took place:

2008

June 5: Paid a creditor shs.228,000 by cheque in full settlement of a debt after deducting 5% cash discount.

June 15: Withdrew Shs.100,000 from bank for office use.

“ 28: Received Shs.160,000 cash from a debtor after allowing cash discount of Shs.40,000.

Record the above transactions in the relevant ledger accounts and balance them off. **(10 marks).**

The question required the candidate to record the transactions in their relevant ledger accounts and balance them off.

Weaknesses

The question was poorly performed since many candidates were not able to give the correct account titles, some did not prepare the requisite ledger account columns and still some did not understand the sides into which the figures were to be entered. Candidates generally showed lack of mastery of the double entry concept and therefore lost focus of the question.

Expected Responses

Cash A/c			Bank A/c		
Dr	Shs	Cr	Dr	Shs	Cr
June 1 Bal b/d	120,500		2008		
" 15 Bank	100,000	June 30 Bal c/d	June 1 Bal b/d	260,400	June 5 Creditors
" 28 Debtors	160,000		" 30 Bal c/d	67,600	" 15 Cash
	<u>380,500</u>	<u>380,500</u>		<u>328,000</u>	<u>328,000</u>

Debtors A/c			Creditors A/c		
Dr	Shs	Cr	Dr	Shs	Cr
2008		2008	2008		
June 1 Bal b/d	350,000	June 28 Cash	June 5 Bank	228,000	June 1 Bal b/d
		160,000	" 5 Disc Rec'd	12,000	
		" 28 Disc All	" 30 Bal b/d	210,400	
		40,000			
		" 30 Bal c/d			
		150,000			
	<u>350,000</u>	<u>350,000</u>		<u>450,400</u>	<u>450,400</u>

Discount Allowed A/c			Discount Received A/c		
Dr	Shs	Cr	Dr	Shs	Cr
2008		2008	2008		
June 28 Debtors	40,000	June 30 P&L A/c	June 30 P&L A/c	12,000	June 5 Creditors
		40,000			12,000

Advice to Teachers

The ledger must be taught thoroughly and candidates be exposed to a lot of exercises on the double entry concept to enhance their grasp of this topic.

Question 4(b)

Analyse the following document issued by Sheikh Traders.

Sheikh Traders

P.O. Box 2354
Nairobi
No. 4262
12th October 2008

Debt
Kamau Limited
P.O. Box Y125
Molo.

Terms: 10 Percent one month on furniture only

Quantity	Items	Rate	Shs	Shs
60	Dining Tables-Mvuli	4,000	240,000	
4	Beds	2,000	8,000	
50	Coffee Tables	1,000	50,000	
			298,000	
	Less: Trade discount 10%		29,800	268,200
4	Floor Carpets	2,500	10,000	
	Less: Trade discount 10%		1,000	9,000
	Carriage			7,500
	E & O.E		Total	284,700

- (i) Name the document above
- (ii) Calculate the amount paid for the goods, if the debtor paid on 28th October 2008.

Weaknesses

Quite a number of candidates were unable to identify the document and calculate the amount payable after determining cash discount.

Expected Responses

- (i) The document is an invoice
- (ii) By paying for the goods in 28th October 2008, the debtor qualifies for the cash discount on furniture:

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

Advice to Teachers

Teachers must ensure that candidates are exposed to samples of the documents used in home trade and also help them practice the calculation of discounts (both trade and cash discounts).


29.26.1 Business Studies Paper 1 (565/1)

- 1 State **four** factors that may affect the geographical mobility of labour. (4 marks)
- 2 Outline **four** ways in which Commercial Attaches may promote trade between their country and other countries. (4 marks)
- 3 Amboseli Enterprises has been spending heavily on promotion for its products though its sales have consistently declined. Outline **four** measures that the company may take to reverse the trend. (4 marks)
- 4 Write the type of demand represented by each of the following statements.
 - (i) Demand for a commodity causes an increase in demand for another commodity
 - (ii) Demand for one commodity calls for demand of another commodity
 (2 marks)
- 5 The following balances were extracted from the books of Saku Traders on 31 March 2008.

Fixed assets	300,000
Current assets	123,700
Creditors	84,500
5-year loan	125,000

Determine the networth of the business as at 31st March 2008. (4 marks)
- 6 Indicate the type of journal in which each of the following transaction would be recorded.

	Transaction	Type of Journal
(i)	Goods previously sold on credit were returned	
(ii)	Goods bought on credit	
(iii)	Goods sold for cash	
(iv)	Motor vehicle sold on credit	

 (4 marks)
- 7 A trader has decided to take a loan to expand a manufacturing business. Give **two** reasons why it is beneficial to borrow from a non-bank financial institution. (4 marks)
- 8 State **four** items that usually appear on the credit side of the current account of a country. (4 marks)
- 9 Outline **four** benefits that may accrue to a business from a country's political stability. (4 marks)
- 10 A lucrative manufacturing firm has been constantly releasing toxic wastes into the neighbourhood. Outline **four** measures you can take to stop the firm from such malpractice. (4 marks)
- 11 Outline **four** factors that should be considered in the choice of a means for transporting perishable goods. (4 marks)

- 12 Outline **four** circumstances under which face to face communication may be ineffective. (4 marks)
- 13 Highlight **four** benefits that would accrue to a firm located near other existing firms. (4 marks)
- 14 Country X has been experiencing an upward trend in the price of petrol as a result of a rise in inflation. State **four** steps that can be taken to minimize expenditure on this product. (4 marks)
- 15 Outline **four** reasons why an increase in per capita income may not necessarily lead to a rise in the standard of living of the citizens. (4 marks)
- 16 The bookkeeper of Tande Traders extracted the following information from the accounting records.

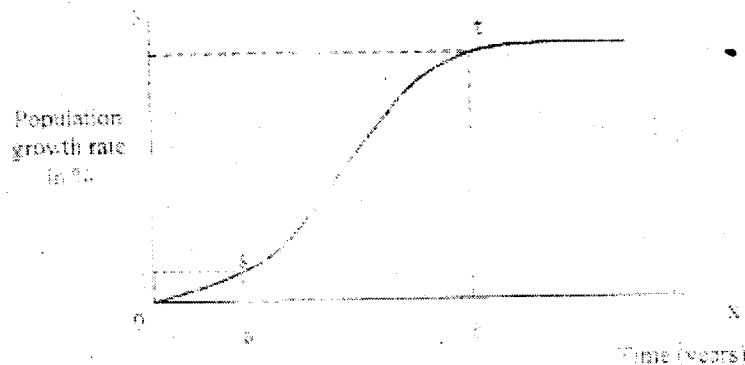
	1.1.2007	31.12.2007
	Sh	Sh
Suppliers	465,000	640,000
Discount received	-	12,000
Purchases returns	-	25,000

During the year ended 31.12.2007, suppliers were paid Sh 1,500,000 while cash purchases amounted to Sh 800,000.

Determine the purchases for the year.

(5 marks)

- 17 Outline **four** circumstances that would make an office manager to replace an existing machine with a modern one. (4 marks)
- 18 Outline **four** reasons why hypermarkets are becoming increasingly popular in Kenya. (4 marks)
- 19 The graph below shows the rate of population growth of a given country.



Outline **four** factors that may have contributed to the trend between s and t.

(4 marks)

- 20 Kazim maintains a petty cashbook on a weekly imprest of Sh 13,000. On 1st April 2007 the cash balance was Sh 2,570. During the week of April, the following transactions took place.

2007

April 2 Received reimbursement from the main cashier
" 3 Paid Sh 3,070 for cleaning materials
" 4 Paid Sh 2,000 bus fare
" 6 Bought stationery worth Sh 2,200.

Prepare a petty cashbook to record the above transactions using cleaning, stationery and bus fare columns.

(5 marks)

- 21 Highlight **four** circumstances under which business enterprises may choose to merge.

(4 marks)

- 22 The following information relates to Maji Mazuri Traders as at 31.12.2008.

Fixed assets	400,000
Stock	120,000
Current liabilities	60,000
Net profit for the current year	100,000

Calculate:

(i) rate of return on capital employed;

(ii) current ratio.

(4 marks)

- 23 Highlight **four** factors that must be considered before incurring public expenditure.

(4 marks)

- 24 Outline **four** benefits that accrue to the government as a result of privatization of public enterprises.

(4 marks)

- 25 KAMAT owned a motor vehicle valued at Sh 1,000,000. He comprehensively insured the car at Sh 800,000. The motor vehicle was involved in an accident and declared a write off.

Calculate the amount KAMAT should get from the insurer.

(4 marks)

29.26.2 Business Studies Paper 2 (565/2)

- 1 (a) Explain five features of sole proprietorship form of business. (10 marks)
- (b) Explain five measures that the government may take to improve the volume of exports. (10 marks)
- 2 (a) Explain five demerits that may be associated with water transport. (10 marks)
- (b) The trial balance of Zakayo Traders as at 1 June 2008 is given below.

	DR Sh	CR Sh
Stock	76,500	
Creditors		450,400
Debtors	350,000	
Bank	260,400	
Fixed assets	970,200	
Cash	120,500	
Capital		1,300,000
Lighting due		27,200
	<u>1,777,600</u>	<u>1,777,600</u>

During the month, the following transactions took place.

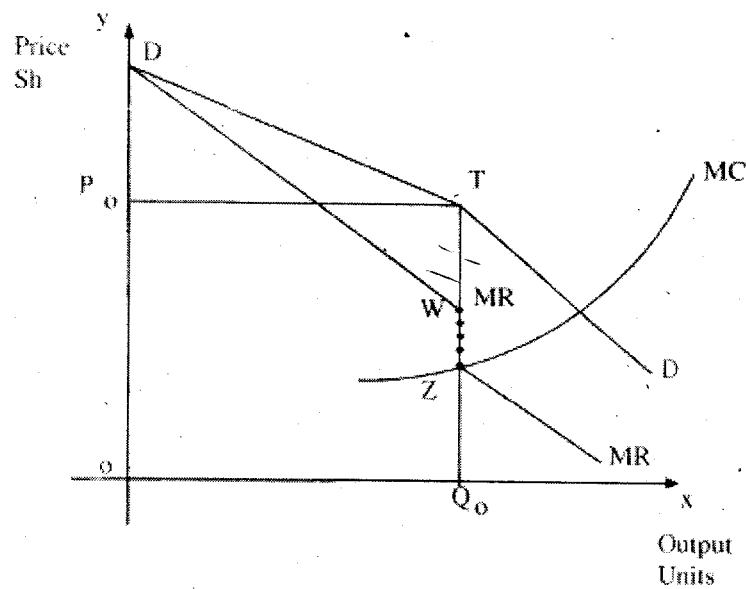
2008

- June 5 Paid a creditor Sh 228,000 by cheque in full settlement of a debt after deducting 5% cash discount.
- 15 Withdrew Sh 100,000 from bank for office use.
- 28 Received Sh 160,000 cash from a debtor after allowing cash discount of Sh 40,000.

Record the above transactions in the relevant ledger accounts and balance them off.

(10 marks)

- 3 (a) The diagram below shows an oligopolist kinked demand curve DD and current price and quantity at P_0 and Q_0 respectively.



- (i) Name the curve represented by the gap WZ.
 - (ii) State why the curve WZ is vertical to price axis.
 - (iii) Advice when the oligopolist can raise and lower the price of the commodity. (10 marks)
- (b) Explain five ways in which the government of Kenya may reduce the level of unemployment. (10 marks)

- 4 (a) Using a diagram, explain the circular flow of income in a two sector economy. (10 marks)
- (b) Analyse the following document issued by Sheikh Traders.

Sheikh Traders		P.O. Box 235Y Nairobi		
		No. 4262 12 October 2008		
Debit				
Kamau Limited				
P.O. Box Y125				
MOLO				
Terms: 10 per cent one month on Furniture only				
Quantity		Rate Sh	Sh	Sh
60	Dinning tables Mvuli	4,000	240,000	
4	Beds	2,000	8,000	
50	Coffee Tables	1,000	<u>50,000</u>	
			298,000	
	Less Trade discount 10%		<u>29,800</u>	268,200
4	Floor carpets	2,500	10,000	9,000
	Less Trade discount 10%		<u>1,000</u>	
	Carriage			<u>7,500</u>
	E & O.E		Total	284,700

Required:

- (i) Name the document above.
- (ii) Calculate the amount paid for the goods, if the debtor paid on 28 October 2008.
- (iii) Determine the net profit of the business if transaction (ii) above was Sh 120,400 and the debtor paid for the goods on 15th November 2008. (10 marks)

- 5 (a) Explain **four** services that the Central Bank of Kenya may offer as a banker to commercial banks (8 marks)

- (b) Malamu Traders had the following balances as at 31 December 2008.

	Sh
Building	540,000
Bank loan	472,500
Debtors	116,900
Creditors	227,000
Furniture	408,170
Gross profit	520,600
Motor vehicle	900,000
Discount allowed	142,000
Lighting	25,200
Interest on loan	1,200
Closing stock	72,500
Rent received	120,000
Repairs on buildings	60,000
Repairs on furniture	72,030
Repairs on motor vehicles	300,000
General expenses	102,100
Capital	1,400,000

Prepare:

- (a) Profit and loss account for the year ended 31 December 2008.
 (b) Balance sheet as at 31 December 2008. (12 marks)

- 6 (a) The following table represents the price and quantity of a commodity.

Month	Price	Quantity
January	80	2,000
February	40	5,000

- (i) Plot the above information on a graph. (5 marks)
 (ii) Calculate the price elasticity of demand. (5 marks)

- (b) Lunga, a sole trader, does not keep a complete set of accounting records. Information extracted from the records are as follows:

	1 January 2007	31 December 2007
	Sh	Sh
Stock	75,000	136,400
Pre-paid salaries	-	8,000
Creditors	142,500	158,400
Debtors	120,000	335,000
Furniture & Equipment	820,000	754,400
18% loan from bank	200,000	-

Cash summary for the year was as follows:

Cash Summary			
	Sh		Sh
Balance b/d	460,800	Payment to creditors	660,500
Bad debts	16,000	Loan (31/12/2007)	50,000
Receipts from debtors	750,000	Salaries	48,000
		Purchases	135,400
		Interest on loan	30,000
		Balance c/d	302,900
	<u>1,226,800</u>		<u>1,226,800</u>

Additional information:

- (i) Interest charged on debtors overdue accounts amounted to Sh 2,000.
- (ii) Bad debts written off amounted to Sh 4,200.

Prepare trading, profit and loss account for the year ended 31 December 2007.

(10 marks)

30.26.1 Business Studies Paper 1 (565/1)

1. Factors that may affect the geographical mobility of labour include:

- unfavourable climatical conditions
- language barriers
- job security
- relocation costs
- inadequate information about job opportunities elsewhere.
- Social ties/relatives/family
- Security of the place
- Cultural/religious differences
- Political stability
- Government policy/immigration rules
- Age
- Social amenities e.g. schools
- Cost of living
- Fear of unknown
- Availability of infrastructure
- Rewards/salary

(Any 4 x 1 = 4 marks)

2. Commercial attaches promote trade in the following ways:

- Assisting business people to participate in external trade fairs and exhibitions
- Conducting market research for local products
- Looking for new markets
- Educate local traders on trade opportunities.
- Organize educational trade tours
- Inform exporters on standards/price of goods/services.
- Promote good relations among countries
- Publish and advertise their countries exports
- Keep statistics of products
- Make detailed report on commercial activities
- Select buyers/agents/distributors of the countries exports
- Inform traders on the procedures and documents required on external trade.

(Any 4 x 1 = 4 marks)

3. Measures that may be taken to reverse declining sales include:

- Ensure that the product reaches the target market.
- Redesign the salient product features
- Improve the quality of the product
- Diversify the use of products
- Provision of information on alternative uses
- Lower the price of the product
- Ensure the product meets the taste and preferences of the target group
- Review promotional strategy
- Carry out market research
- Improve company image.

(Any 4 x 1 = 4 marks)

4. The type of demand represented by statements are:

- Derived demand
- Joint demand/complementary demand

(2 x 1 = 2 marks)

5. Determination of networth of Saku Traders
 Networth = Total assets – Total liabilities
 $\therefore x = 300,000 + 123,700 - (125,000 + 84,500)$
 $= 423,700 - 209,500$
 Networth = 214,200 (8 x $\frac{1}{2}$ = 4 marks)
6. Type of journals referred to are:
 • Sales Returns Journal/Returns inwards
 • Purchases Journal/creditors journal/bought journal
 • Cash Receipt Journal/Cash book
 • General Journal/Journal proper (4 x 1 = 4 marks)
7. Reasons why it is beneficial to borrow from non-bank financial institutions.
 • Gives long term loans
 • Provides finance for capital development/Specific Projects
 • Low interest rates
 • Assists in management of the project
 • Accept lower collateral value
 • Give a longer grace period. (Any 2 x 2 = 4 marks)
8. Items that may appear on the credit side of the current account of a country include:
 • Receipts from export of goods
 • Receipts from export of services
 • Receipt from investment abroad
 • Deficit balance. 4 x 1 = 4 marks
9. Benefits that may accrue from political stability include:
 • High probability of achieving set goals
 • Easy to obtain capital for expansion
 • Cost of operation of business is low
 • Accessibility to the market is enhanced
 • Continuous production activities
 • Easy to invest anywhere in the country for locals/foreigners
 • Accessibility to raw materials
 • Accessibility to auxillary services
 • Enhanced business security
 • Availability of labour (Any 4 x 1 = 4 marks)
10. Measures to stop emission of toxic wastes into neighborhood include:
 • Publicize the malpractice
 • Take legal action/sue the firm
 • Report to National Environmental Management Authority (NEMA)/Relevant authorities
 • Educate the neighbours on their rights
 • Boycot the firms' products
 • Carry out demonstration against the product
 • Reason out with the firm. (Any 4 x 1 = 4 marks)
11. Factors to consider in the choice of a means for transporting perishable goods:
 • Unit value of the product/cost of goods
 • Distance to cover/destination
 • Urgency required at the destination/Speed
 • Specialized facility

- Cost of transport
- Availability of the means
- Reliability of the means
- Terminal
- Flexibility
- Safety of the means
- Volume of goods.

(Any 4 x 1 = 4 marks)

12. Circumstances under which face to face communication may be ineffective include:

- Where there is age difference
- Where the language has semantic problems/different languages
- Where there exists a difference in frame of reference
- Where the credibility of the communicating parties is in question/Negative attitude/bias /prejudice
- Where the receiver has a problem in hearing/hearing impairment
- Unfamiliar/difficult terminology
- Noise
- Poor listening
- Pronunciation problems
- Timing
- Inability to understand gestures
- Prejudgement
- Information overload
- Emotional responses eg fear, joy, hunger etc.

(Any 4 x 1 = 4 marks)

13. Benefits that accrue to a firm located near existing firms:

- Enjoyment of existing infrastructure
- Access to labour
- Access to raw materials
- Collaboration with existing firms eg research and development
- Auxillary services
- Access to market
- Access to security
- Access to social amenities.

(Any 4 x 1 = 4 marks)

14. Steps that can be taken to minimize expenditure on petrol include:

- Pooling people who are traveling to same direction
- Use of alternative sources of energy
- Encourage public service vehicles with higher carrying capacity
- Encourage use of vehicles/machines with a lower engine capacity/Fuel saving engines
- Set maximum price legislation
- Reduce tax on the product/subsidy
- Improve roads network
- Increase taxes on complementary goods
- Encourage machine maintenance
- Switch off when not in use.

(Any 4 x 1 = 4 marks)

15. Reasons why an increase in per capita income may not lead to arise in standard of living include:

- Per capita income is an average and hence a mere statistics.
- Per capita figures may be high but income may be unevenly distributed.
- Those not involved in the generation of the national income are also included in the calculation.

- Generalized rise in the price of commodities /inflation may affect the purchasing power of the citizens
- High taxes may erode the real value of per capita income
- May be obtained through a strain on peoples health/social cost
- May be obtained at the expense of leisure
- Difficult to measure welfare
- Expenditure pattern by government/individuals.

(Any 4 x 1 = 4 marks)

16. Purchases for the year

		Total Creditors A/c	
		Sh	Sh
Discount received	12,000	Balance b/d	465,000
Returns outwards	25,000	Purchases	1,712,000
Cash paid	1,500,000		
Balance c/d	<u>640,000</u>		
	<u>2,177,000</u>		<u>2,177,000</u>
Credit purchases	1,712,000		
Cash purchases	<u>800,000</u>		
Total purchases	<u>2,512,000</u>		

(10 x $\frac{1}{2}$ = 5 marks)

17. Circumstances which would make an office manager to replace an existing machine with a modern one include:

- Obsolescence – has outlived its usefulness
- Where a more faster machine is required
- Where maintainance costs are higher than cost of acquiring modern machine
- Where there is need for increased production
- Where training skills have changed
- Where high quality work is required
- Where he wants to save on labour
- Where there is need to improve image of company/prestige
- If the new machine will save on space/storage
- If the machine is capable of reducing fraud.

(Any 4 x 1 = 4 marks)

18. Reasons for popularity of hypermarkets in Kenya include:

- Easily accessible
- One stop shop – A range of goods and services may be obtained
- Parking space is available
- Availability of auxiliary services
- Operate for longer hours
- Accept credit/debit cards
- Offer after sales service
- Security quaranteed
- Located from hastles of the city centre
- Attractive and convenient to shop in
- Saves on and rates

(4 x 1 = 4 marks)

19. Factors that may have contributed to the trend between s and t include:

- Improved health facilities/health education
- Lower mortality rate/death rate
- Improved standard of living
- Improved fertility rate/birth rate

- Establishment of policies that increase population
- Improvement in diet/nutrition
- Immigration from other countries
- Early marriages
- Negative attitude towards family planning practices
- Ineffective family planning practices.
- Cultural/Religious Practices that encourage many children
- Absence of calamities, wars, epidemics/political stability
- Ignorance/Lack of family Planning methods.

(Any 4 x 1 = 4 marks)

20. Kazim's

Petty Cash Book for the first week of April

Receipts	Date	Details	Total	Cleaning	Stationery	Bus fare
2570	2007	Sh	Sh	Sh	Sh	Sh
10430	April 1	Balance b/d				
	2	Cash/Reimbursement				
	3	Cleaning materials	3070	3070		
	4	Busfare	2000			2000
	6	Stationery	2200		2200	
			7270	3070	2200	2000
		Balance c/d	5730			
13000			13000			
		Balance b/d	5730			

NB: Date and details must be correct

(10 x $\frac{1}{2}$ = 5 marks)

21. Circumstances under which business enterprises may choose to merge:

- Where persistent decline in profitability exist
- Where there is intention to venture into new line
- Where there is need to expand capital base
- Where there is need to bring on board new skills/competences
- Where there is need to share research information
- Control wider market/increased sales
- Control output
- To lower cost of products (eg raw materials, labour)
- To control prices
- Easier to borrow
- Easier to face emergencies/risks
- Where there is too much competition
- (xiii) Need to diversify

(Any 4 x 1 = 4 marks)

22. (i) Capital employed = CE = FA + CA – CL

$$= 400,000 + 120,000 - 60,000 = \text{Sh } 460,000$$
Return on CE = $\frac{NP}{CE} \times 100 = \frac{100,000}{460,000} \times 100 = 21.7\%$

(ii) Current Ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

$$= \frac{120,000}{60,000} = 2 : 1$$
(4 x 1 = 4 marks)

23. Factors to consider before incurring public expenditure include:
- Maximum social benefit
 - Waste must be discouraged/economy
 - Flexibility/elasticity – possibility to vary expenditure according to the circumstances.
 - Sanctions – expenditure must be determined by a certain authority
 - Sound financial administration – ensure accurate and systematic accounting.
- (Any 4 x 1 = 4 marks)*

24. Benefits of privatization of public corporations include:
- Government obtains revenue from proceeds/sale of shares
 - Government can concentrate on other state responsibilities
 - Offers opportunities for private citizens to participate in business
 - To enhance efficiency in the management
 - Reduce government expenditure
 - Obtain revenue from taxes
 - To attract foreign aid
 - Attract foreign investment.
- (4 x 1 = 4 marks)*

25. Compensation claims
- $$\frac{\text{Sum Insured}}{\text{Actual value}} \times \text{loss}$$
- $$\frac{\text{Sh } 800,000}{\text{Sh } 1,000,000} \times \text{Sh } 1,000,000$$
- $$= \text{Sh } 800,000$$
- $$= \text{Sh } 800,000$$
- (Any 4 x 1 = 4 marks)*

30.26.2 Business Studies Paper 2 (565/2)

1. (a) Features of sole proprietorship form of business include:
- Owned by one person who provides the capital/starts the business.
 - Ultimate decision made by the proprietor/alone since he/she does not need to consult
 - Has limited life as its existence depends on the life of the owner.
 - Business unit is usually small due to limited capital/managerial skills.
 - Owner bears all the risks of the business/losses of the business alone.
 - Business owner has unlimited liability since personal property/assets may be attached.
 - Managed by the owner with/without assistance of family members.
 - Sole trader retains/enjoys all the profits since he has no one to share with.
 - Easy/simple formation as it requires few or no legal formalities/may only require a trading license.
 - Flexibility/adaptability to change.
 - Secrecy/confidentiality of information
- (Any 5 x 2 = 10 marks)*
- (b) Measures that government may take to improve exports Include:
- Creation of export processing zones – where the producer/exporter enjoy a variety of incentives.
 - Manufacturing under bond to encourage local manufacturers to produce goods exclusively for export.
 - Export compensation/subsidy schemes by refunding a specific percentage of the value of the goods/services exported/meeting part of the cost of production for export.
 - Providing information on international markets through

publications/seminars/workshops/educational tours.

- Financing those producing for exports by availing credit/loans to exporters.
- Participating in international trade fairs/exhibitions/shows to expose the exporters' goods/services.
- Use of commercial attaches/other government agencies to promote exports
- Reduction of bureaucratic red tape by simplifying export procedures.
- Customs draw back by refunding tax on imported raw materials used to produce export.

(Any 5 x 2 = 10 marks)

2. (a) Demerits associated with water transport include:

- Relatively slow hence perishable/urgently needed goods may not be transported this way takes long when travelling.
- Limited in limited availability. Only applicable where water is available.
- Waterways can be affected by adverse weather conditions such as drought/freezing/storms flooding.
- Costs of maintaining/constructing ports/canals (waterways) may be relatively high/expensive making it unaffordable for some countries.
- Water ways may not be navigable due to rough terrain/cataracts/waterfalls/rapids/habitation by dangerous animals.
- High cost of unit of carriage/vessels which may make them unaffordable to acquire/maintain.
- May lack flexibility to offer door to door services/some vessels follow regular/fixed routes/time schedule.
- May be prone to piracy In the high seas/remote areas/may lead to losses/increased insurance costs

(Any 5 x 2 = 10 marks)

(b) Preparation of ledger account

Dr Cash Account Cr			Dr Bank Account Cr		
2008	Shs	2008	Shs	2008	Shs
June 1 bal b/d	120,500	June 30 bal c/d	380,500	Jun 1 bal b/d	260,400
“ 15 Bank	100,000			30 bal c/d	<u>67,600</u>
28 Debt	<u>160,000</u>				<u>328,000</u>
	<u>380,500</u>				<u>328,000</u>

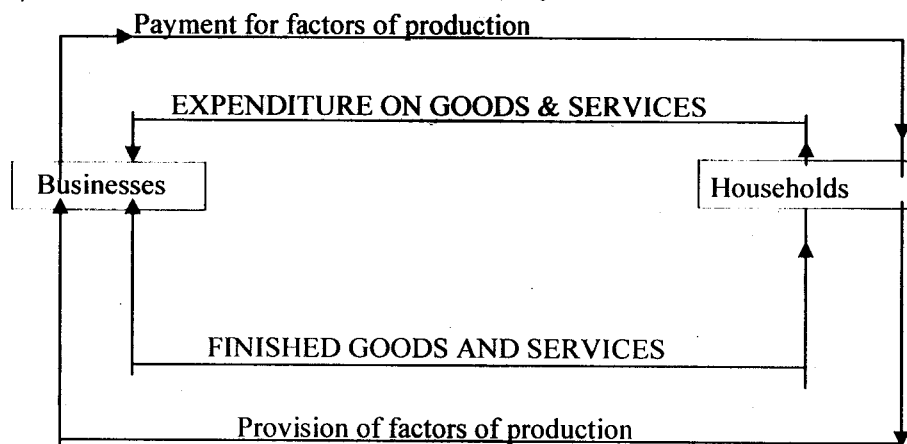
Dr Debtors Account Cr			Dr Creditors Account Cr		
2008	Shs	2007	Shs	2008	Shs
June bal b/d	350,000	June 28 Cash	160,000	June 5 Bank	228,000
		28 Disc. all	40,000	5 Disc. rcd	12,000
		30 Bal c/d	<u>150,000</u>	30 Bal b/d	<u>210,400</u>
	<u>350,000</u>		<u>350,000</u>		<u>450,400</u>

Dr Discount Allowed Account Cr			Dr Discount Received Account Cr		
2007	Shs	2007	Shs	2007	Shs
June 28 Cash	<u>40,000</u>	June 30 Bal c/d	<u>40,000</u>	June 30 Bal	<u>12,000</u>
				June 5 Creditor	<u>12,000</u>

(20 x $\frac{1}{2}$ = 10 marks)

3. (a) (i) The gap WZ represents the fall of MR curve. *(1 x 2 = 2 marks)*
(ii) Above price P_0 the demand curve is more elastic and less elastic below the price forcing the MR curve to fall vertically to y axis. *(2 x 2 = 4 marks)*
- (iii) (a) The oligopolist can only raise the price if the curve MC cuts MR above point W and lower the price if MC cut MR below point Z.
(b) In the gap WZ, prices and output remain steady and only the costs structure can vary. The prices may not therefore be changed as they tend to be rigid
(c) When the oligopolist firm forms collusion or a cartel with competing firms, they can then change the prices.
(d) When the oligopolist acquires a dominant position in the market. *(Any 2 x 2 = 4 marks)*
- (b) Ways of reducing level of unemployment in Kenya.
- Establishing more industries to create more employment opportunities.
 - Transforming agricultural sector to create more jobs and reduce unemployment.
 - Transforming education and training sector to improve on skills. This makes the graduates acquire relevant skills.
 - Establishing an employment policy by government.
 - Setting up a fund to assist unemployment to start income generating activities.
 - Assisting unemployed people to acquire jobs abroad. *(Any 5 x 2 = 10 marks)*

4. (a) Circular flow of income in a two sector economy.



In the diagram above

- Households supply their resources (factors of production) to various types of businesses and receive money payments in the form of rent, wages, interest and profit.
- On the other hand, businesses sell finished products to households and households pay for the goods and services received. *(1x6 = 6 marks for diagram)*
(2x2 = 4 marks for explanation)

- (b) (i) The name of the document is an invoice.
(ii) By paying for goods on 28 October 2008, the debtor qualifies for the cash discount on furniture.

∴ Amount paid.

$$\text{Shs } \left[268,200 \times 90\% + 9,000 + 7,500 \right] = \text{Shs } 257,880$$

$$\left[241,380 + 9,000 + 7,500 \right] \quad (6 \text{ marks})$$

- (iii) The goods were not paid for by the end of credit period hence the debtor does not qualify for cash discount.

The effect on net profit would be:

	Shs	
Net profit	120,400	
Add back discount allowed		
(268,200 x 10%)	<u>26,820</u>	
	<u>147,220</u>	10 marks

5. (a) Services that the Central Bank of Kenya may offer as a banker to commercial banks include:

- Advising commercial banks on financial matters.
- Being in custody of the reserves held by commercial banks.
- Supervising the operations of commercial banks.
- Providing a central clearing house where commercial banks settle debts due to each other.
- Being a lender of the last resort to the commercial banks.
- Offering foreign exchange. **(Any 4 x 2 = 8 marks)**

- (b) (i) **Malamu Traders**

Profit and loss Account

For the year ended 31 December 2008

<u>Expenses</u>	Shs	Shs		Shs	Shs
Discount Allowed		142,000	Gross profit b/d		520,600
Lighting		25,200	Rent received		120,000
Interest on loan		1,200	Net loss c/d		61,930
General expense		102,100			
Repairs on building		60,000			
Repairs on furniture		72,030			
Repairs on motor vehicle		<u>300,000</u>			
		<u>702,530</u>			<u>702,530</u>

(12 x ½ = 6 marks)

- (ii)

Malamu Traders

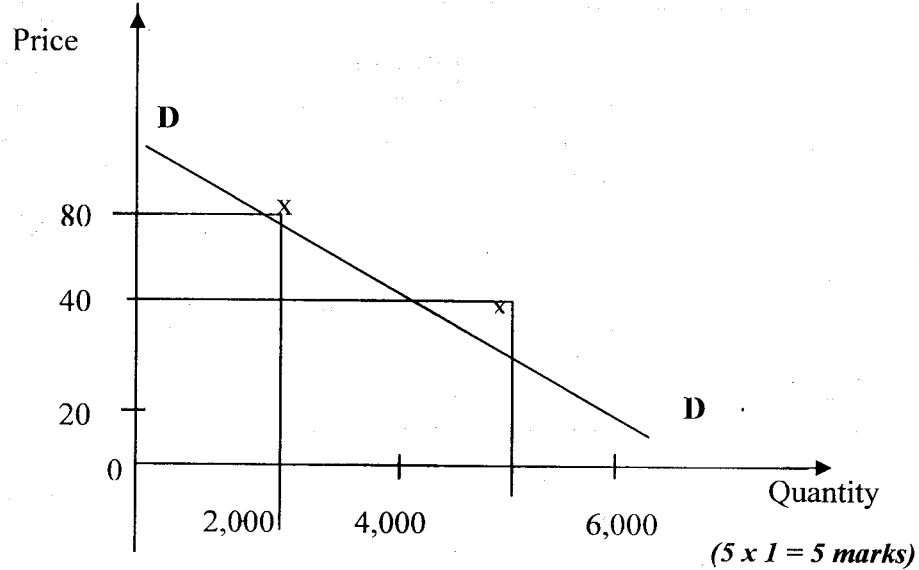
Balance sheet

As at 31 December 2008

<u>Fixed Assets</u>	Shs	Shs		Shs	Shs
Building		540,000	Capital	1,400,000	
Motor vehicle		900,000	Less Loss	(61,930)	1,338,070
Furniture		<u>408,170</u>			
		1,848,170	Loan		472,500
<u>Current Assets</u>			<u>Current Liabilities</u>		
Stock	72,500		Creditors		<u>227,000</u>
Debtors	<u>116,900</u>	<u>189,400</u>			<u>2,037,570</u>
		<u>2,037,570</u>			

(12 x ½ = 6 marks)

6. (a) Elasticity of demand illustrated



- (ii) Calculation of elasticity

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

$$= \left(\frac{3,000}{2,000} \right) \div \frac{40}{80}$$

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

Elasticity = 3

(5 x 1 = 5 marks)

- (b)

Lunga Traders
Trading profit and Loss Account
For the year ended 31 December 2007

	Shs	Shs		Shs
Stock (1.1.07)		75,000	Sales (w ₁)	967,200
Purchases w ₂		<u>811,800</u>		
		886,800		
Less: Closing stock		<u>136,400</u>		
GAFS		750,400		
Gross profit c/d		<u>216,800</u>		
		<u>967,200</u>		<u>967,200</u>
Reduction in equipment		65,600	Gross profit b/d	216,800
Salaries	48,000		Bad debts recovered	16,000
Less prepaid	<u>8,000</u>	40,000	Interest on debtors	2,000
Interest on loan	30,000			
Add due	<u>6,000</u>	36,000		
Bad debts		4,200		
Net profit c/d		<u>89,000</u>		
		<u>2234,800</u>		<u>234,800</u>

(16 x 1/2 = 8 marks)

W₁

Total debtors Account

Shs		Shs	
		Bad debts	4,200
Balance b/d	120,000	Cash receipts	750,000
Interest on debtors	2,000	Balance c/d	335,000
Sales	<u>967,200</u>		
	<u>1,089,200</u>		<u>1,089,200</u>

W₂

Total creditors Account

Shs		Shs	
		Balance b/d	142,500
Payments	660,500	Purchases	676,400
Balance c/d	<u>158,400</u>		
	<u>818,900</u>		
Credit purchases	676,400		
Cash purchases	<u>135,400</u>		
	<u>811,800</u>		<u>818,900</u>

N.B Students can get the balances through calculations.

 $(20 \times \frac{1}{2} = 10 \text{ marks})$