



## 22.0 BUSINESS STUDIES (565)

Business Studies was tested for the first time in the year 2006 and produced very encouraging results in the year 2007, when the course was tested for the second time. Business Studies is tested in two papers, that is, *paper 1 (565/1)* and *paper 2 (565/2)*.

Paper 1 (565/1) consists of twenty five short answer structured items and is marked out of 100 marks. Paper 2 (565/2) consists of six extended answer questions and the candidate is expected to answer five questions. The paper is marked out of 100 marks. Paper 1 (565/1) and 2 (565/2) are allocated two hours and two and a half hours respectively.

### 22.1 CANDIDATES' GENERAL PERFORMANCE

The table below shows candidates overall performance in Business Studies in the year 2007.

Table 25: Candidates Overall Performance in Business Studies in year 2007

Year	Paper	Candidature	Maximum Score	Mean Score	Standard Deviation
2006	1		100	54.46	18.61
	2		100	38.02	18.19
	<b>Overall</b>	<b>110,630</b>	<b>200</b>	<b>92.47</b>	<b>35.00</b>
2007	1		100	64.03	18.76
	2		100	46.27	15.54
	<b>Overall</b>	<b>118,361</b>	<b>200</b>	<b>110.29</b>	<b>32.00</b>

From the table above the following observations can be made:

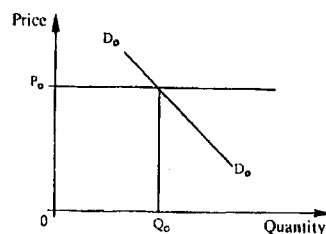
- 22.1.1 The subject attracted an increased number of candidates from *110,630* in the year 2006 to *118,361* in the year 2007.
- 22.1.2 Performance of candidates in the year 2007 was above average with a mean score of *110.29* as compared to *92.47* in the year 2006.
- 22.1.3 Candidates performed better in *paper 1(565/1)* than in *paper 2 (565/2)* as attested by the mean scores of *64.03* and *46.27* respectively in the year 2007. It appears that many candidates found it easier to answer short structured questions in paper 1 (565/1) as opposed to extended answer questions in paper 2 (565/2).

Questions in which candidates performed poorly are discussed below.

### 22.2 PAPER 1 (565/1)

#### Question 5

The diagram below shows the current demand for petrol.



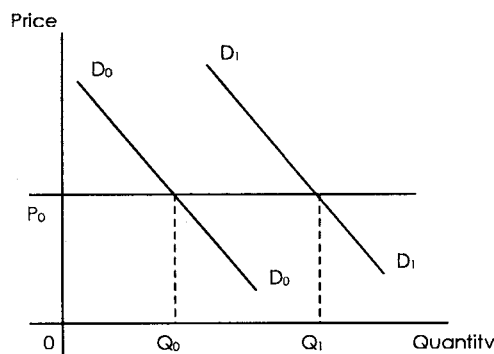
- (a) What is the effect of a fall in the price of cars on demand for petrol?  
 (b) Draw a new demand curve on the diagram above to show the effect of a fall in price of cars.

**Weaknesses**

Many candidates did not know the effect of change in price on demand for supplementary goods. Candidates also lacked understanding of a shift in the demand curve.

**Expected Responses**

- (a) The effect of a fall in price of cars is that more cars will be demanded and this would increase demand for petrol.  
 (b) The student was expected to draw a new demand curve to show the increased demand for petrol as shown below.



**Question 15**

The following information related to Kerubo Traders for the year ended 31 December, 2006.

	Sh.
Opening stock	24 000
Carriage on sales	12 000
Purchases	370 000
Sales	442 500
Closing stock	40 000

Other expenses 10% on Gross Profit.

Prepare Trading Profit and Loss Account for the year ended 31 December, 2006.

**Weaknesses**

This was a standard question but many candidates had problems with the format of the Trading, Profit and Loss Account. This question mainly tested the application and analysis skills learnt by the candidate. A lot of practice is required to master the format and preparation of Trading, Profit and Loss Accounts.

### Expected Responses

The Trading, Profit and Loss Accounts should have been prepared as follows.

**KERUBO TRADERS**  
**Trading, Profit and Loss Account**  
**For the year ended 31 December 2006**

	Sh		Sh
Opening Stock	24000	Sales	442500
Add Purchases	<u>370000</u>		
	394000		
Less Closing Stock	<u>40000</u>		
	354000		
Gross Profit c/d	<u>88500</u>		
	<u>442500</u>		<u>442500</u>
Operating expenses		Gross Profit b/d	88500
Carriage on Sales	12000		
Other expenses			
10% Gross Profit	8850		
(88500 x 10%)			
Net Profit c/d	<u>67650</u>		
	<u>88500</u>		<u>88500</u>

### Questions 23

Outline **four** benefits that accrue to a customer who uses automated teller machine (ATM) banking service.

### Weaknesses

Many candidates portrayed weaknesses on issues related to modern trends in banking. ATM or Automated Teller Machines are currently used in many towns in Kenya and is one of the services given in modern trends in banking. The syllabus requires students to cover this topic.

### Expected Responses

- Saving time in bank transactions such as depositing and withdrawing money.
- ATMs are conveniently placed.
- Can pay utility bills.
- Access account balances and bank statements.
- The use of "pass word".
- Access to banking information.

### 22.3 PAPER 2 (565/2)

#### Question 5(b)

Draw a diagram to show how equilibrium price and output are determined under monopoly.

Candidates were required to draw a diagram to show how equilibrium price and quantities are determined where a monopoly firm neither makes profits or losses.

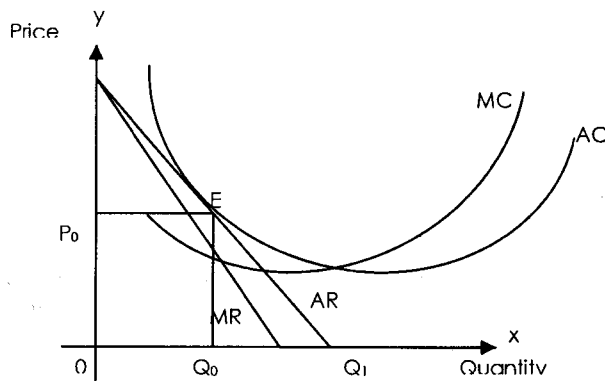
#### Weaknesses

The candidates showed general weaknesses in constructing graphs of product markets. Under this course, the candidate is not expected to learn about profits or losses in the product markets. The candidates should therefore be able to draw graphs where the monopoly firm maximizes profits at equilibrium.

#### Expected Responses

As the syllabus does not require candidates to learn about profits or losses for monopoly firms, prices and quantity can be determined in the long-run where the firm just earns normal profits at break-even point. This is similar to monopolist competition in the long-run.

Candidates should have produced the diagram shown below:



#### Question 6(b)

The following Trial Balance was prepared from the books of Mugambi Traders for the year ended 31 December 2005.

Mugambi Traders Trial Balance		DR	CR
	Sh	Sh	
Land and Buildings	500 000		
Capital			940 000
Plant & Machinery	200 000		
Motor Vehicles	300 000		
10 year bank loan			200 000
3 year ICDC loan			100 000
Stock	100 000		
Debtors	60 000		
Creditors			60 000
Accrued expenses			20 000
Cash at bank	100 000		
Cash in hand	20 000		
Drawings	<u>40 000</u>		
	<u>1 320 000</u>		<u>1 320 000</u>

Prepare

- (i) A balance sheet for the year ended 31 December 2005.  
(ii) Determine:
- Working Capital
  - Capital Employed
  - Borrowed Capital

Students were required to prepare a Balance sheet and determine different types of capital.

### Weaknesses

Candidates portrayed weaknesses in drawing the balance sheet. Many of them did not know how to place different items in the balance sheet, particularly drawings. The candidates had problems in calculating different types of capital.

### Expected Responses

(i)

**MUGAMBI TRADERS**  
**Balance Sheet**  
**As at 31 December 2005**

Sh	Capital	Sh
<b>Fixed Assets</b>		
Land & Buildings	500000	940000
Plant & Machinery	200000	40000
Motor Vehicle	300000	200000
<b>Current Assets</b>		100000
Stock	100000	
Debtors	60000	
Cash at bank	100000	
Cash in hand	20000	
	<u>1280000</u>	
		60000
		20000
		<u>80000</u>
		<u>1280000</u>

(ii)

- Working Capital = Current Assets – Current Liabilities  
= 280000 – 80000 = Sh200000
- Capital Employed = Capital + Liabilities less Current Liabilities  
or  
Total Fixed Assets + Working Capital

$$\therefore \text{Sh}1280000 - 80000 = \text{Sh}1200000$$

$$\text{or } \text{Sh}1000000 + 200000 = \text{Sh}1200000$$

- Borrowed Capital = 10 year loan = 200000  
3 year ICDC loan = 100000  
Sh300000

## 22.4 ADVICE TO TEACHERS

- 22.4.1 Candidates should always read and understand the requirements of a question before they attempt to answer it.
- 22.4.2 Teaching should always be student centered with more exercises being given to students for practice.
- 22.4.3 Questions set for practice should cover all levels of testing.
- 22.4.4 All areas of the syllabus should be covered and teachers should try and interpret the syllabus for the students' benefit.
- 22.4.5 Resource persons and materials should be used as much as possible.

## 22.5 CONCLUSION

Many students are now taking Business Studies at examination level and the performance was overall above average. This is encouraging. However, students and teachers must not relax but work very hard to maintain and improve the standard.



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# 23.17 BUSINESS STUDIES (565)

## 23.17.1 Business Studies Paper 1 (565/1)

Name ..... Index number ...../.....

565/1  
BUSINESS STUDIES  
Paper 1  
Oct./Nov. 2007  
2 hours

Candidate's signature .....

Date .....

THE KENYA NATIONAL EXAMINATIONS COUNCIL  
Kenya Certificate of Secondary Education  
BUSINESS STUDIES  
Paper 1  
2 hours

*Write your name and index number in the spaces provided above.  
Sign and write the date of examination in the spaces provided above.  
Answer all the questions in the spaces provided.*

### For Examiner's Use Only

Question	1	2	3	4	5	6	7	8	9	10	11	12	13
Marks													

Question	14	15	16	17	18	19	20	21	22	23	24	25
Marks												

TOTAL  
MARKS

**This paper consists of 11 printed pages**

**Candidates should check the question paper to ascertain that all the pages are printed as indicated and no questions are missing.**

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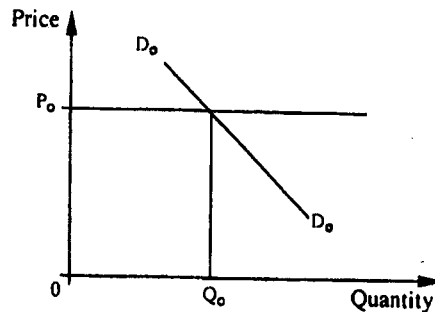
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Turn over

1. State four types of complaints that a consumer organisation may receive from consumers. (4 marks)
2. The following terms relate to communication: vertical, horizontal, formal and informal. Write the appropriate term of communication associated with each of the following statements. (4 marks)

	Statement	Terms
(a)	A manager gives instructions to a supervisor in her division	
(b)	Rumours going around that the most disciplined workers will be rewarded	
(c)	A manager issues a general circular to the employees	
(d)	Prefects discussing discipline in their school	

3. Outline three features of a Re-insurance company. (3 marks)
4. A firm wishes to introduce a new product into the market. Outline four factors that should be considered in choosing an appropriate medium for promotion. (4 marks)
5. The diagram below shows the current demand for petrol.



- (a) What is the effect of a fall in the price of cars on demand for petrol? (2 marks)
- (b) Draw a new demand curve on the diagram above to show the effect of a fall in price of cars. (2 marks)
6. State four ways in which production activities may negatively impact on community health. (4 marks)
7. Outline four negative effects of an ageing population to an economy. (4 marks)
8. The following are some of the accounts available to customers in the Kenyan banking industry: Current account, Savings account and Fixed deposit account. Give the account that corresponds to each of the descriptions given below. (4 marks)

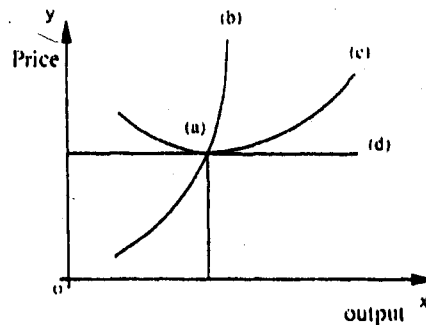


	Description	Type of Account
(a)	Account holders require to deposit a specific initial amount as well as maintain a minimum balance	
(b)	Account holder may deposit and withdraw money whenever they want without maintaining a minimum balance	
(c)	Banks pay interest on the deposit at comparatively higher rates.	
(d)	Money may be deposited at any time and interest is earned if a specified balance is maintained	

9. The following are some of the documents used in home trade: cash sale receipt, catalogue, invoice and statement of account. Match each document with the appropriate description provided in the table below. (4 marks)

	Description	Document
(a)	Shows details of goods offered for sale.	
(b)	Gives quantity, unit price and total amount to be paid.	
(c)	Shows transactions since the date of last statement	
(d)	Shows description of goods bought, prices and total amount paid.	

10. The following diagram represents equilibrium position of a firm under perfect competition.



- Label the parts represented by the letters a, b, c, and d. (4 marks)
11. State four circumstances under which air transport may be used to ferry goods. (4 marks)
12. On 1 January 2006, Mzalendo Traders had sh. 18 000 in cash and sh. 170 000 at bank. During the month, the following transactions took place:

2006

January 10 Paid ABM Traders sh. 25 000 by cheque less sh. 1 000 cash discount.

16 Sold goods for sh. 14 000 cash, less 5% discount.

31 Banked all the cash except sh. 5 200.

Enter the above transactions in cash book extract given below and balance it off. (5 marks)

DR CASH BOOK EXTRACT CR

Date	Particulars	Discount allowed	Cash	Bank	Date	Particulars	Discount received	Cash	Bank
		Sh.	Sh.	Sh.			Sh.	Sh.	Sh.

13. Outline four benefits to a business that uses its own warehouse. (4 marks)
14. Identify the book of original entry used in recording each of the following transactions of Soya Traders. (4 marks)

	Transaction	Book of original entry
(a)	Sold goods on credit to Wanjau for sh. 20 000.	
(b)	Bought goods on credit from Saipei Traders for sh. 10 000	
(c)	Achieng returned goods worth sh. 6 000	
(d)	Soya returned goods worth sh. 11 000 to Nzomo Traders	

15. The following information related to Kerubo Traders for the year ended 31 December, 2006.

	Sh.
Opening stock	24 000
Carriage on sales	12 000
Purchases	370 000
Sales	442 500
Closing stock	40 000

Other expenses 10% on Gross Profit.

Prepare Trading Profit and Loss Account for the year ended 31 December, 2006. (5 marks)

16. The average consumer price for a 500g container of cooking fat for various years is shown in the table below.

Year	Consumer Price Ksh	Consumer Price Index
2000	47	100
2001	53	—
2002	62	—
2003	74	—

- Calculate the consumer price index using year 2000 as the base year. (3 marks)
17. State four ways that may be used to control the amount of money in circulation by the Central Bank of Kenya (4 marks)
18. Outline four differences between a good and a service. (4 marks)

19. Highlight **four** factors that could influence mobility of capital as a factor of production. (4 marks)
20. State **four** advantages of an open office layout to an organization. (4 marks)
21. Highlight **four** ways in which the running of public corporations may be improved. (4 marks)
22. State **four** reasons why countries may decide to trade with each other. (4 marks)
23. Outline **four** benefits that accrue to a customer who uses automated teller machine (ATM) banking service. (4 marks)
24. State **four** factors that could hasten the economic development of a country. (4 marks)
25. Outline **four** elements that may comprise the external environment of a business. (4 marks)

**23.17.2 Business Studies Paper 2 (565/2)**

565/2  
**BUSINESS STUDIES**  
Paper 2  
Oct./Nov. 2007  
2½ hours

**THE KENYA NATIONAL EXAMINATIONS COUNCIL**  
Kenya Certificate of Secondary Education  
**BUSINESS STUDIES**  
Paper 2  
2½ hours

*Answer any five questions.  
Write your answers in the answer booklet provided.  
All questions carry equal marks.*

**This paper consists of 3 printed pages**

**Candidates should check the question paper to ascertain that all the pages are printed as indicated and no questions are missing.**

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**Turn over**

- 1 (a) Explain six reasons why a new business may fail. (12 marks)
- (b) Explain four advantages of transacting business through e-commerce. (8 marks)
- 2 (a) Explain six sources of Government revenue for development expenditure. (12 marks)

- (b) Karani does not keep a complete set of accounting records. During the year ended 30 June 2006, the following balances were extracted from the books of accounts.

	Sh.
Stock	140 000
Motor vehicle	500 000
Land and buildings	2 500 000
Cash in hand	120 000
Cash at bank	240 000
Debtors	80 000
Creditors	120 000
Long-term loan	1 400 000
Plant and Machinery	600 000

Additional information:

- Karani drew sh.140 000 from the business for private use.
- Opening capital was sh.2 000 000 as at 1 July 2005.
- Additional capital during the year was sh.120 000.

- (i) Prepare statement of affairs for the year ended 30 June 2006. (6 marks)
- (ii) Determine profit or loss for the year ended 30 June 2006. (2 marks)
- 3 (a) Explain five ways in which the Agricultural Finance Corporation (AFC) contributes to economic development in Kenya. (10 marks)
- (b) Explain five factors that could affect the quantities of cabbages supplied in a market. (10 marks)
- 4 (a) Explain five strategies that a small-scale firm could adopt to expand so as to enjoy economies of scale. (10 marks)
- (b) Explain five benefits that could accrue to a customer who buys goods from a departmental store. (10 marks)
- 5 (a) Discuss five reasons why Less Developed Countries are reluctant in implementing free trade agreement. (10 marks)
- (b) Draw a diagram to show how equilibrium price and output are determined under monopoly. (10 marks)

- 6 (a) Explain five features that you would consider in establishing a warehouse for imported goods. (10 marks)
- (b) The following Trial Balance was prepared from the books of Mugambi Traders for the year ended 31 December 2005.

**Mugambi Traders  
Trial Balance**

	DR Sh	CR Sh
Land and Buildings	500 000	
Capital		940 000
Plant & Machinery	200 000	
Motor Vehicles	300 000	
10 year bank loan		200 000
3 year ICDC loan		100 000
Stock	100 000	
Debtors	60 000	
Creditors		60 000
Accrued expenses		20 000
Cash at bank	100 000	
Cash in hand	20 000	
Drawings	40 000	
	<u>1 320 000</u>	<u>1 320 000</u>

Prepare

- (i) A balance sheet for the year ended 31 December 2005.
- (ii) Determine:
- Working Capital
  - Capital Employed
  - Borrowed Capital

(10 marks)

## 24.18 BUSINESS STUDIES (565)

### 24.18.1 Business Studies Paper 1 (565/1)



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1.
  - Poor quality of good and services /damaged goods.
  - Incorrect weights and measures.
  - Unfair pricing.
  - Poor hygienic conditions.
  - Expired goods.
  - Non-compliance to building regulations.
  - Contra-band items/prohibited goods.
  - Harmful goods.
  - Hoarding.
  - Misleading advertisement.
  - Environmental Pollution.
  - Technological side effects.
  - Breach of Contract.

**(4 x 1 = 4 marks)**
2.
  - (a) Vertical.
  - (b) Informal.
  - (c) Formal.
  - (d) Horizontal.

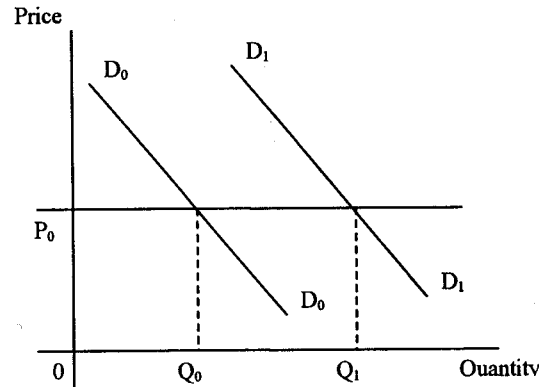
**(4 x 1 = 4 marks)**
3.
  - Commands large financial resources.
  - Re-insurance companies are empowered by law to insure other insurance companies. Government has stake in Re-insurance Company.
  - Re-insurance company only deals with corporate insurance clients.
  - Guarantee compensation.

**(3 x 1 = 3 marks)**
4.
  - Target group: so as to reach the intended group.
  - Availability of medium: convenient to use only the medium that is available.
  - Cost of medium: savings in method used should be considered.
  - Reachability/ geographical: how well the medium reaches the target group.
  - Time of promotion: medium that can reach many intended group.
  - Medium used by competitors: find the strengths and weaknesses to improve on.
  - Speed/urgency.
  - Flexibility.
  - Quality of promotion medium.
  - Physical characteristics of the medium.
  - Legal requirements/government policy.
  - Nature of the product.
  - Duration of the promotion.

**(4 x 1 = 4 marks)**
5.
  - (a) More cars will be demanded and this would increase the demand for petrol at the same price.

**(2 marks)**

(b)



(2 marks)

More petrol will be demanded as shown by curve  $D_1D_1$

6.

- Air pollution: causes airborne diseases.
- Water pollution: causes waterborne diseases.
- Noise pollution : causes hearing problems.
- Solid waste pollution: causes many disease.
- Congestion: Congestion created as more people come to look for work (jobs).
- Pressure on available health facilities: demand for health facilities increase.
- Environmental degradation: This may lead to health problems.
- Social evils: Social immorality.
- Occupational hazards.
- Unhealthy production, for example: recycling food in hotels. (4 x 1 = 4 marks)

7.

- Deficiency of an economically active labour/low labour supply/under utilization of resources.
- Increase in welfare costs (medication/pension).
- Need to import labour that affects the foreign exchange reserves.
- Dependency ratio increase.
- Rigidity to change/Geographical mobility.
- Fall in demand for goods and services required by the youth.
- Less progressive (low savings and low investment). (4 x 1 = 4 marks)

8.

- (a) Savings Account.
- (b) Current Account.
- (c) Fixed Deposit Account.
- (d) Savings Account. (4 x 1 = 4 marks)

9.

- (a) Catalogue.
- (b) Invoice.
- (c) Statement of Account.
- (d) Cash sale receipt (4 x 1 = 4 marks)

10.

- (a) Equilibrium point/MC=MR.
- (b) Marginal cost curve/MC.
- (c) Average cost curve/AC.
- (d) Marginal revenue = Average Revenue = Price/Demand. (4 x 1 = 4 marks)

11.

- Urgency is of importance.
- Goods are perishable.
- Goods are of high value/expensive goods.
- Goods are to be transported over long distances.
- Goods are fragile.



- Where other means cannot be used.
- Where safety is crucial.
- Affordability.

(4 x 1 = 4 marks)

12.

**MZALENDO TRADERS**  
Cash Book  
For the month of January 2006

DR

CR

Date 2006	Particulars	Discount Allowed	Cash	Bank	Date 2006	Particulars	Discount Received	Cash	Bank
		Sh	Sh	Sh			Sh	Sh	Sh
Jan 01	Balance		1800	170000	Jan 10	ABM Traders	1000		2400
16	Sales	700	13300		31	Bank (c)		26100	
31	Cash (c)			26100	31	Balance c/d		5200	172100
		<b>700</b>	<b>31300</b>	<b>196100</b>			<b>1000</b>	<b>31300</b>	<b>196100</b>

(10 x ½ = 5 marks)

13.

- The business maintains a continuous supply of goods.
- Customers are retained as they are sure of getting the goods on demand.
- Goods are safe from theft.
- Savings increase for not renting storage facilities.
- Goods can be processed in the warehouse.
- Has control over warehouse operations.
- It can be tailored to suit one's specifications.

(4 x 1 = 4 marks)

14.

- Sales Journal.
- Purchase Journal.
- Sales Returns Journal.
- Purchase Returns Journal.

(4 x 1 = 4 marks)

15.

**KERUBO TRADERS**  
Trading, Profit and Loss Account  
For the year ended 31 December 2005

Opening Stock	<b>Sh</b> <u>24,000</u>	Sales	<b>Sh</b> 442,500
Purchases	370,000		
Less: clg stock	<u>40,000</u>		
Cost of Goods sold	354,000		
Gross Profit	<u>88,500</u>		
Carriage on Sales	<u>442,500</u>		<u>442,500</u>
Other expenses (10% of G.P.)	12,000 8,850	Gross Profit b/d	88,500
Net Profit	67,650		
	<u><b>88,500</b></u>		<u><b>88,500</b></u>

(10x ½ = 5 marks)

16. Consumer price index for year 2001, 2001 and 2003

<i>Year</i>	<i>Consumer Price Index (Cpi)</i>	
▪ 2001	$53/47 \times 100 = 112.77$	
▪ 2002	$62/47 \times 100 = 131.91$	
▪ 2003	$74/47 \times 100 = 157.45$	<b>(6 x ½ = 3 marks)</b>

17.

- Instructing commercial banks to only lend in priority areas/selective credit control.
  - Practising domestic borrowing/open market operations.
  - Increasing interest rates on loans advanced by commercial banks/bank rates.
  - Requiring that commercial banks maintain a cash ratio.
  - Liquidity ratio.
  - Special/compulsory deposits.
  - Moral persuasion.
  - Direct Action (directives).
- (4 x 1 = 4 marks)**

18.

	<i>Goods</i>	<i>Services</i>
(a)	Goods are tangible.	Services are intangible.
(b)	Quality can be standardised.	Quality of services varies.
(c)	Goods can be stored.	Services cannot be stored.
(d)	Goods can be separated from the owner.	Services cannot be separated from the owner.
(e)	Goods are paid for ownership.	Services are paid for experience.

**(8 x ½ = 4 marks)**

19.

- Different uses in which capital can be put into/degree of specialization.
  - Amount of capital available.
  - Skills and knowledge to operate capital.
  - Government Policy (regulations).
  - Government goodwill (support).
  - Time taken to modify .
  - Reward offered.
  - Nature of Capital (some are fixed or liquid).
  - Cost of moving capital.
  - Time capital has been in current use.
  - Infrastructure e.g. road transport etc.
- (4 x 1 = 4 marks)**

20.

- Supervision enhanced.
  - Resources are evenly shared.
  - Savings on space.
  - Easier/cheaper to construct.
  - Inter-personal relationship.
  - Workflow made easy.
  - Service delivery enhanced.
  - Re-organisation is easier and cheaper.
  - Easier to communicate.
  - Cheaper to decorate.
  - Cheaper to maintain.
  - Optimum use of resources.
- (4 x 1 = 4 marks)**

21.

- Ensuring that appointment for senior and technical posts are done on merit.
- Exercising the supervisory role of the Government.
- Continuous training of staff for development.
- Setting performance targets to be achieved.
- Establishing incentive systems for motivation.
- Introducing modern technology.

22.
  - Creating public awareness.
  - Reducing political interference.
  - Restructuring the corporations (retrenching and rationalization).
  - Reducing monopolistic tendencies. (4 x 1 = 4 marks)
23.
  - Exchange their surplus/ specialities.
  - Acquire goods they are unable to produce/services.
  - Enhance international relations.
  - Acquire much-needed foreign exchange.
  - Exchange skills and knowledge of producing certain goods.
  - Acquire variety of goods and services.
  - Acquire goods of improved quality.
  - When it is cheaper to import.
  - To create employment.
  - To exploit resources optimally as there is need.
  - Exchange mobility of factors to productions.
  - Wider market. (4 x 1 = 4 marks)
24.
  - Saves time.
  - Withdrawals can be made at any time.
  - Conveniently placed.
  - Access to account balances/information.
  - Can pay utility bills.
  - Deposits can be made at anytime.
  - Some ATM cards can be used to buy goods/service.
  - Cheaper to operate.
  - Safe to use.
  - Highly portable.
  - Withdrawals can be made on one's behalf. (4 x 1 = 4 marks)
25.
  - Industrialization.
  - Infrastructure/social amenities.
  - Research and development/planning.
  - Education and training.
  - Use of modern technology/capital.
  - Good medical facilities.
  - Good governance/ Government Goodwill.
  - Economic endowment/Natural resources.
  - Presence of a strong entrepreneurial culture (creation of employment). (4 x 1 = 4 marks)
25.
  - Political.
  - Economic.
  - Social-cultural.
  - Technological.
  - Legal structures.
  - Geographical/physical.
  - Demographic/population.
  - Suppliers of raw materials.
  - Competitors.
  - Customers.
  - Intermediaries.
  - Publics, for example: media lobby groups. (4 x 1 = 4 marks)

## 24.18.2 Business Studies Paper 2 (565/2)

1

(a)

- Inadequate/ lack of capital/ funds: initial and operational capital may be inadequate to sustain/ run/ expand the business due to lack of a collateral/ security.
- Poor/ inappropriate marketing strategies: lack of proper planning in marketing leading to low sales/ fewer customers.
- Unfair/ stiff competition: competition may be too high for the new business which the business is unable to cope with/ withstand.
- Inadequate skills: lack of / poor / inefficient management: the business may have insufficient skills to operate/ manage the business.
- Lack of/ inadequate manpower: the business may not have enough manpower to operate/ manage it.
- Inadequate (use of) modern technology/ inappropriate technology: this may lead to less quantity/ quality goods/ services.
- Unfriendly/ poor government policies: the government policies may be unfavourable to the growth /expansion of business.
- Inadequate/lack of markets due to low income of buyers/ cultural practices/ beliefs.
- Poor pricing which might make the production too expensive to attract buyers/ too cheap to sustain the business.
- Inappropriate product/ business for the intended market.
- Political instability/security that many hinder smooth running of the business.
- Poor /inadequate infrastructure which may hinder access to markets/ inputs.
- Lack of planning to accommodate future changes.
- Misallocation/ misappropriation of resources leading to wastage/ misuse of resources.
- Poor customer/ public relations leading to loss of market.
- Poor time management which may cause loss of business opportunity /inability to accomplish business tasks.

*Any 6 x 2 = 12 marks)*

(b)

- Facilitates access to large markets worldwide / global markets since many countries/ regions are connected to the internet / have websites.
- Large and small businesses transact business through the internet as there is no restriction or discrimination in the use of internet.
- A faster way of doing business through the internet thereby saving time / facilitating urgent transactions.
- Reduces paper work/ number of business transaction since many dealings are online/ making transactions dealings which are online cheaper and less cumbersome.
- Saves on cost of sending / receiving/ storing business information/ product.
- One can access other different business information from the internet which can enhance the running of the business.

*(Any 4 x 2= 8 marks)*

2.

(a)

- Taxation: Government levies form different types of taxes on goods/ services (for raising revenue) on incomes.
- Rent/ Rates/ Lease income/ hiring charges received from government property such as land/ building.
- Sale of Assets: This includes assets like shares/ buildings/ vehicles.
- Royalties: Generated by a country's resources, for example: forests/ minerals/ national parks.
- Grants/ donations/ gifts from the development partners/ other well wishers.
- Loan repayments/ interest on loans given out by the government agencies.
- Fines/ penalties imposed by courts/ government agencies.
- Loans: These are received from development partners/ international lenders/ the World Bank/ IMF/ local lenders.

- Dividends/ Profits: received from Government investment/ businesses
  - Licenses/ fess: licenses for operating businesses/fees for government services.
- (6 x 2 = 12 marks)

2. (b) (i)

<b>Karani Statement of Affairs for the year ended 31/12/2005</b>					
	Sh	Sh.		Sh	Sh
<b>Fixed Assets</b>			Capital	2800,000	
Land & Building	2,500,000		<b>Less drawings</b>	<u>140,000</u>	2,660,000
Motor vehicles	500,000		Long-term loan		1,400,000
Plant & Mach	<u>600,000</u>	3,600,000	<b>Current Liabilities</b>		
<b>Current Assets</b>			Creditors		120,000
Stock	140,000				
Debtors	80,000				
Cash at Bank	240,000				
Cash in Hand	<u>120,000</u>				
		580,000			
		<u>4,180,000</u>			<u>4,180,000</u>

(12 x 1/2 = (6 marks)

(ii) Determination of Profit or Loss.

Ending capital = Beginning Capital + Gross Profit + Additional Capital less drawings.

$$\begin{aligned}
 \therefore 2,660,000 &= 2,800,000 + GP + 120,000 - \\
 140,000 &= 2,780,000 + G.P \\
 (2660,000 - 2,780,000) &= GP \\
 GP &= 120,000 \\
 \therefore \text{Loss} &= \text{Sh } 120,000
 \end{aligned}$$

(4 x 1/2 = 2 marks)

3. (a)

- Loans: give loans to farmers for crop and livestock production
  - Advisory services: on farm management and agricultural improvement
  - Training: organise training courses for farmers.
  - Create employment: facilitate employment in the Agricultural industry.
  - Improving production: more products are produced and of improved quality.
- (5 x 2 = 10 marks)

(b)

- Technology: modern methods used in the production of cabbages.
  - Price: the higher the price, more is supplied.
  - Government policy: favourable or unfavourable policies.
  - Other related commodities: prices of such related commodities affect the supply.
  - Natural factors, climate and distribution.
  - Training of farmers: affects quality and quantity.
- (Any 5 x 2 = 10 marks)

4. (a)

- Entering into suitable vertical integration.
  - Entering into suitable horizontal integration.
  - Rationalise operations so as to concentrate on more efficient units.
  - Amalgamation with similar businesses.
  - Secure loans/credit to expand.
  - Arrange for franchising.
  - Expand the markets.
- (Any 5 x 2 = 10 marks)

(b)

- Access to specialised goods.
- Personal attention to customers.
- Access to auxiliary services.

- One can save time by shopping under one roof.
- Prices of goods are relatively low.
- One can access variety of goods.

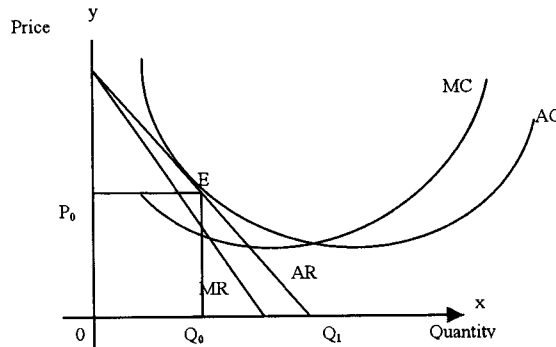
(Any 5 x 2 = 10 marks)

5. (a)

- Unfair competition from developed countries on superior products.
- Dumping of inferior goods by developed countries.
- To safe-guard local employment.
- Avoid sacrificing the sovereignty of the country.
- Reduce imbalance of payments deficits.
- Safeguard local industries.

(10 marks)

(b) Determination of equilibrium price and output under monopoly. (7 marks)



(7 marks)

Price and output are maximised where  $MR = MC$  an AR curve is tangent at AC curve, at E. MC cuts AC from below at its lowest point. The equilibrium price and output are therefore determined at  $P_0$  and  $Q_0$  respectively. (3 marks)

6. (a)

- Equipment: the warehouse should be equipped with modern equipment.
- Security: for protecting goods from theft and damage by weather.
- Building design: the design has to conform to international standards to handle imported goods.
- Management personnel: these should be properly trained to acquire relevant skills;
- Proximity to point of entry: this includes ports, border points for ease of clearance.
- Existence of basic infrastructure: such as goods roads, power required.
- Compliance to legal requirement: all relevant legal requirements have to be met.

(Any 5 x 2 = 10 marks)

(b) (i)

**Mugambi Traders**  
**Balance sheet**  
**As at 31 December 2005**

	Sh.		Sh.	Sh.
Fixed Assets		Capital	940,000	
Land & Building	500,000	Less Drawings	(40,000)	900,000
Maintenance & M	200,000			
Motor vehicle	300,000	10 year loan	200,000	
Current Assets		3 year ICDC loan	100,000	300,000
Stock	100,000	Current Liabilities		
Debtors	60,000	Creditors	60,000	
Cash at bank	100,000	Accrued expenses	20,000	80,000
Cash in bank	<u>20,000</u>			<u>1,280,000</u>
	<u>1,280,000</u>			

14 x 1/2 = (7 marks)

(ii) (a) Working capital = 280,000 - 80,000 = sh. 200,000

(Current assets – current liabilities)

(b) Capital Employed = 1,280,000 - 80,000 = sh. 1,200,000  
(Total equity and liabilities less current liabilities OR total fixed assets plus working capital).

(c) Borrowed capital = 10 year loan 200,000  
3 year ICDC loan 100,000  
300,000  
**(6 x 1/2 = 3 marks)**