



## 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
  - relocational 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 maintenance 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
	2007	Sh	Sh	Sh	Sh	Sh
2570	April 1	Balance b/d				
10430	2	Cash/Reimbursement				
	3	Cleaning materials	3070	3070		
	4	Busfare	2000			2000
	6	Stationery	2200		2200	
			7270	3070	2200	2000
		Balance c/d	5730			
<u>13000</u>			<u>13000</u>			
		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

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

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

(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
- $$\frac{\text{Sum Insured}}{\text{Actual value}} \times \text{loss}$$
- $$\frac{\text{Sh } 800,000}{\text{Sh } 1,000,000} \times \text{Sh } 1000,000$$
- $$= \text{Sh } 800,000$$
- (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	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	June 5	Credit	228,000
" 15	Bank	100,000				30	bal c/d	<u>67,600</u>	15	Cash	<u>100,000</u>
28	Debt	<u>160,000</u>						<u>328,000</u>			<u>328,000</u>
		<u>380,500</u>			<u>380,500</u>						

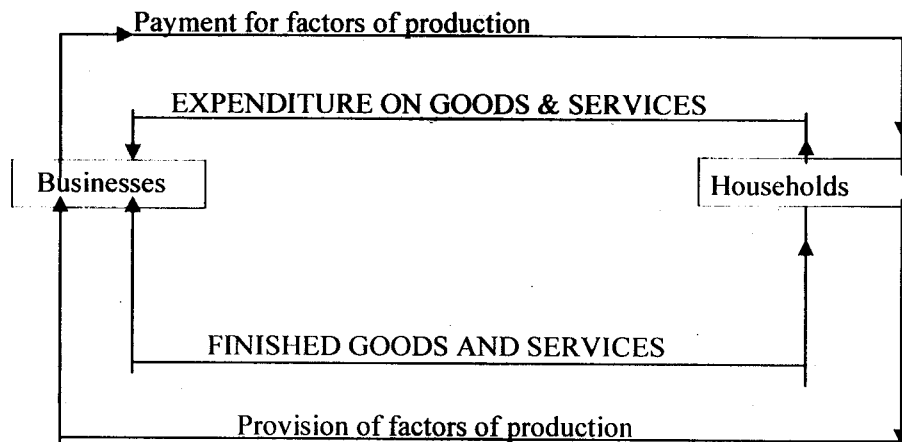
Dr		Debtors Account		Cr		Dr		Creditors Account		Cr	
2008	Shs	2007	Shs	2008	Shs	2008	Shs	2008	Shs	2008	Shs
June	bal b/d	350,000	June 28	Cash	160,000	June 5	Bank	228,000	June	Bal	450,400
			28	Disc. all	40,000	5	Disc. rcd	12,000			
			30	Bal c/d	<u>150,000</u>	30	Bal b/d	<u>210,400</u>			
		<u>350,000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

Dr		Discount Allowed Account		Cr		Dr		Discount Received Account		Cr	
2007	Shs	2007	Shs	2007	Shs	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<sub>0</sub> 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.

$$\text{Shs } \left[ \begin{array}{l} 268,200 \times 90\% + 9,000 + 7,500 \\ 241,380 + 9,000 + 7,500 \end{array} \right] = \text{Shs } 257,880$$

*(6 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>	<b>10 marks</b>

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>

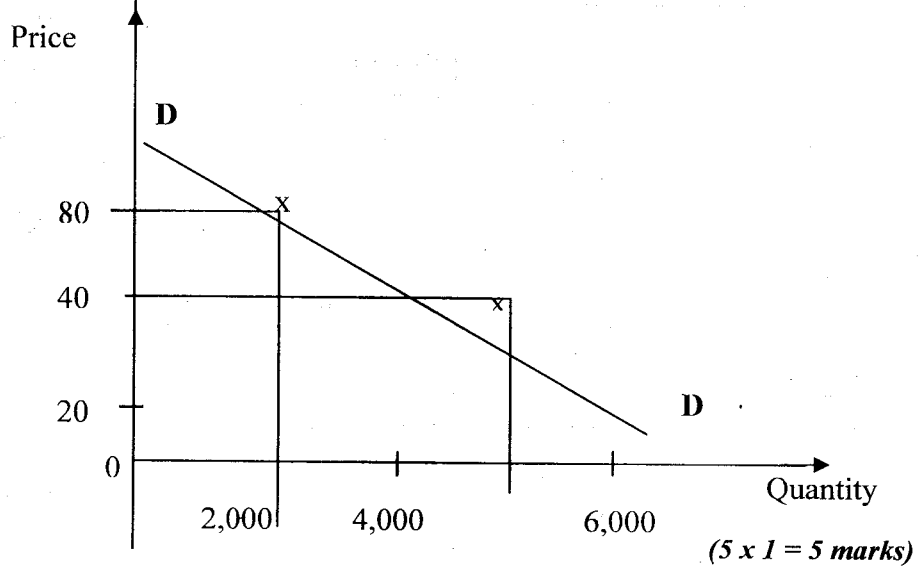
*(12 x 1/2 = 6 marks)*

(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>	Loan		472,500
		1,848,170			
<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>			<u>2,037,570</u>

*(12 x 1/2 = 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 <sub>1</sub> )	967,200
Purchases w <sub>2</sub>		<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)

W<sub>1</sub>

## 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>

W<sub>2</sub>

## 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 x  $\frac{1}{2}$  = 10 marks)*