

# INTRODUCTION TO BUSINESS STUDIES

## PAST KCSE PAPER 1

1. Highlight four ways in which business studies is useful to a community. (4mks)

## SATISFACTION OF HUMAN WANTS.

1. Classify each of the following goods as either producer or consumer (3mks)

Good	Classification
a) Factory	
b) Privates car	
c) Iron ore	
d) Tools	
e) Exercise books	
f) Clothing	

2. Outline three characteristics of basic human wants. (3mks)
3. Outline four measures that may be taken to conserve forests in Kenya (4mks)
4. State four ways in which natural resources may be of benefit to a country. (4mks)
5. Give four reasons why a consumer should satisfy basic wants before secondary wants. (4mks)

6. Kenya relies heavily on oil as a source of energy. State four reasons why the country should develop alternative sources of energy. (4mks)
7. State four reasons why consumers have to make a choice between competing needs. (4mks)
8. State four characteristics of human wants. (4mks)
9. State three basic wants that individuals in a society have (3mks)
10. Highlight four disadvantages of mining as an economic activity (4mks)
11. State four reasons why a government may decide to control the exploitation of its natural resources. (4mks)
12. State whether each of the following activities would satisfy basic or secondary needs. (4mks)

<b>Activities</b>	<b>Basic / Secondary</b>
a) Buying clothes for the family	
b) Transporting farm produce	
c) Providing food for school children	
d) Entertaining a guest	

13. Outline four ways in which commerce satisfies human wants,(4mks)

**PRODUCTION**  
**PAST KCSE PAPER 1**

1. Classify each of the following production activities as either primary or tertiary.

(3mk)

Activity	Level of production
a) Digging clay soil	
b) Constructing a bridge	
c) Selling in shop	
d) Making tea	
e) Transporting medicine	
f) Growing vegetables	

2. Outline four reasons why production in the substance sector is usually low. (4mks)
3. Name four commercial services which are useful to the manufacturer. (4mks)
4. Outline four reasons why a multinational company may prefer setting up a production unit in a developing country instead of exporting finished goods to the country. (4mks)
5. Classify each of the following activities as either primary, secondary or tertiary. (4mks)

Activity	Classification
a) Planting maize	
b) Grinding maize	
c) Selling maize	
d) Harvesting maize	

6. State the meaning of the following terms. (4mks)

Consumer goods

Producer goods

7. Name the factor that each of the following resources relate to (5mks)

<b>Resource</b>	<b>Factor of production</b>
a) Manager	
b) Vehicle	
c) Cotton	
d) Water	
e) Owner	

8. Outline three characteristics of direct production. (4mks)

9. Outline four factors that may account for predominant direct production (4mks)

10. List four functions of entrepreneurs as a factor of production (4mks)

11. State four roles of an entrepreneur in production. (4mks)

### **PAST KCSE PAPER 2**

1. Highlight five ways in which an Entrepreneur contributes to the production of goods.

2. Explain five ways in which large scale organization are able to reduce their costs of production. (10mks)

**OFFICE**  
**PAST KCSE PAPER 1**

1. State three reasons why office documents should be filed. (3mks)
2. Outline four duties of an office manager. (4mks)
3. The following are types of office equipment. Paper, fax machine, telex and telephone. In the table below, match each equipment with its appropriate function. (4mks)

Function	Equipment
a) Sending and receiving written messages	
b) Sending and receiving verbal messages	
c) Sending and receiving copies of messages	
d) Sending messages one way only.	

4. List four qualities of an office messenger. (4mks)
5. State four factors that determine the period for which documents should be stored. (4mks)
6. In the space provided name the office equipment used to perform each of the following tasks.

Functions	Equipment
a) Printing stamp impression on envelopes	
b) Cutting paper into required sizes	
c) Pinning papers together	
d) Recording, processing, sorting & retrieving information	

7. Outline four function of an office (4mks)
8. Outline four functions of the office in an organization (4mks)

## **HOME TRADE**

### **PAST KCSE**

1. Highlight four factors that may contribute towards the growth of business in the country. (4mks)
2. State four uses of an invoice for a seller of goods. (4mks)

# FORMS OF BUSINESS

## PASS KCSE PAPER 1

1. Highlight four advantages of large – scale business organization. (4mks)
2. In the spaces provided, indicate by writing true or false whether each of the following statements is true or false about articles of association of a company. (5mks)

Statement	True / false
a) It contains the activities the company is engaged in	
b) Indicates the procedures to be followed in calling meetings	
c) It contains details of election procedures	
d) It indicates the liabilities of the shareholder	
e) It contains the rights of each shareholders	

3. State five advantages of sole proprietorship form of business (5mk)
4. Outline four benefits that Kenya may derive from multi – national operating in the country. (4mks)
5. State four advantages of a partnership over a sole –proprietorship. (4mks)
6. Highlight benefits an investor gets by buying debentures. (4mks)
7. Highlight four benefits of joining a savings and credit co – operative society. (4mks)
8. State four advantages of a hawker over a shopkeeper. (4mks)
9. Highlight four factors that may have hindered the growth of co-operative movements in Kenya. (4mks)
10. In the spaces provided below, indicate with a tick whether each of the following statements related to preferences or ordinary shared. (3mks)

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Statement	preference shares	Ordinary Shares
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- a) Represent ownership
- b) Rate of divided is fixed
- c) Has voting rights
- d) Considered first in liquidation
- e) Redeemable
- f) May be cumulative

- 11. Outline four features of a sole proprietorship form of business organization (4mks)
- 12. Outline four advantages of large business organizations. (4mks)
- 13. Outline four features of trade credit as a source of finance (4mks)
- 14. State four reasons why a government may find it necessary to nationalize some industries. (4mks)
- 15. In the spaces provided name the type of business organization described by each of the following features.

Description	Business Org
a) Each member has only one role	
b) The business enjoys perpetual succession	
c) Each member may act on behalf of the business	
d) Formed by an Act of parliament	

- 16. Outline four measures that can be taken to improve efficiency of parastatals in Kenya. (4mks)

17. Outline four ways in which a savings and credit co – operative society can raise capital. (4mks)
18. Outline four features of a private company (4mks)
19. Outline four features of a private company (4mks)
20. List four sources of short – term finance for a business enterprise (4mks)
21. Highlight four disadvantages of cartels to consumers. (4mks)
22. Give five benefits of expanding a business (5mks)
23. Give four benefits of operating a small scale business over a large scale. (4mks)

### **PAST KCSE PAPER 2**

1. Explain five principles under which cooperative societies should be managed (10mks)
2. Explain five problems that farmers encounter when they sell their produce through marketing boards. (10mks)
3. Explain five sources of short term finances available to a business organization. (10mks)
4. Currently the government of Kenya is involved in privatizing public corporations. Explain five reasons that could make the government retain some of the corporations. (10mks)
5. Describe five disadvantages of running a business as a sole proprietor (10mks)
6. A group of businessmen from town x have formed a cartel. What reason could have led them to take such an action (10mks)
7. Explain five reasons why a public limited company may prefer to raise finance through issue of ordinary shares instead of debentures. (10mks)
8. Outline the differences between a private limited company and a public corporation (10mks)

9. In what ways do multinational corporations differ from locally owned firms.(10mks)
10. Discuss the factors that may influence the growth of a business unit. (12mks)
11. Explain the factors that make it difficult for many Kenyan to purchase houses through building societies. (6mks)
12. Explain the six benefits that may account to a business organization which expands the scale of its operation. (12mks)
13. Draw five differences between public limited company and a partnership form of a business. (10mks)
14. Describe the problems associated with a sole proprietorship form a business (10mks)
15. Explain six benefits that a company would get by raising capital through sale of ordinary shares (12mks)
16. Wafula who recently retired would like to invest his retirement benefits in either of tow business options. Explain five factors that Wafula should consider in choosing the business to invest. (10mks)
17. Outline 4 reasons why the government may decide to nationalize some business enterprises. (10mks)

# **GOVERNMENT AND BUSINESS**

## **KCSE PAST PAPER 1**

1. State four ways in which the Kenya Government protects consumers (4mks)
2. Give three disadvantages of railway transport in Kenya (3mks)
3. State four ways in which a government may regulate business activities (4mks)
4. Outline four reasons why a government may find it necessary to protect consumers. (4mks)
5. Outline four reasons why the government participates in business protection. (4mks)
6. Highlight four limitations of using consumer initiated methods in consumer unfair business practices by traders. (4mks)
7. State four reasons why a government may want to be involved in commercial activities (4mks)
8. State four reasons why a government may want to be involved in commercial activities (4mks)
9. Give four functions of the Kenya external trade authority. (4mks)

## **KCSE PAST PAPER 2**

1. Explain in the business malpractice that consumer need to be protected against by the government. (10mks)
2. Explains six functions of marketing boards in Kenya (12mks)
3. Outline five measures that the government of Kenya has put in place to protect consumers from unscrupulous business practices. (10mks)
4. Explain 5 reasons why consumers need protection against malpractices by some traders. (10mks)
5. Outline 5 circumstances under which the government may find it necessary to nationalize an industry. (10mks)

6. Explain 5 problems that farmers may face when they sell their produce through marketing boards. (10mks)
7. Explain how the Kenya national chamber of commerce and Industry ( KNCCI) promotes development of businesses activities in Kenya. (10mks)
8. Discuss the problems faced by KETA (10mks)

# TRANSPORT

## KCSE PAST PAER 1

1. State four circumstances under which a businessman would choose to transport goods by air? (4mks)
2. Outline four reasons why a school in Kisumu may prefer to transport its sixty students to a music festival in Nairobi by train rather than by bus. (4mks)
3. Give five reasons why a manufacturing firm would be located in an area well served by good road network. (4mks)
4. Outline four limitations of containerization. (4mks)
5. State four reasons why road transport is popular in Kenya. (4mks)
6. State four ways in which the nature of goods would influence the choice of transport. (4mks)
7. Outline four reasons why a transporter of goods from Mombassa to Nairobi may prefer rail transport to road transport. (4mks)
8. State the unit of carriage for each of the following modes of transport. (5mks)

Mode of transport	Units of carriage
a) Portage	
b) Sea	
c) Road	
d) Cartage	
e) Air	

9. List four ways in which transport promotes growth of trade. (4mks)
10. State four reasons why road transport is popular in Kenya. (4mks)
11. Give 3 disadvantages of railway transport in Kenya. (4mks)

12. List 4 disadvantages of using containers to transport goods. (4mks)

### **KCSE PAST QUESTIONS PAPER 2**

1. Explain five reasons that may account for continued use of hand carts as a mode of transport in Kenya. (12mks)
2. The oil pipeline has recently been extended from Nairobi to western Kenya. Explain five benefits that may be accounted to the country from the extension. (10mks)
3. Explain five ways in which an efficient road transport system may promote trade within a country. (10mks)
4. Discuss five factors that have hindered the expansion of railway transport in Kenya. (10mks)
5. Explain five features of an efficient transport system (8mks)
6. Explain the advantages of pipeline as a mode of transporting oil products. (12mks)
7. Outline five factors that should be considered when choosing a means of transport. (10mks)
8. Explain six advantages of containerization as a mode of transport. (10mks)
9. Discuss six factors that may discourage the use of pipeline as a means of transporting petroleum products in a country. (12mks)
10. Discuss 5 circumstances under which a trader may choose to transport goods by rail. (10mks)

## **COMMUNICATION**

1. Outline four reasons why a business person may prefer written communication to verbal communication. (5mks)
2. State five services offered by the post office. (5mks)
3. State four advantages of verbal communication. (4mks)
4. Highlight four advantages of using telex as a means of communication. (4mks)
5. State four features of effective communication. (4mks)
6. State four reasons why the post office is still popular as a means of sending letters. (4mks)
7. Give four reasons why a person would send a message by mail rather than by telephone. (4mks)
8. Highlight four factors that may limit the use of telephone as a means of communication in Kenya. (4mks)
9. State four problems that may interfere with the effectiveness of face to face communication. (4mks)

# WAREHOUSING

## PAST KCSE QUESTIONS PAPER 1

1. Outline four features of a bonded warehouse (4mks)
2. Highlight four ways in which a warehouse is useful to a trader. (4mks)
3. List three advantages of warehousing to a manufacturer. (3mks)
4. Outline four benefits that consumers get from a warehousing (4mks)
5. Outline four factors that a trader would consider in locating a warehouse. (4mks)
6. State four benefits that a government gets from a bonded warehouse. (4mks)
7. State four features of a bonded warehouse (5mks)
8. State four advantages of public warehouse to retailers. (4mks)
9. the table below contains descriptions relating to some types of warehouse. In the space provided, write the type of warehouse to which each description refers.

Description	Type
a) Used to store exports and imports	
b) Anybody can rent spaces in it for storing goods temporarily.	
c) Operated for the owner's exclusion use.	
d) Owned and operated by manufacturers and farmers.	

10. In which four ways are consumers likely to suffer in a situation where there is no warehousing?

# **INSURANCE**

## **PAST KCSE QUESTIONS – PAPER 1**

1. Describe the procedures that should be followed when taking an insurance policy. (10mks)
2. Explain four ways in which the insurance industry promotes the growth of business enterprises. (5mks)
3. Explain four ways in which the insurance industry contributes to the development of Kenya's economy. (10mks)
4. Discuss various insurance policies under which an insurance company would not compensate the insured in the event of the loss. (10mks)
5. Discuss various insurance policies that the owner of a supermarket may find it useful for the business. (12mks)
6. Explain four benefits of the 'pooling of risks' to an insurance company. (8mks)
7. Explain the factors that may make it necessary for an insurance company re-ensure.
8. Explain the meaning of the following terms as used in insurance (10mks)
  - i) Uberrimae fidei
  - ii) Indemnity
  - iii) Third party motor vehicle insurance
  - iv) Contribution.
  - v) Subrogation
9. Discuss four circumstances under which an insurance contract may be terminated. (8mks)
10. Explain five benefits that could be enjoyed by a person who decided to take out an endowment policy. (10mks)

# PRODUCT PROMOTION

## PAST KCSE QUESTIONS – PAPER 1

1. The follow are types of advertising

- Product advertising
- Competitive advertising
- Information advertising
- Institutional advertising

In the table below, match each type with its appropriate description. (4mks)

Description	Type
-------------	------

- |  |  |
|--|--|
| a) Create awareness about a product          |  |
| b) Promotes the name of the manufacturer     |  |
| c) Persuades a particular brand of a product |  |
| d) Promotes a particular brand of a product  |  |

2. State four ways in which consumer's benefits from advertising by business people.

(4mks)

3. Give three reasons why manufacturer may offer after sales services to his customers.

(3mks)

4. Outline four steps involved in personal selling process.

(4mks)

5. State four circumstances under which a trader would advertise his products over the radio

instead of the television.

(4mks)

6. Identify four disadvantages of advertising through television in Kenya. (4mks)

7. List four disadvantages of advertising through television in Kenya. (4mks)

8. Highlight four limitations of after sales services as a method of promoting products.

9. Outline the advantages of after sales services as a method of sales promotion to a customer.

(4mks)

10. Highlight three reasons why traders may engage in sales promotion. (3mks)
11. State four advantages of personal selling method of promoting sales. (4mks)

### **PAST KCSE QUESTIONS – PAPER 2**

1. Abdullah, a manufacturer, exhibited his goods in a local trade shows. However his sales did not increase significantly thereafter. Outline five reasons that may have led to lack of significant sales increase. (10mks)
2. Describe the procedures involved in personal selling methods of sales promotion. (10mks)
3. Outline five ways of attracting customers that traders may put into use. (10mks)
4. Explain five benefits that a trader would get by advertising his goods through the radio. (10mks)
5. Explain the reasons why the firms with popular products find it necessary to continually advertise the same products. (10mks)
6. A multinational company is planning to launch its products in the local Kenyan market. Highlight the factors that should be considered by the company when choosing the appropriate media through which to advertise the products. (10mks)
7. Explain the role of a sales department in a business firm (10mks)
8. What are the benefits accruing to a seller who uses personal selling methods to promote her products. (10mks)
9. Advertising in the newspaper is one way of promoting sales of goods. Highlight five limitations of advertising goods in newspapers. (10mks)

## **DEMAND AND SUPPLY**

### **PAST KCSE QUESTIONS PAPER 1**

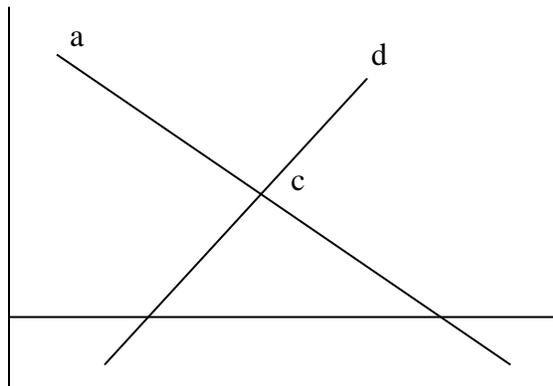
1. Indicate by writing a demand or supply whether each of the following factors influence demand or supply of a commodity. (5mks)
  - a) Changes in the prices of inputs
  - b) Change in tastes and preferences.
  - c) Changes in technology
  - d) Changes in incomes
  - e) Changes on the price of other related products.
2. State the law relating to each of the following.
  - a) Demand
  - b) Supply
  - c) Demand and supply
3. In each of the following cases, indicate whether the supply will increase, decrease or remain constant.
  - a) If the demand for coffee rises, the supply of tea is likely to
  - b) If the prices of cars fall, the supply of petrol is likely to
  - c) if the demand for beef increases the supply of wool is likely to
4. State four factors that may cause an increase in the supply of a product. (4mks)
5. Outline four factors that may cause a decrease in the quantity demanded for a product. (4mks)

6. Draw a demand curve based on the demand schedule below

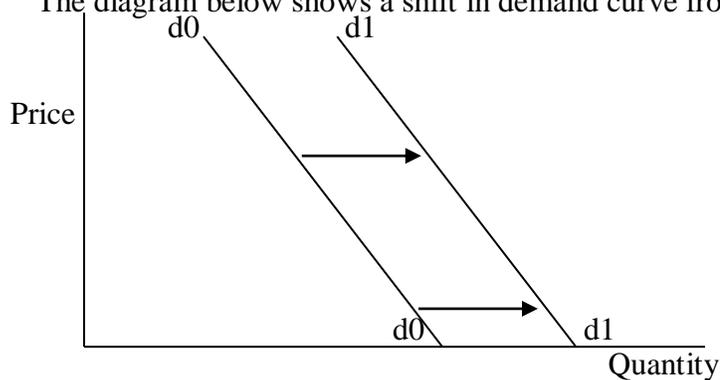
Price (Sh)	Quantity demanded
5	100
10	50
20	25
25	5

(4mks)

7. The following diagrams represent demand and supply of a product. (5mks)



- Labels the cover (a) and (b)
  - State what is represented by point (c)
  - On the diagram, indicate equilibrium price (PE) and equilibrium quantity (QF).
8. State four factors that may lead to an increase in market supply of a product. (4mks)
9. The diagram below shows a shift in demand curve from  $d_0d_0$  to  $d_1d_1$ .



Identify four factors that have made the demand curve to shift from  $d_0d_0$  to  $d_1d_1$

11. The table below illustrates the demand and supply of commodity.

Price	Quantity demanded kg Kg per month	Quantity kg per month
15.00	80	20
20.00	70	30
25.00	60	40
30.00	50	50
35.00	40	60
40.00	30	70

From the table above, state

- a) The nature of the demand for the commodity
- b) The nature of the supply of the commodity
- c) The equilibrium price
- d) The equilibrium quantity.

**PAST KCSE QUESTION –PAPER 2**

1. Outline four ways in which the price of goods and services can be determined in the market other than through the forces of demand and supply curve.

## **THEORY OF THE FIRM**

### **PAST KCSE QUESTIONS PAPER 1**

1. State disadvantages of concentrating industries in one area within a country. (4mks)
2. Highlight four circumstances under which a firm would be located near the market for its product. (4 marks)
3. Outline four ways in which land influences the location of industries. (4 marks)
4. State four circumstances under which a firm would be located near the market for its products. (4 marks)
5. State four advantages of locating a firm near the source of raw materials. (4 marks)
6. Identify four problems that tend to limit the growth of small –scale retail business in rural Kenya. (4 marks)
7. Highlight four measures a government may take to attract firms to an area. (4 marks)
8. State four disadvantages of locating a business away from other related business. (4 marks)
9. State four disadvantages of delocalization of industries to a country. (4 marks)
10. State four factors which influence the location of business enterprises. (4 marks)
11. State four measures that local authority could take in order to attract investors to locate their industries within its boundaries. (4 marks)

### **PAST K. C. S. E QUESTIONS – PAPER 2**

1. Outline five benefits that country would get by encouraging businessmen to locate new industries in rural areas. (10 marks)
2. Discuss the factors that have led to the survival of small scale retailers despite competition from supermarkets. (10 marks)

3. Discuss the economic benefits to a community that may result from the concentration of industries in an area. (10 marks)
4. Explain five circumstances that may influence a firm to locate its operations near the source of raw materials. (10 marks)
5. Explain five measures that a government may take to encourage establishment of industries in rural areas. (10 marks)
6. Highlight five advantages of having a business enterprises located in an area. (10 marks)

# NET WORTH OF A BUSINESS

## PAST KCSE QUESTIONS – PAPER 1

1. The following table contains information relating to a business A, B, C, and D. Determine the figures represented by W, X and Y.

Business	Assets	Capital	Liabilities
A	620,000	W	230,000
B	X	400,000	120,000
C	800,000	500,000	Y

2. In the spaces provided, indicate with a (+) or (-) the effects of each one of the following transactions on the assets, Liabilities or capital (4 marks)

	Assets	Liabilities	Capital
a Bought furniture on credit			
b. Paid creditors by cash			
c. withdrew cash for personal use			
d. Converted a personal car for business use			

3. The following relate to business A, B and C. For each of the business determine the missing figures: M, N, and P

Business	Assets	Capital	Liabilities
A	30,000	m	12,000
B	n	16,000	13,000
C	60,000	48,000	p

4. For each of the following types of accounts, state in the spaces provided whether you debit or credit increase or decrease the account. (3 marks)

Type of account	To increase	To decrease
a Asset account		
b Liability account		
c. Capital		

5. In the table below, determine the missing fig. X, Y and Z for each of business Q, R and S. –

Business	Assets	Capital	Liabilities
Q	250,000	X	120,000
R	Y	1,500,000	Z
S	600,000	100,000	400,000

(3 marks)

6. The following information relates to business A, B, C and D.

Business	Assets	Liabilities	Capital
A	500,000	x	300,000
B	Y	800,000	1,200,000
C	300,000	120,000	z
D	700,000	t	500,000

Determine figure represented by X, Y, Z and T.

(4 marks)

# BUSINESS TRANSACTIONS

## PAST K.C.S.E QUESTION ON THE TOPIC

1. State the term that best fit each of the following description

- i. Money brought into the business by owner\_\_\_\_\_
- ii. Goods bought for resale\_\_\_\_\_
- iii. Money borrowed by the owner of business. (4mks)

2. For each of the following transactions, indicate with a tick in the spaces provided whether the following business transaction will increase, decrease or have no effect on the balance sheet

Transaction	Effects on the balance Sheet		
	Increase	Decrease	No effect
a) investing more cash in the business			
b) paying creditors in cash			
c) Buying a piece of furniture in cash			

3. In the spaces provided, indicate with a (x) whether each of the following transactions will increase, decrease or have no effect in the balance sheet. (4 marks)

Transaction	Increase	Decrease	No effect
a. buying stock in cash			
b. Depositing extra cash into Business account			
c. Drawing cash for personal use			
d. Buying stock on credit			

# THE LEDGER

## PAST QUESTIONS – PAPER

1. The following trial balance of Onyati was incorrectly prepared in 30<sup>th</sup> June 1995. Prepare the correct Trial Balance.

	<b>Dr.</b>	<b>Cr.</b>
Capital	99,600	30,520
Debtors		
Creditors	25,670	80,000
Motor vehicles		
Cash	2,500	
Stock	140,250	110,520

2. prepare a trial balance from the following balances extracted from the books of San enterprises on 30<sup>th</sup> April, 1995

	Shs	
Capital	947,000	
Cash	74,000	
Premises	870,000	
Debtors	36,520	
Creditors	45,300	
Stock	12,250	(4 marks)

3. The following account balances were obtained from the books of Kiboko Traders on 30<sup>th</sup> June 1999.

Motor vehicle	240,000
Current liabilities	440,000
Land + building	200,000
Current assets	420,000

Furniture	60,000
Capital	480,000

Prepare a trial balance for Kiboko traders as at 30<sup>th</sup> June 1999.

4. The following balances were extracted from the books of Dipa traders as at 31<sup>st</sup> December 2000.

Buildings	100,000
Debtors	54,000
Capital	136,000
Sales	85,000
Purchases	48,000
Stock Jan 2000	25, 500
Creditors	37, 500
General expenses	31, 800
Bank overdrafts	2,500

Prepare a trial balance as at 31 December 2000 (5 mks)

5. The following balances were obtained from the books of Rah Traders

	Shs.
Opening stock	50, 000
Sales	360,000
Gross profit	25% of sales
Closing stock	70,000

Calculate

- Cost of goods sold
  - Rate of stock turnover (5 marks)
6. Enter each of the following transactions relating to Jokin Traders in the relevant 'T' A/c

- i. Deposited cash in hand shs. 5,000 into bank
  - ii. Bought a motor vehicle on credit on for 250,000 from Raji Traders
  - iii. Paid salaries sh. 2, 400 by cheque (3 marks)
7. Balance the following ledger accounts. (5 marks)

Dr.	Cash Account		Cr.
	Shs		Shs
Balance b/d	45700		Salaries
Sales	35000		purchases
			4800
			2000

Dr.	Capital Account		Cr.
	Sh.		Shs
			Balance
			20700

Dr.	Salaries Account		Cr.
	Sh		sh
Cash	4800		

Dr	Capital Account		Cr.
	Shs		Shs
Balance	2000		
Cash	2000		

Dr.	Sales Account		Cr.
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	Sh.		Sh.
		Balance b/d	45700
		Cash	35000

8. For each of the following transactions state the account to be debited and credited.

(4 marks)

	<b>Transactions</b>	<b>A/c debited</b>	<b>A/c credited</b>
i.	paid a creditor from private source		
ii.	proprietorship brought in cash from private sources		
iii.	Bought goods and paid by cheque		
iv.	Proprietor withdrew cash for personal use		

9. Record the following transactions in ledger accounts.

- a) Received Ksh. 20,000 cash in respect of rent paid
- b) Purchased goods worth 30,000 on credit from crown traders.



4. State four uses of two column cash book (4 mks)
5. For each of the following types of account indicate by writing Dr. or Cr.

The side of record for increase and decrease

Type of A/c	Increase	Decrease
Asset		
Capital		
Revenue		
Expense		

6. the following is an extract of a cashbook of Maisha traders

Date 1998	Particulars	Cash	Bank	Date 1998	Particulars	Cash	Bank
1/7	Bal b/d	-	-	2/7	Salary		20000
	Sales	8000		10/7	Purchases		19000
	Kamau		16000	12/7	Rent	5000	
	Sales		20000	12/7	Stationary	6000	
				30/7	Bal c/d	11000	43000

Determine the opening balances on 1.7..98

7. On July 1999 Kahawa Traders has Kshs 6,000 cash in hand, a bank overdraft of Kshs 2,000.

During the month the following transactions took place

- Received cheque from debtors totaling to Kshs 80,000
- Paid telephone bills 1,200 cash
- Withdrew Kshs 16,000 from bank for office use. Enter the above information in Kahawa traders cashbook given below and balance it off

## Kahawa Traders

### Cash Book

For the month of July 1999

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank

8. On 1 March, 2001, Mingi traders had Ksh. 13,200 in cash and bank balances of Sh 56,000.

The following transaction took place during the month.

2001 2 Cash sales sh. 12,000

12 paid a creditor sh. 8,200

27 received a cheque for sh. 4,500 from debtors

31 paid rent 7,500 in cash

Record the above information in a two column cash book and balance it off. (4 mks)

9. Outline the uses of two column cash book (4 mks)

10. The following is an extract of a cash book.

Date 2002	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
2/5	Bal	W	X	6/5	Wages		60000
12/5	Sales	20000		18/5	Purchases		30000
20/5		50000		22/5	Rent	6000	150000
28/5	Sales		120000	30/5	Bal c/d	Y	

Determine the figures represented by W, X, Y,Z

(4 mks)

# **CHAIN OF DISTRIBUTION**

## **PAST QUESTIONS – PAPER 1**

1. Outline four benefits that customers get from small – scale retailers. (4 mks)
2. Highlight four benefits that accrue to a customer who buys directly from a manufacturer (4 mks)
3. Name four channels the a manufacturer would use to distribute his goods to the Customer (4 mks)
4. Highlight four factors that should be considered in choosing a method of distributing agricultural produce (4 mks)
5. Give disadvantages of long chain of distribution of goods to a buyer (4 mks)
6. State four benefits to a large consumer who buys directly from the producer. (4 mks)
7. Outline four benefits to a large consumer who buys directly from the producer. (4 mks)
8. Highlight four circumstances under which a manufacturer may prefer to sell goods directly to the consumers (4 mks)

## **PAST KCSE QUESTIONS – PAPER 2**

1. Describe five circumstances under which a producer would sell his goods to his consumers (10 mks)
2. Zango manufacturers who have been selling their products directly as retailers have decided to distribute the products through wholesalers. Explain five benefits that Zango manufacturers may get from these new arrangements. (10 mks)
3. Describe five channels that can be used to distribute locally manufactured goods (10 mks)
4. Explain four factors that may be considered in determining the appropriate channel for

- distributing goods (10 mks)
5. Discuss circumstances under which a wholesaler becomes essential in the chain of distribution (10 mks)
6. Explain the channel of distribution for imported goods (10 mks)
7. Kabu manufacturers have decided to distribute their goods through wholesalers. Discuss five benefits that would account to Kabu manufacturers (10 mks)

# FINANCIAL STATEMENTS

## PAST KCSE QUESTIONS – PAPER 1

1. (a) The following is an extract of balances from the books of Otwa traders as at 31<sup>st</sup>

October 1994

Accrued rent	4,000
Cash in hand	7,500
Trade creditors	3,000
Stock	4,000
Bank overdraft	6,000
Prepaid insurance	1,400
Trade debtors	2,600

Prepare a statement showing working capital (5 mks)

- b) The capital account of Nyota traders showed a balance of Kshs 50,000 as at 1<sup>st</sup> July 1994. For the year 30<sup>th</sup> June 1995, the following information was available.
- i) Proprietor brought in a personal car worth 80,000 for the business use
- ii) Net profit amounted Kshs 64, 000. The proprietor withdrew 32,000 from the business for personal use. Prepare the capital account at 30<sup>th</sup> June 1995

2. The following account balances were extracted from the books of Sawato traders on 30<sup>th</sup>

September 1995.

Purchases	190,550
Opening stock	35,500
Closing stock	25,000
Sales	256,050
Sales return	4,800

Calculate

- i. Cost of goods sold ( 5 mks)
- ii) Percentage of gross profit and net profit

3. The following account balances were extracted from the books of Kitu traders on 30<sup>th</sup> November 1995

Machinery	250,000
Debtor	62,000
Creditors	46,000
Stock	12,680
Cash in hand	1,500
Cash at bank	15,000

Determine the capital as at 30<sup>th</sup> November 1995

4. The following balance sheet relates to Jambo Traders

Jambo traders balance sheet as at 30<sup>th</sup> June 1995

Calculate Jambo Traders current ratio (5 mks)

LIABILITIES		ASSETS	
Capital	127,000	Machines	90,000
Bank		Stock	20,000
Overdrafts	12,000	Debtors	32,000
Creditors	25,000	Cash in hand	22,000
	164,000		164,000

5. During the month of July 1995 Kungu made sales worth Kshs.60,000. His margin on sales was 20%, calculate;

- a) The cost of goods sold
- b) The gross profit

6. For each of the following transactions indicate with a tick the effect on capital. (4 mks)

Transaction	Increase	Decrease	No Effects
(i) Withdrew cash for personal use			
(ii) Used personal savings to buy stock			
(iii) Paid a creditor by cheque			
(iv) Bought office furniture in cash			

7. The following balances were extracted from the books of Waso traders on 30<sup>th</sup> October 1995.

Cash	20, 520
Bank	160,230
Premises	800,000
Debtors	40,000
Creditors	62,000
2 year loan	40,000
Stock	2,500

Prepare a balance sheet (5 marks)

8. The following information was extracted from the books of Kwaso traders on 31<sup>st</sup> August 1997.

Gross profit	130,800
Carriage of sales	4,700
Commission received	8,000
General expenses	18,200
Insurance	4,000

Prepare a profit and loss A/C (5 marks)

9. The balance sheet of Moba Enterprises for the year ended 30<sup>th</sup> June 1996 is given below.

Moba enterprises sheet as at 30<sup>th</sup> June 1996.

Calculate the return on

a. Capital invested

	Sh	sh	sh
Capital	1,200,000		
N.p	240,000	1,440,000	
	<hr/>		
		F.A	1,400,000
			74,000
C.A			
C.L			
Creditors	3,400		
	<hr/>		
	1,474,000		1,474,000
	<hr/>		<hr/>

(5 marks)

10. The following account balances were extracted from the books of Kiboko enterprises on 30<sup>th</sup> June 1997.

Opening stock	65,000
Sales	280,000
Purchases	190,000
Purchases returns	10,000
Sales returns	4,200

Closing stock was Kshs. 70,000 as at 30<sup>th</sup> June 1997. Prepare the trading a/c for period ended 30<sup>th</sup> June 1997. (4 marks)

11. The following information was extracted from the books of Peshau Traders as at April 1998

Cost of goods sold	65,000
--------------------	--------

General expenses                      280,000

Capital for the period was 20% 10,000

Calculate rate of net profit to capital (5 marks)

12. State four uses of balance sheet for business organizations. (4 marks)

13. The following information relates to Mali traders for the year ended 31<sup>st</sup> Dec 1998.

Capital 1.198                              250,000

Additional investment                      68,000

Drawing                                      92,000

Profit                                        180,000

Calculate the capital of Mali traders as at 31<sup>st</sup> Dec 1998 (4 marks)

14. The following information was obtained from the books of Kina Traders on 30<sup>th</sup> June 1998

Opening stock                      8,000

Purchases bank                      53,000

Sales                                      62,900

Return outwards                      2,700

Closing stock                      12,700

Prepare Kina Traders balance a/c for the year ended 30<sup>th</sup> June 1998 (5 marks)

15. The following balances were obtained from the books of Rah traders

Opening stock                      50,000

Sales                                      360,000

Gross profit                              25% of sales

Calculate

a) Cost of goods

b) Rate of stock turnover (5 marks)

16. Cumvi Traders had a capital of sh 180,000 as at 31.12.1998

Additional information

- a) during the year the owner converted her private car worth 90,000 for business use
- b) Goods worth sh. 50,000 were taken from the business for her own use
- c) Net profit for the year was sh 140,000

Calculate capital as at 31 Dec. 1999 (3 marks)

17. The following figures obtained from the records of Buka Enterprises for the year ended 30<sup>th</sup> June 2000

Sales 500,000

Cost of goods sold 280,000

Calculate the gross margin (4 marks)

18. The following transactions relates to Tajira Traders for the month of January 2001

Jan 1 started business with Kshs. 20,000 in cash

Deposited 15,000 from cash till into a business Bank account

Bought goods on credit from Wema traders for 6,000

Bought furniture by cheque sh 3,000

Prepare a balance sheet as at 31<sup>st</sup> January 2001

19. The following balances were extracted from the books of Vuno Traders for the year ended 31<sup>st</sup> March 2001

Gross profit 186,200

Carriage outwards 13,500

Rent received 34,300

Office expenses 19,600

Salaries 57,000

Prepare a profit and loss for the year ended 31<sup>st</sup> March 2001 (5 marks)

20. Ngoma traders had the following transactions

Feb. 2 bought goods costing sh 400,000 from Maiyo traders sh. 650,000 by cheque as a part of payment for goods received. Received the above transaction in the account below and balance it off. (5 marks)

Dr		Maiyo traders A/C		Cr	
Date	Details	Kshs	Date	Details	Kshs

---

21. The following information was extracted from the books of Mutua for the period ended 30<sup>th</sup> June 2001.

Opening stock	2,000
Purchases	8,500
Closing stock.	2,500
Sales	10,000

Required:

- The trading Account for the period ended 30<sup>th</sup> June 2001
- Calculation of the mark up

(5 marks)



Debtors	120,000	
Interest expenses	18,000	
General expenses	7,000	
Capital	<u>178,000</u>	
	1,268,000	
Creditors		240,000
	<u>6,226,000</u>	<u>6,226,000</u>

Additional information

Stock as at 31<sup>st</sup> December was 100,000

- i. prepare Trading, profit and Loss account for the period ended 31 December 1999
- ii. calculate return on capital, current ratio and debtor's ratio (10 marks)

5. The following is a balance sheet of Bambu traders as at 31<sup>st</sup> December 2000

Bambu Traders

Balance sheet as at 31<sup>st</sup> December 2000

- a) Sales during the year amounted to Kshs 2,000,000
- b) Stock on 1 January 2000 was Kshs. 100,000
- c) Gross profit margin was 20%

Calculate

- i) Current ratio
- ii) Gross profit mark up
- iii) Rate of stock turnover

6. The following trial balance was extracted from the books of Maringo traders on 31<sup>st</sup> December 2001

Maringo traders Trial Balance as at 31<sup>st</sup> December 2001

Gross Profit		380,000
Closing stock	274,000	
Capital		259,000
Drawings	83,000	
Creditors		93,000
Premises	103,000	
Debtors	123,000	
Cash at bank	33,000	
Bank loan (1 yr)		50,000
General expenses	54,000	
Commission received		20,000
Wages and salaries	132,000	
	802,000	802,000

Prepare

- a) Profit and loss Account for the year ended 31<sup>st</sup> December 2001
- b) Balance Sheet as at 31<sup>st</sup> December 2001 (12 mks)
7. the following information was extracted from the books of Sarai Traders for the year ended 30 April 2003

Sales	480,000
Opening stock (1.5.02)	80,000

Gross profit is calculated at 25%

- i) Prepare a trading account for the period ended 30 April 2003

ii) Calculate the rate of stock turn over (10 mks)

8. The following balances were extracted from the Tango traders as at 31<sup>st</sup> December 2004

Motor vehicle	80,000
Plant and machinery	70,000
Loan from Bank	60,000
Stock	25,000
Debtors	30, 000
Creditors	15,000
Bank	20,000

Prepare a balance sheet for Tango Traders as at 1<sup>st</sup> December 2004. (5 mks)

9. The following information refers to tea traders for the year ended 31/12/04

Sales	800,000
Expenses	10,000
Commission received	15,000
Purchases	700,000
Opening stock	250,000
Margin	20%

Prepare trading, profit & loss a/c for the year ended 31/12/04

10. (1) The following balances were extracted from books of Motop Traders for the year ended 31/12/2004

Rent	48,000
Lighting	7,200
Water	9,220
Salaries	75,000
Commission received	8,500

Discount allowed	4,600
Discount received	8,500
Gross profit	320,000
General Expenses	98,000
Stock	5,250
Motor Vehicle	2,300,000
Furniture & equipment	650,000
Debtors	270,000
Creditors	396,400
Bank	200,000
Cash	50,000
Capital	3,000,000

Prepare:

Profit and loss a/c for the year ended 31/12/2004

Balance sheet as at 31/12/2003

(4 ½ mks)

# **PUBLIC FINANCE**

## **KCSE PAST QUESTIONS- PAPER 2**

1. Highlight five reasons why budgeting is important to a business organization  
( 10 mks)
2. Discuss the reasons why a business organization may prepare a budget (10 mks)
3. Discuss the various classes of taxes ( 10 mks)
4. Outline the disadvantages of direct taxes ( 10 mks)
5. Explain any 5 principles of public expenditures ( 10 mks)
6. Discuss the importance of a budget as a tool of control ( 10 mks)
7. Highlight any five features that a government should consider when deciding on a good tax system (10 mks)

# MONEY AND BANKING

## PAST KCSE QUESTIONS PAPER 1

- A. State how a credit transfer is used as a means of transferring money through the commercial banks (3 mks)
- B. Highlight four advantages of using a telegraphic money order as a means of remitting money through the post office. (4 mks)
- C. state four limitations of barter trade (4 mks)
- D. In the spaces provide below indicate with a tick whether each of the following statements is true or false about commercial banks (5 marks)

	True	False
- Accept deposits from the members of the public		
- Provides safe custody for the valuables		
- Issues currency for the use in the country		
- Controls money supply in the country		
- Lends more to the public		

- E. List four characteristics of money (4 mks)
- F. State four methods that central bank may use to control credit (4 mks)
- G. List four functions of development (4 mks)
- H. highlight four reasons why loans advanced by commercial bank in Kenya may not appeal to many people (4 mks)
- I. Give four disadvantages of barter trade (4 mks)
- J. State four banking services that the central bank of Kenya provides to the government (4 mks)

- K. Wambua intends to import a car from Dubai which costs Kshs. 20, 0000 Dirams. If 4 Dirams = 1 Us Dollar and Kshs 70 = 1 Dollar, calculate the amount in Kenya shillings that Wambua will pay for the car.
- L. Highlight 4 functions of the Central Bank of Kenya
- M. Given below is the first stage in the historical development of money list the next four stages in their order of occurrence (4 mks)

### **PAST KCSE QUESTIONS – PAER 2**

1. Explain five in which banks contribute to the development of Kenya (10 mks)
2. Outline five reasons why banks currently account is popular with traders (10 mks)
3. Explain service offered to commercial banks by the central bank of Kenya (10 mks)
4. In what ways of the functions of commercial bank differ with those of non- bank financial institutions (10 mks)
5. Explain five ways in which central bank of Kenya may control the supply of money in the country (10 mks)
6. Describe methods which may be used by commercial banks to advance money to Customers.
7. A businessman wishes to obtain a loan from a commercial bank. Highlight the conditions that he should satisfy before the bank can grant him the loan (10 mks)
8. Explain five services that the central bank of Kenya offers to commercial banks (10 mks)
9. Explain four disadvantages of using a bank overdraft as a source of finances (8 mks)
10. Describe four ways in which a non- bank financial institutions differ from the commercial banks (8 mks)
11. Discuss five reasons why business people prefer to operate bank current accounts

12. Outline the benefits that bank customer gets from operating a current account  
(10 mks)
13. Explain the 5 services offered by a commercial banks to their customers (10 mks)

# INTERNATIONAL TRADE

## PAST KCSE QUESTIONS PAPER 1

1. Outline four benefits that Kenya derives by being a member of preferential Trade Area PTA (4 mks)
2. Give four reasons why it may be necessary for a country to control imports (4 mks)
3. State four benefits that a country may derive from participating in international trade (4 mks)
4. State four methods of controlling imports (4 mks)
5. State four measures that Kenya may take to promote her exports (4 mks)
6. State four factors that may limit the success of trade agreements among African countries (4 mks)
7. State in the spaces provided below, state the business document to which each of the following statements relates (4 mks)

Statement	Document
A. Informs the buyer when goods were dispatched and by what means	
B. A request by seller for payment in advance	
C. Used to correct under undercharge in an invoice	
D. Shows details of the transactions between seller and buyer during a given period	

8. Highlights four problems a country by participating in international trade (4 mks)
9. Outline four circumstances under which a proforma invoice may be used (4 mks)
10. Explain the following terms as used in international trade
  - a. LOCO
  - b. F.O.R
  - c. F.A.S

d. Bill of Lading

11. State three functions of departments of international trade in the ministry of commerce and industry (3 mks)
12. Country X has recorded a surplus balance of payments from its foreign trade. Outline four ways in which the country can spend these surplus earnings (4 mks)
13. List four benefits that a country derive from engaging in international trade (4 mks)

**KCSE QUESTIONS – PAPER 2**

1. Explain five ways in which a country benefits by participating in international trade (10 mks)
2. Outline five transactions which are recorded in balance of payment account of a country (10 mks)
3. Explain five measures that a country may take to promote her exports (10 mks)
4. Explain the meaning and significance in each of the following terms as used of the following terms as used in foreign trade. Terms of trade, balance of payment, exchange rate, balance of trade and common market. (10 mks)
5. Explain the significance of each of the following documents as used international trade. Bill of lading, proforma invoice, indent, letter of credit
6. Country X has obtained a surplus in its balance of payment. Explain the factors that could have contributed to this surplus (10 mks)
7. Explain six problems being faced by the Kenya External Trade Authority (KETA) (12 mks)
8. Explain the factors that may lead to deteriorating terms of terms of trade for a country (10 mks)
9. Outline five functions of Kenya external Trade Authority (KETA)

(10 mks)

10. Highlight five benefit that Kenya gets from trading with other countries

(10 mks)

11. The domestic currency of a certain country has been depreciating over time. Highlight five disadvantages of the depreciation of the country

(10 mks)

12. Highlight five ways in which a bill of lading is useful to an importer of goods

(10 mks)

# MARKING SCHEMES

## INTRODUCTION TO BUSINESS STUDIES

### 1.

- Enable trade to take place
- Bridges the gap between the producer and consumer through transport
- Informs consumers about good and services available i.e. where they can be found, their prices.

Uses etc

- Provide storage facilities/ warehouse
- Provides safe places for keeping money, opportunity for borrowing banking
- Protects trade against risk though insurance

## SATISFACTION OF HUMAN WANTS

1.

Goods	Classification
Factory	Producer
Private car	Consumer
Iron ore	Producer
Tools	Producers
Exercise books	Consumer
Clothing	Consumer

2.– They are essential for survival

- They cannot be permanently satisfied
- They are universal

3. 1996. – Avoiding indiscriminate felling of trees

- Planting more trees
- protecting forests areas from human settlements
- Developing alternative sources of energy to reduce reliance as wood fuel
- Educate the public the importance of forest conservations

4.– Their exploitation creates employment

- Provides raw materials for industries
- They are sued to generate income for a country/ foreign income
- They are basic factors for sustenance of a life e.g. irrigation schemes
- Provides means of transport

5.– They are essential for survival

- The consumer has limited sources
- They cannot be postponed

- They are self needs

6.– Fluctuating oil prices

- No oil in Kenya/ reduce importation
- Availability of cheaper energy
- Reduce pollution/ environmental friendly
- High cost of production of fuel

7. - Unlimited needs/wide variety

- Different tastes/ preferences/ fashion
- Difference prices of goods
- Government policy on goods
- Limited sources

8.– unlimited number

- can be satisfied as long as one has the means
- They are complementary
- Compose with one another
- Vary in urgency and intensity
- They are insatiable

9.– Food

- Clothing
- Shelter

10.– It may lead to pollution

- May endanger lives due to landslides
- Over reliance on mining may lead the country into economic problems

When price fluctuate

- Mines get exhausted

11.– Reasons prevent misuse of resources

- To protect environmental degradation
- To conserve resources
- To control production activities which require natural resources
- Promote tourism

12.. There is exchange hence one is able to acquire what they do not have i.e.

Possession utility

- Goods are stored until when needed through warehousing hence time utility is created
- Goods are taken to where required through transportation hence place utility is created
- Through the process of production goods are converted to the right form in which the consumers can use them to satisfy his wants hence form utility is created.

## **PRODUCTION**

### **Paper 1**

1.

Activity	Level of production
Digging clay soil	Primary
Construction of a bridge	Secondary
Selling of a shop	Secondary
Growing vegetables	Primary
Transportation of medicine	Tertiary

2. - Does not involve exchange and therefore no surplus production

- There is limited use of modern technology

- There is use of economic resources/ capital

3. - warehousing

- Transport

- Advertising

- Insurance

- Communication

4. - Take advantage of cheap labour in the country

- avoid paying tax on the goods that would otherwise be imports

- To take advantages of suitable raw materials in the country

- To make products cheaper hence more sales

- To make transport cheaper

5. - secondary

-Tertiary

- Primary

6. - Consumer goods are demanded for final or direct use by the buyer

- Producer goods demanded for production of other good

7.

Resources	Factor of production
Manager	Labour
Vehicle	Capital
Cotton	Land
Water	Land
Owner	Entrepreneur

8. - Productivity usually on small scale

- Usually for own consumption

- Production is not for the market

- Use simple method of production

- Low quality

9. - Identifies viable business opportunity

- Combine the other factors of production

- Provides capital required to carry out production

- Employs and rewards other factors of production

- He bears all the risks and losses

- enjoys the profits

- He makes all the decisions on the business

- He controls and manages the business

## Paper 2

1. - Identifies viable business opportunities
  - Provides guidelines on how production should be organized/ take/ place/  
Coordinate
  - Provides the capital necessary to carry on production
  - Hirea/ rewards all other factors of production
  - Bears all the risks/ incurs losses/ enjoys all profits
  - Decides how/ where/ when / what to invest the business
  - Provides/ avails/ assembles/ marshals other factors of production
2. - Large quantities
  - They buy in bulk, hence they get a good quantity discount, hence reduce their purchase expenses
  - Transport costs
  - They buy in bulk, hence they transport they goods at once, which reduces on transport costs.
  - Skilled manpower
  - They are able to employ skilled personnel, who provides quality management reduce on losses, and hence maximize profits
  - Use of machinery
  - They are able to afford machinery which in turn reduce on labour costs, hence reducing production costs

### Research

- They are able to carry out research, hence producing quality products and with the least wastage, hence reducing on production cost.

**OFFICE**  
**PAST K.C.S.E QUESTIONS**

1.
  - So that they can be protected from damage
  - So that information can be retrieved easily when needed
  - So that the office can be tidy
  - So that reference can be done in future
  - Plans for the operations of an office
  - Coordinating the operations of an office
  - Reports the operations of an office to the general manager of the business organizations
  - Organizes the operations of an office

3.

Function	Equipment
Sending and receiving written messages	Telex
Sending and receiving verbal messages	Telephone
Sending and receiving copies of documents	Fax Machines
Sending and receiving one way only	Pager

4.
  - Leadership
  - Sound
  - Judgment
  - Methodical
  - Strong character
  - Discipline
  - Polite

- Forward looking
  - Communicative
- 5.
- Availability of storage spaces
  - Cost of storage
  - Information contained in the document
  - need for future references
  - Purpose of documents
- 6.

2002 Office task	Equipment
Printing stamps impression and envelopes	Franking machine
Cutting papers into required sides	Franking machine
Pinning papers together	Stapler
Recording processing, storing, retrieving info	Computer

- 7.
- Receiving Information
  - Sending out information
  - Processing information
  - Reprographic purposes
  - Filing documents for future reference
  - Safeguarding organizations assets
  - Recording information
  - Offer administrative facilities
- 8.
- mailing
  - Processing information
  - Reprographic purposes
  - Recording information

**HOME TRADE**  
**PAST KCSE QUESTIONS**

1.
  - Production of surplus goods and services
  - Development of money and banking
  - Development technology
  - Differences in resources endowment between different countries as areas within the country.
  - Political stability
  - Government policy
  - Skilled manpower
  
2.
  - It is used for future reference
  - It acts as an evidence of transactions and reminds the debtors of the debt.
  - He can use to pursue the debtors in case he refuses to settle the debts
  - can use it borrow some money for the business as a security

## FORMS OF BUSINESS UNITS

### Answers Paper 1

1.
  - Obtains discount because of bulk buying
  - Able to advertise
  - Incurs low costs of production
  - Offers better management because of specialization
  - Allows diversification in order to reduce risks
  - Able to cater for staff welfare
  - Large output due to many channels

2.

Statement	True/ false
a) Contains the activities the company is engaged in	False
b) Indicates the process to be followed in calling meetings	True
c) Contains details of electron procedures	True
d) Indicate the liabilities of the shareholders	False
e) Contains the rights of each shareholder	true

3.
  - usually requires capital to start
  - Decision making is faster
  - Profit earned are not shared
  - Flexible
  - Enjoy secrecy
4.
  - Increase employment opportunities
  - Transfer of technology
  - Increase government revenue from licenses and taxes
  - Development of infrastructure

- Creation of international understanding
5. – A partnership may be able to raise more capital than a sole proprietorship
- A partnership may be able to use the abilities of all the partners while a sole proprietor has to rely on ideas alone
  - The partners may share losses when they occur while the sole proprietor suffers sole losses alone
  - Some partners may have limited liability while the sole proprietor has Unlimited liabilities.
  - The ability to share work
6. – used for long term activities
- can raise large amount
  - Can be bought back
  - Less cost of raising
  - Interest paid on remaining balances
  - Lenders of money do not have voting rights
7. – Promotes saving habits
- Obtains cheap loans
  - Assistance during problems
  - Financial advice
  - Invest on behalf of members limits for banking facilities
  - Payment dividends
8. - He does not require as much capital to start the business
- Operating costs are much lower than those of a shopkeeper
  - He is closer contact with his customers
  - He is more flexible in making business decisions
  - Able to go where customers are
  - Price is not fixed

- Sells in cash so no bad debts
- 9. - Lack of adequate skilled administration
- Low income of existing and potential cooperative members
- Inadequate collateral to borrow loans
- Undue interference with the movement by government – by- government functionaries
- Delayed transfer of members’ contribution by employees

10.

Statement	References shares	Ordinary Share
a) Represents ownership		x
b) Rate of dividend is fixed	x	
c) Has voting rights		x
d) Considered first in liquidation	x	
e) Redeemable	x	
f) May be cumulative	x	

- 11. - Easy to form
- Flexible in terms of business activities
- Quick decision making
- uses family labour
- Usually no division of labour
- enjoy business secrets
- Owned by one person
- 12. - able to get discounts due to bulk purchases
- Able to establish its own retail outlet to promote its products
- Can afford to hire qualified manpower and hire machines
- Could enjoy low cost of production due to spreading of costs over large Outputs

- Able to spread risks
  - Easier to raise capital
13. - It is short – term credit facility
- Practiced by traders only
  - Period for which the credit is given varies from 30 days for home trade and 60 – 90 days for foreign trade
  - Does not require a down payment
  - Credit attracts no interest if paid within agreed period
  - Buyer takes ownership of goods immediately
  - Usually paid one
  - ensures continuous supply of stock
14. – Need to protect consumers from high prices charged on poor quality
- Products provided by private producer
  - need to avoid foreign control over an industry
  - Change in political ideology
  - Need to provide less profitable but essential services
  - need to collect revenue
15. – each member has only one vote- cooperative
- The business enjoys perpetual succession- companies
  - Each member may act on behalf of the business- partnership
  - Formed by parliament – public corporation
16. – Organizing training
- Employment of qualified staff
  - Enforcement of law to punish errant staff
  - Control errant staff

- Reducing of undue influence by the government
  - Motivate staff
  - restructuring them to make them competitive
17. – Loans
- Member contributes in buying shares
  - Membership
  - Retained profit
  - Interest on loans to members
  - Rent income
18. - Sell similar goods
- Their members decide on share of the market
  - Member from rules on which to operate
  - are made up of competing firms
  - The members next to fit prices of goods sold
19. – It is a minimum membership of 2 people
- Its shares are not freely transferable
  - Entry to membership is not free
  - It has limited liability
  - Has a separate legal entity
  - Maximum membership of 50 people
20. – Promissory note
- Trade credit
  - Bank overdraft
  - Retained earnings
  - Factory

- Personal Savings
  - Relatives
  - Bill of exchange
  - When quantities are small
- 21.
- May result in a monopolistic situation
  - May lead to production on inferior good due to lack of competition
  - Prices of goods may be artificially kept high
  - They may restrict entry of other firms thus limiting consumer choice
  - Leads for shortages
  - Deny customers bargaining scale
- 22.
- One enjoys economics of scale
  - One can get money from long – term sources as the business can offer security
  - One enjoys large profit margin
  - One can be able to employ skilled labour
  - One can afford to advertise his commodities
- 23.
- easy to raise capital to start the business
  - The business is highly flexible
  - Quick decision- making
  - Requires less legal procedures during formation
  - Able to keep top business secrets
  - Does not have too much government control
  - Exposed to fewer risks due to their small sizes
  - They are not heavily taxed compared to big companies

## **KCSE PAST QUESTIONS PAPER 2**

### **1. (i) Open and voluntary membership**

Members wishing to join cooperative societies do so on voluntary basis and can leave at will.

They are however, expected to meet basic requirements before they can join.

### **(ii) Educator for members**

Support for educational activities with movement/aimed to foster cooperative principles at all levels to encourage membership and teaching

### **(iii) The principle of democratic control**

The administration of cooperatives is entrusted to a committee elected by members on the basis of one man one vote.

### **(iv) Affiliation co-operation**

Primary co-operative societies should be affiliate/ co-operate/ others/ secondary apex societies/ all levels

### **(v) Interest on capital**

Limited interest on capital should be allowed/ predetermined on capital but based on a fixed rate bid down by rule

### **(vi) Principle of political neutrality**

Cooperatives are supposed to be non- partisan politically/ non politically

### **(vii) Payment on dividends/ share of profits**

Profits made is shared among the members according to their contribution prorate basis

### **2. (i) payments**

Farmers usually get their payments after a long time after they deliver their produce/ delayed payments

### **(ii) Deductions**

Boards usually makes deductions from the payments they make to farmers at times without explaining why such deductions are made/ unfair deductions.

(iii) **Bureaucracy/ procedure**

The procedure that farmers have to follow in delivery of their produce getting payments is sometimes cumbersome and time wasting.

(iv) **Collecting of produce**

Sometimes collection of produce (from collection centers) delayed leading to deterioration of produce quality/ unnecessary losses.

(v) **Differentiation**

Lack of distinction between quality of produce from different areas may disadvantage those farmers who produce high quality produce.

(vi) **Pricing**

Farmers have to say no in the determination of prices/ prices are fixed by a board but the board may not reflect the true market price

(vii) **Corruption/ embezzlement/ fraud**

Farmers loose money via dishonest deed e.g. cheating in weight, recording etc.

(ix) **Management**

Political interference may affect adversely the running of the boards

3. - Overdrafts are current account holders

- Hire purchase of goods
- Bills of exchange / promissory notes/ trade bills can be sold instead of
- waiting for them to mature
- Issue of post dated cheques
- Trade credit
- Retained earnings

- Short term bank loans
  - Discounting of invoices
  - Taxation money
  - Sale and lease back
  - Leasing of property
  - Provision for depreciation
  - Proposed dividends
4. – To curb monopolistic practices
- To provide goods and services the private sector is unable to provide
  - To create job opportunities
  - For security purposes e.g. dealing with firearms
  - To allow local participation/ minimize foreign participation
5. – To avoid excessive competition among themselves
- To share the market demand in the areas/ regions selling
  - To determine the output/ quota for each member
  - To influence the price charged on products
  - To lobby for policies better to them/ protect their interest
  - To set modules/ standards improve in quality
7. -Debentures are units in loans which must be paid by a public company unlike ordinary shares
- Ordinary shareholders are paid in fixed rate of interest
  - Failure to pay debenture rates leads to company being declared bankrupt unlike payment of share dividends
  - Debenture interest must be paid by a public company unlike ordinary shares

- In the event of a company winding up, it is obliged to pay debentures first while shares may come last
- Raising money through require no security while debentures may require a security
- Securing finance through debentures is more expensive than though ordinary shares
- Debentures reduce the borrowing power of a company while shares enhance.
- Dividends can be converted to bonus shares while it is not possible with debentures

8.

### **Public corporation**

- formed by an act of parliament
- Initially financed by the government
- B.O.D nominated by government
- Political influence eminent
- Losses subsidized by government
- Profits go to the government
- Auditing is done by the government auditors
- Performs specific functions

### **Private limited company**

- Under registrar of companies cap 486
- Financed by shareholders
- Directors nominated by shareholders
- No political influence
- May lead to collapse of company
- Profits go to the shareholders
- Decision to wind up rests on the individual/ shareholders

- Auditing is done by private auditors
- Performs various functions

9. (i) access to interest free resources in the host country
- (ii) Have access to both local and international market
- (iii) They are foreign owned while others are locally owned
- (iv) They are government by both the local regulations as well as those of other countries where they operate
- (v) Because of their large reserves of resources multinational can undertake very high- risk investment
- (iv) Multinational co- operations repatriates much of their profits back to their countries of origin.

10. -Inadequate capital: with adequate, the business growth will be hindered

- Extended demand: if market is wide, the firm will grow, if small the growth will
- be limited
- Infrastructure: with adequate infrastructure, a firm will grow; if poor the growth will be limited.
- Technology efficient technology enhance growth inefficient technology will hinder growth
- Competition: stiff competition will limit growth less competition will allow growth
- Management: inefficient management will hinder growth, efficient will lead to growth
- Government policy: government policy may lack a hinder growth e. g taxation
- Water: availability will enhance growth, lack will hinder growth

11. - High installments which many Kenyans cannot afford discouraged many Kenyans

- High interest rates charged on loans discourages many Kenyans. Low incomes of a majority of Kenyans not to afford
- Many Kenyans are unaware of services offered by building societies which make them not to seek finance.
- Poor saving habits of many Kenyans are not able to raise discourage Kenyans.
- Long procedure or acquiring loans, discouraging many Kenyans from purchasing houses.
- Cheaper Sources finances from other sources e.g SACCO, which are not attractive.
- Accessible. Most societies are not accessible to many Kenyans as they are in urban areas.
- Loan condition. Many societies have rigid conditions which Kenyans cannot meet.

12. - The firm will be able to enjoy marketing economics due to large volumes of sales

- The firm will be able to enjoy financing economies such as easy credit/ availability of collateral
- Production economies- the firm will be able to access large quantities that attract quantity discount.
- The firm will be able to spread risk by diversifying operations
- The business can afford modern machinery
- Business can acquire new skills for more effective production
- Can provide staff welfare facilities for improved performance
- Division of labour- different people are assigned different task according to ability.

13. - Liability of members in PLC is limited while in partnership of PLC is not Limited

- Membership of PLC cannot act as agent on behalf of the business while partner's act as agents for partnership.
- Maximum partnership of PLC is not limited while partnership form of business has limited maximum number of partners

- (Entry) accept any entity form legal) are considered as legal entities/ own property in their own name)
- (Regulations) PLC are regulated by M.O and A.O. While partnerships are regulated by agreement.
- Transfer of phases allowed in PLC while it is restricted in partnership
- PLC have a minimum of no.7 while partnership has a minimum of 2
- PLC are managed by elected board of directors while partnership are managed by partners themselves
- PLC raise capital by sale of share/ debentures while partnership raise capital through contribution by partners
- PLCs acquired certificate of incorporation to start operating while partnership does not require a registration certificates.

14.

Kiambu Enterprises

Petty Cash Voucher

Receipt K	Date 200	Details	Inv. N	Total K	Travel K	Postage K	Stationery K	Office E	Ledger A	Folio
1200	Jan 1	Bal b/f								
	Jan 2	Fare	1	200	200					
	Jan 2	Stamps	2	100		100				
	Jan 3	Off. Exp	3	240			60	240		
	Jan 3	Envelopes	4	60						
	Jan 4	Cleaning	5	80			140	80		
	Jan 6	Stationary	6	140						
	Jan 6	Munyua	7	130					130	
	Jan 6	Taxi	8	160	160					
		Registratio	8	40		40				
				1150	360	140	200	320	130	

Ledger A/C

Dr.

Cash A/C

Cr.

Date	Details	Kshs	Date	Details	Kshs
	2006			Petty Cash	575
	Jan 7				

Dr.

Traveling A/C

Cr.

---

Date	Details	Kshs	Date	Details	Kshs
2006					
7/1	petty Cash	360			

Dr.

Postage A/C

Cr.

---

Date	Details	Kshs	Date	Details	Kshs
2006					
7/1	Petty Cash	140			

Dr.

Office Expenses A/C

Cr.

---

Date	Details	Kshs	Date	Details	Kshs
2006					
7/1	Petty cash	320			

Dr.

Munyua A/C

Cr.

---

Date	Details	Kshs	Date	Details	Kshs
2006					
7/1	Petty cash	130			

15.– It acquires permanent capital as ordinary shares are not redeemable

- It is obliged to pay dividend to ordinary share holders therefore no pressure from share holders to pay dividends
- It is not obliged to pay dividend to ordinary shareholders therefore no pressure from share holders to pay dividends
- Rate of dividends an ordinary shareholders not fixed as it is determined by the realized profits
- Ploughing back instead of distributed them
- The ordinary shareholders are paid last
- No security requirements- the company will not be required to pledge

16. - Competition – he should choose a business where there is no stiff competition so as to reduce running cost like the advertising, hence maximizing profits

- Viability – he should choose a business that has fewer risks so as to secure his investments
- Market- he should choose a business that he knows that his goods are going to get market
- Profitability – she should invest in a business where he will get more profit so that he will be able to meet all the costs of running his business and at the same time get profits.

17.– As a way of protecting the consumer against private monopoly

- If there has been wasteful competition by several private companies, the government may nationalize the entire industry.
- If the private company was irregularly acquired by private investors from the government.
- If the activity carried out by the private company should have national benefit but not individual benefit e.g mining
- If the firm has relied on government subsidy for so long

- To prevent foreign dominion in the key sector of the economy
- To provide essential services as affordable prices
- To create sources of governments revenues
- To create job opportunities
- For security purposes especially if the business is dealing with sensitive goods like areas.

## **GOVERNMENT AND BUSINESS**

### **ANSWERS PAPER 1**

- Ensuring that correct use of weights and measures
  - Ensuring that goods meet the required standard
  - Ensuring that expired goods are not sold
  - Ensuring that goods are handled hygienically
  - Protected against misleading
  - Ensuring correct prices for some goods
  - Consumer education
2. – It is expensive over short distances
- It is not flexible i.e. cannot offer door to door services
  - Goods may be damaged
  - It is not readily or widely available
3. 1996 – Though licensing
- By offering advisory services
  - Though taxation trading guidelines
  - Though trading guidelines
  - Registration
4. – Consumers are weak because they act individually
- Business people left on their own may lower standards of a quality of their Products
  - Consumers do not always know their rights, educates consumers on their rights
  - Safeguards against poor measures
  - Safeguards against poor construction
  - Safeguards against poor health standards

5. – Earn profit

- Invest where private sector cannot raise capital to start
- Invest in areas of national interest
- Provide cheap services to citizens
- Employment to citizen
- provide seminar
- It is unprofitable for private sector

6. – Lack of adequate support by government

- Lack of sufficient information from consumer protection bodies
- Ignorance on the part of consumer about the rights
- Lack of initiative as the part of consumers
- Lack of capital to sponsor their programme

7. – Boycott those trades who exploit them buy from other

- Form consumer organization
- Form vigilant organization
- Go to court
- Complain through press
- Report to the authorities
- Promote consumer education

8. - To generate income

- To create confidence in the economy and attract foreigner
- We venture into business where individuals are not willing to invest due to low profit margins
- To provide essential goods and services

9. – Expansion and diversification of exports

- Expansion and diversification of foreign markets
- Development of bilateral and multilateral trade agreement
- providing information to Kenya producers on the available selling opportunities in foreign countries
- Educating and advising exporters on trade regulations and commercial practices in other countries
- arranging courses and seminars for business people and relevant government officials to inform them on how to promote exporters

**GOVERNMENT & BUSINESS**  
**PAPER 2 ANSWERS PAST KCSE QUESTIONS –**

1. – The business malpractices that consumers need to be protected against by the government

- Overpricing / overcharging fees
- False measurements / weight/ volumes/ capacity
- Sub standard goods/ poor services
- Running business under unhygienic conditions
- Misleading advertisement
- Dealing in illegal/ hazard goods/ services
- Unsafe premises
- Hoarding of goods
- Unfair repossession of goods
- Monopolistic practices
- Breach of contracts

2. – Offer storage facilities to producers, selling/ acts as selling agents sells on producers behalf.

- Collects transport produces from producers to their store
- Carries out research for better methods of production as how to improve production
- Provide credit/ loans to producers
- Control quality production to attract better prices by supervision of production activities
- Stabilization of production income through buffer stocks
- Price stabilization by use of stabilization of funds
- Quantity control through licensing
- Education to producers through workshops, extension officers etc
- Processing of produce in preparation produce before marketing
- Ensuring steady supply of goods by installing surplus during shortages

- Buying produce from producers, thus ensuring producer of a ready market.
- By ensuring that the consumers are provided with goods and services hence no hoarding
- By ensuring that there is no over charging of the consumers by the business people.

3. – By providing the consumers with essential goods and services

- By putting up weights and measures act in order to check on the measurements and weight ( Kenya Bureau of standards)
- By licensing to ensure that the businesses offer the services they are competent with

4. – Ensure consumers are not exploited against harmful goods or poor health standards

- To safeguard consumers get quality goods in time hence no hoarding
- To ensure that consumers get quality goods
- To educate consumers on their rights
- To safeguard consumers against poor measure of goods i.e. size and weight.
- To safeguard against unfair rents by landlords through rent tribunal
- To safeguard against poorly constructed buildings

5. – Where a monopoly producers exploits the public the government may wish to protect the consumers through nationalizing it.

- Where an industry of national importance's threatened with collapse
- Where the foreigner control the industry and the government would like the locals to control
- Where an industry deals with state security i.e sensitive industries
- Where the industry is strategic for national development
- Where other measures of controlling the industry are ineffective, the government could opt to nationalize it
- Where there is a change in political ideology
- Where competition is wasteful the government may opt to nationalize so as to operate it

efficiently.

- Where the industry provides essential goods

6. – Delayed payments

- Unexplained deductions which lower their prices
- Delayed collection of produce which leads to deterioration of the quality of Produce
- Long and cumbersome procedures to follow when delivering produce and getting payments
- Lack of distinction between quality of produce from different areas may disadvantage those farmers who produce high quality products

7. - Participates in national shows/ trade fairs within or outside the country.

- Collects/ disseminates valuable information relating to all aspects of business for members
  - Acts as a link between the business community and the government
  - Conduct conference/ course/ seminar for its members thus providing the right discussion on matters of common interest.
  - Marketing for their members goods / serving orders to their members
  - Interpret government regulations to business for the benefits of business people
  - Assists in processing and issuing certificates of origin in foreign trade i.e. to those who want to export
  - Poor infrastructure which discourages / hampers operations of investors
  - High rate of taxation that discourages investors and makes local goods less competitive
  - Insecurity that discourages investors/ tourists
  - Corruption which may add extra costs to projects / investments
  - Shortage of water may discourage investors
  - Inadequate funds that makes it difficult for KETA to carry out its functions

## **TRANSPORT**

### **Answers paper 1**

1. – Where goods are urgently needed
  - Where goods are of high value to justify high freight costs
  - Where goods are profitable and so require short term transportation
  - Where security is necessary
  - Where other alternative means of transport are not available
2. – Travel by train is relatively cheaper than travel by bus
  - It is more comfortable to travel by train over long distances than by bus
  - Travel is more reliable form of travel than bus
  - Travel by train has convenient features as catering and toilet facilities
3. – To facilities easy delivery of raw materials
  - To ease workers movement to and from work
  - To facilitate movement of finished goods
  - To gain easy access to auxiliary services like banks, post office e.t.c
  - reduced cost of transport
4. – Containers are expensive
  - Special vessels and tanks are required to transport the containers
  - Special harbour are also required to anchor the special vessels
  - Special loading and off loading facilities are required
  - LCL less containers load
5. – Available in most parts of the country
  - Flexibility to variety of vehicles
  - Flexibility of routes
  - Flexible over short distances

- Flexibility in schedules

6.–If goods are perishable a fast and appropriate means is required

- If goods are fragile, a smooth means of transport is required
- If goods are highly valued, a safe and secure means is required
- If goods are urgently required, a faster means is used
- If goods are bulky an appropriate means will be used

7. – Transport by rail is cheaper than road transport

- Where goods to be transported are bulky
- Rail transport tend to have regular time schedule
- Where goods are urgently required, a faster means is used
- If goods are bulky an appropriate means will be used

8. - Human beings

- Ships
- Motor vehicle
- Carts
- Air crafts

9.–Assist in the distribution of finished goods

- Aids in the transport of labour to the industries
- Movement (transport) of raw materials to the industries
- Create utility of place and time of the goods
- Facilitates faster exchanges.

10. - Widening the market because goods are transported from areas

of surplus to areas of scarcity.

- Increase specialization as producers concentrate on the production hence high quality products.
- Ensures production in large scale thereby enables the producers to benefit from economies of

scale.

- Ensures a variety for the consumer because foods are transported to all parts of the country.
- Transport enables producers to take goods to consumers thus creating place utility.
- Through trade many people get employed and earn an income to buy goods and services thus promoting trade.

11. - Expensive and uneconomical over short distances

- Slow means of transport.
- Does not offer door to door services
- Not readily or widely available
- Frequent handling of goods as they change from one wagon to another may damage the goods.
- In Kenya it is provided by parastatals hence not efficient due to lack of profit motive.
- Expensive to construct and maintain railway network.

12. - Containers are expensive to construct

- Requires special equipment for loading and off loading which are very expensive
- Not suitable for irregular shaped goods
- Container vessels require special terminus
- It is capital intensive hence not suitable for countries suffering from unemployment
- Does not require small quantities because in case of less than container load, the goods are likely to be mixed up contaminated or misplaced.

## **PAST KCSE ANSWERS PAPER 2**

1. - The mode is relatively cheap, compares to other mode

- The mode requires little capital and therefore attracts small scale investors
- It does not require special skills to operate handcarts

- The mode does not necessarily require a road and can be used where there are no roads
  - Handcarts do not require special terminus
  - Suitable over short distances
  - Suitable for small goods
  - Cheaper to operate
2. - Larger volume of oil will be transported within given time. Road accidents should be minimized, as there would be fewer tankers on the road.
- Road damage will be minimized due to fewer tankers
  - Delays/ shortage of fuel to Western Kenya will be reduced as pipeline give continues supply.
  - Environmental pollution from heavy tankers will be minimized
  - Pilferage of fuel will be reduced as it is difficult to steal oil from the pipeline.
  - Traveling between Nairobi and Western Kenya takes shorter time due to reduced congestion of the road
  - Reduced costs of transportation oil
3. - Goods will be transported easily to the market
- Buyers/ Sellers will be able to move from one market to another
  - Goods will be transported from areas of excess to areas with shortages
  - It will be able to open many areas of trade
  - It will lead to time saving due to fewer delays hence cheaper goods
  - It will enable producers to specialize what they can produce better.
  - Constant availability of goods and services
4. – High costs: Railway construction is an expensive venture, requiring huge investments. These are not affordable.
- Existence of road network: there exists relatively wide network/ competition from other modes of transport

- Poor management: The railway transportation sub- sector has been poorly run, hence stagnation
  - Lack of modern technology: modern technology required for efficient railway system is absent in Kenya, can only be imported.
  - Little government commitment: The government has committed its resources more on other forms of transport.
  - Lack of flexibility: inability to render door to door services
  - Speed: Its relatively low speed renders its inappropriate for carrying certain goods.
  - Lack of competition: Railway enjoys protected position making it impossible to operate.
  - Low industries base: this has led to low demand for railway services.
5. - Time keeping: A transport system not able to keep time soon loses the confidence of the users should be reliable with regards to time.
- Flexibility: In regard to timing/ loading and unloading points are important to user
  - Speed: This critical especially on transporting perishables. An efficient transport system should be reliable with regards to time.
  - Safety. This is all for vessels damages to any of them leads to heavy loss
  - Cost: this should be reasonable
  - Qualified personnel: An efficient transport system should be managed by qualified personnel.
6. – It is environmental friendly
- Operating costs are low
  - It is fast mode because there is no congestion, not affected by weather
  - It is less prone to accident
  - It reduces the number of tankers on the roads and thus minimizing damage on the roads
  - Its relatively secure mode of transport in relation to theft.
  - Large volumes of oil can be transported within a given time

- Low maintenance cost.

7. - Nature of goods: different types of goods e.g. perishable calls for specific modes of transport

- Transport costs: transporter usually choose means that are affordable for their goods
- Value of goods: goods of highly quality choose means that are affordable for their goods
- Terminals convenient for loading
- Availability: transporters are influenced by the means available
- Distance to be covered: roads are suitable for short distance while railways- suitable for long distance
- Urgency: goods urgently required calls for faster means of transport
- Reliability- Choose a means that will deliver the goods as required

8. - Less/ minimal damage of goods to the containers are strong and also minimize damage due to change of weather

- Large quantities of goods can be transported: if properly arranged in containers
- Safety of goods is enhanced since containers due to use of hands
- It is easy to load and off load containers due to use of hands
- Low insurance premiums: due to reduced risks of theft damage
- Handling reduced: costs are reduced due to use of modern technology

9. - Lack of technology: If a country lacks technology for the installation of pipes

- Lack of capital: the country might lack adequate capital for the installation of pipeline.
- Nature of products if the country does not have oil then no need for existence of pipeline transport
- Other means of transport if there are other cheaper means of transporting oil that are available then the pipeline transport can be used

- Terrain: If the terrain is rugged and hence will cause heavy machine to pump the petroleum, it may discourage use of pipeline.

10. – In case the goods transported are bulky

- Where goods transported are heavy
- In case goods require security because cases of theft and accident are minimal in railway transport
- In case of large quantities because it has large carrying capacity
- Railway transport is cheap and economical over long distances
- Railways stations have warehouses to store goods before they are collected by owners
- In case the trader wants to make advance planned for movement of goods because train follow regular timetables
- Railway stations have many cargo handling facilities for loading and off loading of goods hence saves time.
- Railway authorities have their own motor vehicle delivery services from their railway stations, this helps in connecting the traders to other terminus

# COMMUNICATION

## Paper 1

### 1. – Can be re- read again for better understanding

- Can be used for reference purposes
- can be reproduced by photocopying when necessary
- Can be used as evidence in law
- can be used for a confidential purpose

### 2. – Sale of postage stamps

- Mail services
- Parcel deliveries
- Remittance services
- Business reply services
- Telex
- Fax services
- Saving and investment

### 3. – Cheap

- Can explain fully
- Best to demonstrate
- Can be immediate feedback
- Learn the desired impression
- Fast in short distance
- Used to communicate to many at once
- Used where other forms are not available

### 4. – Message automatically printed at the recipient teller machine even in the absence of receiver

- Teller provides direct link between user all over the world

- Immediate feedback can be received from each end
- The printed message can be stored for future reference
- Message is transmitted fast

5. – Language used must be understood

- Language must be simple and clean
- It must be free from interference
- it must be free from distortion
- Both sender and receiver must have positive attitude
- Medium use should be appropriate
- Information overload should be avoided

6. – Relatively cheap

- Lack of alternative means in some areas
- Widely available
- Relative fast
- Offers a variety of means of sending letter

7. - Where evidence is required

- Where future reference is needed
- Where message is as confidential nature
- Whose message is not urgent
- Where message should be disorder
- Where more people are to be reached
- Cheaper
- Mail service is widely spread

8. - It is costly

- It has limited confidentiality
- Not accessible in some parts of the country
- The system is prone to breakdown
- It is costly to maintain
- Equipment is expensive
- Prone to congestion
- Government policy

9. - If there is noise

- Negative attitude between the two parties
- Language barrier
- Lack of concentration

## **WAREHOUSING**

### **KCSE Questions**

1. - Goods can be bonded till duty is paid
  - Goods are released on production of release warrant
  - Charges are made on all goods stored in the warehouse
  - Goods can be sold while under bond
  - Goods can be inspected, re- parked, blended, branded, labeled etc while in the warehousing
  - Goods can be re- exported while under bond
  - They are guarded by customs officials
  - They are owned by the government
  - They are used for imported/ exported goods
2. - storage of goods until they are needed
  - Protection of goods from vagaries of weather.
  - Protection of goods from pilferage
  - Provides room for bulk breaking, packing and blending
3. – Allow continuity of production
  - The manufacturer is able to ensure continuous sale of its produce to the market
  - Warehousing provides protection for the goods while awaiting sales
  - Provides security against theft
  - can prepare goods for sale
  - Enables manufactures to look for market
4. – Consumers are assured of a steady supply of goods
  - They are assured of quality goods
  - They are assured of steady supply of goods
  - They are assured of stable prices

- They get goods in convenient quantities
  - Consumers are able to choose the right goods when they are braided, blended etc
  - Consumers are able to get a variety of goods
5. – The location should be ideal in terms of accessibility
- Availability of suitable land
  - Near the point of sale market
  - Near adequate security
  - Government policy
  - Cost of building
6. – is able to control the city of harmful goods
- Is able to verify documents for goods on transit
  - is able to monitors the flow of imports into the country
  - is able to inspect goods
7. – Owners of the warehouse enter into agreement
- Usually located at points of entry
  - guarded by customer officer
  - Owned by individuals
  - Dutiable goods kept there are not released until duty is paid
  - They are large in size
  - Goods can be inspected
  - Goods can be prepared for sale
  - Goods are kept there for a fixed period of time
  - Only for imported goods
8. – Retailers can rent space to store their goods
- Retailers have a place to break

- Goods can sell stored while in public warehouse
- Goods are insured against damage caused by fire, theft etc.
- Protects against adverse weather conditions
- Ensure continuous supply of good

9. – Bonded

- Public
- Private
- Producers

10. – They will have constant supply of goods

- The price of goods will not be stable
- They are likely to receive defeat goods as there would be no inspection
- They are likely to have varieties of and also small quantities of goods

## **INSURANCE**

1.
  - The person intending to buy the policy applies by filling a proposal form.
  - The insurance company studies the details of the proposal to confirm whether the details given are correct.
  - The insurance company issues a cover note
  - Insurance certificate is issued, outlining details of the agreement between two parties and the conditions that accompany the agreement.
2.
  - Insurance industry mobilizes savings which the business community borrows to start / run and give loans to policy holders for business use.
  - The insurance company studies the details of the proposal to confirm whether the details given are correct.
  - The industry creates confidence among the business community which enables them to take risk
  - The various policies provided by the industry can be used as security to obtain bank loans for business use.
  - The industry provides compensation to the business that can suit their purposes.
  - They invest in building/ other securities which are used by business community
  - Underwriting insurance companies will undertake the share capital under subsection.
3.
  - government: the government collects revenue by taxing the insurance industries and uses this revenue to provide public services.
  - Creation of employment: there are many people employed in the insurance industry.
  - Creating confidence: the industry encourages businessmen to take risks of investing.
  - Investment funds: monies collected by insurance companies are made available to investors as loans in various sectors of the economy.

- Compensation: Compensation offered by the insurance industry enables the economy to continue developing.
  - Encourages saving: mobilizing long term savings from the members of the public.
  - Direct providing: can be used to secure loans loss prevention encourage the insured.
4. – When insured had no insurable interest in the property destroyed as he will not suffer any financial loss.
- When the insured did not disclose all the relevant facts.
  - When the property has been destroyed by an act of God, as the risks are not insured when the loss was caused by an insurable e.g. act of God/earthquake.
  - When the policy was not in force at the time of loss insured when the insured purposely causes the loss.
  - When the insurance company is insolvent, hence unable to its financial obligation.
  - Late claim where insured fails to claim within stipulation period.
  - Improper procedures where the insured fails to follow laid down procedure when claiming.
5. –Theft/burglary: to protect the owner from losses that may be made through theft/burglary.
- Fidelity guaranteed: to cover losses suffered through worker's dishonesty
  - Workman's compensation: this is to assist the workers who may be injured in the business.
  - Fire: to compensate the owner for losses arising from fire.
  - Motor vehicle: to cover business vehicles in case of accident
  - Medical cover policy: insurance will compensate for medical claims of the employees.
  - Personal accident cover: insures accident to the owner of the supermarket in the course of his duty.
  - Goods/cash on transit: insures against losses of goods/cash while on transit
  - Plates glass policy: insures against breakages caused by closure of business temporary.

- Sprinkler leakage policy: covers accidental damage caused by accidental leakages of sprinklers.
6. - Enables compensation of few sufferers, hence business continuity. Reduced burden per person as it is shared by all the insured.
    - Idle funds in case no one suffers or only a few people, company can invest to earn income
    - Probability of all covered risks occurring is minimal if there are many people in the pool.
  7. - value of property: when the value of property is great
    - High risk of loss: when chances of loss through insured risks covered
    - Number of risks covered: when insurance company has insured many different risks.
    - Spread of risk to share liability in the event of loss, safeguard the financial position
    - Government policy: government may require an insurance company to reinsure
    - Create client confidence: client confidence: clients will have confidence as they are assured of compensation hence attracts more customers.
  - 8 - Uberrimae fidei: Contract of utmost good faith on insurance where the client is required to furnish the insurer with all the details regarding the risk to be covered.
    - Indemnity: this is a principle where insured is restored to the original financial position before the loss occurred.
    - Third party motor vehicle insurance: covers damages suffered by persons other than the owner.
    - Subrogation –Once an insured is fully compensated for loss suffered, the insured is not supposed to gain out of the loss.
  9. - When the insured has not acted utmost good faith and is discovered hence making the contract invalid.
    - When the risk insured has occurred and compensation paid this bringing an end to the

contract

- On maturity of the contract, this signifying the end of the policy agreement.
- If the insured decided to discontinue the contract making the contract no longer tenable.
- When a court of law order termination of the contract this rendering its will and void
- When the insurance company is finally wound up
- Due to failure to review the contract this leading to lapse of policy.
- Where the insured ceases to have insurable interest in the property incase property is sold.

10. – savings: endowment policy is a way of saving, after which one will get compensation either on the expiry or his death.

- Security: the endowment policy is a way of saving, after which one will get compensation either on the expiry or his death.
- Security: the endowment policy can be used as a security for finance.
- In case the contract expires before the insured dies, he enjoys his compensation
- Other benefits: he can get loan for medical or education purposes.

## PRODUCT PROMOTIONS

1.

Description	Type
Create awareness about a product	Informative
Promotes the name of the manufacturer	Institutional
Persuades the consumers to buy a product	persuasive/competitive
Promotes a particular brand of a product	product

- 2.
- The potential customer is made aware of availability of a commodity
  - The consumer is advised on how to use the advertised goods.
  - The potential consumer is made aware of the prices of advertised good
  - Leads to mass production hence lower prices
- 3.
- To show customers how to handle sophisticated products.
  - To keep track of the performance of the products
  - To improve corporate image
  - To generate addition income from the sale, spare parts and provision of services.
  - To attend more customers
  - To retain existing customers
- 4.
- Presale preparation as part of sale person e.g. dressing
  - Locating potential
  - Pre-approach to individual buyers
  - Sale presentation or demonstration
  - Closing in the sales signing out the contract
  - post sale activities involved e.g. installation

5.
  - Where a large audience is targeted for teaching at the same time.
  - Where the target group is too low income to afford TV
  - Where it is cheaper to advertise through radio than television
  - Where visual impression are not necessary
  - Need to use the local languages
6.
  - Generally affected by a fall in the demand or products
  - Most shoppers prefer buying from shops which stock a variety.
  - A fall in supply may lead to the closure of the business
  - It is monotonous
  - Stiff competition from those offering services
  - Lack of innovativeness
7.
  - It is expensive
  - Has limited coverage.
  - Once advert is made it is not easy to change
  - Cannot be referred to buy the target group at their own convenience
  - Lack of variety of languages.
8.
  - A trader incurs extra expenses, which might reduce profit.
  - Prices for product charged are higher due to high expenses
  - Maintenance may require employment of specialists
  - May encourage careless handling of the product
  - Customers are tied down to one trade for maintenance services who may not be offering best services.

9.
  - Consumers are assisted with technical advice on how to use the items
  - Consumers may be assisted with installation cost of the product
  - Enhance good relationship between the buyer and sellers
  - Where an item has a major technical breakdown, it can easily be replaced at no extract cost
  - Transportation of goods
10.
  - To increase sales volume for particular products
  - To inform customers about new products
  - To persuade existing and potential customers to buy their products
  - Transportation of goods
11.
  - The sales person are able to win confidence of the buyers
  - Demonstration is possible
  - Information can be gotten from the customer as pertain to the product.
  - More sales and publicity of goods is possible

## ANSWERS PAPER 2

1.
  - Attendance at the exhibition might have been low
  - People attending the exhibition may not have been impressive
  - The pricing of the goods might have been beyond the reach of potential customers.
  - The product might have not have been culturally accepted.
  - The economic environment might not have been conducive.
  - There might have been other similar goods
  - People attending the exhibition were not convinced
  - Terms of sale were not attractive.
2.
  - Establish customer contact
  - arousing interest in the product
  - Creation of preference for the product
  - Making a proposal for sale.
3.
  - Attractive displays, trade fairs and exhibition goods should be displayed in such a way that customers are attracted to some and look at them.
  - Credit facilities: traders may offer credit facilities to some of their customers.
  - Good customers relations/personal selling: traders should be friendly, honesty and courteous to customers.
  - After sales services: traders may offer after sales services to their customers.
  - Free samples/ gift: free samples/gifts may attract customers
  - Variety of goods: trades may keep different types of goods to satisfy the various needs to customers.
  - Organizing prize winning competition
  - Maintaining cleanliness of the premises.
4.
  - The trader will reach many people/wide coverage/ audience because may people

- listen to the radio. Radio covers wide geographical area.
- Both literate and illiterate people will get the message as it only requires listening it does not require reading/ writing
  - The advertisement can attract/ appeal /lure people by incorporating some form of entertainment / Music short plays
  - The trader can choose the time to advertise to reach a particular group
  - Advertisement can be repeated several times to reach more people/ those who missed to hear later advertisements
  - Radios can reach even the blind who can hear only.
- 5.
- To bring to notice of new consumers the existence of a product
  - To increase demand/ market so as to justify mass production leads to economies of sales
  - To educate customers on use of products
  - To announce the price of the products
  - To maintain customer loyalty
  - To cope with competition
  - To correct any misleading information about the product
  - To alert customers of imitation
  - To remind consumers of availability of the products
  - To maintain image name reputation of the product.
- 6.
- Type of product (some products are best advertised through the appropriate media i.e sophisticated equipment is best advertised through technical journals).
  - Nature of market segments e.g. age, sex, culture and status
  - The size of the area to be covered.
  - The cost of the medium
  - Availability of the medium can only advertise through media that is available.

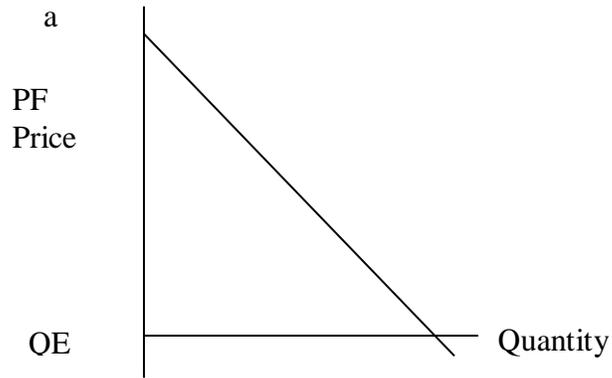
7. – selling good/ services to customers
  - Gives the seller an opportunity to explain the details
  - Receiving orders for goods
  - Evaluating the credit worthiness of the customers
  - Processing orders of goods and services
  - Handling complaints from customers
  - Giving advice to customers.
8. - Enables the seller to have goods tested
  - Gives the seller an opportunity to explain the details
  - The seller is able to provide immediate feedback, clear doubts raised by customers
  - The seller may be able to have direct personal contacts with the buyers.
9. - Only those who can read that can get the advertisement
  - It is expensive and therefore not many people can afford it
  - The advert does not last long., a day or so and then it is disposed off
  - No demonstration is possible when using the newspaper
  - Advertising through the newspaper is quite expensive.

## **DEMAND AND SUPPLY**

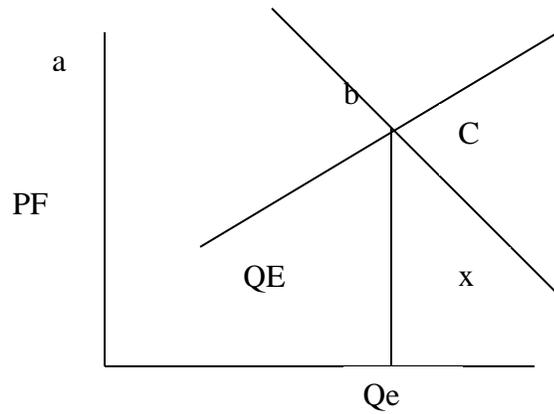
1. - Changes in the prices of inputs-supply
  - Changes in tastes and preferences – demand
  - Changes in technology – supply
  - Changes in outcomes- demand
  - Changes in the prices of other related goods-demand
2. - Demand - it states that the demand will be high when the prices are low
  - Supply - It states that the supply will be high when the demands are high
  - Demand and supply- It states that the demand and supply will be at equilibrium of the supply and demand curve meet.
3. - supply of tea fails
  - Supply of petrol fails
  - Supply of wool decreases.
4. - Reduced taxation of production
  - Favorable weather conditions
  - Reduced costs of production
  - Increased price of product.
  - Increase in demand
  - Increase in production
  - Specialization
  - Government policy
  - Future expectations.
5. –increase in the price of the product
  - Negative taste towards the product
  - Decrease in the prices of complementary goods

- Increase in quantity of the product
- Depending on the season
- fall income
- Decrease in population.

6.



7



- a) Demand curve
  - b) Supply curve
  - Point C is the point of equilibrium supply (quantity) and price.
  - Equilibrium price (PE) and equilibrium quantity (EQ)
8. - Increase in the price of the product
- Fall in the cost of production
  - Availability of cheap credit
  - Government policy.
  - Decrease in prices
  - When the demand is high
  - Future expected fall in price
9. - Future expectation in the increase of price
- Increase in price of complementary goods
  - Increase in population
  - Positive taste towards the product

**PAST KCSE QUESTIONS ANSWERS – PAPER 2**

1. -Through bargaining/ haggling between the sellers and buyers.
- Through government price controls (fixing prices by the government)
  - Through auctioneering where different potential suppliers submit their quotations.
  - Through tendering where different potential suppliers submit their quotations.
  - Taxation / subsidy may change prices



## **THEORY OF THE FIRM**

1. – Leads to congestion
  - Cause pollution
  - Increase social evils
  - Leads to widespread unemployment
  - Can lead to economic depression during times of war, calamities
2. –Where the firm is producing perishable products
  - Where the firm is producing fragile products
  - Where the raw materials are cheaper to transport than final products.
  - Where the market for the produce is concentrated in the area.
3. - Cost of land
  - Availability of room for expansion
  - Government policy on land utilization
  - The nature of the land
  - Proximity, auxiliary services
  - Convenience
  - Get exact value of his money
  - Receive genuine goods directly from manufacturer
  - Cheap
4. - Get services for 24 hours
  - Require fast service
  - Convenience / Next To A Person
  - Receive genuine / first class goods directly from manufacturer
  - Cheap/doesn't require labour.
5. – Reduce transport cost

- Get quality raw materials
  - Enhance continuous production
  - Avoid wastage of raw materials
  - Reduce its cost of production.
6. –Lack of capital
- Competition techniques
  - Lack of market
  - Expensive
  - Poor management
  - Poor infrastrure
  - Lack of commercial services.
7. -Provide business incentives
- Provide credit facilities to investors
  - Provide land act reasonable cost
  - Transport
  - Communication
  - Health cases.
8. - Difficult to acquire relevant labour
- Difficult to exchange ideas
  - Difficult to get raw materials
  - Lack of competition lead to low quality
  - Difficult to get market
  - Difficult in exchanging technology.
9. – Government subsidy and incentive reduce
- Difficult to attract professionals.

- Security
  - Government may have to raise taxes on other areas to cover the short fall and thus burden the public.
  - Specialized service may not be land required that when firms are concentrated in one place.
10. -Availability of market
- Availability of water and power
  - Security
  - Communication
  - Cost of land
  - Government policy.
11. -Provide cheap labour
- Provide efficient communication
  - Reduce the rate of taxation
  - Give subsidies

### **PAST KCSE QUESTIONS ANSWERS – PAPER 2**

1. -The country will achieve balanced economic development
- Creation of job opportunities in all regions of the country
  - Reducing rural / urban migration
  - Technology transfer to rural areas
  - Location of industries in rural will lead to infrastructural development.
  - May lead to establishment of subsidiary
  - May lead to expanded utilization of resources
  - May lead to even distribution of social amenities

- May achieve a more even distribution of income between regions.
- 2.
- Personalized services: small scale retailers provide personalized services and are therefore able to attract and retain customers which are not offered by supermarkets.
  - accessibility of small scale retailers / convenience of locating small scale retailers are conveniently in urban centres.
  - Credit facilities small scale retailers offer credit facilities to some of their customers which are not available to specific customer needs.
  - Adaptation to specific customer needs small scale retailers easily adapt to the specific client. They can sell goods in small units than the supermarkets.
  - Running costs of small scale retailers are little and this makes it easier for them to survive unlike small markets which require huge capital to operate.
  - Management: Small scale businesses the risks involved are low while in supermarkets are great.
  - Starting/ initial capital starting small scale retailers a suitable for people form of low income.
  - Flexibility- it is easier for small scale retailers to change from one form of business to another location than its is for supermarkets.
- 3.
- Employment is generated for the benefit of the members of the community.
  - Members if the community tends to be willing to learn skills required by the industries.
  - Leads to emergence of auxiliary service industry i.e. back insurance
  - Improve standards of living are likely to be experienced in the area due to rise of income.
  - Infrastructure is likely to arise to serve the community
  - Industries dealing in by products are likely to arise and the community would use the by – products
  - Leads to development of complementary industries / auxiliary industry

- Leads to establishment of improved social services
  - Leads to introduction of modern technology which the community can utilize.
  - Provides wide market for the local produced goods
  - May lead to exploitation of local resources which would otherwise be idle.
- 4.
- Where the raw materials are bulky
  - Handling costs of raw materials as the movement to the firm will be minimal.
  - Where raw materials are highly perishable
  - Where the competition of raw materials is high to ensure access
  - Where the government policy requires / gives incentives that industry set up near sources of raw materials.
  - Product of the market is concentrated near the source of raw materials.
- 5.
- Improve transport system to facilitate easy movement of goods and people through industries.
  - Tax reduction: industries in rural areas from paying certain taxes to reduce the cost of production, enabling them to sell more competitive prices.
  - Facilitate access to cheap credit for industries in rural areas/provision of loans at low interest avail finance at affordable rates.
  - Provide land for putting up industries in rural areas at reduced rates.
  - Provide training/ educational facilities in rural areas for development of labour.
  - Subsidizing the cost of production of the industries in the rural areas by melting point of the cost of production.
  - Provide power for running the industries
  - Provide communication services to enable industries
  - Provide water for running the industry
  - Provide social amenities of those working in the industry

- Provide security to safeguard property for investors
  - Setting up service industry to serve the other industries of banks insurance etc.
  - Reducing license fees thus reducing the cost of establishing.
6. – Labour: When industries are closely located, a pool of labour both skilled and unskilled is availed.
- Market: The industries attract large population that offer market for the products produced in the industry.
- Infrastructure: roads, railway usually develop in the area with concentrated industries.
  - Communication: by locating of industries in one area leads to development of telephone among others.
  - Security: when industries are closely related, these are few security problems experienced as compared to the dispersed industries.

## NET WORTH OF A BUSINESS

1.           – Assets = Capital – liabilities

(a) Capital   = 620,000 – 230,000

              = 390,900

(b) Assets    = 400,000 + 120,000

              = 520,000

(c) Liabilities = 800,000 – 500,000

              = 300,000

2.

	Asset	Liability	Capital
a) Bought furniture	+	+	
b) Paid creditors on cash	-	-	
c) Withdraw cash for personal use	-	-	-
d) Converted a personal car for personal use	+		+

3.    - M - Kshs 18,000

      - N – Kshs 29,000

      - P Kshs 12,000

4.

Type of account	To increase	To Decrease
a) Asset A/C	Debit	Credit
b) Liability A/C	Credit	Debt
c) Capital A/C	Credit	Debt

5. - X = Kshs 30,000

- Y = Kshs 1,900,00

- Z = Kshs 500,000

6. - X = Kshs. 200,000

- Y = Kshs. 2,000,000

- Z = Kshs. 180,000

- T = Kshs 200,000

## **BUSINESS TRANSACTIONS**

1.

Description	Term
▪ Money bought into business by owner	Capital
▪ Goods bought for resale	Stock
▪ Money withdrawn by the owner for private use	Drawings
▪ Money borrowed by the owner of the business	Loan

2. - Increase

- Decrease

- No effect

3.

Transaction	Increase	Decrease	No effect
▪ Buying stock in cash			x
▪ Depositing extra cash into business a/c	x		
▪ Drawing cash for private use			x
▪ Buying stock on credit			x

**THE LEDGER**  
**PAST KCSE QUESTION – PAPER 1**

	Dr.	Cr.
1.		
Capital		99,600
Debtors	30,620	
Creditors		25,000
Motor vehicle	80,000	
Cash	12,250	
Stock	125,270	125,270

2.

San Enterprises

Trial Balance

As at 31.4. 1995

	Dr	Cr.
Capital		947, 470
Cash	74,000	
Premises	870,000	
Debtors	36, 520	
Creditors		45,300
Stock	2, 250	
	992,770	992,770

3. .

Kiboko traders

Trial Balance

	Dr.	Cr.
Motor vehicle	240,000	
Current liabilities		440,000
Land and building	200,000	
Current assets	420,000	
Furniture	60,000	
Capital		480,000
Total	920,000	920,000

4.

Dipa Traders

Trial balance as at 31<sup>st</sup> December 2000

	Dr.	Cr	
Buildings	100,000		
Debtors	54,000		
Capital		136,000	
Sales		85,000	
Bank overdrafts	2,500		
Purchases	85,000		
Stock		25,400	
Creditors		35,700	
General expenses	31,800		
	259,200	259,200	



5.

ii. Cost of sales = sales – Gross profit

$$= 360,000 - \frac{25}{100} \times 360,000$$
$$= 270,000$$

b) Rate of stock turnover =  $\frac{\text{Cost of Sales}}{\text{Average Stock}}$

$$= \frac{270,000}{\frac{(50,000 + 70,000)}{2}}$$
$$= \frac{270,000}{60,000}$$
$$= 4.5 \text{ times}$$

6.

Dr.	Cash A/C	Cr.
	Bank	5,000

Dr.	Bank A/C	Cr.	
Cash	5,000	Salaries	2,400

Dr.	Rasi Traders A/C		Cr.
M. vehicle	25,000		

Dr.	Motor vehicle		Cr.
Rasi Traders	250,000		

7.

Dr.	Cash A/C		Cr.
Bal c/c	20,700	Bal c/c	20,700
Sales	20,700	Sales	20,700
Bal.c/d	73,900		

Bal c/d	<u>80,700</u>		<u>80,700</u>
	<u>73,900</u>		

Dr.	Capital A.C		Cr.
Bal c/d	<u>20,700</u>	Bal	<u>20,700</u>
Bal c/d 20,700	<u>20,700</u>	Bal c/d	<u>20,700</u>

Dr		Salaries A.C		Cr.	
Cash	<u>8,000</u>		Bal. c. d		<u>8,000</u>
Bal c/d	<u>8,000</u>				<u>8,000</u>

Dr.		Purchases A/c		Cr	
Bal <u>20,000</u>			Bal c/d		22,000
Cash	<u>22,000</u>				<u>22,000</u>
Bal. c/f	22,000				

Dr		Purchase A/c		Cr	
Bal.	<u>80,000</u>		Bal. c/d		
45,000					
			Cash		
35,000					80,000
Bal. c/f	<u>80,000</u>		Bal. b/f		80,000

- |    |             |              |
|----|-------------|--------------|
| 8. | A/C debited | A/C credited |
|    | Creditors   | Capital      |
|    | Cash        | Capital      |
|    | Purchases   | Bank         |
|    | Drawings    | Cash         |

9.

Dr.	Cash Account	Cr
		Kshs. 20,000

Dr.	Rent Account	Cr
Kshs 20,000		

Dr.	Purchases Account	Cr
Kshs 30,000		



## THE CASH BOOK

- Contra entry – a transaction that affects both the cash account and the bank account

Folio column – Reference page on the relevant account

- (i) Balance c/d (ii) Contra entry

Cash Kshs 1,680 = 1,680

Bank Kshs 3,600

- 

Temple trader

Cash Boom

Date	Details	Cash 000	Bank 000	Date	Detail	Cash 000	Bank 000
95				95			
Mar				Mar			
5	Sales	30	12.5	10			
15	Cash	5	12.5		Creditors		7.5
20	Cash	35		15	Bank		
	Bal	20.1	5	28	Wages	12.5	
	b/d			31	Bal	2.4	5
						20.1	12.5

- 

- Separate it with other accounts
- Quick determination of work flow
- Combine cash and bank accounts

- Easy reference and double entry transactions

5.    Increase                      Decrease
- Dr                                Cr
- Cr                                Dr
- Cr                                Dr
- Dr                                Cr

6.

Opening balances

Cash            22,000 – 8,000

= 14,000

Bank            63,000 – 36,000

= 27,700

7.    Cash book for the month of July, 1999

Date	Details	Bank	Cash	Date	Details	Bank	cash
July				July			
1999				1999			
1	Bal b/d	6,000		1	Bal b/d		2,000
18	Debtors		80,000	22	Tel. Bills	200	
28		16,000		28	Cash		1,600
	Totals	22,000		31	Bal b/d	20,800	62,000
	Bal b/d	20,800				22,000	80,000

8.

Date	Details	Bank	Cash	Date	Details	Bank	Cash
1/3							
1	Bal b/d	13,200	56,000	15/3	Creditor		
2	Sales		12,000	31/3	Rent	7,500	8,200
27	Debtors		24,500	31/3	Bal c/d	17,700	
		25,200	80,500			25,200	72,300
1/4	Bal b/d	17,700	72,300				80,500

Z= 240,000

9. – To relieve the general ledger of many records that appear

- To make it easy to refer to bank and cash balances

- To record receipts and payments of cash in hand and at bank

10. W – 40,000

X 70,000

Y – 54,000

## **CHAIN OF DISTRIBUTION**

1. – Enjoys credit facilities
  - Provide variety of goods
  - Goods are brought closer to customers
  - They store goods for the consumers.
  - Consumers can make special order for goods.
  - Enjoy personal attention from them
  - Stabilization of prices.
2. – Consumer is likely to get after sales services
  - Consumer is likely to get technical advice of how to use the goods
  - Consumer is likely to get the goods at relatively low prices
  - Manufactures may arrange the fiancé of the consumers.
  - Consumer is assured that what he is buying is genuine.
3. –Manufacturer – consumers
  - Manufacturer – retailers – consumers
  - Manufacture – agent – retailers – consumers.
4. –Nature of the produce
  - Availability of middlemen
  - Government policy on the distribution.
  - Cost of the produce
  - Distance between the producer and the consumer
5. – Increased price
  - Like hood of delay
  - Changes of damage to goods due to handling
  - Feedback to the manufacturer

- Perishable goods may go bad
6.
    - They may be bought at lower prices
    - They may be provided with transport
    - They may receive cash
    - They may be given goods on credit
    - They have a chance to select quality goods
    - They are likely to get goods to ones specifications.
  7.
    - Linkage – wholesalers act as a link between the producers and the retailers.
    - Storage – offers storage facilities to the producers.
    - Breaking bulk – buys in large quantities from producers and sells them into smaller quantities to retailers.
    - Transportation – wholesalers helps in transporting goods from producers to retailers.
  8.
    - When goods are perishable
    - When the manufacturers is financially strong to open up retail outside
    - When the manufacturers wishes to take charge of he marketing of the produce.
    - When the manufacturer wishes to have direct contact with the consumer.
    - When the market for the product is limited
    - When there is inefficient infrastructure.

## **PAPER 2 ANSWERS.**

1.
  - Where goods are expensive for middlemen (cannot afford to stock them)
  - Where goods are of technical nature and the producer may want to have direct contact with the customer.
  - Where goods are perishable (and producer wants to deliver them fast to have direct contact with the customer.

- Where goods are perishable (and producer wants to deliver them fast to the consumer)
  - where goods are perishable (and producer has his own retail outlets)
  - Where the market is localized in terms of geographical location / where the producer is close to customers.
  - where the goods are produced according to consumers specifications/ special goods
  - where the producer requires immediate feedback
2.
    - AZango will provide with information regarding the market for their goods
    - The wholesalers will break on behalf of the manufacturers.
    - Zango will sell his stock faster as wholesalers buy in bulk
    - The manufacturer's supply of goods will be stabilized as wholesalers regulates the supply
    - Zango will be relieved of various risks relating to goods to fall in price, demand, non-profitable but essential services.
  3.
    - from manufacture through own retail outlets to consumers'
    - Manufacturers sell direct to consumers
    - From manufacturer though wholesalers through independent retailers to consumers.
    - From manufacturers through wholesalers through independent retailers to consumers.
      - From manufacturere through wholesalers to consumers.
  4.
    - The nature of goods where perishable a direct channel to consumers is more preferred.
    - Size of the market where the market is large, if the consumers are concentrated in one area.
    - Costs where the cost of marketing and distribution are high manufacturers will dispose goods through intermediaries.

- Lack of facilities / skills where the producer lacks facilities he will call upon intermediaries.
  - Government policy. If the government policy prohibits /required use of a certain channel then it has to be followed.
  - Nature of market depending on consumer's preferences / taste it may require a personal attention of the producer.
  - Competition: Where competition is high manufacture may have to be closer to the consumer.
  - Bulkiness: If the quantity is large along channel is used and vice versa.
  - Technical goods need to be sold direct to consumer in order to provide necessary information.
  - Profitability where producer wants to maximize profit.
5. – Where market is spread out for the producer to reach the consumer
- Where the producer does not have adequate capital to set up own distribution points.
  - Management problems: Where it becomes difficult to manage producer's distribution outlets.
  - Poor infrastructure: making it difficult to distribute goods.
  - Government policy: Which may separate the functions which can be by the wholesaler.
  - Where the producer lacks transport facilities which can be provided to advertise
  - Where the producer wants to get information about the market he will use the wholesaler.
6. – Foreign producer local consumer.
- Foreign producer foreign agent / exporter local consumer
  - Foreign producer local agents / importers local consumer
  - Foreign producer's foreign agent local agent / import merchant local wholesaler.
  - Local retailer local consumer
  - Foreign producer local retailers local consumers

- Foreign producer local retailers local consumers
  - Foreign producer's foreign agent local agent / local wholesaler
  - Local consumer.
7. – Kabu manufacturing will be provided with information regarding the market for their goods.
- The wholesalers will break bulk on behalf of the manufacturers Kabu manufacturers will sell his stock faster as wholesalers buy in bulk.
  - Kabu will be relieved of transport of goods
  - The manufacturers supply of goods will be stabilized as wholesalers regulate the supply.
  - Kabu will be provided with storage facilities
  - Kabu will be relieved of various risks relating to goods to fall in price.

## FINANCIAL STATEMENTS.

### 1. A) Tamwe Traders

Trading A/c			
For the period ended 31 <sup>st</sup> Dec 1994			
Opening stock	9,000	Sales – 100 x 28,000	112,000
Add Purchases	81,000	25	
Sales	+90,000		
Less c. stock	- 6,000		
	84,000		
G.profit	28,000		
	112,000		
			112,000

### 2. Otwa Traders Statement of W.Capital

As at 31<sup>st</sup> Dec. 1994

#### Current Asset

Stock	4,000	
Trade debtors	2,600	
Prepaid insurance	1,400	
Cash at hand	7,500	15,500

#### Less current liabilities

Bank overdraft	6,000	
Trade debtors	3,000	
Accrued red	4,000	13,000

b) Working capital 2,500

Capital A/C

Drawing	32,000	Bal B/d	50,000
Bal. c/d	162,000	Motor Vehicle	80,000
		Net profit	64,000
	-		
	194,000		194,000
		Bal B/d	162,000

2. i) Cost of goods sold

Opening stock + purchases – closing stock

$$35,500 + 190,550 - 25,000$$

$$= 201,050$$

$$= 201,050$$

ii) Percentage of gross profit to net sales

Net sales = Sales – Sales returns

$$251,250 = 256,050 - 4,800$$

G.P. = Net sales – cost of goods

$$50,200 = 251,250 - 201,050$$

$$50,200 \times 100 = 20\%$$

$$\frac{50,200}{251,250}$$

3. – Capital = total assets – total liabilities

$$= 250,000 + 12,680 + 620,500 + 15,500 + 1,500 - 46,520$$

$$= 314,660 - 46,520$$

$$= \text{Kshs. } 295,160$$

4.

Current assets

Current liabilities

Stock + debtors + cash at hand

Bank overdraft + creditors

20,000 + 32,000 + 22,000

12,000 + 25,000

74,000

37,000

=2:1

5. – Cost of goods sold

Goods sold = sales – margin

= 60,000 – (20 x 60,000) = 48,000

100

b) The gross profit

G.P. = 60,000 x 20 = 12,000

100

7.

## Waso Traders

Balance sheet as at 30<sup>th</sup> October 1995

Assets		Capital & Liabilities	
	Shs.		Shs.
Cash	2,500	Creditors	62,500
Debtors	40,000	LTL	
Bank	160,230	2 year loan	40,000
Cash	20,530	Capital	920,750
Premises	800,000		
	1,023,250		1,023,250

8.

## -Kwaso Traders

Profit &amp; Loss Account

As at 31.8 .97

Expenses			
Carriage on sale	4,700	G.P	130,800
G. Exp.	18,200	Comm. Rec.	8,000
Insurance	4,000		
N, P. b/d	111,900		
	138,800		138,800
		N.p/c/d	111,900

9. a)  $\frac{240 \times 100}{1,200,000} = 20\%$

b)  $\frac{240,000 \times 100}{1,440,000} = 16.6\%$

Capital invested N.P x 100/CL

$$240,000 \times 100 = 20\% = 120,000$$

Capital employed = CE=FA + WC

$$240,000 \times 100$$

Capital employed = CE=FA+ WC

$$240,000 \times 100$$

$$1,4440,00$$

$$= WC. CA -CL$$

$$74,000 -34,000 =40,000 = 16.6 \%$$

$$C.E = 1,400, 000 + 40,000$$

$$= 1, 440, 000 \text{ or } 17\%$$

10. – Kiboko Enterprises

Trading A/C

For the year ended 30<sup>th</sup> June 1997

---

Opening Stock	65,000	Sales	280,000
Purchases	190,000	Less Sales	
Less P			
Returns 10,000	180,000	R/ns.	4,200
Goods available	245,000		275,800
Gross profit	100,800	Closing stock	
			70, 000
	345,800		345,800

---

11. Rate of net profit to capital

Cost of sales

Convert margins to mark ups

Convert margins to mark ups

Convert % to fraction

$$20/100 = 1/5$$

$$\text{Mark up} - 1/5 = 1/4$$

Convert 1/4 into % = 25%

$$\underline{\text{G.P}} \times \underline{25} \times 345,200$$

Sales 100

General expenses 59, 800

NP = GP – General expenses

NP = 185,800 - 9,800 = 176,000

Return on capital  $\frac{26,000}{1,300,000} \times 100$

1,300,000

= 2 %

12. – Shows asset owned a business
- shows what a business owes
  - shows the sources of finance to a business
  - shows the liquidity of the business
  - shows the net worth of the business
  - Can be used to borrow money
  - Helps in decision making
13. – If a capital as at 1/1/98 is 250,000
- Add additional capital 68,000 = 318,000
  - Capital as at 31/12/1998
- = 406,000

14.

Opening stock	8,000	Sales	62,900
Add purchases	53,000		
Less R.O	2,700		50,300
Goods Available for sale	58,300		
Less Closing Stock	12,700		
Cost of sales		45,600	

Gross profit	b/d	<u>17,300</u>	
		<u>62,900</u>	<u>62,900</u>

15. a) cost of sale

= sales – gross profit

= 360 – (25 x 360,000)

100

= 360,000 – 90,000

= 270,000

b) Rate of stock turn over

= Cost of sales

Average stock

=270,000

=[50,000 + 70,000]

2

= 270,000

60,000

= 4.5 times

16. Capital = initial capital + net profit + additional investment – drawings

= 180,000 + 140,000 + 90,000 – 50,000

= 410,000 – 50,000

= 360,000

17. Gross profit = sales - cost of sales

$$= 500,000 - 280,000$$

$$= 220,000$$

$$\text{Gross margin} = \frac{220,000}{500,000} \times 100$$

$$= 44\%$$

18.

### TAJIRA TRADERS

Balance sheet as at 31<sup>st</sup> January 2001

Capital	20,000	Furniture	3,000
Mema traders	6,000	Stock	6,000
		Bank	12,000
		Cash	5,000
	26,000		26,000

19.

### Vuno Traders

Profit and loss account for the year ended 31<sup>st</sup> March 2001.

Discount allowed	7,400	Gross profit	186,200
Carriage outward	13,000	Rent received	34,300
Office expenses	19,600		
Salaries	57,000		
Net profit	123,000		
	<u>220,500</u>		<u>220,500</u>

## Paper 2

### 1. Paka Traders

#### Trading Profit and Loss Account

As at 31 December 1995

Dr	Kshs	Cr.	Kshs
Opening Stock	100,000	Sales	900,000
Purchases	600,000	Purchases returns	20,000
Sales Returns	80,000		
Transportation in	40,000		
	820,000		
Closing Stock (135,000)			
G.P.c/d	235,000		
	920,000		
Expenses			
Carriage out	3,000		
Rent	60,000		
Interest Expenses	18,000		
General Expenses	7,000		
N.P.C/d 147,000			
	235,000		235,000
	N.P.B b/d	147,000	

2. G.P = Margins – Sales  
 $40\% * 270,000 = \text{Kshs } 108,000$
- (ii) C.O.S = Sales- GP  
 $270,000 - 108,000 = 162,000$
- (iii) Net Profit = GP – Expenses  
 $\text{Net Profit} = 108,000 - 40,000 = 68.000$
- (iv) Average stock = cost of goods sold

Rate of turnover

$$= \frac{162,000}{6} = 27,000$$

6

3. (i) Solo Traders

Profit and loss Account for the year ended 31 December 1998

Dr	Kshs	Cr.	Kshs
Salaries	40,000	Gross profit	80,000
General expenses	18,000	Comm. Income	35,800
Discount	5,500		
Insurance	4,800		
Net profit	<u>47,500</u>		
	<u>115,800</u>		<u>115,800</u>

(ii) Solo Traders

Balance Sheet As at 31 December 1998

Dr	Kshs	Cr	Kshs
<hr/>			
F. Asset			
Buildings	250,000	Capital	400,000
Equipment	180,000	Net profit	47,500
Furniture	17,000		
C. Assets			
Stock	25,000	Creditors	90,000
Debtors	<u>65,500</u>		
	<u>537,500</u>		<u>537,500</u>

4. (i) Yohana Traders

Profit and loss Account

Dr.	Kshs	Cr.	Kshs
<hr/>			
Opening Stock		Sales	4,000,000
Purchases	2,600,000		
Sales return	40,000		
	2,640,000		
Closing stock	(100,000)		
GP c/d	1,460,000		4,000,000
	4,000,000		
Expenses		GP c/d	1,460,000
		N.P b/d	922,000

(ii) Return on capital = net profit x 100

$$\frac{\text{Net - capital}}{(950,000 + 922,000) - 80,000} = 33.02\%$$
$$\frac{922,000 \times 100}{(950,000 + 922,000) - 80,000} = 33.02\%$$

$$\text{Current ratio} = \frac{\text{CA}}{\text{CL}} = \frac{32,000}{240,000} = 2.22:1$$

Debtors ratio =  $\frac{\text{Debtors}}{\text{Net Sales}} \times 365 \text{ days}$

$$\frac{300,000 \times 365}{3,96,000} = 27.65 \text{ days}$$

5. (i) Current ratio = CA = 650,000 = 1:1

$$\text{CL} = 650,000$$

(ii) GP mark up

$$\text{GP} = 20\% \times 2,000,000 = 400,000$$

$$\text{COS} = 2,000,000 - 400,000 = 1,600,000$$

$$\text{GP mark up} = \frac{400,000}{1,600,000} \times 100 = 25\%$$

$$1,600,000$$

(iii) Rate of stock turnover = C.O.S

Average stock

$$= \text{Average stock} = \frac{\text{Opening stock} + \text{closing stock}}{2}$$

2

$$= \frac{1,600,000}{150,000} = 10.66$$

$$150,000$$

6.

(i) Maringo Traders

Profit and loss account as at 31 December 2001

Dr	Kshs	Cr.	Kshs
Salaries expense	132,000	Gross profit	380,000
General expense	54,000	Comm. Received	20,000
N.P.c/d	<u>214,000</u>		
	<u>400,000</u>		<u>400,000</u>

N.P. c/f 214, 000

(ii) Maringo Traders

Balance Sheet As at 31 December 2001

Dr	Kshs	Cr.	Kshs
Premises	103,000	Capital	259,000
		Net profit	214,000
		Drawings	(83,000)
C. Assets		C. Liabilities	
Stock	274,000	Creditors	93,000
Debtors	123,000	B loan	50,000
Cash at bank	<u>33,000</u>		
	<u>533,000</u>		<u>533,000</u>

7.  $G.P = 25 \times 480,000 = 120,000$

$C.O.S = Sales - GP$

$480,000 - 20,000 = 360,000$

$Purchases = C.O.S + closing\ stock - opening\ stock$

$= 360,000 + 120,000 - 80,000 = 400,000$

(ii) Sarai Traders

Trading Account As at 30<sup>th</sup> April 2003

Dr	Kshs	Cr.	Kshs
Opening stock	80,000	Sales	480,000
Purchases	400,000		
	480,000		
Closing stock	(120,000)		
	360,000		
N.P c/d	120,000		
	480,000		480,000

(ii) Rate of stock turnover =  $\frac{\text{C.O.S}}{\text{Average stock}}$

Average stock =  $\frac{80,000 + 120,000}{2} = 100,000$

2

C.O.S = 360,000

Rate of Stock turnover =  $\frac{360,000}{100,000} = 3.55$

8.

Tangao Traders

Balance Sheet

As at December 2004

		L.T.L	
Fixed Assets		Capital = A- 1	
Motor vehicle	80,000	(255,000	150,000
		75,000)	
Plant & Machinery	70,000		
Current Assets			
Stock	25,000	Loan from Bank	60,000
Debtors	30,000	Current Liabilities	
Bank	20,000	Creditors	15,000
	<u>225,000</u>		<u>225,000</u>

## Tea Traders

## Trading, Profit &amp; Loss Account

For the year ending 31/12/04

	Kshs	Kshs
Opening Stock	25,000	Sales 800,000
Add purchases	700,000	
Goods Available	725,000	
Closing stock	85,000	
Cost of sales ( $20/100 \times 800,000$ )	640,000	
Gross Profit	160,000	
	800,000	800,000

## 10. Molop Traders

Profit and loss Account for the year ending 31/12/04

Expenses	48,000	Gross Profit	320,000
Lighting	7,200	Commission received	9,870
Water	9,220	Discount received	8,500
Salaries	72,500		
Discount Allowed	4,600		
General expenses	98,000		
Net Profit	338,370		338,370



Molop Traders

Balance sheet as at 31/12/04

Fixed assets	Kshs	Kshs	Kshs
Furniture	650,000	Capital	3,000,000
Motor vehicle	2,300,000	Add profit	98,890
			3, 098,850
		Current liabilities	
<hr/>			
Current assets			
Stock	25,250		
Debtors	270,000	Creditors	396,400
Bank	200,000		
Cash	50,000		
	3,495, 250		3,495, 290



## MONEY AND BANKING

### PAST KCSE

1. - One cheque is drawn by customer showing total amount payable to number of people

- A list of individual names, their account numbers and total amount Payable
- The bank then makes payments to individual account

2. - It is faster means of sending money

- The sender can be compensated in case the money is lost

- It is faster way of sending money

- It is a convenient way of sending money

- It can be easily traced when it gets lost

3. - Involve double coincidence of wants

- Some items cannot be conveniently divided into smaller units

- Some goods are too heavy

- Difficult to determine fair rate of exchange

Statement	True	False
(a) Accepts deposits from members of public	x	
(b) Provides safe custody for valuables	x	
(c) Issues currency for use in the country		x
(d) Controls money supply in the country		x
(e) Lends money to the members of the public	x	

5.
  - Divisibility
  - Portability
  - Malleability
  - Acceptability
  - Homogeneity
  - Stability
  - Durability
  
6.
  - Bank rate
  - Open market operation
  - Reserve ration
  - Credit rationing
  - Moral persuasion
  - Selective control
  - Compulsory deposit
  - Special instruction
  - Margin requirement
  
7.
  - Mobilize long term saving
  - Provide long term loans
  - Provide investment opportunities
  - Provide working capital to the public limited companies by investing in  
Shares
  - Provide education on investment opportunities that they offer guaranteeing loan  
from external source

8.
  - High rate of interest charged on these loans
  - Poor profits as a result of poor economy
  - Individuals and firms may have cheaper source of loans
  - Involve lengthy formalities
  - Many people fear the consequences of failing to pay the loans
  - Many people do not have recognized property that they can offer as security for loans
  
9.
  - Lack of measure of value
  - Some commodities are indivisible
  - Requires double coincidence of wants
  - Some commodities are difficult to carry
  - Problems of storage
  - Lack of standard deferred payment
  - Lack of unit of account
  
10.
  - Accept government deposits for safe keeping
  - Issues currency on behalf of government
  - Arranges and pays public debt on behalf of the government
  - Advises government

11. Car Costs 20,000 dirams  
 4 dirams = 1 US dollar  
 Amount of Kshs paid  
 20,000 = 5,000 US dollars  
 \_\_\_\_\_  
 4  
 Amount paid = Kshs 350,000

12.
  - issuing of currency
  - Banker to the government
  - Banker to controller commercial
  - Lender of last resort
  - Controlling credit
  - Management of foreign exchange reserves
  - Implementing government monetary policy
  - Management of public debts
13.
  - Barter to commodity
  - Commodity to metallic coinage
  - Metallic to paper money (notes)
  - Paper to representative money e.g. cheques
  - Representative to plastic money e.g. credit cards.

## **PAPER 2 ANSWERS**

1.
  - Providing capital to existing new business
  - They carry feasibility studies for potential investors
  - They provide advisory services on how to set up and ran invest projects
  - They support investments in areas which would otherwise not be financed by other financial institutions due to risks involved
  - They generate revenue to the government to pay taxes or dividends to the government
  - Create employment opportunities
  - Mobilization of savings investments
2.
  - The traders can withdraw money at nay time without notice

- Cheques are used for payments instead of cash
  - Traders can arrange for overdrafts facilities with the management of the Bank
  - The bank can pay on behalf of the trades such as standing orders
  - There is no minimum balance required in the account
  - Purchases can be made post dated cheques
- 4.
- Accepting deposits from commercial bank
  - Advise commercial banks on financial matters
  - Supervises the operations to commercial banks
  - Facilitates the clearing of cheques
  - Gives loans to commercial banks operations
  - Sale of foreign currency
- 5.
- commercial banks give short term descending bill while NBF don't
  - Commercial banks give loans for a variety of purposes
  - Commercial banks offer current facilities NBF do not offer such Services, commercial banks issues cheques
  - Commercial banks clear cheques through the clearing houses while NBF do not
  - Commercial banks provide means of payments NBF do not
  - Commercial bank exchanges foreign currency NBF do not
  - Commercial banks provide locker facilities]
- 6.
- Bank rates.
- This is the rate at which the central bank lends to commercial banks. It can be varied to encourage or discourage credit/ raising/ lowering bank rate
- Open market operation

The central bank may sell or buy securities in the market. Selling securities reduces the money supply (for lending)

- Special deposits/ compulsory deposits/ minimum reserve requirements

The central bank requires other financial institutions to have a certain percentage of deposits deposited in the central bank which can be varied to encourage / discourage credits

- Cash ratio/ liquidity ratio

The ratio of cash/ deposits may be varied to control money supply credit which can be increased to reduce money supply/ can be decreased to increase money supply.

- Moral persuasion/ Liquid assets persuasion

The central bank may appeal/ request/ persuade/ restrain leading/ credit rationing. The commercial banks may be required by the central bank to approve loans only for special types of projects e.g. agriculture, manufacturing e.t.c

- Direct action/ directive/ instructions

Central banks can use its authority to direct/instruct the financial Institutions to lend more/ less/ apply credit squeeze/ credit expansion margins requirements.

7. - Overdraft facilities – A customer who operates a current account with a commercial bank may require the bank to allow him overdraft his account

- Discounting of bills of exchange/ promissory note may request a commercial bank to discount to pay the bill note before maturity
- Formal loans- an individual can apply to commercial bank for a personal loan
- Plastic money – Credit card holders may present such cards and have credit advanced to them by commercial bank
- Treasury bills- banks advance to the government on exchange of the bill/bond

8. - Collateral security valued by appointed valuers

- Account from leading bank at least six months old
- Bank statements for the last six months busy account to determine credit

Worthiness

- Quarantine to be followed in case of default
- Intended purpose of the loan
- Agreement on the repayment
- Appraisal fee/ charge to determine credit worthiness by a bank

9.

- Accepts deposits for safekeeping
- Licensing the operations of commercial banks
- Supervision of banking operations
- Provide clearing houses facilities for cheques
- Giving commercial banks, loans as the tender of the last resort
- provides advisory services, banking economic matters
- Central bank is a source of currency for commercial bank operations
- Buying and selling foreign currency from commercial banks
- Acts as a mediator for commercial banks in case of dispute between them
- It repatriates excess foreign currency on behalf of commercial banks
- Statutory management during financial crisis

10.

- It is an expensive source of finance as the interest charges are very high
- Frequent use of overdraft use of overdraft could be sign of poor management hence it make it difficult to obtain credit. Bank may recall the overdraft any time
  - Overdraft are not easily available unless one is well known
  - Interest repayment cannot be planned for with certainty
  - Limited access- overdrafts is only given to current account holders only
  - Security – the lenders may require security/ property pledge

- Limited amount are hence unsuitable for long term financing
- Repayment patterns are unplanned hence any deposits made in the account are assumed to be repaying the overdraft
- Short repayment period which affects the cash flow of firm adversely

11. -They do not provide current account (facilities) while commercial banks provide the facilities. In commercial banks current A/C holders use cheques/ commercial bank issues cheques while NBFIs don't

- They provide long term loans while commercial banks provide short term loan while commercial provide short term loan / overdraft / discounting bills of exchange NBFIs don't
- Non- bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/ supervised/ banking act.
- The NBFIs lend money for specific purpose/ specific sector while commercial bank provides general finance
- Commercial bank credit while NBFIs don't create credit
- Commercial bank means of payment / transfer of money while NBFIs don't
- Commercial bank exchange foreign currency while NBFIs don't
- Commercial bank provides safe ( for later bankers) while NBFIs don't
- Commercial bank gives letters of credit in IT while NBFIs don't
- Commercial bank provides lockers facilities/ safe custody for valuables while NBFIs don't

12. - pay creditors cheques, hence safety and does not have to go to the bank

- They can get bank overdraft facility when they do not have enough cash
- They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account

- They can withdraw large sums of money without notice convenient for business
- They can make withdraws as many times as they wish thus enabling them to access money when needed.
- They can give post dated cheques if need arises, thus enabling them to be aware of their bank balances
- one can withdraw large sums of money without notice, which is convenient for the business
- One can get bank overdraft facility when one does not have enough cash
- One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the accounts
- Safety is enhance as one pay creditors using a cheque and does not have to go to the bank

- 13
- One can give post dated cheques if need arises, thus enabling clearing of debts at a future date.
  - One can make withdrawals as many times as they wish thus enabling them to access money when needed
  - One can get issues of regular statements thus enabling them to be aware of their bank balances.
  - One can withdraw large sums of money without notice, which convenient for the business.
  - One can get bank overdraft facility when one does not have enough cash.
  - One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
  - Safety is enhanced as one pay creditors using a cheque and does not have to go to the bank.

- 13.
- Safe keeping of valuables items. Commercial bank acts as custodian of valuable item for the clients such as wills, title deeds, jewellery etc.
  - They lend money to their clients in form of loans, overdrafts or discounting bills of exchange and promissory notes.
  - They receive money deposits from their clients commercial banks operate 3 types of accounts for this purpose namely savings, current and fixed deposit account.
  - They facilitate transfer of money through cheques, credit transfers standing orders etc.
  - They advice their clients on financial and investment matters.
  - They facilitate international payments through letters of credit.
  - They act as management trustees of properties of business of deceased clients.
  - They act as referees for their clients during a credit status inquiring.

## **INTERNATIONAL TRADE.**

1. – Obtains loan from PTA
  - Obtains wide market for goods
  - Obtain loan from PTA bank
  - Promotes understanding between states
  - Promotes understanding between states
  - Reduced customs duty.
  - Obtains goods cheaply
  - She can get goods that she cannot produce
  - There is need for foreign exchange when importing goods from PTA members.
2. - To protect infant factories
  - To avoid dumping
  - To correct balance of payment deficit
  - To raise revenue
  - To protect existing local industries.
3. – Earn foreign exchange
  - Access a wide market
  - Country can get what it doesn't produce
  - Promote good international relations
  - Wide variety goods
  - Create employment
  - Country can be assisted during calamities
  - Improve living standards
  - Leads to competition hence high quality goods.
4. - Tariffs on imports

- Subsidies to control local producers
  - Exchange control
  - Quotas
  - Total ban
  - Long import producers
  - Administration
5. - Exporters to be export compensation
- Exporters to be paid export compensation as an incentive
  - allow waivers for customs duty on raw materials meant for production of export
  - Negotiate for preferential treatment of Kenya products abroad
  - Government subsidy on some expenses
  - Establishing advisory bodies
  - Customs drawbacks
  - Revaluations of Kenya shillings
  - Simplicity of export procedures
  - Export guarantee schemes
  - Exporters producing high quality goods
  - sponsor exhibition for Kenyan goods abroad
6. – Lack of good will
- Similar products
  - Bureaucracy.
  - Difference in heights and measures
  - Political
  - Language barrier
  - Cultural difference.

<p>7.</p> <p style="text-align: center;">Statements</p> <ul style="list-style-type: none"> <li>- Informs buyers when goods dispatched</li> <li style="padding-left: 20px;">And by what means</li> <li>- A request by seller for payment in advance</li> <li>- Used to correct an undercharge in an invoice</li> <li>- Shows details in the transaction between a seller</li> <li style="padding-left: 20px;">And a buyer during a given period of time</li> </ul>	<p style="text-align: center;">Documents</p> <ul style="list-style-type: none"> <li style="padding-left: 20px;">Advise note</li> <li style="padding-left: 20px;">Pro-forma invoice</li> <li style="padding-left: 20px;">Debit note</li> <li style="padding-left: 20px;">Statement of account</li> </ul>
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- 8.
- Causes exhaustion of non-renewable resources
  - Threat to growth of local industry due to importation of cheaper and better goods
  - Importance of goods that have adverse effect on citizens, like consumption of harmful imported products
  - Erosion of cultural value due to coping of undesired foreign habits
  - Police blackmail due to political difference
  - Increased inflation due to importation of expensive goods
  - May lead to dumping when local market is flooded with cheap goods.

- 9.
- When goods are sent on an agent to show selling prices
  - When the seller doesn't want to give credit to the buyer
  - When payment for goods is required in advance
  - When the importer want written clearance before goods are sent
  - When goods are sent to a trader
  - When answering an inquiry letter
  - When the consignee of goods wishes to determine profitability before selling

10. – LOCO - Price of goods whenever they are laying (transport, packing expenses met by importer)
  - FOR – price paid cover transport and loading for rail
  - FAS –(Free alongside ship) price paid is for transport up to alongside ship.
  - Bill of lading- documents that are given particular of goods to be shipped by a consignor to the consignee. It includes price of consignment. A document of title.
  
11. – Protection of consumer against exploitation (high prices and low quality)
  - Carry out market research on distribution of essential goods and services
  - Promotion and development of internal trade.
  - Acts as a mediator for commercial banks in case of dispute between them.
  - It repatriates excess foreign currency on behalf of commercial banks.
  - Statutory management during financial crisis.
  
- 10 – it is an expensive source of finance as the interest charges are very high
  - Frequent use of overdraft could be a sign of poor management hence it make it difficult to obtain credit. Bank may recall the overdraft any time
  - Overdrafts are not easily available unless one is well known.
  - Interest repayment cannot be planned hence for with certainty.
  - Limited access – overdrafts is only given to current account holders only.
  - Security – the lenders may require security/property pledge.
  - Limited amount are hence unsuitable for long term financing.
  - Repayment patterns are unplanned hence any deposits made in the account are assumed to be repaying the overdraft.
  - Short repayment period which affects the cash flow of firm adversely.

11. – They do not provide current account (facilities) while commercial banks provide the facilities. In commercial banks current a/c holders use cheques/commercial banks issue cheques while NBFIs don't.
  - They provide long term loans while commercial banks provide short term loans/overdrafts/discounting bills of exchange NBFIs don't.
  - Non-bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/supervised/banking act.
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  - Commercial bank exchange foreign currency while NBFIs don't.
  - Commercial bank provides safe (for later bankers) while NBFIs don't.
  - Commercial banks give letters of credit in IT while NBFIs don't.
  - Commercial bank provides locker facilities/safe custody for valuables while NBFIs don't.
12. – Pay creditors using cheques, hence safety and does not have to go to the bank.
  - They can get bank overdraft facility when they do not have enough cash.
  - They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
  - Controlling and licensing of business
  - Controlling business rent through rent tribunals.
  - Advise business people on better production and business management through seminars, workshops, journalism etc.
  - Give loans to businessmen

12. - Increasing volume of imports.
  - Initiating or completing
  - Development project in the country
  - Increasing the amount by which it services foreign countries
  - Enables a country to obtain what she does not produce.
  - Enables consumers in the trading countries to obtain a variety of goods and services
  - Enables a country to obtain goods more cheaply than it can produce
  - Provides revenue to the government through taxes.
  - Enables a country to fully exploit the resources due to widened market
  - Promotes competition between imports and locally produced goods and this improves quality of goods produced.

## **PAPER 2**

1. – The country is able to export surplus goods
  - The country is able to buy what it does not produce
  - The country is able to earn foreign exchange.
  - Consumers in the country enjoy a variety of goods
  - The country is able to acquire technology from other countries
  - Country's citizens may acquire/ learn positive habits lifestyle
  - It enables a country to specialize in fields where it is best suited
  - Promotes healthy competition among local and foreign manufacturers
  - A country is able to get goods even during times of calamities e.g floods
  - It creates employment opportunities for citizens.
  - It generates revenue through taxes.

2. – It records tangibles/ visible exports.
  - It records tangible/visible exports
  - It records non tangible/visible imports.
  - It records non tangible imports services.
  - Inflow of loans/grant by foreign government.
  - Inflow of private capital
  - Out flow of loans by a government to other countries
  - Monetary movement form IMF/ world Bank
3. - By participation in international trade fairs
  - By using her commercial attaches to promote countries of accreditation
  - By subsidizing production of export / giving boundaries through export compensation.
  - By diversifying her export/ relying on different products
  - By entering into (bilateral) trade agreement
  - By lowering duties on imported raw materials meant for export/customs drawback
  - Lending/ making finance available for export producers
  - Reduce bureaucracy in licensing of export trade
  - By establishing EPZ
4. – Terms of trade: the rate at which exports on one country exchanges with imports.
 

ToT = Price index of exports determines whether the trade between one country and another is favorable.

  - Balance of payment: the difference between both capital and current exports and imports of a country. If the value of exports is higher, the country experiences a surplus and vice versa. It determines whether a country is experiencing surplus in I

- Exchange rate: rate at which a country's currency exchanges with another. This rate determines the value of exports and imports/ shows its indication of a country's economic strength.
  - Balance trade: the difference between the value of a country's visible tangible imports and its value of exports is higher than imports.
  - Determines whether a country is experiencing surplus/ deficit trade
  - Common market: an agreement between countries that allow free movement of goods and factors of production. This allows mobilization of resources/ trade without restriction.
5. – Bill of lading: it is a document used in transporting goods by ship. It enables the holder to take possession of goods. It entitles the holder to take possession to goods imported.
- Performa invoice- a document sent in advance of goods being exported.
  - Indent- an order placed with agent of exporter. It is used to assist the exporter of agent to know where to buy goods. It used to assist the agent to select on exporters.
  - Letter of credit – an official letter from a bank allowing another bank in foreign country to pay an exporter on behalf of the importer.
6. – Highlight earnings from exports than payments than payments for imports
- Low importation by citizens
  - Increased prices of export
  - Through same quality bought
  - Receipts in forms of capital transfer from abroad
  - Restricted importation.
  - Improved economy/raised gross domestic products
7. - Poor infrastructure which discourages investors makes local goods less competition

- High production costs which may make local products expensive
  - Insecurity: may discourage investors/discourage tourism
  - Corruption / embezzlement of funds which may add to extra costs to project
  - Shortages of energy may hamper the operations of the investors
  - Inadequate funds may make it difficult for KETA to achieve its aims
  - Political interference which hinders the smooth running of KETA
  - Competition from other countries which makes it difficult for the Kenyan goods to sell.
- 8.
- High prices of imports. Lower prices exports compared to countries exports.
  - Advice/fall in exchange rates / depreciation of local currency which makes the imports expensive
  - Appreciation of foreign currency which makes imports more expensive
  - Low / fall in demand for country's exports more expensive
  - Competition (from similar products of other countries in the same market which leads to decrease hence lower export prices
  - Devaluation of local currency thus making imports more expensive making exports cheaper
- 9.
- Carries out sales promotion for Kenyan goods into foreign markets
  - Provides advisory services to Kenyan exporters
  - Publishes business journals in imports
  - Advises Kenyan manufacturers on the right specifications of goods acceptable in the world markets.
  - Trains/ arranges seminar/ courses on foreign trade.
  - Assists in diversification of exports
  - Assists in finding markets abroad.

- Play role in multilateral trade agreements
  - Arrange for export credit guarantee scheme for exporters
10. – Kenyans can buy/ import variety of goods from other countries
- Kenya is able to export her surplus
  - Kenya can export her human labour/ technology
  - Kenya gets foreign exchange
  - International understanding between Kenya and her trading partners
  - During the time of calamity, Kenya can get assistance from other countries
  - Kenya is likely to specialize
  - Kenya can import goods that it does not produce
  - Kenya can import skills
  - Kenya can import capital
  - Create employment
  - Leads to improved standards of living in technology for Kenya
  - Government earns revenue
  - Improved quality of goods.
11. – Market imports to the country
- It can be inflationary
  - It can lead to low earnings from exports
  - Can lead to high costs of bank credit
  - May discourage investments in the country
  - May lead to deteriorating terms of trade.
12. – He uses it as a document for future reference.
- He uses the bill of lading to countercheck his goods on arrival
  - He can use it to get money for clearing, once the goods have come

- He can use it as a proof of business transaction
- He can use the bill to claim compensation in case all the goods indicated do not reach him.

**BUSINESS STUDIES PAPER 1**

**2 HOURS**

1. State four advantages of operating a partnership form of business. (4mks)  
a) .....  
b) .....  
c) .....  
d) .....
  
2. Outline four risks against which a shopkeeper may insure. (4mks)  
a) .....  
b) .....  
c) .....  
d) .....
  
3. Give four ways in which a government may participate in the operations of a state corporation. (4mks)  
a) .....  
b) .....  
c) .....  
d) .....
  
4. Outline four considerations that a seller should take into account before giving credit to a new customer. (4mks)  
a) .....  
b) .....  
c) .....

d) .....

5. The table below shows some of the occupations in production. Indicate the level of production associated with each of the occupations. (4mks)

Occupation	Level of production
a) Mining	_____
b) Oil refining	_____
c) Insurance	_____
d) Teaching	_____

6. What are the advantages of personal selling as a method of sales promotion? (4mks)

a) .....

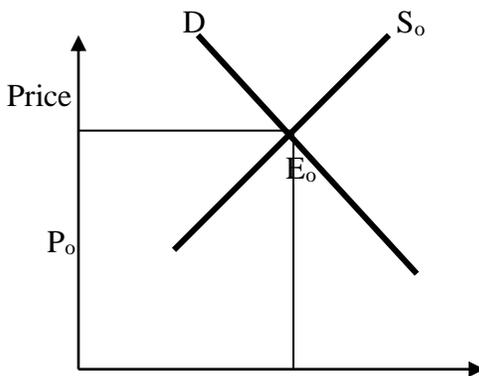
b) .....

c) .....

d) .....

7. The diagram below shows the demand and supply curves of a certain commodity and the corresponding equilibrium price ( $P_o$ ) and quantity ( $Q_o$ ). On the diagram, show the new equilibrium quantity and price as a result of an increase in the supply of the commodity.

(4mks)



8. Give four assumptions that are associated with perfect competitor. (4mks)
- a) .....
  - b) .....
  - c) .....
  - d) .....
9. List four types of unemployment in an economy and give the cause for each. (4mks)
- a) .....
  - b) .....
  - c) .....
  - d) .....
10. What benefits may accrue to manufacturing firm that uses modern technology? (4mks)
- a) .....
  - b) .....
  - c) .....
  - d) .....
11. Highlight four benefits of using electronic filing system. (4mks)
- a) .....
  - b) .....
  - c) .....
  - d) .....
12. State four social responsibilities that a manufacturing firm should have on the community. (4mks)
- a) .....
  - b) .....
  - c) .....

- d) .....
13. What factors may encourage entrepreneurship in Kenya (4mks)
- a) .....
- b) .....
- c) .....
- d) .....
14. Highlight four characteristics of economic resources. (4mks)
- a) .....
- b) .....
- c) .....
- d) .....
15. Give four reasons why one would prefer a letter to a telephone to send a message. (4mks)
- a) .....
- b) .....
- c) .....
- d) .....
16. State the effect of each of the following transactions on the balance sheet by writing increase, or decrease or no effect in each case.

<b>Transaction</b>	<b>Effect</b>
a) Bought machinery on credit	_____
b) Withdrew cash from the business for person use	_____
c) Purchased stock in cash	_____
d) Paid outstanding loan by cheque.	_____

17. The following balances were extracted from the books of Chebi Traders for the month ended 31 March 2005.

	Sh.
Sales	420,000
Purchases	240,000
Motor Van	300,000
Equipment	120,000
Debtors	80,000
Creditors	40,000
Expenses	160,000
Capital	440,000

Prepare trial balance of Chebi Traders for the month ended 31 March 2005. (4mks)

18. The following balances were extracted from the books of Chombo Wholesalers for the year ended 31 Dec 2005.

	Shs.
Sales	500,000
Purchases	320,000
Opening stock(1.1.2005)	80,000
Closing 31.12.2005	40,000
Debtors	140,000
Creditors	90,000

Calculate

- a) margin
  - b) Current ratio
  - c) Rate of stock turnover (4mks)
19. Outline four benefits of direct taxation to the government. (4mks)
- a) .....
  - b) .....
  - c) .....
  - d) .....
20. State four factors that may cause inflation in an economy. (4mks).
- a) .....
  - b) .....
  - c) .....
  - d) .....

21. Outline four ways that the World Bank may use to assist developing countries to improve their economy. (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

22. State four problems that a planner may encounter in development planning. (4mks)

- a) .....
- b) .....
- c).....
- d).....

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## **BUSINESS STUDIES Paper 2**

**2 ½ hours**

1. a) Explain five factors that may influence the level of national income of a country .  
(10 marks)
- b) Over the years southern Star has grown into a large business enterprise. Explain five diseconomies of scale which it may experience. (10 marks)
  
2. a) Explain four ways that a government can use to finance a budget deficit.  
( 8 marks)

(b) The following trial balance was extracted from the books of Fula Traders on 31<sup>st</sup>

December 2005.

Fula Traders

Trial Balance

as at 31.12. 2005

	Dr.	Cr.
	Sh.	Sh.
Sales		600,000
General Expenses	60,000	
Rent expense	10,000	
Commission Received		20,000
Motor Vehicle	600,000	
Furniture	240,000	
Cash	50,000	
Creditors		180,000
Debtors	120,000	
Purchases	400,000	
Sales Returns	20,000	
Capital		700,000
	<u>1, 500,000</u>	<u>1,500,000</u>

Additional information

- Stock on 31 December 2005 was valued at sh. 60,000
- Depreciation to be provided for as follows:

Motor Vehicle 20% p.a on Cost

Furniture 10% p.a on cost

Prepare:

- i) Trading, profit and Loss Account for the year ended 31 December 2005.
  - ii) Balance Sheet as at 31 December 2005. (12 marks)
- 3 a) Explain five benefits that may accrue to a community that is involved in trading activities. (10 marks)
- b) Outline five benefits that a Savings and Credit Co-operative society (SACCO) provides to its members. (10 marks)
- 4 a) Musi Enterprises are considering to market their imported products direct to consumers. Outline five reasons that may be influencing them to make this decision. (10 marks)
- b) Explain five disadvantages that a country may experience from imposing trade restrictions on trading partners. (10 marks)
5. a) Outline five factors that may limit the use of containers as a method of transporting goods in a developing country. (10 marks)
- b) Using a diagram, explain how a monopolist firm determines its output. (10 marks)
6. a) Explain four functions of money. (8 marks)

b) Cheru Traders does not keep a complete set of books of accounts. The following information was extracted from her books of accounts.

	1.1.05	31.12.05
	Sh.	Sh.
Stock	920,000	1,200,000
Debtors	400,000	540,000
Creditors	800,000	950,000

During the year, cash received from debtors was sh. 1,400,000 while cash paid to creditors amounted to sh. 2,000,000. Cash sales were for Sh. 250,000 while cash purchases amounted to sh. 320,000. Carriage inwards was for sh. 46,000.

Other relevant information.

- Returns inwards were Sh. 42,000.
- Cheru had taken goods amounting to sh. 50,000 for personal use.

- Determine total sales.
- Determine total purchases.
- Prepare Trading Account for the period ended 31 December 2005.

(12 marks)

## **BUSINESS STUDIES MARKING SCHEME P1**

1. Advantages of operating a partnership from business.

- (a) There is possibility of raising more capital
- (b) Partners bring in different talents and skills/ specialization
- (C) Partners can share the work load
- (d) Where losses occur, partners share them
- (e) Decisions are discussed by partners before implementation/ better decision
- (f) Few legal requirements/easier to start

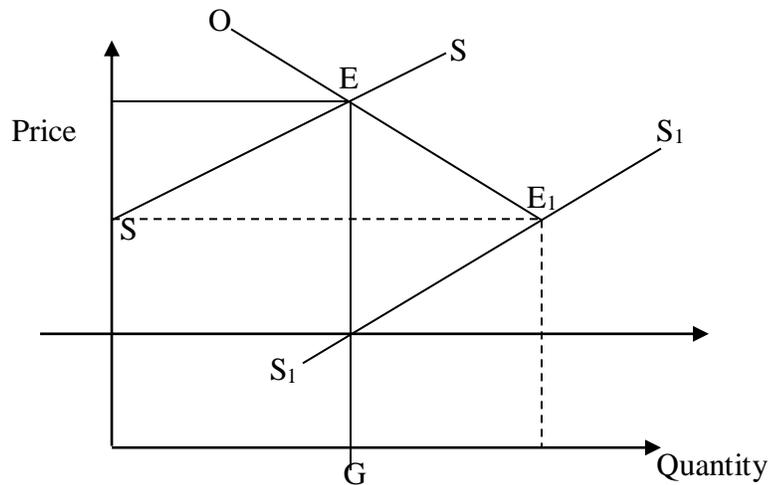
2. Risks against which a shopkeeper may insure

- (a) Occupational hazards for employees- risk against possible harm on employees on duty/workman's compensation
- (b) fire-loss of property due to fire
- (c) Theft and burglary- loss of property due to break- ins
- (d) Goods on transit.

3. Ways in which a government can participate in the operations of a state corporation.

- (a) Appointing the board of directors
- (b) Availing financial support
- (c) Supervision of the activities of the corporation
- (d) Providing policy guidelines
- (e) Auditing the accounts
- (f) Facilitating training
- (g) Providing legal advise

4. Considerations that a seller should take into account before giving credit to a new customer.
  - (a) Reliability- check if the customer is an honest person who can honour the debt as agreed/character
  - (b) Ability to pay – find out if the customer is an honest person who can honour credit.
  - (c) Capital- check whether the customer has assets that can cover all his liabilities
  - (d) Collateral- checks whether the customer has resources to repay the credit to make sure that credit is covered.
  - (e) Prevailing economic conditions-consider if the status of the economic climate is healthy to warrant giving the credit
  - (f) Credit period
  - (g) Amount of stock available
  
5. Levels of production
  - (a) Levels of production
  - (b) Secondary
  - (c) Tertiary
  
6. Advantages of personal selling.
  - (a) Creates good relationship between customers and seller
  - (b) The seller has a chance to explain finer details of the product
  - (c) The seller can collect information regarding the demand of the product
  - (d) Seller can persuade the customer to buy the product
  - (e) Full knowledge of the product
  - (f) Ability to tailor the product according to customer's needs
  - (g) Capable of targeting a specific group.



8. Assumptions associated with perfect competition
- Large number of seller and buyers exist in the market
  - Production of identical (homogeneous) products by different firms.
  - There is no government interference
  - There is free entry and exist from the industry
  - Uniformity of buyers and sellers
- 9.
- Cyclical employment due to relatively low general demand for goods and service
  - Structural unemployment due to technological unemployment
  - Seasonal unemployment-due to relatively low demand for labour at certain times of the year
  - Frictional unemployment due to time lags i.e time taken in changing jobs
  - Involuntary unemployment – wanting jobs at prevailing wages and cannot get them.
10. Benefits to manufacturer who uses modern technology

- (a) Increase level of output
- (b) Improvement of service delivery
- (c) Saving on production time
- (d) Standardization of products
- (e) Lower production of waste
- (f) Reduction of waste
- (g) Better quality goods.

11. Benefits of electronic filing

- (a) Easy access
- (b) Reduction of labor costs
- (c) Less storage facilities
- (d) Update with ease
- (e) Less paper work
- (f) Environmental friendly
- (g) Use of network
- (h) Less time taken
- (i) It is safe
- (j) Production safety

12. Social responsibilities of manufacturing firm

- (a) Participation in community programmers
- (b) Applying appropriate waste disposal management
- (C) Providing affordable products to the community
- (d) Conservation of the environment

- (e) Community development
- (f) Provision of employment
- (g) To engage family members in employment
- (h) Positive cultural practice
- (i) Encouragement from family members and friend
- (j) Availability of infrastructure
- (k) Availability of market
- (l) Hobbies interests and talents
- (m) Modern technology

13. Factors that encourage entrepreneurship in Kenya

- (a) Use of relevant business curriculum in learning institutions/vocational training
- (b) Government support in development of entrepreneurs/ subsidies
- (c) Existence of models in entrepreneurship/ role models
- (e) Access to business finance /capital
- (f) Need for a job

14. Some characteristics of economic resources

- (a) Scarcity
- (b) Have monetary value
- (c) Are unevenly distributed
- (d) Are capable of alternative uses
- (e) Can be combined in various proportions
- (f) Have utility usefulness

15. Reasons why one would prefer a letter to telephone to send a message

- (a) Provides evidence
- (b) Can be filed for future reference
- (c) Relatively cheap
- (d) Appropriate for complex messages
- (e) Appropriate for confidential information

16. (a) Increase

(b) Decrease

(c) Not effect

(d) Decrease

17. Chebi traders

Trial balance as at 31 st march 2005

	Sh.	Sh.	
Sales		240,000	
Purchases	240,000		
Motor Van	300, 000		
Equipment	120,000		
Debtors	80,000		
Creditors		440,000	
Expenses	160,000		
Capital		440,000	
Sales	<u>900,000</u>	<u>900,000</u>	8x <sup>1</sup> / <sub>2</sub> = (4 marks)

18. (a)  $\text{Margin} = \frac{\text{G.P}}{\text{Sales}} \times 100 = \frac{500,000 - (320,000 - 80,000 - 40,000)}{500,000}$

=  $\frac{140,000}{500,000} \times 100 = 28\%$  Or 28

(b) Current ratio =  $\frac{\text{CA}}{\text{CL}} = \frac{180,000}{90,000} = 2:1$

(c) Rate of stock turnover =  $\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{360,000}{80,000 + 40,000}$

= 3 times (4 marks)

19. (a) The tax collected at source and hence predictable  
 (b) It is simple to administer.  
 (c) The tax has a wide base and therefore more is collected.  
 (d) A small change in tax rate is not easily felt by the taxpayer.

20.

- (a) Increase money supply unaccompanied by proportionate increase in the output of goods and services.  
 (b) Increase in government expenditure.

- (c) Abnormal speculation and hoarding goods to create artificial shortages hence raising prices of goods.
- (d) Uncontrolled increase in costs of productions.
- (e) Increase in profit margin.
- (f) Reduction in subsidy.

21.

- a) Providing finances to reduce budgetary deficits
- b) Provide loans for development projects.
- c) Provide finance to correct and adverse balance of payment.
- d) Provide technical expertise to support development.

22.

- a) Lack of adequate information.
- b) Bureaucratic rigidities.
- c) Inadequate political good will.
- d) Inadequate financial resources.
- e) Inadequate human resource.

23.

- a) He needs only a small amount of capital.
- b) He gives personal attention to customers.
- c) His operations can be flexible.
- d) Outlet is easy to manage
- e) There is legal requirement.
- f) He does not have to share profits with anyone
- g) Maintains business

24.

- a) 0
- b) 200
- c) 1,200
- d) 2,200

25.

Wanji traders

Balance sheet

As at 30<sup>th</sup> June 2005

	Sh.	Sh.		Sh.
Machinery		450,000	Capital	550,000
Stock	60,000		5 year loan	270,000
Debtors	120,000		Creditors	60,000
Bank	180,000			
Cash	70,000	430,000		
	<hr/>	<hr/>		<hr/>
		<b>880,000</b>		<b>880,000</b>
		<hr/> <hr/>		<hr/> <hr/>



## **BUSINESS STUDIES MARKING SCHEME P2**

- i) - Human resources / labour / working population / manpower
  - A country with skilled / (highly) trained / large manpower can produce quality/quantity goods/services / can generate high income.
  - A country with unskilled / or untrained / small manpower can produce low quality / quantity goods / services can generate low income.
- ii) Natural resources / land ./ gifts of nature / accept gift of nature
  - a country endowed with natural resources can produce more good / services / can generate income.
  - A Country not well endowed with natural resources may produce less goods /services / can generate less income.
- iii) (Level of ) technology
  - High level of technology may produce high quality / quantity of goods / services / generate high income.
  - Low level of technology may produce low quality / quantity goods / services / generate low income.
- iv) Capital (equipment) / man – made resources / accept if manmade resources e.g. infrastructure buildings.
  - Availability of capital / manmade resources (goods) makes production easy / preserves production (resulting in increased natural income) / may generate high income.
  - Lack of capital / or makes production different / reduces production / may generate low income.
- v) Foreign investment

- Investments from abroad may increase national income to the country / increase production of goods / services / investments abroad may increase national income.
  - Reduction of foreign investment may reduce production of goods / services / income.
- Vi) Good governance / political stability
- Production of goods / services / investments / income increase as a result of good governance / political stability creates confidence in investors.
  - Poor governance / political instability reduces savings / investment / damages / investment / reduce incomes / production of goods / services.
- vii) Culture / entrepreneurship
- Culture that encourages hard / work / entrepreneurship reduces production of goods / services / may generate low income.
  - Culture that encourages hard / work / entrepreneurship reduces production of goods / services / may generate low income.

### **Financing a budget deficit**

- i) (Inflationary financing) Borrowing from the central bank through overdrafts / short term loans / accept use of examples to explain.
- ii) Borrowing from international money markets / agencies / financial institutions / non-banking financial institutions such as IBRD / IMF / World Bank / PBR / provides funds / revenue for government / accept use of examples.
- iii) Borrowing from capital markets such as ICDC / insurance companies / AFC / NPCK / procedure by selling bonds.
- iv) Borrowing from domestic money markets such as commercial banks / selling treasury bills and / bonds / promissory notes / I.O.U.

- v) Borrowing from other countries / multilateral / Bilateral borrowing through loans / buying goods / services on credit.
- vi) Borrowing from members of the public by selling treasury bills / bonds/ promissory notes.
- vii) Grants / donations / from donor countries / finances / individuals.
- viii) Printing more currencies
- ix) Imposing conditions / new / taxation in related goods / services / increased government revenue / raise funds.

2(b)

**FAULA TRADERS**

**TRADING, PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 ST DECEMBER, 2005**

Purchases	400,000	Sales	600,000
Less closing stock	60,000	Less sales returns	20,000
Cost of sales	340,000		
Gross profit C/D	240,000		
	580,000		
	<hr/>		<hr/>
	580,000		580,000
	<hr/>		<hr/>
	<hr/>		<hr/>
General expenses	60,000	Gross profit	240,000
Depreciation –	120,000		
motor vehicle			

-furniture	24,000	
Rent expenses	10,000	
Net profit	46,000	_____
	_____	260,000
	260,000	_____
	_____	_____

(14 x ½) = 7 marks)

**2b)**

**FAULA TRADERS**

**TRADING AND LOSS ACCOUNT ENDED 31 – 12 – 2005**

Purchase	400,000	Sales	600,000
Sales returns	20,000	Closing stock	60,000
Gross profit C/D	240,000		_____
	_____		660,000
	_____		_____
	660,000		_____
	_____		_____

(7 X ½ = 3 ½ marks)

## **FAULA TRADERS**

### **TRADING, PROFITS AND ACCOUNT FOR THE YEAR ENDED 31.12.2005**

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

# FAULA TRADERS

## BALANCE SHEET

AS AT 31.12.2005

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

### N.B

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

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

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

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

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

(10 x ½ = 5mks)

**FAULA TRADERS**

**BALANCE SHEET AS AT 31.12.2005**

**Fixed assets**

Motor vehicle	600,000	480,000
Less depreciation	120,000	
Furniture	240,000	216,000
Less depreciation	24,000	<u>696,000</u>

**Add current Assets**

Stock	60,000	
Debtors	120,000	
Cash	50,000	
	<u>230,000</u>	

**Less Current Liabilities**

Creditors	180,000	
Working capital		50,000
Capital employed		<u>746,000</u>
		<u><u>746,000</u></u>

**Financed by**

Cash	700,000	
Add net profit	46,000	
Capital employed		<u>746,000</u>
		<u>746,000</u>

(10 x ½ = 5 Marks)

Alternative

**FAULA TRADERS**

**BALANCE SHEET AS AT 31/12.2005**

Capital		700,000		
Add net profit		46,000		746,000
Represented by:				
Fixed assets	Motor Vehicle	600,000		
	Less depreciation	120,000	480,000	
	Furniture	240,000		
	Less depreciation	24,000	216,000	696,000
Add current assets	Stock	60,000		
	Debtors		120,000	
	Cash		50,000	
			230,000	
Less current liabilities			180,000	
Creditors			50,000	
Working capital			740,000	
Capital employed				

(10 x ½ = 5 marks)

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

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

### **3 (b)**

- i. Encourage members/help to save (big making regular contribution)
- ii. Provide loan facilities to members based on member's contribution.

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

4 (a)

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

xv. Where the rest of distributors time in middlemen make the price of products high/expensive

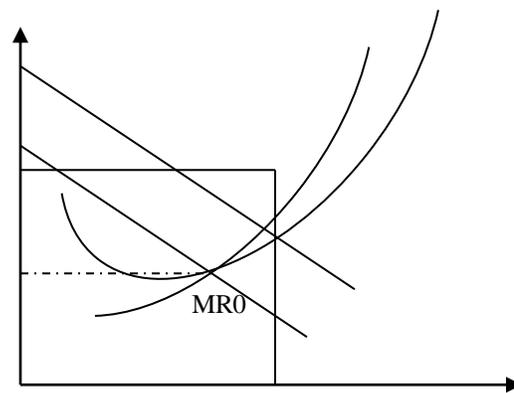
4 (b)

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

**5 (a) Limitation of use of containers**

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

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



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

**6(a) Functions of money**

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

**6(b) Determine total sales**

**(i) Debtors control allows**

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

= Credit sales +cash sales

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

(7x1/2 =3 ½ marks)

(ii) **Determine total purchases**

Creditors Control account

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

Total purchases = Credit purchase + cash purchases

$$= 2,150,000 + 320,000$$

$$= 2,470,000$$

**CHERU TRADERS**

**TRADING ACCOUNT FOR THE PERIOD ENDED 31.12 2005**

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

2,186,000

2,186,000

6. (c) *alternative I*

Receipt/ cash from debtors	1,400,000
Add returns inwards	42,000
Add closing balance of debtors	540,000
	1,982,000
Less opening balance of debtors	400,000
Credit sales	1,582,000

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

= Kshs. 1,832,000

(7x1/2 =3 ½ marks)

*Alternative II*

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

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

(6 x ½ =3 marks)

*Alternative III*

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

(7x ½ = 3 ½ marks)

**Total purchases**

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

(6X ½ = 3 MARKS)



# BUSINESS STUDIES PAPER 1

2 HOURS

1. State four types of complaints that a consumer organization may receive from consumers.

(4 marks)

- (a) .....
- (b) .....
- (c) .....
- (d) .....

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.

	Statement	Terms
(a)	A manager gives instructions to a supervisor in the same 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

- a) .....
- .....
- b) .....
- .....
- c) .....

.....

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.

a) .....

.....

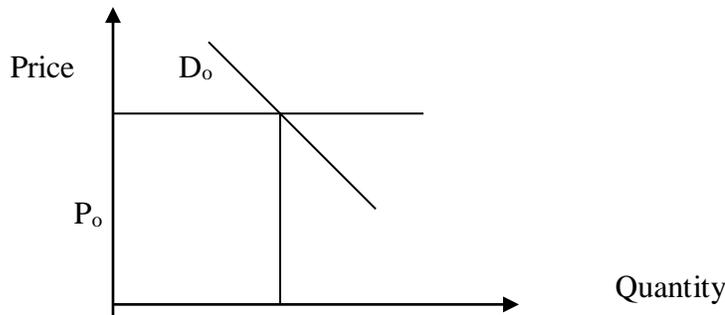
b) .....

.....

c) .....

.....

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? (2mks)

.....

.....

b) Draw a new demand curve on the diagram above to show the effect of a fall in price of cars. (2mks)

6. State four ways in which production activities may negatively impact on community health.

a) .....

.....

b) .....

- .....
- c) .....
- .....
- d) .....

7. Outline four negative effects of an ageing population to an economy. (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

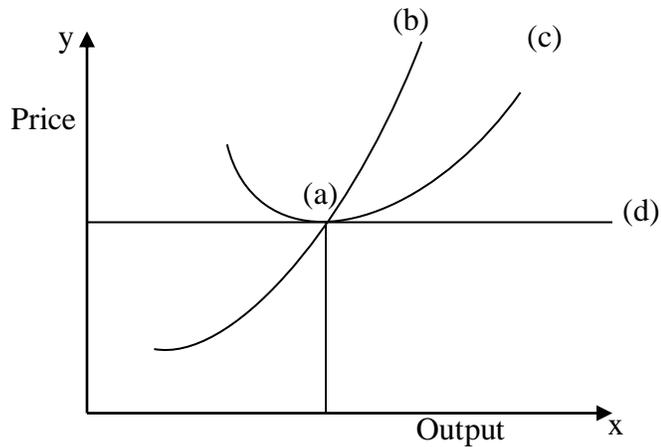
8. The following are some of the accounts available to customers in the Kenyan banking industry: Current account, savings account and Fixed deposit account. Give the account that corresponds to each of the descriptions given below. (4mks)

	<b>Description</b>	<b>Type of Account</b>
(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 low rates.	
(d)	Money may be deposited at any time and interest 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.

	<b>Description</b>	<b>Document</b>
(a)	Shows details of goods offered for sale.	
(b)	Give quantity, unit price and total amount to b	
(c)	Shows transactions since the date of last state	
(d)	Shows description of goods bought, prices and 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

- a) .....
- b) .....
- c) .....
- d) .....

11. State four circumstances under which air transport may be used to ferry goods (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

12. On 1 January 2006, Mzalendo Traders sh.180000 in cash and sh.170000 at bank.

During the month, the following transactions took place:

2006

January 10    paid ABM Traders sh.25, 000 by cheque less sh.1000 Cash discount.

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

31    Banked all the cash except sh.5200

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



14. Identify the book of original entry used in recording each of the following transactions of Soya Traders. (4mks)

	<b>Transaction</b>	<b>Book of original entry</b>
(a)	Sold goods on credit to Wanjau for sh.20,000	
(b)	Bought goods on credit from Saipei Traders for 1000.	
(c)	A chieng returned goods worth sh.6000	
(d)	Soya returned goods worth sh.11000 to Nzome	

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. (5mks)

.....

.....

.....

.....

.....

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

year	Consumer price Kshs.	Consumer price Index
2000	47	100
2001	53	-
2002	62	-
2003	74	-

Calculate the consumer price index using year 2000 as the base year .(3mks)

17. State four ways that may be used to control the amount of money in circulation by the central Bank of Kenya.

- a) .....
- .....
- b) .....
- .....
- c) .....
- .....
- d) .....
- .....

18. Outline four differences between a good and a service. (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

19. Highlight four factors that could influence mobility of capital as a factor of production. (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

20. State four advantages of an open office layout to an organization. (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

21. Highlight four ways in which the running of public corporations may be improved. (4mks)

- a) .....
- b) .....
- c) .....

22. State four reasons why countries may decide to trade with each other. (4mks)

- a) .....
- b) .....
- c) .....
- d) .....

23. Outline four benefits that accrue to a customer who uses automated teller machine (ATM) banking service. (4mks)

a) .....

b) .....

c) .....

d) .....

24. State four factors that could hasten the economic development of a country. (4mks)

a) .....

b) .....

25. Outline four elements that may comprise the external environment of a business. (4mks)

a) .....

b) .....

**565/2**

**Business studies Paper 2**

**2 ½ hours.**

1. a) Explain six reasons why a new business may fail (12mks)
- b) Explain four advantages of transaction business through e-commerce. (8mks)
2. a) Explain six sources of government revenue for development expenditure. (12mks)
- 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
Land and buildings	500,000
Cash in hand	2500,000
Cash at bank	120,000
Credit	240,000
Long term loan	1400.000
Plant and machinery	600,000

Additional information:

- Karani drew sh. 140,000 from the business for private use.
- Opening capital was sh.2000 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
  - ii) Determine profit or loss for the year ended 30 June 2006
3. a) explain five ways in which the Agriculture Finance Corporation (AFC)
- b) Explain five factors that could affect the quantities of cabbages supplied in a market. (10mks)
- 4 a) Explain five strategies that a small – scale firm could adopt to expand so as to enjoy economies of scale. (10mks)
- b) Explain five benefits that could accrue to a customer who buys goods from a departmental store. (10mks)
5. a) Discuss five reasons why less developed countries are reluctant in implementing free trade agreement. (10mks)
- b) Draw a diagram to show how equilibrium price and output are determined under-monopoly. (10mks)
6. a) Explain five features that you would consider in establishing a warehouse for imported goods. (10mks)
- b) The following trial balance was prepared from the books of Mugambi Traders for the year ended 31 December 2005

Mugambi Traders

Trial Balance

	<b>Dr</b>	<b>Cr</b>
	Kshs	Kshs
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	
	1,320,000	1320,000
	1,320,000	1320,000

Prepare

- (i) A balance sheet for the year ended 31 December 2005

(ii) Determine

- Working capital
- Capital employed
- Borrowed capital

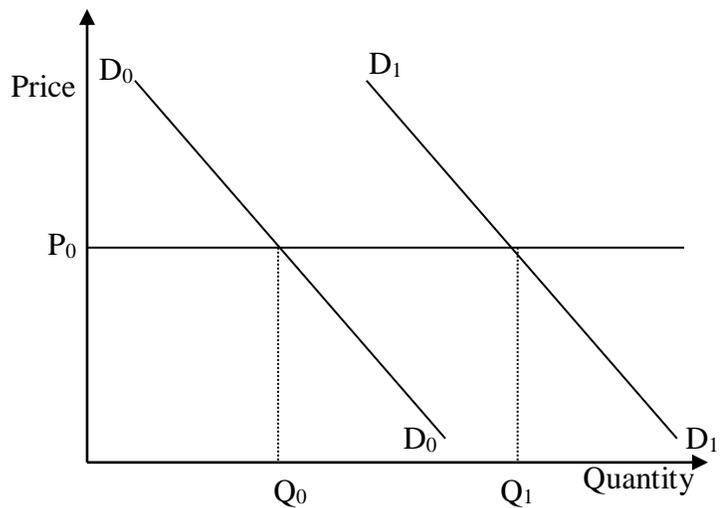
( 10 marks)

# ANSWERS TO QUESTIONS KCSE PAPER 1

1. Complains that may be received from consumers include the following
  - a) poor quality of goods and services/ damaged
  - b) incorrect weight and measures
  - c) unfair pricing
  - d) poor hygienic conditions
  - e) Expired goods
  - f) Non- compliance to building regulations
  - g) Contra- band items. Prohibited goods
  - h) Harmful goods
  - i) Hording
  - j) Misleading advertisement
  - k) Environmental pollution
  - l) Technological sides effects
  - m) Breach of contract
  
2. Solutions are
  - i. Vertical
  - ii. Informal
  - iii. Formal
  - iv. Horizontal
  
3. Features of a re- insurance company are
  1. Commands large financial resources
  2. Re- Insurance companies are empowered by law to insurance companies

3. Government has a stake in re- insurance company
  4. Re- insurance company only deals with corporate insurance clients
  5. Guarantees compensation
4. Factors to consider include
- a) Target group so as to reach the intended group
  - b) Availability of the medium – convenient to use only to medium that is available
  - c) Cost of medium – saving in method used should be considered
  - d) Reachability- How well the medium reaches the target
  - e) Time of promotion – medium that can reach many intended group
  - f) Medium used by competition – Find the strengths and weakness to improve on
  - g) Speed/ urgency
  - h) Flexible
  - i) Quality of the medium
  - j) Physical characteristics of the medium
  - k) Legal requirement/ government policy
  - l) Nature of the product
  - m) Duration of the promotion

5. a) More cars will be demanded and this would increase the demand for petrol at the same time



- b) More petrol will be demanded as show by curve  $D_1D_2$

#### 6. Negative effects of production on community health

- a) Air pollution cause airborne diseases
- b) Water pollution causes water borne diseases
- c) Congestion – Congestion created as more people come to look for work ( job)
- d) Noise – pollution – causing haring facilities- demand for health facilities increase
- e) Solid waste pollution – causing many diseases
- f) Environmental degradation- This may lead to health problems
- g) Social evils e.g immorality
- h) Occupational hazards
- i) Unhealthy production
- j) Global warming

#### 7. Negative effects of an ageing pollution to an economy include

- a) Deficiency of an economically active labour/ low labour supply
- b) Increase in welfare costs

- c) Need to import labour that effect the foreign exchange reserves
- d) Dependency ratio increases
- e) Rigidity to change
- f) Fall in old for goods and services required by the youth
- g) Less progressive/ low savings and low investments

8. Account to match the descriptions is

- a) Savings account
- b) Current account
- c) Fixed deposit account
- d) Savings account

9. Documents for the descriptions are

- a) Catalogue
- b) Invoice
- c) Statements of account
- d) Cash sale receipt

10. Parts represented by letters are

- a) Equilibrium point/ $MC = MR$
- b) Marginal cost curve/  $MC$
- c) Average cost curve / $AC$
- d) Marginal revenue = average revenue = Price = Demand

11. Circumstances include where

- a) Urgency is important
- b) Goods are perishable
- c) Goods are of high value/ expensive goods
- d) Goods are to transported over long distances

- e) Fragile goods
- f) Where other means cannot be used
- g) Where safety is crucial
- h) Affordability

12.

**MZALENDO TRADERS**

Cash book

For the month of January 2006

Date	Particulars	Discount	Bash	Bank	Date	Particulars	Discount	Cash	Bank
		Allowed	Kshs	Kshs	2006		Received	Kshs	Kshs
Jan-01	Balance		18000	17000	Jan 10	ABM Tra	1000		
16	Sales	700	13300	26100	31	Bank (c)		26100	
31	Cash (c)					Bal c/d		5200	172100
		700	31300	19610			1000	31300	196100

13. Benefits to a business for using its own warehouse include

- a) The business maintains a continuous supply of goods
- b) Customers are retained as they are sure of getting the goods on demand
- c) Goods are safe from theft
- d) Savings increases for not renting storage facilities
- e) Goods can be processed in the warehouse
- f) Can be tailored to suit ones specifications
- g) Can be conveniently located
- h) More secure front damage

i) Space is guaranteed

14. Books of original entry

- a) Sales journal/ debtors journal/ day book
- b) Purchase journal/ creditors journal
- c) Sales return journal/ returns inward journal
- d) Purchases returns journal/ returns outward journal

15.

Kerubo Traders

Trading, Profit and Loss Account

	Kshs		Kshs
Opening	24,000	Sales	442,500
Stock			
Purchases	<u>370,000</u>		
	394,000		
Less: Closing Stock	<u>40,000</u>		
Cost of Goods sold	354,000		
Gross profit	<u>88,500</u>		
	<u>442,500</u>		<u>442,500</u>
Carriage in	12,000	Gross Profit b/d	88,500
Sales Expenses Others	8,850		
Net profit	<u>67,650</u>		
	<u>88,500</u>		<u>88,500</u>

16. Consumer price index for years 2001, 2002 and 2003

Year	Consumer Price Index (Cpi)
1. 2001	$\frac{53}{47} \times 100 = 112.77$
2. 2002	$\frac{62}{47} \times 100 = 131.91$
3. 2003	$\frac{74}{47} \times 100 = 157.45$

17. Central Bank of Kenya control amount of money in circulation by:

- a) Instructing commercial banks to only lend in priority areas/ selective credit control
- b) Practicing domestic borrowing/ open market operations
- c) Increasing interest rates on loans advanced by commercial banks/ bank rate increases
- d) Requirement that commercial banks maintain a cash ration
- e) Liquidity ratio
- f) Special/ compulsory deposits
- g) Margin requirements ( higher/ lower collateral requirements)

18. Differences between a good and a service include

A good	A Service
a) Goods are tangible	Intangible
b) Quality can be standardized	Quality varies
c) Goods can be stored	Services cannot be stored
d) Goods can be separated from owner/ provider	Services cannot be separated from owner/ provider
e) Goods paid for ownership	Services paid for experience
f) Not always perishable	Always/ highly perishable

19. Factors that may influence mobility of capital include

- a) Different uses in which capital can be put to/ degree of specialization
- b) Amount of capital available
- c) Skills of knowledge available to operate capital
- d) Government policy
- e) Government goodwill ( support)
- f) Time taken to modify
- g) Reward offered
- h) Security in the new location
- i) Nature of capital ( fixed or liquid)
- j) Cost of moving the capital
- k) Time the capital has been in the current use
- l) Infrastructure

20. Advantages of an open office layout to an organization include

- b) Supervision enhanced
- c) Resources are evenly shared
- d) Saving on space
- e) Cheaper to construct/ easier to construct
- f) Inter- personal relationship
- g) Workflow made easy
- h) Services delivery enhanced

21. Four ways in which the running of a public corporation may be improved include

- b) Ensuring that appointment for senior and technical posts are done on merit
- c) Exercising the supervisory role of the government
- d) Continuous training of staff for development
- e) Setting performance targets to be achieved
- f) Establishing incentive system for motivation
- g) Creating public awareness
- h) Restructuring the corporations ( retrenching)
- i) Reduce policy interference
- j) Reducing monopolistic tendencies

22. Reasons why countries may want to trade with each other is to

- a) Exchange their surpluses
- b) Acquire goods/ they are unable to produce
- c) Enhance international relations
- d) Acquire much needed foreign exchange
- e) Exchange skills and knowledge of producing certain goods

- f) Acquire a variety of goods/ services
- g) Acquire quality goods
- h) When its cheaper to import
- i) Create employment
- j) Exploit resources optimally as there is
- k) Enhance factors mobility
- l) Wider market

23. Benefits if using Automated Teller Machines (ATMs) include)

- a) Saves time
- b) Withdrawing any time
- c) Conveniently placed
- d) Access to account balances / extra information
- e) Can pay utility bills
- f) Deposits any time
- g) Since ATM cards can be used to buy goods/ services
- h) Cheaper to operate
- i) Safer to use
- j) Highly portable
- k) Withdrawals can be done for one else behalf

24. Factors hasten economic development in a country include

- a) Industrialization
- b) Infrastructure/ social amenities
- c) Research and developing / planning
- d) Education and training
- e) Use of modern technology/ capital

- f) Good medical facilities
- g) Good governance/ government goodwill
- h) Economic endowed / natural resources
- i) Presence of a strong entrepreneurial culture

25. Elements that may comprise external environmental of a business include

- a) Political
- b) Economical
- c) Social- cultural
- d) Technological
- e) Legal structure
- f) Customers
- g) Intermediaries
- h) Geographical
- i) Demographical
- j) Supplies of raw materials
- k) Competition

## **BUSINESS STUDIES MARKING SCHEMES PAPER 2**

- i) Inadequate capital/ lack of funds- initial/ operation capital may be inadequate to sustain/ run/ expand due to lack of collateral/ security  
*Accept examples of running cost as explanation*
- ii) Poor inappropriate marketing/ strategies/ leading to low sales/ fewer customers/  
*Accept examples of poor marketing strategies as naming alternative naming; lack of proper planning in marketing.*
- iii) Unfair/ stiff competition  
  
Alternative: Competition may be too high for the new business – which business is unable to cope with/withstanding / access market/inputs
- iv) Inadequate/ lack of poor/ inefficient management skills  
  
The business may have insufficient skills to operate/ manager  
*Accept examples of poor management as explanation*
- v) Lack of inadequate manpower  
  
The business may not have enough manpower to operate/ manage
- vi) Lack /inadequate modern technology/inappropriate technology. This may lead to less quantity/ quality goods/ services
- vii) Unfriendly / poor management policies. May be the government policies are unfavourable to the growth/ explosion of business  
  
*Accept examples of unfavourable government policies like high taxes as explanation*
- viii) Inadequate/ lack of market due to low income of buyers/ customers/ cultural practices/ beliefs
- ix) Poor pricing which might make the produce/ services too expensive to attract buyers/ too cheap to sustain the business
- x) Inappropriate product/ business for the intended market/

- Accept explanation of inappropriate products/ business as explanation.
- xi) Political instability/ insecurity that may hinder smooth running of the business
  - xii) Poor/ inadequate infrastructure which may hinder access the market/ inputs/  
*Explain poor infrastructure as naming.*
  - xiii) Lack of planning to accommodate future changes.
  - xiv) Misallocation/misappropriation of resources leading to wastages/ misuse of resources.
  - xv) Poor customer relation/ care leading to loss of market.
  - xvi) Poor time management which may cause loss of business opportunities/ inability to accomplish tasks
- (b) (i) Facilities access to large markets/ worldwide/ global since many countries/ regions are connected to the internal/ online website.
- (ii) Large and small business can transact business through internet without discrimination/ restriction/ as there are no restrictions/ discriminations in the use of internet.
  - (iii) A fast/ quick way of doing business through the internet thereby saving time/ facilitating urgent transactions.
  - iv) Reduces paper work/ number of business transactions since many dealings are online/ making transactions less cumbersome
  - v) Cheap way/ saves on cost of sending/ receiving/ storing business information products/ services
  - vi) One can access other/ different business information from internet which can enhance the running of the business.

2.

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

b) i) Karani Statements Affairs

As at 30/06/2006

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

ii) Determination of profit and loss

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

$$2,660,000 = 2000,000 + NP + 120,000 - 140,000$$

$$= 1,980,000 + NP$$

$$2,660,000 - 1,980,000 = NP$$

$$NP = 680,000$$

Alternative final capital = 2,660,000 = Drawings (140,000)

$$= 2,800,000 - \text{Initial K (2,000,000)}$$

$$= 800,000 = \text{additional K (20,000)}$$

$$= 680,000$$

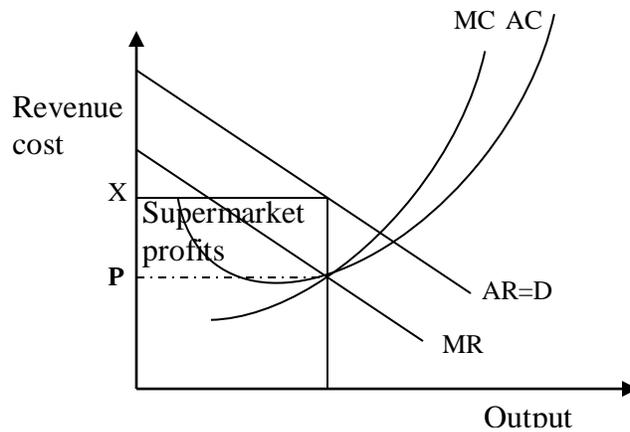
3. a)

- i) Loans/ credit – give loans/ credit to farmers for crop/ livestock production/ farm development/ on easy terms/ specific purposes.
  - ii) Training/education – organize training courses/ seminars/ workshops for farmers on farm management/
  - iii) Advisory services- on farm management/agricultural improvement
  - iv) Create employment – facilitate employment by stimulating growth in agricultural improvement.
  - v) Improving production - more / variety of products are produced / of improved quality/ by financing/ carrying out research in agriculture
  - vi) Improved income by facilities growth in agricultural industry.
  - vii) Earning foreign exchange through increased exports of agricultural goods
  - viii) Generates government revenue through interests and on loans.
  - ix) Channel for donor funds to finance agricultural projects
- b)
- i) **Technology**- modern methods may increase the production of cabbages/ poor methods may decrease the production of cabbage.
  - ii) **Price of cabbages**- The higher the price more is supplied. Supplied, the lower the price the lower is supplied.
  - iii) **Government policy**- favourable, unfavourable policies-favourable policies may increase the supply of cabbages/unfavourable government policies may decrease the supply of related product decreases the supply of cabbages

- v) **Price of other/related commodities/related commodities affect the supply**-if prices of related products increases the supply of cabbages may decrease/ if prices of related product decreases the supply of cabbage may increase.
  - vi) **Natural factors/seasonal/climatic**-favourable factors lead to increase in supply of cabbages/unfavourable natural/seasonal/climatic factors may lead to decrease in supply of cabbage.
  - vii) **Skills/training of farmers**-Better skills/training leads to increase in supply of cabbage/poor/ skills/ training leads to low supply of cabbages
  - viii) **Cost of production**-High cost of production leads to a decrease in supply of cabbages/low costs leads to increase in supply of cabbages.
  - ix) **Expected future changes in price of cabbages**-Expected future increase in demand leads to increase in supply of cabbages/expected future decrease leads to decrease in supply of cabbages.
  - x) **Availability of inputs for cabbage production**- if inputs are available more may be supplied/ if available less will be supplied.
  - xi) **Decisions of cabbage producers**- in case of decision to produce more than there will be increase in supply/ in case of decision to produce less there will be a decrease/supply of cabbages
- 4 a)
- i) Entering into suitable vertical integration/amalgamation/merger with firms at different stages of production/*accept exps as explanation with firms at some level of production.*
  - ii) Diversification/variety of products in order to capture to wider market/increase market share.
  - iii) Buying/acquiring other similar businesses to widen the scope of activities
  - iv) Secure loans/credit to expand its capital base.

- v) Arrange for franchising, by acquiring rights to produce/selling goods under a name of another company
  - vi) Expand the markets to increase the volume of sales.
  - vii) Adopting appropriate technology to increase quantity/quality
  - viii) Ploughing back profits to finance its operation
  - ix) Forming cartels with similar businesses.
- b)
- i) Access to specialized goods from relevant department/shops/since each shop stocks/sells particular types of goods
  - ii) Personal attention to customers as they have access to relevant staff
  - iii) Access to auxiliary/after sale services which may be readily available within the store.
  - iv) One can save time by shopping under one roof
  - v) Prices of goods are relatively low enabling a customer to save/buying
  - vi) One can access variety of goods under one roof.
  - vii) Use of debit/credit /credit cards relieving customers the bother of carrying cash/purchase goods with cash.
  - viii) Access to a new products/ information which he/she may not be aware
- 5 a)
- i) Avoid unfair competition from developed countries with superior products as it may/could lead to loss of market for their products.
  - ii) Prevent dumping of inferior goods by developed countries which may have adverse effects on the economy.
  - iii) To safeguard local employment this may suffer due to free entry of imports.
  - iv) Reduce balance of payments deficits; as a result of payment for imports exceeding receipts form exports.

- v) Safeguard against government revenue otherwise earned through taxation of exports/imports.
  - vi) Safeguard against government revenue otherwise earned through taxation of exports/imports.
  - vii) Avoid erosion of cultural values arising from unrestricted interruption in free trade
  - viii) Avoid over exploitation of resources which may be depleted/exhausted due to increase demand in free trade.
  - ix) Avoid imported inflation which may be caused by inflow of highly priced imports.
  - x) Prevent entry of harmful goods/ services which may have adverse effects on the health of the people/accept examples if harmful goods as explanation.
- c) Determine determination of equilibrium price and output under monopoly.



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

**Mugambi traders**

**Balance sheet**

**As at 31<sup>st</sup> December 2005**

	Shs		Shs	
Fixed assets				
Land and building		Capital	940,000	
Land and Machinery	200,000	Less Drawings	40,000	900,000
Motor Vehicle	300,000	10 year bank loan	200,000	
Current assets stock	100,000	3 years ICDC loan	100,000	300,000
Debtors	60,000	Current liabilities		
Cash at Bank	100,000	Creditors	60,000	
Cash in Hand	20,000	Accrued Expenses	20,000	80,000
	1,280,000		1,280,000	
	1,280,000		1,280,000	

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

Capital  $(1,280,000 - 80,000) = 1,200,000$

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

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

Alternative CE = Capital borrowed = long term liabilities

= 900,000 + 300,000 = 1,200,000

iii. Borrowed capital = 10 years loan 200,000+3 year ICDC Loan  
100,000=300,000

Alternative Borrowed capital=long term liabilities

(200,000 - 100,000)=300,000