2010 KCSE BUSINESS STUDIES

Business Studies Paper 1 (565/1)

1. Type of utility created in each case is:
   Possession Place Time
   Form *(4x1) =4 marks*

2. Reasons why the government may find it necessary to start a parastatal include:
   * To provide strategic goods and services
   * To increase revenue collection
   * To encourage import substitution industries
   * To encourage foreign investment
   * To reduce foreign influence
   * To address special social needs
   * To take care of sensitive ventures like fire arms, and printing of money
   * To take care of businesses that requires a large initial capital
   * To create more employment opportunities * To stimulate economic development * To provide essential goods and services at low costs.

   (Any 5 x 1) = 5 marks

3. Types of warehouses referred to are:
   * Bonded warehouse * Public warehouse * Wholesalers warehouse * Manufacturers warehouse

   (4x1=4) marks

4. Factors that may have caused the shift in supply include:
   * A fall in the cost of production
   * Fall in price of competitively produced goods e.g. Coffee and Napier grass * Technological progress * Conducive natural factors e.g. good weather
   * Favourable government policies like reduced tax and increased subsidies
   * Future expectations of a fall in price of the commodity * Entry of new firms in the industry ® Increase in factors of production
   8 Longer time
   9 Less strikes
   * Increase in the price of jointly supplied goods.

   (Any 4x1)=4 marks

Fixed Assets	480,000	Capital	300,000
Current Assets	145,220	Lons term Liabilities	
		2 year Bank loan	230,020
		Current Liabilities	
		Creditors	*5.200
	625,220		625,220

(5x1) =5 marks

6. Reasons why a three column cash book is used both as a journal and a ledger:

- Cash and bank columns in the cash book act as a ledger and total balances are used to trial balance like other ledger accounts.
- Both discount allowed and discount received columns act as a journal and their total balances are transferred to the ledger.
- Cash transactions are entered in the three column cash book directly as they occur.

prepar e

<2x2) = 4 marks

7. Appropriate functions are:

- Management of national debt
- Lender of last resort
- Credit control

(3x1) =3 marks

8. Terms of sale as used in international trade.

- Loco - This means the price of goods quoted at the exporters warehouse/premises. The importer bears the cost of packaging and transport/factory price ex-works
- C.LF. - Cost Insurance and Freight. Cost of Insurance and freight
- included up to the port of entry,
- F.A.S. - Free Alongside Ship. Costs incurred on goods up to the point
- where they are ready to be loaded onto the ship.
- F.O.Q - Free on Quay. This means the price quoted include all costs
- incurred up to the quay.

(4x1=4) marks

9. Merits of Management by Walking around (MBWA) include:

- Manager has first-hand information on the goings - on in the organization,
- Manager has instant feedback from the workers.
- Manager can tackle issues as they arise
- Manager can enhance interpersonal relations with the workers.
- Subordinates avoid idleness and work as they feel the presence of the manager.
- Manager can give relevant comments on performance/rewards/motivation
- Manager can identify absenteeism/lateness
- It controls misuse of resources.

(Any 4x1) =4 marks

10. Reasons why the government should create an enabling environment to investors include:

- To minimize cost of doing business
- To open new areas hitherto neglected by investors
- To expand the tax base and hence increase revenue
- To enhance economic development in the country
- To promote public-private sector relationship
- To create employment opportunities
- To increase the level of national income/increase economic growth
- To avail a variety of goods and services
- To enhance modem technology and skills
- To encourage utilization of local resources
- To earn foreign exchange
- To encourage healthy completion among investors *(Any 4 x) =4 marks*

11. Distinction between insurance and assurance

Insurance	
i) Protection offered to property against unforeseen risks.	i) Protection offered to life against unforeseen risks
ii) Risk insured against may or may not happen.	ii) Risks insured against must happen and time is not known.
iii) The insurance contract is renewable after every year.	iii) Insurance contract is for life and does not require renewal.
iv) Compensation is given to owner of property incase of loss/uncertainty.	iv) Compensation is given to beneficiaries in case of death/certain.
v) A replacement for the good lost can be given (conract of indemnity).	v) Lost life can never be replaced (not a contract of indemnity.
vi) Has no surrender value	vi) Has surrender value
vii) Policy cannot be used as collateral to secure loans	vii) Policy can be used as collateral to secure loans
viii) Has no maturity date	viii) Has maturity date
ix) The principal of subrogation applies	ix) The principal of subrogation does not apply
x) Cannot be used as a saving scheme	x) Can be used as a saving scheme
xi) Sum insured depends on the market value of the property/cannot be adjusted	Xi) Sum assured depends on the ability to pay premiums/can be adjusted

(Any 4xl)=4 marks

Note: The points must match for a tick to be awarded.

Factors that may influence the level of national income include:

- Availability of natural resources.

- Availability of skilled labour force.
- Literacy levels of the citizens in general.
- Level of country's industrialization.
- Dependency ratio on the economically active portion of the population.
- Level of technology
- The size and quality of the population
- The entrepreneurial culture/level of investment
- Infrastructure (transport, communication e.t.c)
- Political stability
- Socio-cultural factors

- Security *(Any 4 x 1) = 4 marks*

Difference between cash and credit transactions:

- In a cash transaction, both money and goods exchange hands between the buyer and the seller immediately while in a credit transaction, the transfer of goods and payment take place at different times.
- Cash transactions require the use of a cash sale receipt while credit transactions requ8ire the use of an invoice.

(Anyl x 2)= 2 marks)

Matching statements on capital with types of capital

- Owner's equity
- Working capital
- Borrowed capital *(3xl)= 3 marks*

Ways in which government expenditure stabilizes the economy of a country include:

- Provision of security - This creates an enabling environment for economic activities. Creation and maintenance of administrative departments. These are created for effective operation of a country's economy.
- Social services - This enhances the welfare of the population for effective participation in economic activities.
- Spending on infrastructure - It improves efficiency in production and distribution of goods and services in the economy.
- Advancement of non-interest earning capital to entrepreneurs during economic recess.
- Provision of basic goods and services through subsidies
- Promoting local industries by giving them incentives.

(Any 4x1) =4 marks

Problems associated with development planning include :

- Inadequate data
- Inadequate funds
- Inadequate supply of specialists
- Political instability/conflicts
- Conflict of interests
- Inaccurate data
- Overambitious plans
- Natural catastrophes
- Lack of political goodwill *(Any 4x1) =4 marks*

Services that a wholesaler may offer to a manufacturer include:

- Links the manufacturer with the retailers.
- Breaks bulk on behalf of manufacturer.
- Provides storage on behalf of manufacturer.
- Provides working capita! when they pay for goods.

- Assists in the distribution of goods.
- Promotes the products on behalf of the manufacturer.
- Relieves the manufacturer of risks like price fluctuations, expiry of goods offers valuable information about the goods

(Any 4x1) =4 marks

18. The flower exporter would choose air transport over sea due to the following reasons:
- Air transport is faster than sea transport.
- Flowers and perishable require faster means.
- Flowers have a very high per unit value
- Security of air transport is relatively high.
- Flowers are light in weight
- Flowers are not bulky.

(Any 4 x 1) = 4 marks

19. The

Income per capita
Population Under population
Optimum population

e b/d	24,800	Profit and Loss	20,600
	48.200	Balance c/d	52.400
	73,000		73,000

(5x1) =5 marks

21. stances under which one would decide to start a person iess include:
re there is need to create employment.
re additional income is needed.
re there is need to apply business skills acquired.
re there is need to invest surplus funds.
re one has a business idea to implement.
re one wants to become his own boss
re there is a market niche/gap
- Where there is need to use one's talents or hobbies
- Where there is need to make use of space and time

(Any 4xl)=4 marks

22. Ways in which a business idea can be implemented include:
- Creating a new product.
- Improving on an existing product.
- Improving the process of production.
- Improving the marketing strategies.
- Offering unique services.
- Improving the quality of services
- Improving the quantity of goods
- Expanding the range of services offered.

20.

(Any 4x1= 4 marksj

23. Measures that a manager can take to improve the working environment in the office include:

- Provision of proper and adequate lighting.
- Maintaining tidiness in the office.

- Provision of adequate space for working.
- Provision of proper ventilation.
- Provision of relevant and adequate furniture and equipment.
- Beautifying the office to give it a pleasant appearance.
- Provision of smoking zones
- Discouraging unnecessary noise
- Provision of adequate equipment and furniture
- Provision of welfare facilities
- Provision of special facilities for the handicapped.
- Provision of safety measures and gadgets

(Any 5 x) = 5 marks)

24. Challenges that may be faced when using a cell-phone (mobile phone) include:

- May be damaging to the ears.
- Are relatively expensive.
- Calls or messages sent may be tapped.
- Its use may be limited where there is lack of network.
- May not be used under certain circumstances e.g. banking halls, public service vehicles etc.
- Possibility of loss of handset to thieves
- Relatively expensive to operate
- Requires constant charging
- Prone to misuse
- May experience network congestion

(Any 4 x 1 = 4 marks)

25. The curves represented are:

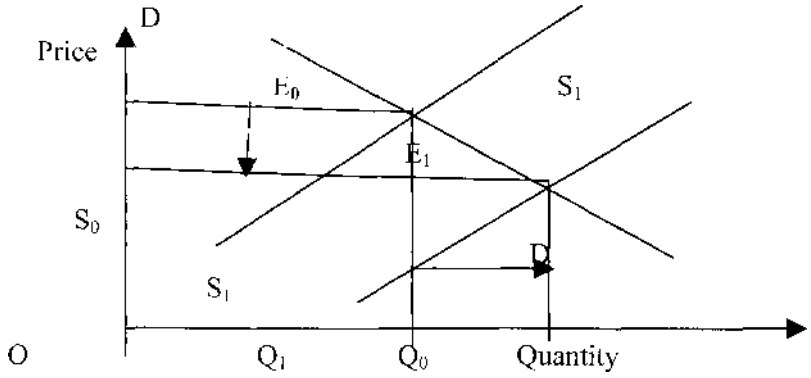
- *a* is marginal cost curve
- *b* is average cost curve
- *c* is average revenue curve/demand curve
- *d* is marginal revenue curve.

(4x1=4 marks)

(a) An increase in the supply of commodity A leads to a decrease in its price as shown in the diagram below:

So

Commodity A



(8 x */2=4 marks)

Since the price of A has decreased, consumers are likely to buy more of A and les of B as shown in the diagram below.

i f

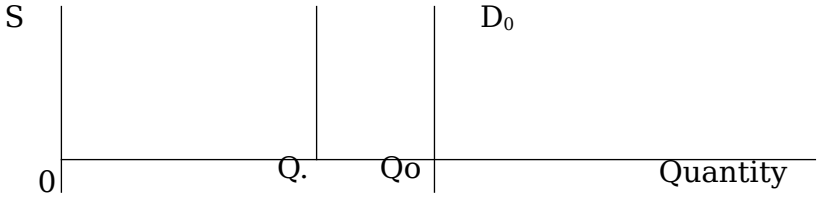
Do

D
i

Commodity B

S

bi X



(8x[J]A=4marks)

Demand for commodity B reduces from Qoto Qi as the price also reduces from
$P_0$to$P_:$. The effect is a shift in demand curve to the left, creating a new equilibrium quantity Qi and equilibrium price P-. at E ***(4x'/i)=2* marks**

(Total = lOmarks)

b) Negative effects of inflation on the economy of a country include:

- Discourage Savings: People tend to spend the money they have rather than save due to the falling value of money due to increase in the prices.
- Increase in interest: Due to the fact that there is less savings in the country, the little there is lent at high interest rates to compensate lenders for the fall in the value of money.
- People with fixed income are hard-hit: People with fixed incomes suffer more because the true value of their income falls.
- Lenders loose while debtors gain: Lenders of money receiveless value for the money they advanced to debtors.

- Sc'c:c-r0':::3i unrest. Generally reople are unhappy and this may bring conflict, tension and polocal unres: due to high cost of living.
- Worsening balance of payment *(Any 5x 2)=10 marks*

(a) Principles that distinguish co-operative societies from other forms of business organizations include:

- Democratic control. Decisions are made by members on a one-man-one-vote basis.
- Voluntary membership:-members are affiliated to co-operatives freely and may also exit freely.
- * Political/religious neutrality. Co-operative societies are not supposed to favour, align or identify with any political or religious grouping.
- C-operation with other co-operatives. They do this in order to share ideas and experiences at different levels.
- Limited interest on share capital. The capital paid is meant for running the society's affairs rather than generating interest.
- Promotion of education to members. The co-operatives are obliged to educate their staff, management and the members in general.
- Repayment of dividends. They distribute their surplus on a prorate basis.
- Offer of utmost sendee to members. They are formed to carter for members interests and welfare.
- Limited number of shares to be held by any single member. This is to avoid dominance or control of the business by one or just a few members. *(Any 5x 2) = 10 marks*

Ways of making face to face effective include:

- Clarity of the message so as to avoid misunderstanding and ambiguity.
- Use of non-verbal cues to clarify verbal messages.
- Communicating parties being close to each other
- Communicating parties use of a common language thus enhancing understanding of the message.
- Making the message concise and brief to avoid unnecessary detail.
- Good listening and being attentive „
- Positive attitude between the communicating parties

- Use of simple language and non technical terms to make it easy for the receiver to understand.
- Courtesy and respect between the sender and the receiver to avoid hostilities.
- Tone variation to break monotony and sustain interest

(Any 5x2) =10marks

3. (a) (i) K-100 TRADERS

TRADING, PROFIT AND LOSS ACCOUNT
For **the year ended 30th** June 2®08

Dr					Cr
Opening stock		80,20C	Sales	1,880,000	
Purchases	1,120,000		Less: Returns in	5,800	1,874,200
Add: Carriage	40.000				
	1,160,00				
Less: Returns	20.800	1.13*.200			
Available for		1,21*,400			
Less: Closing		120,000			
Cost of goods		1,0**,400			
Gross profit c/d		774.800			
		1.874.2			1.874.200
			Gross Profit		774,800
EXPENSES			Discount		7,500
Water bill	250,000				
Repairs	23,000				
Carriage on	12,700				
Lighting	15,000				
Insurance	4,000				
General	56,700				
Net profit	213.*00				
	782.300				782.300

*(18 x V2) = * marks*

K-100 TRADERS BALANCE SHEET AS AT 30™ JUNE 2008 .

(ii)

	$	$		$	$
FIXED					
Furniture	3,000.000				
Motor vehicle	6*0,000	3,6*0,000	Capital	4,000,000	4,213,*00
			Add: Net		

CURRENT ASSETS	120,000		CURRENT LIABILITIES	510,400	
Stock	316,800		Creditors		
Debtors	520,000		Bank	2.500	512,*00
Bank	80,000	1.036.800			
Cash		4.726.800			4.726.800

(10 x *V2)* = 5 *marks*

i b * Factors that should be considers in the choice of a means of transport include:

* The nature of the commodity to be transported .Some goods are such that they can only be transported using a particular means of transport.
* Cost - the commodity to be transported should have a sale value that is able to meet the cost of the means of transport chosen.
* Urgency/speed - how urgently the commodity is required at the destination often dictates the means of transport chosen.
* Reliability. Chose a means that is certain to deliver without fail.

» The geographical distance to be covered. Some means of transport may not take goods to faraway places while some are not convenient over short distances.

° Security. Chose a means that is less prone to damage, loss or theft.

° Flexibility, Chose a means that is able to deliver door to door services.

3. (a) (i) K-100 TRADERS

TRADING, PROFIT AND LOSS ACCOUNT

For the year ended 30th June 2008 Dr

Cr

Opening stock		80,20C	Sales	1,880,000	
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		1.874.2			1.874.200
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Net profit	213.*00				
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K-100 TRADERS BALANCE SHEET AS AT 30™ JUNE 2008 ,

(ii)

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Furniture	3,000.000				
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CURRENT ASSETS	120,000		CURRENT LIABILITIES	510,40 0	
			Creditors		
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Debtors	520,000				
Bank	80,000	1.036.8			
Cash		4.726.8			4.726.8

(10 x Z2) = 5 marks

(b) Factors that should be considers in the choice of a means of transport include:

- The nature of the commodity to be transported .Some goods are such that they can only be transported using a particular means of transport.
- Cost - the commodity to be transported should have a sale value that is able to meet the cost of the means of transport chosen.
- * Urgency/speed - how urgently the commodity is required at the destination often dictates the means of transport chosen.
- Reliability. Chose a means that is certain to deliver without fail.
- 9 The geographical distance to be covered. Some means of transport may not take goods to faraway places while some are not convenient over short distances.
- ° Security. Chose a means that is less prone to damage, loss or theft.

° Flexibility. Chose a means that is able to deliver door to door services.

- Availability of the means. Chose a means that can be readily found and is within reach.
- Volume/quantity of the goods. Chose a means with the capacity to carry all the goods.

(Any 3x2) = 6 marks

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

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

(Any 5x2) =10 marks

b)

- Completed table

Units Produced (Tonnes)	Total Fixed cost (Shs)	Total : Total Variable cost C ost (Shs) < Shs't	Total Average costs (Shs)	Marginal Cost (Shs)
0	200	0 200	-	0
10	200	50 250	25	50
20	200	80 280	14	30
30	200	100 300	10	20
40	200	140 340	8.5	40
50	200	200 400	8.0	60

(16 x V2) =8 marks

- 30 tones units should be produced to maximize profits. This is the level at which Marginal cost is equal to marginal revenue that is Shs. 20.

(2x1) =2 marks

5.

(a) Problems that may be faced when measuring national income using the output approach include:

- Inadequate or incomplete data - difficulties will be experienced in valuation due to unavailability or inaccuracy of output figures.
- Determination of goods and services to be included - difficulties regarding which goods and services to include in the calculation of national income.

- Subsistence sector - problem arises in the valuation of output of the subsistence sector since the goods are never priced.
- Value of stock - There is a problem on what to assign to the stock of goods to be included in the national income, whether it should be value at cost or at market price.
- Price fluctuation - prices of goods may vary from time to time hence there is a problem of deciding whether to attach historical cost or market price.
- Double counting. It may be difficult to distinguish between primary and intermediate output or between intermediate and final output.
- Lack of qualified personnel who may be to compute and even collect data.
- Inadequate finance capital equipment and technology to be used when gathering and compiling data.

(Any 5 x 2) =10 marks

(b) Factors that an entrepreneur would consider when evaluating a business idea include:

- The profit margin to be earned from the investment. There should be a reasonable profit from the investment in order to cover all the operational expenses and get surplus.
- Existing attitudes, practices and beliefs of the target market. The new product, service or business idea must be in line with the people's attitudes, practices and beliefs if it has to be accepted and hence marketed.
- Availability of appropriate technology. The technology to be used in producing the product or offering the service should be efficient and cost - effective.
- Size and availability of the market.
- Possibly of pre-testing (trial use).It should be affordable to allow customers to try out the new product first without having to purchase it and get feedback from them.
- Availability of an effective channel of distribution. This will ensure the product is available in the market do that customers buy it when they decide to.
- Ability of the product to satisfy the immediate need of the buyer. The new product must be of tangible or felt benefit to the buyer hence making it very attractive.
- Ease of usage. The new product or service should be easy for the buyers to understand and use since they may fail to buy the product if it is complex and difficult to use.
- The level of competition. The entrepreneur should look at the systems used by the competitors and strategise accordingly.
- The payback period. This should be reasonable to allow the investor break even and recoup the capital invested.
- The risks involved. These should be manageable and minimal to avoid unnecessary losses.

(Any 5x2) =10 marks

6 (a) Benefits that accrue to a customer who uses Automat teller machine ATMs include:

- Customer can withdraw and deposit money at any time.
- Customer can pay utility bills through the ATMs.
- Fees charged FOR withdrawal is low compared to over-the-counter with drawls.
- ATMs may be found even where banks are non-existent
- The customer has a pin number which guarantees confidentiality.
- Customer can use it to monitor his transactions with the bank by getting mini-statements.
- Customers can deposit money or cheques at any time since it offers a twenty-four hour service.
- Customers can make interbank withdrawals by use of visa cards.
- ATM cards are visible and very easy to carry around.

(Any 5x2)=10 marks

b) Possible risks that Amina can insure her business against include:

- She can insure vehicles and other assets, against accidents.
- Fire - vehicle and other assets can be insured against fire.
- Cash in transit - can insure against loss of cash in transit to and from the bank.
- Pilferage - Can insure against loss of cash and other valuables through theft by employees.
- Occupational hazards - employees can be insured against physical harm while on duty.
- Third party claims - can insure against injuries to third parties emanating from the fleet.
- Theft and burglary to cover the vehicles and other property against unauthorised or forceful access to the property.
- Loss of profit and consequential loss due to business interruptions.

(Any 5x2) =10 marks