KENYA NATIONAL EXAMINATION COUNCIL
KCSE 2007

BUSINESS STUDIES PAPER 2
Marking Scheme

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Business Studies Paper 2

1 (a)
- Inadequate/ lack of capital/ funds: initial and operational capital may be inadequate to sustain/ run/ expand the business due to lack of a collateral/ security.
- Poor/ inappropriate marketing strategies: lack of proper planning in marketing leading to low sales/ fewer customers.
- Unfair/ stiff competition: competition may be too high for the new business which the business is unable to cope with/ withstand.
- Inadequate skills: lack of / poor / inefficient management: the business may have insufficient skills to operate/ manage the business.
- Lack of/ inadequate manpower: the business may not have enough manpower to operate/ manage it.
- Inadequate (use of) modern technology/ inappropriate technology: this may lead to less quantity/ quality goods/ services.
- Unfriendly/ poor government policies: the government policies may be unfavourable to the growth /expansion of business.
- Inadequate/lack of markets due to low income of buyers/ cultural practices/ beliefs.
- Poor pricing which might make the production too expensive to attract buyers/ too cheap to sustain the business.
- Inappropriate product/ business for the intended market.
- Political instability/security that many hinder smooth running of the business.
- Poor /inadequate infrastructure which may hinder access to markets/ inputs.
- Lack of planning to accommodate future changes.
- Misallocation/ misappropriation of resources leading to wastage/ misuse of resources.
- Poor customer/ public relations leading to loss of market.
- Poor time management which may cause loss of business opportunity /inability to accomplish business tasks. *Any 6 x 2 =12 marks)*

(b)
- Facilitates access to large markets worldwide / global markets since many countries/ regions are connected to the internet / have websites.
- Large and small businesses transact business though the internet as there is no restriction or discrimination in the use of internet.
- A faster way of doing business through the internet thereby saving time / facilitating urgent transactions.
- Reduces paper work/ number of business transaction since many dealings are online/ making transactions dealings which are online cheaper and less cumbersome.
- Saves on cost of sending / receiving/ storing business information/ product.
- One can access other different business information from the internet which can enhance the running of the business. *(Any 4 x 2= 8 marks)*

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

- Dividends/ Profits: received from Government investment/ businesses
- Licenses/ fess: licenses for operating businesses/fees for government services.

(6 x 2 = 12 marks)

2. (b) (i)

Karani Statement of Affairs
for the year ended 31/12/2005

	Sh	Sh.		Sh	Sh
Fixed Assets			Capital	2800,000	
Land & Building	2,500,000		**Less** drawings	140,000	2,660,000
Motor vehicles	500,000		Long-term loan		1,400,000
Plant & Mach	600,000	3,600,000	**Current Liabilities**		
Current Assets					
Stock	140,000		Creditors		120,000
Debtors	80,000				
Cash at Bank	240,000				
Cash in Hand	120,000				
		580,000			
		4,180,000			4,180,000

(12 x ½ = (6 marks)

(ii) Determination of Profit or Loss.
Ending capital = Beginning Capital + Gross Profit + Additional Capital less drawings.

∴ 2,660,000 = 2,800,000 + GP + 120,000 - 140,000

= 2,780,000 + G.P

(2660,000 - 2,780,000) = GP

GP = 120,000

∴ Loss = Sh 120,000

(4 x ½ = 2 marks)

3. (a)

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

(5 x 2 = 10 marks)

(b)

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

(Any 5 x 2 = 10 marks)

4. (a)

- Entering into suitable vertical integration.
- Entering into suitable horizontal integration.
- Rationalise operations so as to concentrate on more efficient units.
- Amalgamation with similar businesses.
- Secure loans/credit to expand.
- Arrange for franchising.
- Expand the markets.

(Any 5 x 2 = 10 marks)

(b)

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

- One can save time by shopping under one roof.
- Prices of goods are relatively low.
- One can access variety of goods. *(Any 5 x 2 = 10 marks)*

5. (a)
- Unfair competition from developed countries on superior products.
- Dumping of inferior goods by developed countries.
- To safe-guard local employment.
- Avoid sacrificing the sovereignty of the country.
- Reduce imbalance of payments deficits.
- Safeguard local industries. *(10 marks)*

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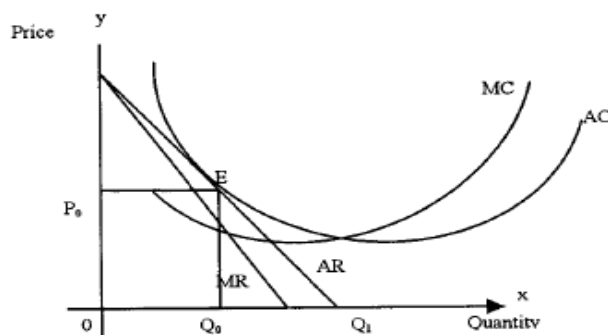
(7 marks)

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

6. (a)
- Equipment: the warehouse should be equipped with modern equipment.
- Security: for protecting goods from theft and damage by weather.
- Building design: the design has to conform to international standards to handle imported goods.
- Management personnel: these should be properly trained to acquire relevant skills;
- Proximity to point of entry: this includes ports, border points for ease of clearance.
- Existence of basic infrastructure: such as goods roads, power required.
- Compliance to legal requirement: all relevant legal requirements have to be met.
(Any 5 x 2 =10 marks)

(b) (i)

Mugambi Traders
Balance sheet
As at 31 December 2005

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

14t x ½ = (7 marks)

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

(Current assets – current liabilities)

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

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