

**KENYA NATIONAL EXAMINATION COUNCIL**

# **KCSE 2009**

**BUSINESS STUDIES**

**PAPER 2**

**MARKING SCHEME**

**AVAILABLE ONLINE AT:**

## **Schools Net Kenya Consultancy**

**P.O. Box 8076 – 00200 Nairobi, Kenya | Tel: +254202319748**

**E-mail: [infosnkenya@gmail.com](mailto:infosnkenya@gmail.com) | [www.schoolsnetkenya.com](http://www.schoolsnetkenya.com)**

1. a) Explain 5 features of sole proprietorship form of business (10 mks)
- Naming 1mk 0/- 2mks
- i) Owned /formed by in person who provides the capital/starts the business.
  - ii) Faster decision making/ (ultimate) decision made by the proprietor/ alone since he/she does not need to consult/has no one to consult.
  - iii) Has limited life as its existence depends on the hope of the owner
  - iv) Business owner has unlimited capital/management skills
  - v) Owner bears all the risks/losses of the business (alone) since he /she has no one to share with
  - vi) Business owner has unlimited liability since personal property/assets may be attached
  - vii) Managed by the owner with /without assistance of family members/ employees/which is tiring/forced to work for long hours.
  - viii) Sole trader /enjoys all the profits alone since he/she has no one to share with
  - ix) Easy /simple formation as it requires few /no legal formality/might only require a trading license
  - x) Flexibility/adaptability to change/accept e.g. of change as explanation
  - xi) Secrecy/ confidentiality of information/ operation / no other people have access
  - xiii) Not a legal entity as the owner and the business are treated as one/the same.
- b) **Explain 5 measures that the government may take to improve the**
- Volume of exports** (10 mks)
- Naming 1 mark only

- i) Creation of export processing zones- Where the producers/exporters enjoy a Variety of incentives/accept e.g. of investors as explanation.
- ii) Manufacturing under bond to encourage local manufacturers to produce exclusive for export.
- iii) Export compensation schemes/ subsidies schemes by refunding a specific % age of value of goods/services exported/meeting part of the cost of production for exports.
- iv) Providing information on international markets through publications/seminars/workshops/educational tours
- v) Financing those producing for exports by availing credit/loan to exporters.
- vi.) Participating in international trade fairs/exhibitions/shows to expose the exporters their goods/services
- vii) Use of commercial attaches/other government agencies to promote exports/advertise/look for markets for exports.
- ix) Customs drawbacks by refunding tax on imported raw materials used to produce exports.
- x) Devaluation of currency to make exports cheaper/increased demand
- xi) Improved infrastructure to facilitate export production/export trade/accept eggs of infrastructure as a mentioned
- xii) Entering into trade agreement/blocks/integration/groupings/cooperation to give preferential treatment to a country's exports
- xiii) Improving on quality/standardization/packaging to make exports more attractive  
Export credit guarantee scheme to insure/ compensate exporters against risks when selling overseas.
- xiv) Export credit guarantee scheme to insure/compensate exporters against risks when

selling overseas.

- xv) Tax rebates/ lowering of duties on exports/reduction of taxes on inputs used to produce goods for export to make them cheaper/increase their demand/to reduce cost of production.
- xvi) Improve /adopt modern technology in order to increase the volume of goods for exports.

**2.(a) Explain 5 demerits that may be associated with water transport**

**(Naming 1 mk)**

- i. Relatively slow hence perishable /urgently needed goods may not be transported this way /take long when traveling
- ii. Limited availability only applicable where water is available
- iii. Waterways can be affected by adverse weather conditions such as droughts/freezing/storms/flooding.
- iv. Costs of maintaining/construction of ports/canals/waterways/harbor may be (relatively) high /expensive making it unaffordable for some countries
- v. Waterways may not be navigable due to rough terrain/ waterfalls/cataracts/rapids/shalowness/narrowness/inhabited by dangerous animals/rough waters.
- vi. High costs of units of carriage/vessels which may make them unaffordable to acquired/maintain
- vii. May be prone to piracy in the high seas /remote areas/may lead to

Losses/may leads to losses/increased in insurable costs.

		Dr		Discount Allowed		Cr		Dr		Discount		Receiver		Cr	
		2008		Sh		2008		Sh		2008		Sh		2008	
2(b)	Dr	Cash Acc		June 28 Debtors		June Bal c/d		June 1 bal b/d		Jun 30 bal c/d		June Creditor		June Creditor	
		2008		Sh		Sh		Sh		Sh		sh		sh	
		June /Bal/b/d		120,500		June 30 b/d		380,500		Jun 5 creditors		228,000			
		15 Bank		100,000				Jun 30 bal c/d		67,000		Jun 15 cash		100,000	
		28 Debtors		160,000											
				<u>380,500</u>				<u>380,500</u>				<u>328,000</u>		<u>328,000</u>	

D		Debtors Account		Cr		Dr		Creditors		Account		Cr	
2008		Sh		2008		Sh		2008		Sh		2008	
		June bal b/d		350,000		June 28 cash		160,000		Jun 5 Bank		228,000	
						28 Dis allw		40,000		Jun 5 Dis Rec		12,000	
						30 bal c/d		150,000		Jun 30 Bal c/d		210,000	
								<u>350,000</u>				<u>450,400</u>	

Dr		Debtor Account		Cr		Dr		Creditors Account		2008		Sh	
2008		Sh		2008		Sh		2008		Sh		2008	
		June 30 bal/c/d		200,000		June 28 cash		160,000		Jun 5 bank		228,000	
						Jun 28 Dis All		40,000		Jun 5 Dis Rec		12,000	
								<u>200,000</u>				<u>240,000</u>	

- The particulars/ details must be correct
- The title of the A/C must be there
- The dates must not be there (ignore dates)

3 a) refer to 9str paper

i) MR curve /MC Curve/ disjoint in the MR where MC=MR curve i.e the equilibrium point.

ii) Above price p /kink the demand curve is more /fairly elastic and less elastic/fairly inelastic below the price P<sub>0</sub>/Kuk/ if a firm raise price above P<sub>0</sub> /Kerk other competing firm swill not follow suit bul if it lowers below P<sub>0</sub> /Kirk all other low peting firms will follow suit.

iii) When the eligopolist forms a collusion or a celtel with competing firms they can increase/lower /reduce the price.

b) When the oligopolies acquires a dominant position on the

market/accept

egs of dominant position (2mks)

- c) The price cannot be increased /decreased/rained because it is rigid at the kelik/OPO
- d) The owner on roman II can be used as the answer far this section.

3 b) Explain 5 ways in which the government of Kenya may reduce the level of unemployment (Naming 1 mk)

- i) Diversification of the economy by encouraging the establishing of different industries /sectors to create employments opportunities
- ii) Transforming agricultural sector/rural sector to curb rural urban migration/ accepts egs of transformation as a naming (to create more jobs and reduce unemployment )
- iii) Transforming education /training sector/to improve on skills/ (this makes the graduates)acquire relevant skills.
- iv) Establishing on employment policy by government to make it easy for people to get jobs/Accept egs of policy as mention
- v) lending /setting of a fund to assist unemployed to stat income generating activities/accept egs of funds as a mention
- vi) Exporting Labour by assisting unemployed people to acquire jobs abroad /countries with labour deficiency.
- vii) Encouraging the informal /Jua Kali sector in order to promote self employment
- ix) Delocalization/ decentralization policy for balanced regional development/reduced rural urban irrigation

- x) Population policy to control growth/have a labour force that the economy can absorb
  - xi) To improve infrastructure in order to suitable economic activities /Accept egs of infrastructure as a raring.
  - xii) Increase government expenditure to expand the size of the economy/ to finance development projects.
  - xiii) Effective use of natural resources to increase production activities accepts egs of natural resources as a mentor.
  - xiv) Income /wage policy to harmonize/eliminate differences between regions/sectors
  - xvi) Attract (Local /foreign) investments through vision incentives/to grow the economy accept egs of incentives as explanation
  - xvii) Receiving collapsed industries/projects by injector, funds/selling than /increased production activities
- 4 a) using a diagram, explain the circular flow of income in a two sector economy.

(10 mks)

House holds supply their resources (factors of provision) to various types of businesses and receive payment on the form of rent, wages and profit

On the other hand, businesses sell finished products to household and households pay for the goods and services received

The destruction must be shown.

4 b) Refer to question paper

i) the name of the documentary is an invoice/debit not (3 mks)

ii) By paying for goods on 28<sup>th</sup> Oct 2008, the debtor qualifies for the cash discount or furniture

By paying for goods on 28<sup>th</sup> Oct 2008, the debtor qualifies for the cash discount or furniture.

$$\begin{aligned} \text{Amount paid } 268,200 \times \frac{90}{100} + 9,000 + 7,500 \\ 24,380 + 9,000 + 7,500 = \text{sh. } 257,880 \end{aligned} \quad (7 \text{ mks})$$

Or

$$\text{Kshs. } 284,700 - \frac{10}{100} \times 268,200$$

$$\text{Kshs. } 284,700 - \text{Ksh. } 26,820$$

$$= \text{Kshs. } 257,880$$

Or

$$\text{Furniture } 268,200 \text{ less } \frac{10}{100} = 26,820$$

$$26,820 - 26,820$$

$$= 241,380$$

5. (a) Explain 4 services that not the Central Bank of Kenya army after as a banker to commercial banks. (8 mks)



- i. Advising/information/education/publishing journals for commercial banks or financial matters.
- ii. Banker to commercial banks/accepts deposits by being in custody of the reserves received from commercial basis.
- iii. Supervising/ monitoring the operations of commercial banks /banking act
- iv. Providing a central clearing house where commercial banks settle debts due to each other /for cheques
- v. Being a tender of the last resort to the commercial banks
- vi. Foreign exchange /buy /sell foreign currency to/ for a commercial banks
- vii. Issue of currency for commercial banks operations/replaces old currency/issue new notes/coins
- viii. Mediation/arbitration in case of disputes (between commercial banks)
- ix. Licensing- the operations of commercial banks
- x. Repatriation of excess foreign currency/profit (foreign) on behalf of commercial banks
- xi. Statutory management during financial crisis /receiverships

5      b)      Malamu Traders

Expenses	Sh.		Sh.
Discount allowed	142,000	Gross profit	520,000
Lighting	25,200	Rent received	120,000
Interest or loan	1,200	Net loss c/d	61,930
General expenses	102,100		
Repairs on building	60,000		
Repairs on furniture	72,030		
Repairs on motor vehicle	<u>300,00</u>		
	<u>702,530</u>		<u>702,530</u>

### **MALAMU TRADERS**

### **BALANCE SHEET**

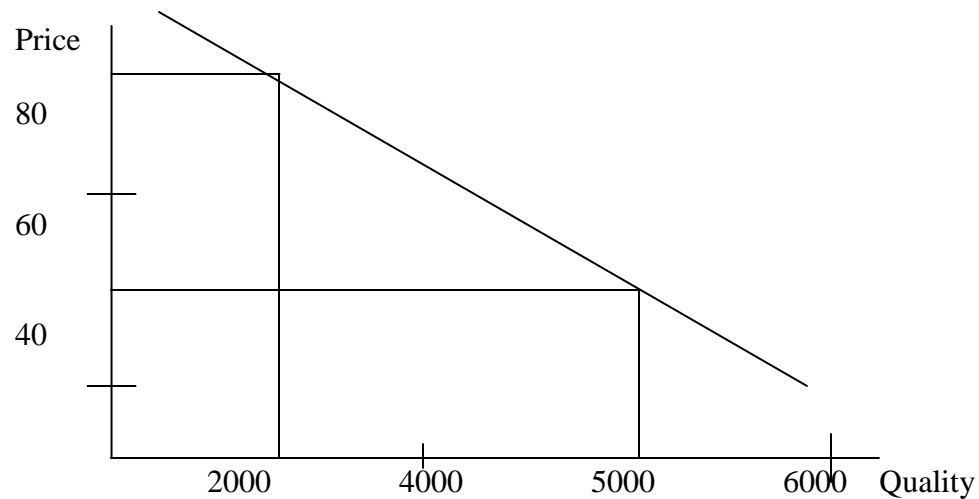
**AS AT 31<sup>ST</sup> DEC 2008**

Fixed Assets			Capital 1,400,000	
Building	540,000		Less loss	6,930
Furniture	408,170			1,338,070
Motor Vehicle	900,00	948,170	Loan	472,500
Current Assets				
Stock	72,500			
Debtors	116,900	189,400	Current Liabilities	227,000
		2037,570	Creditors	2,037,510

6. The following table represents the price and quality of a commodity

Month	Price	Quantity
January	80	2,000
February	40	5,000

- i) Plot the above information on (5 mks)



- ii) Price elasticity of demand of demand

$$\frac{(5,000-2,000)}{2,00} \div \frac{(40-80)}{80}$$

$$= \frac{3,000}{2,000} \times \frac{80}{40}$$

Elasticity= 3 or -3

Or

$$\frac{2,00 - 5,000}{2,000} \div \frac{80 - 40}{80}$$

Or

$$\frac{-3,00 \times 80}{2,000 \quad 40} = -3$$

$$\text{Or} - \frac{3,000}{2,000} \times 100 - \frac{80}{40} \times 100$$

Or

$$\frac{-150}{100} \div \frac{50}{100}$$

Or

$$\frac{150 \times 100}{100 \quad 50} = -3 \text{ or } 3$$

Dr	Total Debtors Account	Cr
	Sh.	Sh
Balanced b/d	120,000	Bad debts 4,200
Interest on debtors	2,000	Cash Debts 750,000
Sales	967,200	Bal. c/d 335,000
	<u>1,089,200</u>	<u>1,089,200</u>

Dr	Total Creditors Account	Cr
	Sh.	Sh.
Payments	660,500	Balance c/d 142,500
Balance c/d	158,400	purchases 676,400
	818,900	<u>818,900</u>

Credit purchases	676, 400
Cash purchases	135,400
	811,800

**LANGAS TRADERS**  
**TRADING PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR**

	Sh.	Sh.		Sh.
Stock (1/1/07)	75,000		sales	967,200
Purchases	811,800	886,800		
Less closing stock		136,400		
		750,400		
Gross profit c/d		216,500		
		<u>967,200</u>		<u>967,200</u>
			Gross profit b/d	216,800
Reduction equipment/depreciation	65,600		Bad debt received	16,000
Salaries	48,000		Interest of debtors	2,000
Less prepaid	(8,000)	40,000		
Interest on loan	30,000			
Add due	6,000	36,000		
Bad debts		4,200		
Net Profit c/d		89,000		
		<u>234,800</u>		<u>234,800</u>