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# **BUSINESS STUDIES PAPER 1**

## **ANSWERS**

### **KCSE 2010**

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## 1 Business Studies Paper 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
- Longer time
- Less strikes
- Increase in the price of jointly supplied goods.

(Any 4x1)=4 marks

5.

**ENOTIKA TRADERS**  
**BALANCE SHEET**  
**AS AT 31ST DECEMBER 2008**

Fixed Assets	480,000	Capital	300,000
Current Assets	145,220	<u>Long term Liabilities</u>	
		2 year Bank loan	230,020
		<u>Current Liabilities</u>	
		Creditors	95,200
	<u>625,220</u>		<u>625,220</u>

(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 prepare 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.

(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.I.F. - 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 modern technology and skills
- To encourage utilization of local resources
- To earn foreign exchange
- To encourage healthy competition among investors

(Any 4 x) = 4 marks

11. Distinction between insurance and assurance

Insurance	Assurance
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 in case of loss/uncertainty.	iv) Compensation is given to beneficiaries in case of death/certain.
v) A replacement for the good lost can be given (contract 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 4x1)=4 marks

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

12. 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*
13. 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 require the use of an invoice.
- (Any 1 x 2) = 2 marks*
14. Matching statements on capital with types of capital
- Owner's equity
  - Working capital
  - Borrowed capital
- (3x1)=3 marks*
15. 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*
16. 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*
17. 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 capital 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 letters represent.

- P - Income per capita
- S - Population
- R - Under population
- Q - Optimum population

20. Salaries Expenses account

Dr			Cr
Balance b/d	24,800	Profit and Loss a/c	20,600
Cash	48,200	Balance c/d	52,400
	<u>73,000</u>		<u>73,000</u>

(5x1) = 5 marks

21. Circumstances under which one would decide to start a personal business include:

- Where there is need to create employment.
- Where additional income is needed.
- Where there is need to apply business skills acquired.
- Where there is need to invest surplus funds.
- Where one has a business idea to implement.
- where one wants to become his own boss
- Where 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 4x1)=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.

(Any 4x1 = 4 marks)

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)*