

---

# **BUSINESS STUDIES PAPER 2**

## **ANSWERS**

### **KCSE 2010**

Coordinated by KENPRO, Macjo Arcade, 4th Floor, Suite 15E, Off Magadi Road, Ongata Rongai  
|Tel: +254202319748 | E-mail: [infosnkenya@gmail.com](mailto:infosnkenya@gmail.com) | Website: [www.schoolsnetkenya.com/](http://www.schoolsnetkenya.com/)

## Business studies paper 2

1.

- Socio-political unrest. Generally people are unhappy and this may bring conflict, tension and political unrest due to high cost of living.
  - Worsening balance of payment
- (Any 5x 2)=10 marks

2.

(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 service to members. They are formed to cater 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

b)

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 30<sup>th</sup> June 2008**

Dr			Cr
Opening stock	80,200	Sales	1,880,000
Purchases	1,120,000	Less: Returns in	<u>5,800</u> 1,874,200
Add: Carriage in	<u>40,000</u>		
	1,160,000		
Less: Returns out	<u>20,800</u>		
Available for sale	1,139,200		
Less: Closing stock	<u>120,000</u>		
Cost of goods sold	1,019,200		
Gross profit c/d	<u>774,800</u>		
	1,874,200		<u>1,874,200</u>
<b>EXPENSES</b>		Gross Profit b/d	774,800
Water bill	250,000	Discount received	<u>7,500</u>
Repairs	23,000		
Carriage on sales	12,700		
Lighting	15,000		
Insurance	4,000		
General expenses	56,700		
Net profit	<u>213,900</u>		
	<u>782,300</u>		<u>782,300</u>

(18 x ½) = 9 marks

**K-100 TRADERS**  
**BALANCE SHEET AS AT**  
**30<sup>TH</sup> JUNE 2008**

(ii)

FIXED ASSETS	SHS	SHS	CURRENT LIABILITIES	SHS	SHS
Furniture	3,000,000		Capital	4,000,000	
Motor vehicle	<u>690,000</u>	3,690,000	Add: Net Profit	<u>213,900</u>	4,213,900
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Stock	120,000		Creditors	510,400	
Debtors	316,800		Bank overdraft	<u>2,500</u>	512,900
Bank	<u>80,000</u>	<u>1,036,800</u>			
Cash		<u>4,726,800</u>			<u>4,726,800</u>

(10 x ½) = 5 marks

(b)

Factors that should be considered 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.

- 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 goods 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	Total Fixed cost	Total Variable cost	Total Cost	Total Average costs	Marginal Cost
(Tonnes)	(Shs)	(Shs)	(Shs)	(Shs)	(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 ½) = 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.
- Possibility 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 draws.
- 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*