



## 22.0 BUSINESS STUDIES (565)

Business Studies was tested for the first time in the year 2006 and produced very encouraging results in the year 2007, when the course was tested for the second time. Business Studies is tested in two papers, that is, *paper 1 (565/1)* and *paper 2 (565/2)*.

Paper 1 (565/1) consists of twenty five short answer structured items and is marked out of 100 marks. Paper 2 (565/2) consists of six extended answer questions and the candidate is expected to answer five questions. The paper is marked out of 100 marks. Paper 1 (565/1) and 2 (565/2) are allocated two hours and two and a half hours respectively.

### 22.1 CANDIDATES' GENERAL PERFORMANCE

The table below shows candidates overall performance in Business Studies in the year 2007.

Table 25: Candidates Overall Performance in Business Studies in year 2007

Year	Paper	Candidature	Maximum Score	Mean Score	Standard Deviation
2006	1		100	54.46	18.61
	2		100	38.02	18.19
	<b>Overall</b>	<b>110,630</b>	<b>200</b>	<b>92.47</b>	<b>35.00</b>
2007	1		100	64.03	18.76
	2		100	46.27	15.54
	<b>Overall</b>	<b>118,361</b>	<b>200</b>	<b>110.29</b>	<b>32.00</b>

From the table above the following observations can be made:

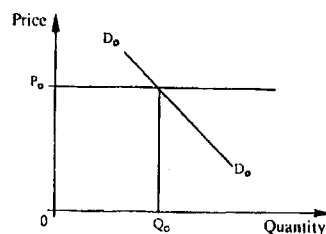
- 22.1.1 The subject attracted an increased number of candidates from *110,630* in the year 2006 to *118,361* in the year 2007.
- 22.1.2 Performance of candidates in the year 2007 was above average with a mean score of *110.29* as compared to *92.47* in the year 2006.
- 22.1.3 Candidates performed better in *paper 1(565/1)* than in *paper 2 (565/2)* as attested by the mean scores of *64.03* and *46.27* respectively in the year 2007. It appears that many candidates found it easier to answer short structured questions in paper 1 (565/1) as opposed to extended answer questions in paper 2 (565/2).

Questions in which candidates performed poorly are discussed below.

### 22.2 PAPER 1 (565/1)

#### Question 5

The diagram below shows the current demand for petrol.



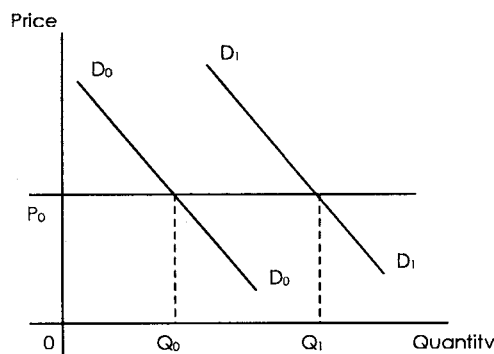
- (a) What is the effect of a fall in the price of cars on demand for petrol?  
 (b) Draw a new demand curve on the diagram above to show the effect of a fall in price of cars.

**Weaknesses**

Many candidates did not know the effect of change in price on demand for supplementary goods. Candidates also lacked understanding of a shift in the demand curve.

**Expected Responses**

- (a) The effect of a fall in price of cars is that more cars will be demanded and this would increase demand for petrol.  
 (b) The student was expected to draw a new demand curve to show the increased demand for petrol as shown below.



**Question 15**

The following information related to Kerubo Traders for the year ended 31 December, 2006.

	Sh.
Opening stock	24 000
Carriage on sales	12 000
Purchases	370 000
Sales	442 500
Closing stock	40 000

Other expenses 10% on Gross Profit.

Prepare Trading Profit and Loss Account for the year ended 31 December, 2006.

**Weaknesses**

This was a standard question but many candidates had problems with the format of the Trading, Profit and Loss Account. This question mainly tested the application and analysis skills learnt by the candidate. A lot of practice is required to master the format and preparation of Trading, Profit and Loss Accounts.

### Expected Responses

The Trading, Profit and Loss Accounts should have been prepared as follows.

**KERUBO TRADERS**  
Trading, Profit and Loss Account  
For the year ended 31 December 2006

	Sh		Sh
Opening Stock	24000	Sales	442500
Add Purchases	<u>370000</u>		
	394000		
Less Closing Stock	<u>40000</u>		
	354000		
Gross Profit c/d	<u>88500</u>		
	<u>442500</u>		<u>442500</u>
Operating expenses		Gross Profit b/d	88500
Carriage on Sales	12000		
Other expenses			
10% Gross Profit	8850		
(88500 x 10%)			
Net Profit c/d	<u>67650</u>		
	<u>88500</u>		<u>88500</u>

### Questions 23

Outline **four** benefits that accrue to a customer who uses automated teller machine (ATM) banking service.

### Weaknesses

Many candidates portrayed weaknesses on issues related to modern trends in banking. ATM or Automated Teller Machines are currently used in many towns in Kenya and is one of the services given in modern trends in banking. The syllabus requires students to cover this topic.

### Expected Responses

- Saving time in bank transactions such as depositing and withdrawing money.
- ATMs are conveniently placed.
- Can pay utility bills.
- Access account balances and bank statements.
- The use of "pass word".
- Access to banking information.

### 22.3 PAPER 2 (565/2)

#### Question 5(b)

Draw a diagram to show how equilibrium price and output are determined under monopoly.

Candidates were required to draw a diagram to show how equilibrium price and quantities are determined where a monopoly firm neither makes profits or losses.

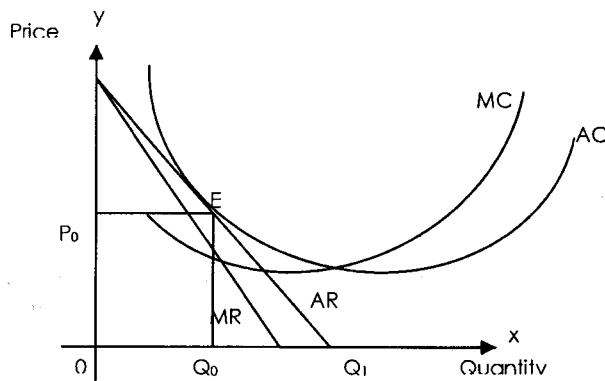
#### Weaknesses

The candidates showed general weaknesses in constructing graphs of product markets. Under this course, the candidate is not expected to learn about profits or losses in the product markets. The candidates should therefore be able to draw graphs where the monopoly firm maximizes profits at equilibrium.

#### Expected Responses

As the syllabus does not require candidates to learn about profits or losses for monopoly firms, prices and quantity can be determined in the long-run where the firm just earns normal profits at break-even point. This is similar to monopolist competition in the long-run.

Candidates should have produced the diagram shown below:



#### Question 6(b)

The following Trial Balance was prepared from the books of Mugambi Traders for the year ended 31 December 2005.

Mugambi Traders Trial Balance		DR	CR
	Sh	Sh	
Land and Buildings	500 000		
Capital			940 000
Plant & Machinery	200 000		
Motor Vehicles	300 000		
10 year bank loan			200 000
3 year ICDC loan			100 000
Stock	100 000		
Debtors	60 000		
Creditors			60 000
Accrued expenses			20 000
Cash at bank	100 000		
Cash in hand	20 000		
Drawings	<u>40 000</u>		
	<u>1 320 000</u>	<u>1 320 000</u>	

Prepare

- (i) A balance sheet for the year ended 31 December 2005.  
(ii) Determine:
- Working Capital
  - Capital Employed
  - Borrowed Capital

Students were required to prepare a Balance sheet and determine different types of capital.

### Weaknesses

Candidates portrayed weaknesses in drawing the balance sheet. Many of them did not know how to place different items in the balance sheet, particularly drawings. The candidates had problems in calculating different types of capital.

### Expected Responses

(i)

**MUGAMBI TRADERS**  
**Balance Sheet**  
**As at 31 December 2005**

Sh	Capital	Sh
<b>Fixed Assets</b>		
Land & Buildings	500000	940000
Plant & Machinery	200000	40000
Motor Vehicle	300000	200000
<b>Current Assets</b>		100000
Stock	100000	
Debtors	60000	
Cash at bank	100000	
Cash in hand	20000	
	<u>1280000</u>	
		60000
		20000
		<u>80000</u>
		<u>1280000</u>

(ii)

- Working Capital = Current Assets – Current Liabilities  
= 280000 – 80000 = Sh200000
- Capital Employed = Capital + Liabilities less Current Liabilities  
or  
Total Fixed Assets + Working Capital

$$\therefore \text{Sh}1280000 - 80000 = \text{Sh}1200000$$

$$\text{or } \text{Sh}1000000 + 200000 = \text{Sh}1200000$$

- Borrowed Capital = 10 year loan = 200000  
3 year ICDC loan = 100000  
Sh300000

## 22.4 ADVICE TO TEACHERS

- 22.4.1 Candidates should always read and understand the requirements of a question before they attempt to answer it.
- 22.4.2 Teaching should always be student centered with more exercises being given to students for practice.
- 22.4.3 Questions set for practice should cover all levels of testing.
- 22.4.4 All areas of the syllabus should be covered and teachers should try and interpret the syllabus for the students' benefit.
- 22.4.5 Resource persons and materials should be used as much as possible.

## 22.5 CONCLUSION

Many students are now taking Business Studies at examination level and the performance was overall above average. This is encouraging. However, students and teachers must not relax but work very hard to maintain and improve the standard.