

## 4.29 BUSINESS STUDIES (565)

### 4.29.1 Business Studies Paper 1 (565/1)

1. Reasons that would make an individual engage in business include:

- (i) Provision of goods and services.
- (ii) provision of employment.
- (iii) Exploitation of economic resources.
- (iv) Exploitation of individuals creativity/innovation/talents/hobbies/skills.
- (v) To earn a profit/income.
- (vi) To be self reliant and independent/own boss.
- (vii) To make use of spare time.
- (viii) For prestidge
- (ix) To take advantage of government incentives eg. loans for youth and women.

Any 4 @ 1 = 4 marks

2. Types of utility and the production activity associated with each of them.

<u>Utility</u>		<u>Production activity</u>
(i) Time	-	Warehousing /storage
(ii) Place	-	Transport
(iii) Form	-	Manufacturing/processing/construction
(iv) Possession	-	Trade/exchange

4@ 1 = 4 marks

3. Ways in which the office facilitates effective handling of documents includes:

- (i) Receiving documents
- (ii) Recording documents
- (iii) Reproducing documents
- (iv) Distributing / mailing documents
- (v) Storing/filing of documents.
- (vi) Employing qualified staff.
- (vii) Safeguarding documents.
- (viii) Provision of relevant equipment.

4@ 1 = 4 marks

4. Factors that may influence a consumer to purchase products from a kiosk rather than a supermarket include:

- (i) Kiosks may offer credit facilities without any security offered.
- (ii) Kiosks bring goods closer to consumers.
- (iii) Kiosks provide sizes/quantities consumer can afford.
- (iv) Kiosk owners have personal contact/touch with consumers.
- (v) Kiosks may be accessed beyond the normal working routine when the need arises.

- (vi) Kiosks may allow for bargaining.
- (vii) Kiosks may offer advice.
- (viii) To promote the kiosk owner.

Any 4@1 = 4 marks

5. Circumstances under which Hire purchase may be used to acquire goods include:

- (i) When the buyer does not have enough money to pay at once.
- (ii) When the product is expensive.
- (iii) When the buyer wants to use the item immediately before completing paying.
- (iv) When the buyer is a salaried employee/has regular income.
- (v) When the buyer desires to own luxurious items.
- (vi) When the buyer wants to save in the form of goods.
- (vii) When the goods are durable in nature.
- (viii) When the goods can generate income to pay the installments.

Any 4@1 = 4 marks

6. Reasons for the increased use of mobile phones in banking includes:

- (i) Safer than carrying cash.
- (ii) Easy to transact.
- (iii) It is convenient because transactions can be conducted anywhere.
- (iv) It saves on time since there is no travelling and queuing for the services.
- (v) The speed of transaction is fast.
- (vi) It reduces paper work by eliminating the need for physical files and other documentations.
- (vii) The use of PIN enhances security.
- (viii) Increased ownership of mobile phones.
- (ix) Transactions can be conducted at any time.
- (x) Reduced transaction costs.
- (xi) Easy access to transaction records.

Any 4 @ 1 = 4 marks

7. Methods of regulating business activities in Kenya include:

- (i) Licensing business activities;
- (ii) Setting of standards;
- (iii) Formulation of policies/enacting laws/legislation;
- (iv) Setting quotas;
- (v) Enforcement of laws;
- (vi) Imposing total ban;
- (vii) Subsidizing business;
- (viii) Taxation;
- (ix) Price control.

Any 4@1 = 4 marks

8. Disadvantages of using internet as a means of communication include:

- (i) Most hardware required is expensive to buy/ acquire.
- (ii) Accessing / using the internet is expensive/software;
- (iii) Requires knowledge and skills to operate;
- (iv) Prone to attack by fraudsters/hackers/lacks confidentiality;
- (v) Affected by lack / disruptions of network/links;
- (vi) It may be affected by computer virus;
- (vii) Limited internet connectivity;
- (viii) It may be affected by power failure;
- (ix) It is prone to network overload (congestion).

Any 4@1 = 4 marks

9. Differences between life assurance and general insurance include:

<b>LIFE ASSURANCE</b>	<b>GENERAL INSURANCE</b>
(i) Has surrender value	No surrender value
(ii) Long term contract	Short term contract / annual contract
(iii) Can be assigned to beneficiaries	Cannot be assigned to beneficiaries / third party.
(iv) Principle of indemnity will not apply.	Principles of indemnity applies.
(v) Assured benefits from double insurance.	Insured loses out on double insurance.
(vi) Principle of subrogation will not apply	Principle of subrogation will apply.
(vii) It deals with life	It deals with property
(viii) Risk is certain	Risk may or may not occur

Any 4@1 = 4 marks

10. Reasons for observing ethical practices in product promotion include:

- (i) Ensures fair competition among businesses.
- (ii) Ensures consumer's interests are protected eg. false advertisement, overpricing.
- (iii) Ensures that businesses comply with the law.
- (iv) It protects the environment from degradation.
- (v) Improves the image of the business.
- (vi) Maintain morality in the society/cultural values.

Any 4 @ 1 = 4 marks

11. Effects of a shift of the demand curve to the right.

- (i) The price will increase.
- (ii) The quantity demanded will increase/demand will increase.
- (iii) The equilibrium quantity shifts to the right/increases.
- (iv) The equilibrium price shifts upwards / increase.
- (v) The equilibrium shifts upwards to the right.

Any 4 @ 1 = 4 marks

12. Disadvantages to the manufacturer if wholesalers are eliminated from the chain of distribution include:

- (i) Manufacturer will have to break bulk;
- (ii) Incur cost of storage;
- (iii) Incur cost of transporting goods to the retailers;
- (iv) Incur cost of advertising / promoting products;
- (v) Bear risks associated with distribution eg. damages, fall in prices;
- (vi) Manufacturer will have to prepare goods for sale eg. blending, branding, sorting etc;
- (vii) Manufacturer will have to carry out market research;
- (viii) Manufacturer will have to give credit to retailers who are many.

Any 4 @ 1 = 4 marks

13. Correct balance sheet

**PEMBE TATU TRADERS**

Balance Sheet

As at 31<sup>st</sup> December, 2012

	Shs.		Shs.
Furniture	50,000	Capital	66,000
Stock	5,000	Bank overdraft	5,000
Debtors	7,000		
Cash	<u>9,000</u>		
	<u>71,000</u>		<u>71,000</u>

(8 ticks @ 1/2 = 4 marks)

14. Determining the capital as at 1.1.13.

Initial capital = closing capital + net loss + drawings - additional investments

$$IC = CC + NL + D - AI$$

$$= 940,000 + 20,000 + (5,000 \times 12) - 420,000$$

$$= 600,000$$

(8 ticks @ 1/2 = 4 marks)

15. Ledgers in which the following accounts are maintained.

Account	Ledger
Debtors	Sales/debtors
Machinery	General
Rent	Nominal
Capital	Private
Juma (Creditor)	Purchases/creditors

5@1 = 5 marks

16. Levels of inflation include:

- (i) Mild / moderate inflation;
- (ii) Gradual / creeping inflation;
- (iii) Galloping / hyper inflation;
- (iv) Stagflation.

Any 3 @ 1 = 3 marks

17. The documents described by the given statements

- (i) Proforma invoice
- (ii) Bill of lading
- (iii) Certificate of origin
- (iv) Freight note

4@1 = 4 marks

18. Relevant ledger accounts

Dr		Junior Account		Cr
2012		Ksh		Ksh
March 1	Purchases			-
	Returns	2,000		

  

Dr		MIMI Supplies Account		Cr
2012		Ksh		Ksh
March 3	Purchases			
	Returns	4,000		

  

Dr		Kilimanjaro Account		Cr
2012		Ksh		Ksh
March 4	Purchases			
	Returns	5,000		

  

Dr		Purchases Returns Account		Cr
		2012		Kshs
		March 4	Total for the month	11,000

12 x  $\frac{1}{3}$  = 4 marks

19. Goals of development in a country include:

- (i) Alleviation of poverty
- (ii) Attainment of high and sustainable economic growth.
- (iii) Provision of adequate social amenities eg. health facilities.
- (iv) Diversification of the economy to reduce over-reliance on a few products.
- (v) Alleviation of unemployment.
- (vi) Attainment of more equitable distribution of incomes.
- (vii) Enhancement / upholding of human freedom, rights and self esteem/democracy.
- (viii) Provision of security.
- (ix) Maintenance of political stability/good governance.
- (x) Attainment of food security for population.
- (xi) Alleviation of illiteracy.
- (xii) Technological advancement.
- (xiii) Elimination of harmful cultural practices.

Any 4@1 = 4 marks

20.

**KAHAWA TRADERS  
TRADING ACCOUNT**

For the year ended 31st December 2012

	Ksh			Ksh
Opening stock	80,000	Sales		1,200,000
Add purchases	<u>1,000,000</u>			
COGAS	1,080,000			
Less Closing stock	<u>120,000</u>			
Cost of sales	960,000			
Gross profit c/d	<u>240,000</u>			
	<u>1,200,000</u>	Gross b/d		<u>1,200,000</u>
				240,000

(10 @ x 1/2 = 5 marks)

21. Reasons that make it necessary for firms to maintain a healthy environment include:

- (i) To protect /safeguard human health eg. employees, customers, surrounding community;
- (ii) To maintain the ecological balance;
- (iii) To conserve natural resources / raw materials;
- (iv) For sustainable economic development;
- (v) For environmental conservation;
- (vi) To comply with the set laws;
- (vii) As part of corporate social responsibility;
- (viii) To enhance corporate.

Any 4 @ 1 = 4 marks

22. Benefits of a business plan to an entrepreneur include:

- (i) Facilitates acquisition of loans from financial institutions and other financiers.
- (ii) Provides guidance for opening new or expanding existing business.
- (iii) It acts as a management / monitoring tool for the business.
- (iv) It's a tool for evaluating business performance.
- (v) It lays the strategy to be used in marketing the products.
- (vi) It enhances the credibility of the business.
- (vii) It is a motivational tool.
- (viii) To avoid mistakes.
- (ix) Proper allocation of resources.

Any 4 @ 1 = 4 marks

23. Benefits of sea transport over air transport include:

- (i) Large carrying capacity which is ideal for bulky/heavy goods.
- (ii) Sea transports large quantities of goods.
- (iii) Low cost of transportation over long distances.
- (iv) Special ships are available for carrying special goods.
- (v) Its more economical to operate.

Any 4@1 = 4 marks

24. Ways in which an investor may benefit from the stock exchange include:

- (i) Provide information on share prices that guides investors on when to buy / sell shares.
- (ii) Provide market /mechanism for buying / selling shares / other securities.
- (iii) Protecting investor interest by requiring quoted companies to maintain certain standards of management.
- (iv) Provide information on company performance that help investors to make investment decision.
- (v) Listing share prices enables investor to monitor their wealth.
- (vi) Encourage savings in form of shares.
- (vii) Enables investors to spread risks by buying different types of shares/port folio.
- (viii) Avails a variety of securities to chose from.

Any 4 @ 1 = 4 marks

25. Clauses found in the Memorandum of Association include:

- (i) Name clause
- (ii) Liability clause
- (iii) Capital clause
- (iv) Situation clause
- (v) Objects clause
- (vi) Association and subscription clause
- (vii) Declaration clause.

Any 3 @ 1 = 3 marks

#### 4.29.2 Business Studies (565/2)

1. (a) **Uses of National income statistics to a country.**

- (i) Indicator/measure of standard of living - an improvement/increase of national income indicates/improved welfare/improved standard of living / vice versa.
- (ii) Comparison of standard of living between countries - countries with high national income are deemed to have high standard of living and vice versa.
- (iii) Assessing performance of the economy over time - the period with high national income is considered to be better off.
- (iv) Economic Planning - comparing performance in different sectors and regions helps the government in planning for better/ efficient allocation/use of resources.
- (v) For investment decision - Data obtained can be used by entrepreneurs to make decision on the sector, when and amount of capital to invest.
- (vi) Provide information on distribution/contribution of income - this helps the government to address income/production disparities eg. through subsidies and tax relief.
- (vii) To attract foreign aid/donor funding, when a country shows strong economic growth/when experiencing challenges to finance its development/for bugetary support.
- (viii) Calculate/determine per capita income - by dividing national income by the population.
- (ix) Compare standards of living in a country between different years/periods. The year/period the NY is high is said to have a high standard of living/vice versa.

Any 5 x 2

(10 marks)

(b) **Principles that would lead to effective use of government resources:**

- (i) Economy - requires proper planning to avoid /minimize wastage/ensure maximum benefit.
- (ii) Sanction - Authority should be sought from relevant bodies/parliament before committing public finance.
- (iii) Maximum /optimal social benefit - resources should be used only on projects that improve social welfare / quality of life of the citizens /to benefit as many people as possible.
- (iv) Flexibility - expenditure should be able to be adjusted to reflect the prevailing circumstances.
- (v) Equity - distribution of resources should be fair to all sectors/regions/ minimize incidents of inequalities /imbalances.
- (vi) Productivity - more resources should be spent on development projects than on nonproductive projects / on projects that yield high returns
- (vii) Surplus - savings should be spent on emergencies and fill the revenue gap between collection and projection / expenditure should be less than (total) revenue collected.
- (viii) Elasticity - expenditure should be capable of being expanded/contracted in line with the size of the economy.
- (ix) Good/proper financial management to ensure accountability/good governance/ transparency through proper record keeping.

Any 5 x 2

(10 marks)



2. (a) **Ways in which the consumer may benefit from warehousing.**

- (i) It helps maintain / improve quality of goods - this is mainly for goods that mature over time such as wine /for them to get goods when still fresh.
- (ii) It ensures constant supply of goods - facilitates release of goods in the market regularly which minimize shortages/so as to get goods as/ when needed.
- (iii) Preparation of goods for sale - goods are sorted, graded, packaged, blended, branded.
- (iv) Availability of seasonally produced goods - consumers can access goods that are off season from the warehouse eg. farm produce.
- (v) Stability in prices of goods - ensures constant supply of goods leading to stable prices throughout the year/due to minimal shortages.
- (vi) Creates time utility - ensures that the consumer accesses and uses goods at appropriate time.
- (vii) It enables the breaking of bulk - where he/she is able to buy goods in convenient /affordable quantities.
- (viii) Availability of seasonally demanded goods. That are produced but only come to use at certain times/such as gumboots/umbrellas.
- (ix) Availing a variety/different goods enabling him/her have a wider choice/satisfy different wants/tastes
- (x) Providing security - to avoid loss due to theft/pilferage.

Any 5 x 2

(10 marks)

(b)

**Mambo Leo Traders  
Cash book**

Date	Details	Cash	Bank	Date	Details	Cash	Bank
1/9	Bal b/d	15,500		1/9	Bal c/d		9,700
5/9	Sales	8,500		15/9	Creditor	10,000	
12/9	Debtor		9,000	17/9	Wages	2,600	
19/9	Samson		23,400	23/9	Cash		7,700
20/9	Debtor	6,700		24/9	Electricity		1,200
23/9	Bank	7,700		27/9	Purchases	8,950	
25/9	Debtor		11,500	30/9	Water		2,800
26/9	Sales	12,800		31/9	Bal b/d	29,650	26,000
28/9	Investment		3,500				
		<u>51,200</u>	<u>47,400</u>			<u>51,200</u>	<u>47,400</u>

20 ticks x  $\frac{1}{2}$

(10 marks)

3. (a) **Characteristics of a monopolistic competitive market.**

- (i) There are many independent buyers and sellers of the commodity.
- (ii) The products are close substitutes/differentiated /similar but differ by names shape/colour package/ scent.
- (iii) Free entry / exit - there are no barriers for new firms that require to supply the same commodity nor are there barriers for those wishing to exit the market. Firms' decision to enter or leave is influenced by profits or losses.
- (iv) Wide knowledge of market. As buyers /sellers are aware of price/output market factors conditions.
- (v) Firms set their own prices - prices are set depending on cost incurred and demand in the market.
- (vi) No single firm controls any factor of production - firms acquire factors at prevailing market prices / conditions.
- (vii) Individual firms have highly elastic/gently sloping demand curve since commodities are close substitutes.
- (viii) It is possible for a single/some firms to dominate/influence market price through extensive advertising/product promotion/differentiation.
- (ix) All firms earn normal profits in the long run since super normal profits attract new firms/losses make firms to leave/quit.

Any 5 x 2

(10 marks)

(b) **Features of human wants:**

- (i) They are numerous and unlimited - when one is satisfied another crops up to take its place/begin at birth and end at death.
- (ii) They continually change with time, age and gender. What is required when it is cold may not be the same as what is required when it is hot.
- (iii) They are habit forming - once an individual develops taste for a commodity he/she tends to use it over and over again.
- (iv) Require resources - limitation in resources required means only a few human wants are fulfilled/require resources in order for them to be satisfied.
- (v) They are universal/common to all human beings - all human beings need goods and services for existence though quantities may vary.
- (vi) They are competitive - wants compete for attention each yearning to be satisfied.
- (vii) They vary in intensity - urgency/some wants are more felt than others eg. basic wants/some may not be postponed.
- (viii) They are complimentary - satisfaction of one creates a second derived from the first. eg. for the second to be satisfied, it requires to be complemented by the first while others are satisfied jointly.
- (ix) Insatiable - wants cannot be fully satisfied.
- (x) Recurrent/repetitive - once satisfied they are felt again.

Any 5 x 2

(10 marks)

4. (a)

**Chui Trader's Trading, Profit and Loss Account**

**Chui Traders  
Trading, Profit and Loss Account  
For the year ended 31st December 2014**

	Ksh				Ksh
Opening stock		10,000	Sales	28,000	
Add: Purchases	15,000		Less: Returns inwards	<u>800</u>	
Carriage inwards	<u>1,200</u>				27,200
		16,200			
Less: Returns outwards	<u>1,100</u>	<u>15,100</u>			
Cost of goods available for sales		25,100			
Les: Closing stock		<u>2,500</u>			
Cost of sales		22,600			
Gross profit c/d		<u>4,600</u>			
		<u>27,200</u>			<u>27,200</u>
Expenses			Gross profit b/d		4,600
Carriage outwards		1,200	Add: Rent		580
Discount allowed		300	Discount received		1,620
Insurance		950			
Net profit		<u>4,350</u>			
		<u>6,800</u>			<u>6,800</u>

20 ticks x  $\frac{1}{2}$

(10 marks)

**(b) Five methods of determining the price of a product other than price control:**

- (i) Bargaining/Haggling - terms of exchange is negotiated /argued/debated between buyers and sellers.
- (ii) Demand and supply/price mechanism - Interactions between forces of demand and supply.
- (iii) Auction - prices determined by the highest bidder.
- (iv) Tendering - prices determined by the lowest bidder who meets the required specifications.
- (v) Price fixing/ retail price maintenance / recommended retail price - as producers / manufacturers / producer agree on the price of commodities.
- (vi) Prices collusion - where different market players (such as sellers/buyers) conspire to fix the price.
- (vii) Taxation/subsidies - which will influence the selling/buying price.
- (viii) Private treaty - sale of property at a price agreed on by the seller and buyer without an intervening agency.

Any 5 x 2

(10 marks)

5. (a) **Trends in office management:**

- (i) Location - Organizations tend to move away from congested town centres to peri-urban areas/outskirts.
- (ii) Use of modern equipment/computer/automation - organizations have adopted modern equipment / computers for efficiency to make work easier.
- (iii) Open office layout /landscaped - adopted to facilitate supervision and economize on floor space/ improve ambiance/comfort in the office.
- (iv) Engagement of multi skilled staff able to carry out different tasks/ to save on labour costs/ wage bill.
- (v) Innovative ways of motivating staff eg. tours, meals at work
- (vi) Capacity building to develop staff skills.
- (vii) Time management - use of biometric clocking system to control staff movement.
- (viii) Customer care services/desk - to enhance customer satisfaction.
- (ix) HIV/AIDs awareness/policy to sensitize employees/ avoid discrimination.
- (x) Stress management - to promote good health/coping of the work place.
- (xi) Corporate social responsibility - to give back to the community.
- (xii) Use of name tags/badges for identification of employees.

Any 5 x 2

(10 marks)

(b) **Advantages of government involvement in business.**

- (i) Provision of essential services/good at fair prices/affordable/reasonable.
- (ii) Provision of large capital investment - undertake ventures that require large sums which private sectors may not be able to raise / without which development would be minimal.
- (iii) Protection of citizens - from exploitation/malpractice by businesses.
- (iv) Stimulation of economic development - by developing social ammenities/ infrastructure roads / injecting funds into economy through development projects.
- (v) Creation of employment - to create jobs for its citizens to earn a living/improve their standard of living.
- (vi) Income generation - to increase government revenue through licensing/taxation/ to finance public expenditure.
- (vii) Stabilization of the economy through regulation/market intervention.
- (viii) Promotes equity/fairness in the distribution/use of resources.
- (ix) Control use of resources through conservation/legislative measures / to ensure their sustainability.
- (x) Maintenance of law/order - for smooth operations of a country's affairs.
- (xi) Promotion of best practices - through encouraging adoption of ICT/good governance/social programmes/inclusivity.
- (xii) Promotes investment in the country by creating an enabling environment.
- (xiii) Promotes country's identity/image - through cultural programmes /branding initiatives

Any 5 x 2

(10 marks)

6. (a) **Benefits that Kenya may enjoy by being a member of the African Development Bank (ADB/AFDB).**

- (i) The country will obtain loans/credit for economic /social advancement/ development.
- (ii) Kenya will get technical assistance /expert advice/consultancy to strengthen and execute development programmes.
- (iii) Kenya will get assistance in policy coordination / development formulation for effective implementation of projects.
- (iv) The country will get technological assistance to utilize its economic resources.
- (v) The country will enjoy cooperation/support from regional economic institutions in Africa/internationally.
- (vi) The country will gain from capital funding for public/private investment that boost development.
- (vii) Promote better/effective use/management of funds/resources/accountability through oversight/monitoring by AFDB agencies.
- (viii) Boosts the country's credibility/image/credit standing - thus enabling it access more funds (from international lenders/development partners) since AFDB can guarantee the country for funding.
- (ix) Kenya can get international platform/opportunity /forum - to promote its development agenda.
- (x) Cheap affordable credit/easy terms - due to low interest rates/longer repayment period.

Any 5 x 2

(10 marks)

(b) **Features of under development.**

- (i) High population growth - the growth rate of population is higher than output.
- (ii) Dominant large subsistence sectors - traditional subsistence sector such as agriculture tend to dominate the economies.
- (iii) High level of poverty - large proportion of citizens live below the poverty line.
- (iv) Low level of technology - due to lack of capital to acquire modern technology leading to low quantity/quality of output.
- (v) Disparity in income distribution - much of the wealth is in the hands of few individuals while majority are poor.
- (vi) Low levels of savings - due to low per capita income leading to low investment.
- (vii) Under utilization of natural resources - natural resources remain under exploited due to lack of capital / appropriate technology / skills/knowledge.
- (viii) Low levels of investment due to limited markets/low savings/capital.
- (ix) Poor governance - due to corruption/embezzlement/mismanagement of resources/misappropriation/lack of transparency/accountability.
- (x) Limited market/low demand - due to low levels of income.
- (xi) High rates of unemployment - due to low levels of economic activities.
- (xii) Negative social/cultural practices - which hinders production /consumption.
- (xiii) High levels of illiteracy - leading to ignorance/limited exposure.

Any 5 x 2

(10 marks)