**TOP KCSE EXAMINATIONS – 2016**

**BUSINESS STUDIES**

**FORM 4**

**JULY/AUGUST**

**565/2**

**MARKING SCHEME**

1. (a) Explain any **five** sources of business ideas. (10 marks)

* Newspapers-Local newspapers like the Daily Nation, Standard e.t.c especially in the business and advertising sections have a lot of information about commercial opportunities as well as personal services.
* Shows and exhibition-Visiting shows and exhibitions organized by manufactures and distributors and asking questions from the sales persons. Entrepreneurs can also get business ideas from products displayed in such shows.
* Copying/improving an existing business-This involves identifying the weaknesses of a business and trying to come up with solutions.
* Identifying a market gap (niche)-An entrepreneur may try to identify/spot the needs of consumers which are not being met by the existing goods and services.
* Listening to what people say-By listening keenly to what people say, one can identify unsatisfied needs e.g. complaints about goods and services in the market. These complaints may form a basis of a business idea for an entrepreneur.
* Magazines and journals-Reading magazines and journals with business information may equip an entrepreneur with new business ideas.
* Hobbies –These are activities pursued for pleasure but they can also serve as a source of business ideas e.g. photography.
* Vocational training and experience-A business idea may be developed from one’s own area of training or experience e.g. a doctor may use ideas from his/her training to start a private hospital.
* Surveys and market research-This involves conducting an investigation to gather information from consumers on what products they require.
* Brain storming-An entrepreneur can engage other people in a discussion on how best to develop businesses.
* Listing attributes of a product-By listing the attributes of a product that is already existing in the market, one can find new use for the product.

**Any 5**

(b) Discuss **five** macro-environment factors that affect business. (10 marks)

* Economic environment

These are factors that influence the buyer’s willingness and ability to buy goods and services. These include consumers’ incomes, taxes rates, prices of commodities etc.The business can fail if consumers incomes are low, prices of goods are high, tax rates are high, bank interest rates are high, and high levels of inflation

* Demographic environment

This refers to population changes.A growing population creates a wider market for goods and services; this will lead to the success of the business while a declining population may lead to the failure of the business.

* legal-political environment

This refers to the laws and policies enacted by the government to regulate of business activities.

If the government passes favourable policies towards a business, for example low taxation rates, gives subsidies etc. the business is likely to succeed because this will make prices of goods of that firm to be low hence high demand of its goods, compared to a situation whereby the government charges high taxes and withdraws subsidies. political stability in a country is an opportunity as it creates a conducive environment for a business to thrive but political instability may lead to business failure

* Technological environment.

A business that uses modern technology in production will produce better quality goods and at lower prices. This will attract more customers leading to its success, compared to a business that uses out-dated technology as this will lead to poor quality goods, low demand and collapse of the business.

* cultural environment

Culture refers to norms that regulate behaviours of people in the society. It includes customs, values, religion and believes that are shared by a given community. Culture dictates what goods and services people will consume. For example Muslims don’t consume pork and therefore a pork selling business in a muslin community will fail.

* competitive environment

This is an environment whereby firms are trying to out do one another in their efforts to maximize profits.

Competition may lead to the collapse of a business if it can not cope.

* Physical environment – physical environment includes factors like: relief, climate infrastructure like water supply electricity etc. favourable climate will lead to success of agro based businesses while drought may lead to poor performance as well as collapse of the business.

**Any 5 well discussed.**

1. (a) Discuss **five** factors that may make it possible for an insurance company to reinsure.

(10 marks)

* Value of property. When the value is great, the risk is too high to be borne by a single insurer.
* Need to spread the risk especially when there is wish to share liability in case of occurrence of a major loss.
* Number of risks covered. It is costly to compensate many claims at once when the insurance company has insured many different risks.
* Government policy. The government may make a legal requirement for an insurance company to reinsure.
* High risks of loss. When chances of loss through insured risks are high, it becomes necessary to re-insure.

(b) Study the balance sheet and answer the following questions below

**JIRE TECHNOCRATS LTD**

**Balance sheet**

**As at 31st Dec 2015**

**Fixed Assests** **Capital** 400 000

Premises 400,000 Add Net profit 250, 000

Furniture 50,000 Less drawings (150,000) 800 000

Machinery 150,000

Motorvehicle 300,000 (900,000) **LTL**

**Current Assests** Mortage loan 300000

Stock 300,000 Bank loan 100000 400, 000

Debtors 130, 000 **Current liabilities**

Cash at bank 70 000 Creditors 250 000

Cash at hand 50 000 (550, 000)

**1 450 0000**  **1 450 000**

**Calculate:**

i) Working capital (WC) (2 marks)

ii) Return on capital (ROC) (2 marks)

iii) Borrowed capital ( 2marks)

iv) Current ratio (2 marks)

v) Quick ratio ( 2 marks)

i) WC = CA - CL

= 550 000 – 250 000🗸

= 300 000🗸

ii) ROC = Net profit x 100

Capital invested

= 250 000 x 100

400 000 🗸

= 62.5%🗸

iii) Borrowed capital = Long term loan🗸

= 400, 000🗸

iv) CR / WCR = CA

CL

= 550 000 x 100

250 000 🗸

= 220%🗸

v) Quick Ratio = CA - stock

CL

= 550 000 – 300 000 x 100

250 000 🗸

= 100%🗸

1. (a) Explain **five** factors that influence the level of income in a country. (10 marks)

* Quantity and quality of production. If the factors are more in terms of quantity of good quality, the output will be high hence increasing in national income.
* State of technology. A country with high level of technology will produce goods in large volumes hence high national income.
* Political stability. Countries which are relatively stable politically experience high production hence high national income level.
* Accuracy of accounting systems. If the methods used to gather data are accurate, then the overall statistical figures will the accurate hence reliable.
* Proportion of the subsistence sector. Subsistence sector’s output is not normally included in the statistical figures. If it represents a large proportion, therefore the national income level will be low.

**Accept any other relevant point**

(b) Discuss **five** factors that influence the choice of a distribution channel in business.

(1 mark)

* Product nature. Perishable products should be sold directly to the consumers because delays may result to losses since they go bad fast. In addition, bulky products need direct selling in order to reduce transportation and stock handling costs.
* Nature of the market. Where the market is concentrated in one area, direct selling is appropriate. A longer channel of distribution is preferred where the market is widely spread.
* Role of intermediary. The channel chosen should be able to perform the services related to the product being sold e.g. for technical goods, the middleman should be able to offer technical support to the customers.
* Resources and size of the firm/producer. If the producer is small, then direct selling would be appropriate. Large firms with sufficient financial resources can opt for long channels of distribution.
* Channels used by competitors. If a firm wants its products to compete with those of the competitors, then is it prudent to use similar channels. A firm that wants to avoid competition should use a different channel of distribution.
* Government policy. The channel chosen should be able to meet government regulations such as all middlemen distributing pharmaceutical products must be recognized by the relevant government bodies (Pharmacy and Poisons Board).
* Marketing risks. In the event the firm wants to avoid risks related to distribution, it will opt for middlemen.

1. (a) Explain **five** reasons why a citizen has to be taxed in Kenya. (10 marks)

* Raising revenue for government expenditure. This is the main reason for taxation.
* Discouraging /controlling consumption of certain commodities e.g. alcohol and cigarattes which are considered to be harmful.
* Discouraging importation of certain commodities in order to protect local industries. This is done by imposing heavy taxes on such commodities.
* Controlling inflation. Taxation reduces money supply by reducing peoples ‘disposable’ income thereby controlling inflation.
* Reducing inequality in income distribution; this is done by taxing the rich heavily and using the finances raised in provision of goods and services that benefit the poor.
* Influencing locations of businesses. This is done by taxing businesses located in urban areas heavily and those in rural areas lightly hence businesses moving to rural areas.
* Correcting unfavorable balance of payments. High taxes are imposed on imported commodities thereby discouraging their importation leading to an improvement in the balance of payments.
* To protect the key selectors of the economy such as the agricultural sector, by stimulating their growth.

(b) Explain **five** measures taken by the central bank of Kenya (CBK) to control credit. (10 marks)

* Open market operations – buying or selling securities to the public to regulate circulation
* Increase compulsory deposits – The Central bank authorizes the banks to raise amount of money deposited with central bank. This reduces money available to lend.
* Raising ban rates – This makes borrowing expensive hence reduces money in circulation
* Raise liquidity ratio – Central bank should raise the cash ratio so as to reduce lending
* Moral persuasion – The Central bank may instruct banks to lend to the specific sectors

**Any other relevant point**

1. (a) Explain **five** essentials of effective communication. (10 marks)

* The sender/communicator who is a person who the message originates and who puts the message in the communicative form.
* Message which is the information to be sent which can be in form of words, symbols, pictures, etc.
* Encoding which is the process of expressing ones ideas in form of words, symbols, gestures and signs to convey the message.
* Medium/channel which is the means like letters, telephones, emails, etc used in communicating.
* The receiver who is the person fro whom the message is intended.
* Decoding which involves interpreting or translating the encoded message to derive the meaning from it.
* Feedback is the reaction of receiver of the message.

(b) Discuss **five** reasons for government involvement in training of people in business.

(10 marks)

* In order to expose business persons to modern developments in management.
* Introduce modern technology and skills I management.
* Educate the business people on efficient methods of operating a business, for example, effective methods of advertising.
* Impart proper business ethics like good customer relations and honesty.
* To create awareness of available profitable business opportunities in their environment.
* Expose business people to government policies regarding business activities in the country.
* Educate business persons on how to use available resources to minimize costs and maximize profits.
* Expose people to other opportunities that exist in the import and export market.

1. (a) Explain **five** importance of profit and loss account. (10 marks)

* It shows the revenue earned, and all the expenses incurred during the accounting period
* It used to determine the net profit/net loss of a given trading period
* It is a requirement by the government for the purpose of taxation
* May be used by the employees to gauge the strength of the business, in terms of its ability to pay them well
* It is vital for the prospective investor in the business, in terms of determining the viability of the business
* The creditors or loaners may use it to asses the business ability to pay back their debts
* It is used by the management to make a decision on the future of their business.

(b)Kimutai had the following assets and liabilities as at 1.7.2015.

Cash at Bank 80,000

Debtors 40,000

Creditors 50,000

Stock 30,000

Cement 45,000

**Additional information**:

July 4: Purchased stock worth Sh.20,000 on credit.

5: Sold some cement for Sh.20,000 by cheque.

10: Received Sh.15,000 cash from debtors.

20: Sold stock Sh.20,000 paid by cheque.

Prepare the relevant **ledger accounts**. (10 marks)

**Kimutai’s ledger account.**

**Bank a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 1  5  13 | B/d  Cement  Sales | 80,000 🗸  20,000 🗸  15,000 🗸 | 20 | C/d | 115,000 |
|  |  | 115,000 |  |  | 115,000 |

**Debtor’s a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 1 | B/d | 40,000 🗸 | 10  20 | Cash  C/d | 15,000 🗸  25,000 🗸 |
|  |  | 40,000 |  |  | 40,000 |

**Creditor’s a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 20 | B/d | 100,000 🗸 | 1  4 | B/d  Purchases | 80,000 🗸  20,000 🗸 |
|  |  | 100,000 |  |  | 100,000 |

**Purchases a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 1  4 | B/d  Creditors | 30,000 🗸  20,000 🗸 | 5 | Bank | 50,000 🗸 |
|  |  | 50,000 |  |  | 50,000 |

**Cement a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 1 | B/d | 45,000 🗸 | 5  20 | Bank  C/d | 20,000 🗸  25,000 🗸 |
|  |  | 45,000 |  |  | 45,000 |

**Sales a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 20 | C/d | 20,000 🗸 | 20 | Bank | 20,000 🗸 |
|  |  | 20,000 |  |  | 20,000 |

**Cash a/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| July 2015 |  |  | July 2015 |  |  |
| 10 | Debtor | 15,000 🗸 | 20 | C/d | 15,000 🗸 |
|  |  | 15,000 |  |  | 15,000 |

(20 x ½ = 10 marks)