

## 5.6 BUSINESS STUDIES (565)

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

1. Circumstances under which cash with order may be used include:

- (a) When the business is being conducted through post/mail order business.
- (b) When the buyer is new to the seller.
- (c) When the buyer's credit worthiness is in doubt.
- (d) When it is the seller's policy not to advance credit.
- (e) When the seller wants to avoid the high cost of debt collection.
- (f) When the seller needs working capital.

*(Any 4 x 1 = 4 marks)*

2. Benefits that a farmer may derive from being a member of a producer co-operative society include:

- (a) May receive inputs e.g. fertilizer at fair prices.
- (b) The society may get better prices for the member's produce.
- (c) May get transport facilities for produce to the market.
- (d) May get better storage facilities for the produce.
- (e) The society may grade, package and process the produce for the member.
- (f) May receive input on credit from the society.
- (g) Can acquire skills on better methods of production.
- (h) May get dividends earned on shares held.

*(Any 4 x 1 = 4 marks)*

3. Benefits of globalization to a business enterprise include:

- (a) Facilitates application of better technology for improved products.
- (b) Encourages collaboration among businesses from different countries.
- (c) Makes it possible to share new production techniques among the countries of the world.
- (d) The business accesses a wider market.
- (e) Facilitates the sharing of research findings by business globally.
- (f) Enables business enterprises to take advantage of resources found in other parts of the world without relocating there.

*(Any 3 x 1 = 3 marks)*

4. Ways in which consumers may protect themselves against exploitation include:

- (a) Inspecting goods before buying.
- (b) Enlightening themselves about their rights as consumers.
- (c) Familiarizing themselves with the obligations of traders.
- (d) Forming consumer associations.
- (e) Reporting cases of exploitation by traders to relevant authorities.
- (f) Avoiding traders identified as exploiters.
- (g) Demonstrate peacefully against the exploiter.
- (h) Complain through the media.

*(Any 4 x 1 = 4 marks)*

5. Circumstances under which the following communication services may be used are:

- (i) Paging - when there is need to call a person to attend to an emergency in a specific location.
- (ii) Facsimile (fax) - where there is need to send a copy of a printed document urgently.
- (iii) Radio call - when there is need to give co-ordinated information through a central point.

*(3 x 1 = 3 marks)*

6.

Marigi Traders  
Trading Account  
for the year ended 30<sup>th</sup> June 2009

	Shs		Shs
Opening Stock	165,000	Sales	980,600
Add: Purchases	<u>720,000</u>		
Cost of goods available for sale	885,000		
Less: Closing stock	<u>100,520</u>		
Cost of goods sold	784,480		
Gross profit $\left(\frac{20}{100} \times 980,600\right)$	196,120		
	<u>980,600</u>		<u>980,600</u>

*(10 x  $\frac{1}{2}$  = 5 marks)*

7. Tools of monetary policy that may be used by a government to reduce excess money in circulation include:

- (a) Open market operations - to sell government securities through the Central Bank.
- (b) Bank rate - raising interest rate on loans to banks.
- (c) Cash/Liquidity ratio can be raised for commercial banks.
- (d) Directives - can be given to commercial banks to charge higher interest rates on credit.
- (e) Raising margin requirement - raise the value of assets required as security for loans.
- (f) Selective credit control - freeze lending to some sectors of the economy.
- (g) Increase compulsory deposits made by banks to the central bank.
- (h) Use moral persuasion to reduce the supply of money.

*(Any 4 x 1 = 4 marks)*

8. Circumstances under which each of the following types of inflation may occur include:

(i) Creeping inflation

- (a) When the general price levels rise gradually over a period of time usually at single digit.
- (b) Where the value of money tends to be stable over time and the effects on the economy is not severe.

*(Any 1 x 2 = 2 marks)*

(ii) Hyper inflation

- (a) Where the general price levels rise at high rate usually more than two digits.
- (b) Where there is drastic loss in the value of money and the effect on the economy is very severe.

*(Any 1 x 2 = 2 marks)*

9. Forms of economic integration include:

- (a) Common Markets - to have a common currency to increase free trade and full mobility of factors of production.
- (b) Free Trade Areas - where barriers such as tariffs and quotas are removed.
- (c) Customs Unions - member countries charge common external tariffs.
- (d) Economic Union - where common economic institutions like banks are set to deal with monetary policy.

*(4 x 1 = 4 marks)*

10. Problems of development planning that a country may experience include:

- (a) Inadequate data on economic performance.
- (b) Unreliable data which may not be useful in planning.
- (c) Less qualified personnel to cope with the tasks of development planning.
- (d) Private sector activities are not easily coordinated.
- (e) Political rigidity.
- (f) Inappropriate use of technology.
- (g) Unplanned population.
- (h) Over-reliance on donor funding.

*(Any 4 x 1 = 4 marks)*

11. Benefits that a farming community would get from Nyaboke's shop include:

- (a) They can buy farm inputs from the shop.
- (b) They can buy consumer goods from the shop.
- (c) They can get goods on credit.
- (d) They can sell some of the farm produce to Nyaboke.
- (e) The shop can be used as a communication centre.
- (f) The shop can offer employment opportunities.
- (g) The shop ensures steady supply of goods to them.

*(Any 4 x 1 = 4 marks)*

12. Features of indirect production include:

- (a) Goods are produced for sale.
- (b) Goods are produced in large quantities.
- (c) There is specialization in production.
- (d) High quality goods are produced.
- (e) Modern technology is extensively used.
- (f) Promotes interdependence.

*(Any 4 x 1 = 4 marks)*

13. Factors that may lead to the success of a business include:

- (a) Availability of capital.

- (b) Developed infrastructure.
- (c) Availability of skilled labour.
- (d) Government support.
- (e) Access to markets.
- (f) Aggressive marketing.
- (g) Proper management of the business.
- (h) Availability of security.
- (i) Political stability.

*(Any 4 x 1 = 4 marks)*

14. Ways in which a good filing system facilitates the operations in an office include:

- (a) Easy retrieval of information.
- (b) Office is kept tidy.
- (c) Information is preserved for future reference
- (d) Security of documents is ensured.
- (e) Facilitates quicker decision making.
- (f) Ensures confidentiality of information by controlling access by unauthorized people.
- (g) Saves on office space.

*(Any 4 x 1 = 4 marks)*

15. Benefits that a country gets by encouraging trade among her citizens include:

- (a) Facilitates exchange of goods between people from different regions.
- (b) Creates employment opportunities.
- (c) Earns tax revenue from businesses.
- (d) Enhances relationships between communities.
- (e) Opens up remote areas.
- (f) Encourages specialization.
- (g) Improves the standards of living for citizens.
- (h) The country is able to dispose off her surplus produce.

*(Any 4 x 1 = 4 marks)*

16. Challenges that may be encountered in measuring national income using the output approach include:

- (a) Deciding on what goods and services to include in measuring national income.
- (b) Inadequate output data.
- (c) Some activities earning income are considered illegal and not included in the measurement of national income.
- (d) Determining the value of national output.
- (e) How to value output in the subsistence sector.
- (f) Deciding on the price to use for the goods that have been kept as stock.
- (g) Problem of valuing government input as they are not factored at market rates.

*(Any 4 x 1 = 4 marks)*

17. Measures that a government may take to reduce the mortality rate in a country include:

- (a) Availability of modern medicine.
- (b) Improved standards of living.

- (c) Minimizing internal conflicts and wars.
- (d) Improving environmental sanitation.
- (e) Sensitization on public and personal hygiene.
- (f) Disaster preparedness e.g. on floods, fires.
- (g) Effect traffic laws to curb road accidents.
- (h) Control abuse of alcohol and drugs.

(Any 4 x 1 = 4 marks)

18.

Highlife General Stores  
Balance Sheet  
as at 31<sup>st</sup> December 2008

	Shs	Shs		Shs	Shs
<u>Fixed Assets</u>			Capital		870,000
Land and building	650,000				
Motor Van	<u>150,000</u>	800,000	<u>Long Term Liabilities</u>		
			10 year bank loan		500,000
<u>Current Assets</u>			<u>Current Liabilities</u>		
Stock	470,000		Creditors	220,000	
Debtors	350,000		Bank overdraft	<u>80,000</u>	<u>300,000</u>
Cash	<u>50,000</u>	<u>870,000</u>			<u>1,670,000</u>
		<u>1,670,000</u>			<u>1,670,000</u>

(10 x  $\frac{1}{2}$  = 5 marks)

19. Entries to be made:

- (i) Credit entry.
- (ii) Credit entry.
- (iii) Debit entry.
- (iv) Debit entry.

(4 x 1 = 4 marks)

20. Documents to issue:

- (i) Invoice.
- (ii) Debit Note.
- (iii) Receipt.
- (iv) Credit Note.

(4 x 1 = 4 marks)

21. Conditions under which a warehouse may be considered to be operating efficiently include:

- (a) The warehouse should be conveniently located.
- (b) The warehouse should be managed by qualified personnel.
- (c) Operational procedures and guidelines should be in place.
- (d) Security systems should be in place.
- (e) Should have specialized buildings and equipment.
- (f) Should have good communication network.
- (g) Should ensure proper record keeping.

(Any 4 x 1 = 4 marks)

22. Advantages of promoting sales through the internet include:

- (a) A firm can advertise goods universally.
- (b) Access to world markets for increased sales.
- (c) Instant receipt of orders from all over the world.
- (d) Payment received through electronic fund transfer (EFT).
- (e) Reduced paperwork on customer records.
- (f) Reduced cost of sales promotion.

*(Any 4 x 1 = 4 marks)*

23. Methods of determining prices other than the forces of demand and supply include:

- (a) Bargaining Haggling.
- (b) Abiding by government policy.
- (c) Tendering - offers are invited to quote for a price. Goods are sold to buyers with the quotation that best meets Zawadi's expectations.
- (d) Bidders make offers for goods and the bidder with the highest offer takes the goods (sale by auction).
- (e) Retail price maintenance - sell goods according to the dictates of the producer.
- (g) Can make use of written, audio, visual and motion facilities.
- (h) Offers faster delivery of adverts.
- (f) Price discrimination.

*(Any 4 x 1 = 4 marks)*

24. Factors that a firm may consider when deciding on the goods to produce include:

- (a) Expected demand - where demand is low, a firm will only produce a few goods or not produce at all.
- (b) Availability of capital resources - this would help decide on the level of production.
- (c) Time period - the firm must consider whether short or long term production is required.
- (d) Availability of labour - labour supply of the relevant skills would be required.
- (e) Cost of raw materials - the firm must consider availability and cost of buying and transporting raw materials.
- (f) Government policy - the firm must abide by the rules and regulations of the country.

*(Any 4 x 1 = 4 marks)*

25. Features of a perfectly competitive market include:

- (a) Large number of buyers and sellers.
- (b) The buyers and sellers have perfect knowledge of the market conditions.
- (c) No government interference in the market.
- (d) No transport costs are incurred.
- (e) Free entry and exit of firms.
- (f) There is perfect mobility of factors of production
- (g) Both buyers and sellers are price takers.
- (h) There is perfect mobility of factors of production.

*(Any 4 x 1 = 4 marks)*

## 5.6.2 Business Studies (565/2)

1 (a) Benefits of division of labour to an organization include:

- (i) Less time is spent in completing a job - there is less movement by workers while changing from doing one work to another.
- (ii) Increased production- people become more adept at their jobs as they do it repeatedly hence increasing productivity.
- (iii) Standardized goods - goods produced are of uniform quality which enhances customer satisfaction and the firm's image.
- (iv) Increased use of machines - work can be automated leading to lower costs of production.
- (v) Enhanced management - this facilitates control, co-ordination and accountability.
- (vi) High quality goods produced - people concentrate in doing jobs for which they are best suited which improves quality of output.
- (vii) Increased creativity and innovation - the organization may tap workers talents and skills which may help to modify existing products, develop new products, initiate new methods of production or discover new markets.
- (viii) Improved efficiency due to better use of resources.

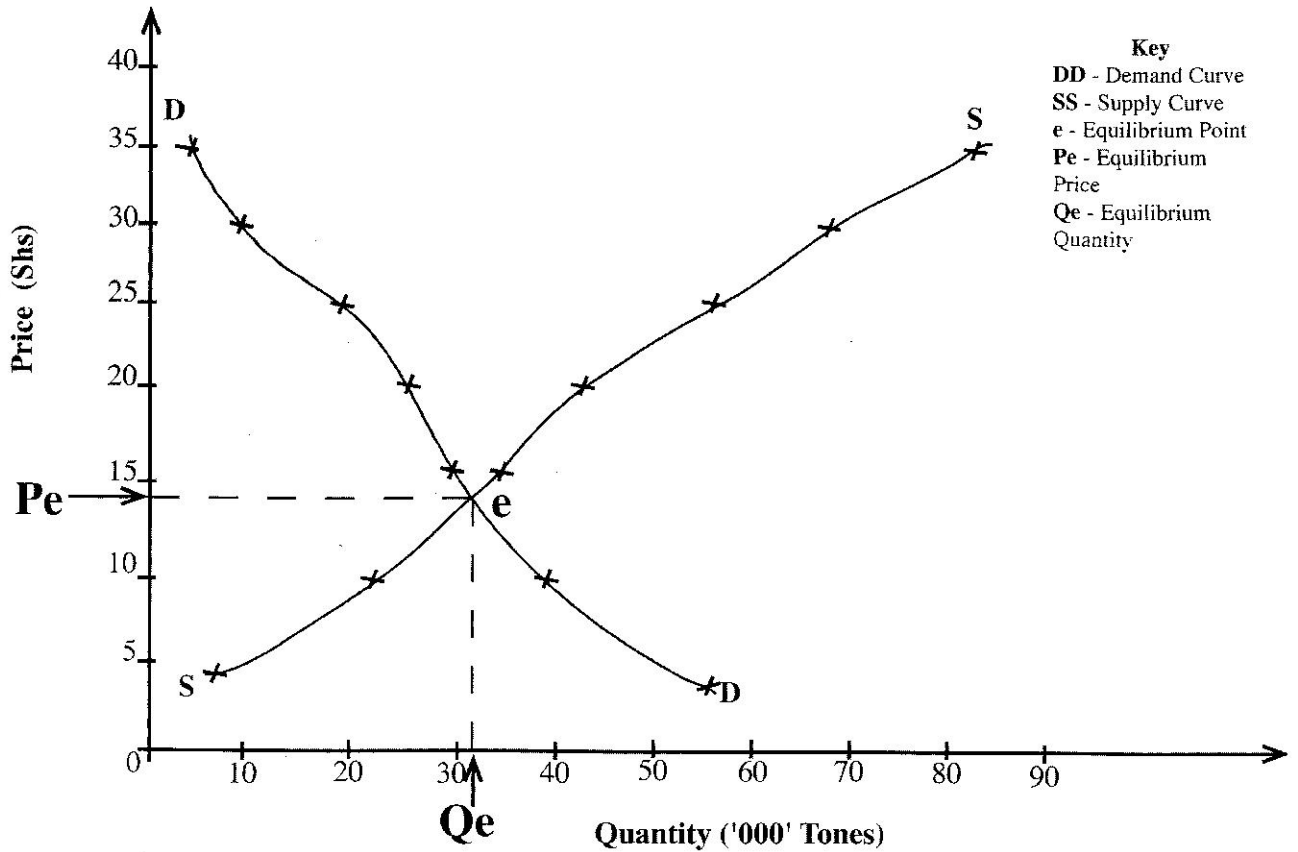
Any 5 x 2 = 10 marks

(b) Ways in which a computer may be used in an office include:

- (i) Data processing - data can be keyed into the computer which then sorts, organizes, analyzes and gives meaningful output.
- (ii) Storage of information - a computer has various storage devices where information can be kept for future reference.
- (iii) A tool for communication - A computer can be linked to the internet and other work stations to enhance sharing of information.
- (iv) Production of documents - can be used as a word processor to produce both soft and hard copies.
- (v) Assist in research - a computer provides a link with various sites where information can be sourced for research purposes.
- (vi) Assist in decision making - it has special programmes and models which may facilitate the decision making process for managers.
- (vii) Can be used for training and staff development - it is a tool for training during staff orientation and presentation.
- (viii) Entertainment - the computer has accessories for games, music and movies which can be used for relaxation while working.
- (ix) A tool of supervision can be used to monitor employee activities on-line.

Any 5 x 2 = 10 marks

- 2 (a) The demand and supply curves for product X showing its market equilibrium.



(20 x □ = 10 marks)

- (b) Merits of direct taxes to the government include:

- (i) Economical to collect - it provides higher revenue at lower costs of administration since collection is executed at the source e.g. PAYE.
- (ii) Certainty - the government knows the amount of tax, the manner and time of payment, hence budget and plan for it. It is also difficult to evade.
- (iii) Convenience - it is collected from the source at regular intervals making it easy and very convenient.
- (iv) Price stability - it is a useful tool for maintaining stable prices by affecting disposable income and consequently influencing aggregate demand.
- (v) Equity - the progressive nature of direct taxes distributes tax burden equitably, thus the government is able to redistribute wealth by heavily taxing those who earn more as opposed to those earning little.
- (vi) Simple to determine - Every wage level falls into predictable tax brackets.
- (vii) Easy to administer - It is very difficult to evade hence very easy to administer as the collection points are also fewer as opposed to collecting tax directly from individuals.
- (viii) It is elastic - it expands with increased income and population.

Any 5 x 2 = 10 marks



3 (a) Disadvantages that a country would suffer if she restricted trade with other countries include:

- (i) Development of monopolies - Monopolies may emerge due to lack of competition from possible rivals exposing consumers to exploitation.
- (ii) Reduced consumer choice - trade restrictions reduces the variety of goods and services available to consumers leading to lower standards of living.
- (iii) Trading conflicts - trading partners are likely to retaliate, leading to conflicts between the countries involved.
- (iv) Poor quality goods - protected domestic industries may produce poor quality goods and services due to lack of competition from established industries.
- (v) Lack of growth of infant industries - overprotected infant industries may not grow from infancy always seeking for continued protection.
- (vi) Reduced production capacity - this results from the reduced market as a result of the trade restrictions hence under-exploitation of available resources.
- (vii) Misallocation of resources - it may force a country to use her resources in areas where she has no comparative advantage.
- (viii) Costly to the government - this may happen if measures like subsidies are used to enhance restrictions by encouraging import substitution.
- (x) Encourages smuggling which leads to entry of counterfeit goods and loss of government revenue.

Any 5 x 2 = 10 marks

(b) Factors that may promote entrepreneurship in Kenya include:

- (i) Government support - favourable government policies on funding and regulation of business activities may encourage the emergence and expansion of business ventures.
- (ii) Training in entrepreneurship - trainees are equipped with skills and knowledge to undertake entrepreneurial activities.
- (iii) Cultural practices - some cultural practices encourage entrepreneurship through early exposure to business activities.
- (iv) Role models - interaction with successful business people may inspire entrepreneurship.
- (v) Availability of capital - capital for starting and expanding a business may facilitate entrepreneurship.
- (vi) Peer group influence - people may be encouraged to venture into business if they associate with friends who encourage them to do so.
- (vii) Availability of market - people venture into business to satisfy customers where there is a gap in their needs.
- (viii) Good infrastructure - This facilitates access to markets.
- (ix) Political stability. This encourages investment and fosters security.

Any 5 x 2 = 10 marks

4 (a) Characteristics of property insurance include:

- (i) The value of premium charged is dependent on the degree of risk. Higher premium will be paid for risks of high degree and vice versa.
- (ii) It is a contract of indemnity - the owner of the insured property is compensated for the loss of the property upon occurrence of the risk.
- (iii) It is a short term contract - the insurance contract ends after a specific period of

time usually one year and must be renewed for the policy to continue being in force.

- (iv) The owner of the property insured is the only one to be compensated - it cannot be assigned to a next of kin or to another individual.
- (v) It has no surrender value - should the insured stop payment of premium before expiry of the contract, he/she is not entitled to any refund from the insurer.
- (vi) There must be an insurable interest in the property to be insured. The insured must be in a position to suffer financial loss in the event of the risk covered happening in order to claim compensation.
- (vii) There is a maximum limit to the amount of compensation - This can be upto the value of the insured property in case of over insurance and the sum insured in case of under insurance.
- (ix) The risk insured is uncertain - it may or may not occur.

Any 5 x 2 = 10 marks

(b) Elements of effective communication include:

- (i) Sender - This is the source of the message.
- (ii) Message - This is the information to be communicated.
- (iii) Channel - This is the medium to be used in conveying the information/message.
- (iv) Encoding - This is the process of forming / generating the message.
- (v) Decoding - This is the process of interpreting the message so received.
- (vi) Receiver - This is the party (person) to whom the message is sent.
- (vii) Feedback - This is the receivers reaction or response to the message.

Any 5 x 2 = 10 marks

5 (a) (i)

**Laketi Traders'**  
**Profit and Loss Account**  
**For the year ended 31st December 2009**

Expenses	Shs		Shs
Commission allowed	12,400	Gross profit b/d	1,960,200
Insurance	7,500	Discount received	66,100
Lighting	4,600		
Salaries	78,00		
General expenses	117,800		
Net profit c/d	<u>1,806,000</u>		
	<u>2,026,300</u>		<u>2,026,300</u>

(10 x □ = 5 marks)

(ii)

**Laketi Traders'**  
**Balance Sheet**  
**As at 31st December 2009**

<b>Fixed Assets</b>	<b>Shs</b>	<b>Shs</b>		<b>Shs</b>	<b>Shs</b>
Premises	850,000		Capital	1,000,000	
Motor vehicle	800,000		Add: Net profit	<u>1,806,000</u>	2,806,000
Equipment	550,500				
Furniture	<u>350,000</u>	2,550,500	<b><u>Current Liabilities</u></b>		
			Creditors		820,000
<b><u>Current Assets</u></b>					
Stock	75,000				
Debtors	650,500				
Bank	200,000				
Cash in hand	<u>150,000</u>	<u>1,075,500</u>			
		<u>3,626,000</u>			<u>3,626,000</u>

(14 x □ = 7 marks)

(b) Characteristics of services include:

- (i) Varying quality over time - it is very difficult to standardize the service offered hence the quality cannot be uniform from time to time.
- (ii) Service cannot be stored for future use - service is only consumed at the time it is being offered and any unused service capacity cannot be stored.
- (iii) Service cannot be touched - it is intangible and can only be felt or experienced.
- (iv) Service cannot be separated from the service provider - the provider must directly offer the service to the user.
- (v) Service is perishable - service can only be offered at the time the provider is available.
- (vi) Services cannot be owned by the buyer - ownership cannot be transferred from the provider to the buyer. The buyer only pays for the experience.
- (vii) Services are mobile since they can be provided at different locations.

Any 4 x 2 = 8 marks

6 (a) Types of small scale retail shops that a school leaver may start include:

- (i) Single/unit shops - where the person can sell a wide range of goods in a small fixed shop.
- (ii) Kiosk - the person can put up a simple semi-permanent structure and sell fast moving goods.
- (iii) Tied shop - the person can operate from a permanent building but sell products of a particular manufacturer.
- (iv) Market stall - the person can hire a permanent bench/stall from the county council/municipal market from where to sell goods.
- (v) Canteen - the person can rent a room from an institution and stock goods from different manufacturers.

- (vi) Mobile shop - the person can acquire or hire a vehicle from where to sell goods by moving from one place to another.
- (vii) Automatic vending machines - can hire or buy coin-operated machines for selling goods.

Any 5 x 2 = 10 marks

(b) Circumstances in which a firm may acquire monopoly power include:

- (i) If the firm has the sole right to a production technique. This denies other firms the use of the technique.
- (ii) If the firm has control over strategic inputs. This makes the firm to have sole access to inputs used in the production of the commodity.
- (iii) If the firm is the only one with large capital required for the venture. Other firms may not be able to raise the capital leaving the field to one firm.
- (iv) If the firm enjoys economies of scale. This enables the firm to produce at a lower cost than the other firms.
- (v) If the firm is set up as a parastatal and given exclusive rights of production of a particular product by the government.
- (vi) If firms merge. When firms join together to form one large firm, this gives them advantage due to size.
- (vii) If it is the first firm in a small market that is served by one firm more economically. New firms entering the market may make losses due to low sales hence the original firm remains dominant.
- (viii) If the firm has patent rights/copyright which bars other firms from producing/selling the products.

Any 5 x 2 = 10 marks