

FORM THREE BUSINESS STUDIES

**TERM 2 2022 OPENER EXAM FORM 3
MARKING SCHEME**

SECTION A

1.State whether the following activities would satisfy basic or secondary wants. (4mks)

Activity	Want
a) Buying clothes for the family	Basic
b) Reading books	Secondary
c) Entertaining the Governor	Secondary
d) Building a house	Basic

2.State the type of partner described in each of the following statements. (4 mks)

- a) Under 18 years of age _____ *minor*
- b) Does not take active part in running of the business *passive/dormant/sleeping/silent*
- c) Has unlimited liability _____ *general*
- d) Allows his/her name to be used as if he/she is a partner _____ *nominal/quasi*

3. Name four methods of determining price of a product in a market. (4 mks)

demand and supply

Haggling/bargaining

Auction

tendering

4.State four roles of Nairobi Stock Exchange market. (4mks)

- Facilitates buying of shares-
- Facilitates selling of shares
- Safeguarding investors' interests
- Provides useful information
- Assist companies to raise capital

- Creation of employment
- Raising revenue for the government.
- Availing a variety of securities
- Fixing of prices
- Measures a country's economic progress
- Promotes the culture of saving

5. State four factors influencing an increase in demand of a product. (4 mks)

The price of a product
The buyer's income
Government policy
The population
Tastes, fashions and preferences
The distribution of incomes
Future expectations of price changes
The weather
Price of related products

6. Give four channels for distributing locally manufactured goods. (4 mks)

(The channel must start with local producer and end with local consumer.)

7. Highlight four advantages of a bonded warehouse to the government.

(4 marks)

Advantages of Bonded warehouse to the Government

- i. The government gets revenue by levying duty on the goods
- ii. The government is able to control the entry of harmful goods
- iii. The government is able to verify the documents for goods in transit
- iv. The government is able to check on the quantity, quality and the nature/type of goods imported.
- v. **The government is able to check on illegal goods entering the country.**

8. State four negative implications of overpopulation. (4mks)

Overutilization of resources

High dependency ratio

High rate of unemployment

Environmental degradation

Increased crime rates

9. State four factors that an entrepreneur would consider before investing in a business opportunity (4mks)

Availability of raw materials

Availability of market

Competition

Government policy

10. The following information was obtained from the books of Prime Suppliers for the year ended 31st Dec 2021.

Drawings 70,000

Profit 150,000

Additional investment 50,000

Capital 01/01/2020 240,000

Calculate Prime Supplier's capital as at 31st Dec 2021. (4mks)

Capital=I.C+A.I+P-D

$(240,000+50,000+150,000)-(70,000)$

$440,000-70,000=370,000$

11. State four factors to consider when giving credit to a customer. (4mks)

Credit worthiness

Availability of stock

Amount of goods the customer wants

Frequency at which the customer buys

Repayment period

12. State four advantages of joining Savings and Credits Co-operative Society(SACCO). (4mks)

- Helps members to save
- One gets loans at a lower interest rate
- Offers a variety of loan facilities
- Offer investment education to the members
- One earns through dividends

13. Roho Safi Merchants had the following balances for the end of the trading period on 31st Dec 2020.

Cash	40,000
Creditors	140,000.
Premises	400,000
Fixtures	180,000
Bank loan	160,000
Vehicles	100,000
Debtors	70,000

Prepare Roho Safi Merchants balance sheet as at 31st Dec 2020. (4mks)

Capital= assets-liability

$$(400,000+180,000+100,000+70,000+40,000)-(160,000+140,000)$$

$$790,000-300,000=490,000$$

Roho safi traders

Balance sheet

Ast at 31st dec 2020

<u>Assets</u>	<u>capital+ liabilities</u>
Premises 400,000	capital 490,000
Fixtures 180,000	Creditors 140,000.

Vehicles	100,000	Bank loan	160,000
Cash	40,000		
Debtors	70,000		
	<u>790,000</u>		<u>790,000</u>

14. State four factors that determine the size of a firm. (4mks)

- Level of output/volume of output
- Number of employs in the firm
- Floor area covered by the premises
- Size of the market controlled by the firm
- Capital invested
- Methods of production adopted
- Sales of volume

15. State four essential elements of communication. (4mks)

Sender

Message

Receiver

feedback



SECTION B

16 (a) explain five roles of the Nairobi stock exchange market. (10 mks)

- **Facilitates buying of shares-** it provides a conducive environment to investors who want to buy shares in different companies.
- **Facilitates selling of shares-** it creates a market for those who wish to sell their shares.
- **Safeguarding investors' interests-** it monitors the performance of the already quoted companies and those found not meeting expectations are struck off. Companies who want to be quoted must also attain a certain standard of performance.
- **Provides useful information-** it provides timely, accurate and reliable information to investors which enable them to make decisions on the investments to make. The information is passed on through mass media and stock brokers.

- **Assist companies to raise capital-** it assists companies to raise capital by creating an environment through which companies issue new shares to members of the public in an IPO.
- **Creation of employment-** it creates employment for those who facilitate the buying and selling of shares eg stock brokers, stock agents etc.
- **Raising revenue for the government-** the government earns revenue by collecting fees and other levies/ dues from activities carried out in the stock exchange market.
- **Availing a variety of securities-** it avails a variety of securities from which an investor can choose from. The market therefore satisfies needs of various investors eg investors who wish to buy from different companies can do so in the market.
- **Fixing of prices-** the stock exchange market is in a position to determine the true market value of the securities through the forces of demand and supply. This is of great importance to both the buyer and the seller.
- **Measures a country's economic progress-** the performance of securities in the stock exchange market may be an indicator of a country's economic progress e.g a constant rise in prices and volumes of securities traded within a given period of time would indicate that the country's economy is positively growing.
- **Promotes the culture of saving-** it provides investors with opportunities to channel their excess funds. Such people act as role models to other members of the society who may emulate them thereby promoting a saving culture.

(b) explain five factors to consider when selecting means of transport. (10mks)

- **Cost;** The cost of transporting a good should be reasonable; except where other factors should be considered such as need for quick delivery. Otherwise should be proportional to the value of goods transported.
- **Nature of goods;** The nature of goods should be considered when choosing a means of transport. For example, perishable goods require a fast means. Similarly, heavy and bulky goods require a means of transport convenient for such goods e.g. trains and ship.
- **Reliability;** The means chosen should be able to deliver the goods to the required place at the right time and in the right form.
- **Urgency;** For goods that are urgently required, the fastest means available should be chosen.
- **Safety and Security;** The means chosen should ensure that the goods on transit are secure against loss, theft or physical damages.
 - **Distance;** Some means of transport are suitable for long distances while others are suitable for short distances. If goods are to be transported for long distances, air, sea or

railway transport would be appropriate, otherwise roads would be suitable for short distances.

- **Availability of means;** The means of transport to be selected should be based on its availability. For example, where there is only one means of transport, it would be the only one to be chosen.
- **Flexibility;** This is the ability of means of transport to be manipulated to suit the convenience of the transporter. Where flexibility is required, then the means that would provide such should be chosen. For example a matatu is usually more flexible than an aeroplane.
- **Terminals;** Some means of transport may have their terminals near the transporter than others. In this case, the transporter should choose the means whose terminals are conveniently accessible to facilitate loading and offloading of goods.
- **Value of goods to be transported-** goods of high value require special handling and high security during transportation.

17. (a) explain five factors that lead to an increase in national income. (10mks)

- ✓ **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 be accurate hence reliable.
- ✓ **Entrepreneurship**
- ✓ **Labour supply**
- ✓ **Availability of land..i.e all natural resources e.g water,minerals and climate**
- ✓ **Attitude of citizens towards work**
- ✓ **Foreign investment**

(b) describe the procedure of taking an insurance policy. (10mks)

18. (a) explain five roles of intermediaries in the chain of distribution. (10mks)

(b) explain five advantages of sole proprietorship form of business. (10mks)

- ✓ The capital required to start the business is small hence anybody who can spare small amounts of money can start one.
- ✓ Few formal/legal procedures are required to set up this business
- ✓ Decision making and implementation is fast because the proprietor does not have to consult anybody
- ✓ The trader has close and personal contact with customers. This helps them in knowing exactly what the customers need and hence satisfying those needs
- ✓ A sole proprietor is able to assess the credit-worthiness of his or her customers because of close personal relationship. Extending credit to a few carefully selected customers reduce the probability of bad debts.
- ✓ The trader is accountable to him/herself
- ✓ A sole trader is able to keep the top secrets of the business operations
- ✓ He/she enjoys all the profit
- ✓ A sole proprietorship is flexible. One can change the nature or even the location of business as need arises

19. (a) explain five external environment factors that positively affects business operations. (10mks)

- ✓ Favorable economic environment e.g increase in consumer's income which increases their ability to buy goods and services
- ✓ High population...provides a ready market for goods and services
- ✓ Advancement in technology e.g in production methods which leads to production of goods and services that are of high quality
- ✓ Favorable cultural environment e.g a culture that accepts the products in the market
- ✓ Positive legal-political environment...e.g political stability and favorable business laws and policies
- ✓ Reduced business competition... the business should compete favorably
- ✓ Favorable physical environment e.g good infrastructure such as roads, favorable climate

(b) explain five ways in which the government of Kenya may reduce the level of unemployment. (10mks)

- ✓ Encourage employment creation in the private sector...e.g private companies so as to expand the job market

- ✓ Adopting policies that encourage the use of labour intensive methods of production e.g ban use of tea plucking machines so as to secure jobs for the laborers who plucks tea by hands.
- ✓ Adopting a relevant education system...e.g CBC which trains learners more on creating jobs/self employment rather than training to get employed.
- ✓ Diversification of economic activities e.g establishing manufacturing industries apart from agricultural activities alone.
- ✓ Increasing government expenditure e.g on projects that creates jobs
- ✓ Rural development e.g rural electrification
- ✓ Encouraging direct foreign investment...this creates more jobs
- ✓ Encouraging the use of local resources e.g the jua kali sector
- ✓ Population control e.g control rapid population which leads to mass unemployment

