KAKAMEGA CENTRAL SUB-COUNTY JOINT EVALUATION EXAM

Kenya Certificate of Secondary Education (K.C.S.E.)

BUSINESS STUDIES
PAPER 1
TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

• Write your name and index number in the spaces provided above
• Sign and write the date of examination in the spaces provided.
• Answer all the questions.
• All answers should be written in the spaces provided in this booklet.
• Candidates should answer all questions in English

For Examiners Use Only

| Question | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
|----------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Marks    |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

TOTAL MARK


This paper consists of 8 printed pages. Candidates should check to ascertain that all pages are printed as indicated and that no questions are missing.
1. Outline **four** element that may comprise the external environment of a business. (4 mks)
   
   (i) ……………………………………………………………………………………………………………
   
   (ii) ……………………………………………………………………………………………………………
   
   (iii) ……………………………………………………………………………………………………………
   
   (iv) ……………………………………………………………………………………………………………

2. Name the factor that each of the following resources relate to (4 mks)

   Resource | Factor of production
   --- | ---
   i) Manager
   ii) Vehicle
   iii) Cotton
   iv) Owner

3. Company XYZ is leading company that deals with product A. state four reasons why it is necessary for the company to prepare a plan. (4 mks)

   (i) …………………………………………………………………………………………………………
   
   (ii) …………………………………………………………………………………………………………
   
   (iii) …………………………………………………………………………………………………………
   
   (iv) …………………………………………………………………………………………………………

4. Highlight **four** reasons why firms tend to be localized in a particular area. (4 mks)

   (i) …………………………………………………………………………………………………………
   
   (ii) …………………………………………………………………………………………………………
   
   (iii) …………………………………………………………………………………………………………
   
   (iv) …………………………………………………………………………………………………………

5. Outline **four** disadvantages of containerization to a trader. (4 mks)

   (i) …………………………………………………………………………………………………………
   
   (ii) …………………………………………………………………………………………………………
   
   (iii) …………………………………………………………………………………………………………
   
   (iv) …………………………………………………………………………………………………………

6. State the **four** principles that govern the co-operative societies in Kenya. (4 mks)

   (i) …………………………………………………………………………………………………………
   
   (ii) …………………………………………………………………………………………………………
(iii) …………………………………………………………………………………………………………..
(iv) …………………………………………………………………………………………………………..

7. **Outline four features of a service.** (4mks)
   (i) …………………………………………………………………………………………………………..
   (ii) …………………………………………………………………………………………………………..
   (iii) ……………………………………………………………………………………………………………
   (iv) ……………………………………………………………………………………………………………

8. Personal selling is becoming popular in Kenya today. State four circumstances when it is appropriate (4mks)
   (i) …………………………………………………………………………………………………………..
   (ii) …………………………………………………………………………………………………………..
   (iii) ……………………………………………………………………………………………………………
   (iv) ……………………………………………………………………………………………………………

9. **Outline four circumstances under which a company may need to re-insure.** (4mks)
   (i) ……………………………………………………………………………………………………………
   (ii) ……………………………………………………………………………………………………………
   (iii) ……………………………………………………………………………………………………………
   (iv) ……………………………………………………………………………………………………………

10. Name the source document to which each of the following descriptions relate

<table>
<thead>
<tr>
<th>Description</th>
<th>Source Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Issued by seller to a buyer for cash paid</td>
<td></td>
</tr>
<tr>
<td>ii) Used for processing and authorizing payment</td>
<td></td>
</tr>
<tr>
<td>iii) Sent to a credit buyer to demand payment</td>
<td></td>
</tr>
<tr>
<td>iv) Used to correct overcharge</td>
<td>Source Document</td>
</tr>
</tbody>
</table>

11. The following information relates to kakamega Traders for the year ended 31st Dec 2014

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Carriage on sales</td>
<td>16000</td>
</tr>
<tr>
<td>Gross profit b/d</td>
<td>60000</td>
</tr>
<tr>
<td>Dividend received</td>
<td>10000</td>
</tr>
<tr>
<td>Insurance</td>
<td>8000</td>
</tr>
</tbody>
</table>
General expenses 6000

**Required**

Prepare the profit and loss account of Kakamega Traders for the year ended 31st Dec 2014. (4mks)

12. **Highlight four** reasons why horizontal communication is necessary in an organization. (4mks)
   (i) .................................................................................................................................
   (ii) .................................................................................................................................
   (iii) .................................................................................................................................
   (iv) .................................................................................................................................

13. **Outline four** important documents that are required in the registration of a public company. (4mks)
   (i) .................................................................................................................................
   (ii) .................................................................................................................................
   (iii) .................................................................................................................................
   (iv) .................................................................................................................................

14. **Outline the purpose of a trial balance as used in book keeping.** (4mks)
   (i) .................................................................................................................................
   (ii) .................................................................................................................................
(iii) .................................................................................................................................
(iv) .................................................................................................................................

15. State **four** demerits to a business that uses its own warehouse. (4mks)

(i) .................................................................................................................................
(ii) .................................................................................................................................
(iii) .................................................................................................................................
(iv) .................................................................................................................................

16. State the ledger in which the following accounts are kept. (4mks)

<table>
<thead>
<tr>
<th>Accounts name</th>
<th>Type of ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Drawing</td>
<td></td>
</tr>
<tr>
<td>ii) Return inwards</td>
<td></td>
</tr>
<tr>
<td>iii) Salary</td>
<td></td>
</tr>
<tr>
<td>iv) Patel tenders (Creditor)</td>
<td></td>
</tr>
</tbody>
</table>

17. Visitors to the offices of triple B Enterprises have been complaining of lack of etiquette from the secretaries. Highlight four measures that the secretaries can take to improve the office etiquette. (4mks)

(i) .................................................................................................................................
(ii) .................................................................................................................................
(iii) .................................................................................................................................
(iv) .................................................................................................................................

18. Classify the following as either assets or liabilities. (4mks)

<table>
<thead>
<tr>
<th>Item</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Creditors</td>
<td></td>
</tr>
<tr>
<td>ii) Pre-paid insurance</td>
<td></td>
</tr>
</tbody>
</table>
19. The following account balances were obtained from the books of Zolo Traders on 30\(^{th}\) June 2013

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance (Kshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle</td>
<td>240,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>200,000</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>440,000</td>
</tr>
<tr>
<td>Current assets</td>
<td>420,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>60,000</td>
</tr>
<tr>
<td>Capital</td>
<td>480,000</td>
</tr>
</tbody>
</table>

**Required** Prepare a trial balance for Zolo traders as at 30\(^{th}\) June 2013

20. Give **four** disadvantages of long chain of distribution of goods to a buyer (4mks)

(i) .........................................................................................................................

(ii) .........................................................................................................................

(iii) .........................................................................................................................

(iv) .........................................................................................................................

21. The following information relates to Wafula traders for the year ended 31\(^{st}\) Dec 2014

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount (Kshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital 1.1.2014</td>
<td>250,000</td>
</tr>
<tr>
<td>Additional investment</td>
<td>68,000</td>
</tr>
<tr>
<td>Drawing</td>
<td>92,000</td>
</tr>
<tr>
<td>Profit</td>
<td>180,000</td>
</tr>
</tbody>
</table>


**Required:** Calculate the capital of Wafula traders as at 31st Dec. 2014

(4mks)

22. The diagram below shows a shift in demand curve from \(D_0D_0\) to \(D_1D_1\)

Identify four factors that have made the demand curve to shift from \(D_0D_0\) to \(D_1D_1\)  

(i) ........................................................................................................................................

(ii) .........................................................................................................................................

(iii) .........................................................................................................................................

(iv) .......................................................................................................................................... 

23. State four types of market structures

(i) ........................................................................................................................................

(ii) ..........................................................................................................................................

(iii) ........................................................................................................................................

(iv) ........................................................................................................................................

24. Outline four factors influencing the level of national income in a country

(i) ........................................................................................................................................
25. State **four** components of business studies

(i) .................................................................

(ii) .................................................................

(iii) .................................................................

(iv) .................................................................
1. (a) Features of ordinary shares
   i). Unit of capital - holders are owners of the company
   ii). Earn dividend-as a return on investment
   iii). Usually irredeemable-they form a permanent source of capital
   iv). No fixed rate of return-dividends paid depend on the amount of profit earned /vary from year to year
   v). Have a greater risk-holders stand to lose most incase of losses /insolvency
   vi). Have full voting rights-on all decisions to be made/passed during AGM
   vii). Refunded shares capital last in the event of dissolution/winding up of the company (5x2=10mks)
(b) Reasons that may limit Kenya’s ability to exploit her natural resources
   i). Inadequate capital- to finance production activities
   ii). Inadequate skilled labour-to be employed in specialized /complicated work/that can be creative /innovative.
   iii). Unfovourable government policies-that discourage investment in certain areas.
   iv). Poor technology-which limits value addition in production processes
   v). Lack of market-due to stiff competition/high levels of poverty.
   vi). Poor entrepreural culture- which limits ability to start business/take risks (5x2=10mks)
2. (a) Differences between central Bank and Commercial Banks

<table>
<thead>
<tr>
<th>Central Bank</th>
<th>Commercial Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>i). Banker to the government/commercial banks</td>
<td>(i) Banker to individuals/other businesses</td>
</tr>
<tr>
<td>ii). Issue of currency/print/mint money</td>
<td>(ii) Circulate currency/Do not print /mint money</td>
</tr>
<tr>
<td>iii). Set up by an Act of parliament</td>
<td>(iii) Set up under the companies act</td>
</tr>
<tr>
<td>iv). Manages the countries foreign exchange reserves</td>
<td>(iv) Only allowed to buy/sell foreign exchange on behalf of the central bank</td>
</tr>
<tr>
<td>v). Financial/economic advisor to the government</td>
<td>(v) Provides financial advice to individual/other businesses</td>
</tr>
<tr>
<td>vi). Credit control/Regulates amount of money in the circulation economy</td>
<td>(vi) Do not control credit/only act of directions by central bank on credit control</td>
</tr>
</tbody>
</table>

(5x2=10mks)

(b) Factors that may lead to under-population in a country
   i). Low birth rate-leading to fewer live children being born each year
   ii). High death rate-leading to a large number of people dying in a very short time/every year
   iii). Low fertility rate-among women in the child bearing age
   iv). High infant mortality rate-due to a high number of child deaths
   v). Epidemic /natural calamity-which may claim a large number of people if not controlled
 vi). Large scale wars/conflicts-leading to heavy losses of life over a prolonged period (5x2=10mks)
3. (a) Jumbo Traders
   Balance Sheet
   As at 31st Dec 2014

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>CAPITAL AND LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIXED ASSETS</td>
<td>Sh</td>
</tr>
<tr>
<td>Land and building</td>
<td>50,000√</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>20,000√</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>30,000√ 100,000</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>10,000√</td>
</tr>
<tr>
<td>Debtors</td>
<td>6,000</td>
</tr>
<tr>
<td>Cash at Bank</td>
<td>10,000√</td>
</tr>
<tr>
<td></td>
<td>Sh</td>
</tr>
<tr>
<td>Capital</td>
<td>94,000√</td>
</tr>
<tr>
<td>Less Drawings</td>
<td>4,000√ 90,000</td>
</tr>
<tr>
<td>Long-term liabs</td>
<td></td>
</tr>
<tr>
<td>10 Year Loan</td>
<td>20,000√</td>
</tr>
<tr>
<td>6 year ICDC Loan</td>
<td>10,000√ 30,000</td>
</tr>
<tr>
<td>Current Liabs</td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>7,000√</td>
</tr>
</tbody>
</table>
Cash at hand | 2,000√ | 28,000 | Rent owing | 1,000√ | 8,000 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>128,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(i)(a) Working capital = current assets - current liabilities
=28,000√-8,000√
=20,000√ (4x ½ =2mks)
(b) Capital employed = Fixed assets + working capital
OR
= capital + long term liabilities
CE=FA+WC=100,000+20,000
=120,000
OR
CE=C+LTL=90,000+30,000
=120,000
(c) Borrowed capital = long term liabilities
=20,000+10,00√
=30,000√ (4x ¼=1mk)
(b) Limitation of oral communication
i). No record - for future reference
ii). Costly/expensive - where sender and receiver are far apart
iii). May not be suitable for confidential messages since unauthorized person may listen in
iv). Limited reach especially where the audiences is large/widespread
v). Inappropriate gestures/body language - may lead to message being misinterpreted / communication being ineffective.
vi). Not suitable for technical/complicated messages e.g technical drawings/charts (4x2=8mks)
4. (a) Ways in which insecurity negatively affects running of business activities
   (i) Scare away investors - leading to low/poor investments
   (ii) Fear/mistrust among communities/people may impede interaction / movement
   (iii) Economic losses due to destruction of property/investments
   (iv) May cause shortages since goods/services may not flow freely / reach markets
   (v) Low production/productivity due to difficulty in accessing inputs/raw materials/destruction of inputs
   (vi) High costs of doing businesses - since investors have to finance their businesses/investments / insure their businesses / workers (5x2=10mks)
(b) Principles of Insurance
   (i) Insurable interest - exists where due to occurrence of a risk the insured is bound to suffer financial loss personally.
   (ii) Indemnity - Is the restoration of the insured to his/her former financial position before the loss occurred
   (iii) Utmost good faith/uberimae fidei - Puts an obligation to both insured and insurer to disclose all the material facts relating to the insurance contract
   (iv) Proximate cause - The cause of loss should have a direct / fairly close connection with the actual / real risk insured against
   (v) Contribution - Incase one insures property with two or more insurers to cover the same risk, the insurers will share proportionately / pro rata when it comes to compensation
   (vi) Subrogation - One insured is compensated fully the insurer acquire all the rights in the destroyed property
   Stating - 1mk
   Explanation - 1mk

NB Where the principle has not been stated the candidate will not earn any mark
5. (a) Circumstance under which a firm may locate near the source of raw materials
(i) if they are bulky/heavy-making it costly difficult to transport to the factory.
(ii) If they are highly perishable to avoid losses/them going bad/being damaged
(iii) Government policy–where the firm may have no alternative but to comply
(iv) Stiff competition-so as to access them first/faster before other firms
(v) Where the market for its goods is also concentrated near the source so as to serve/access the buyers easily/cheaply
(vi) If it is a subsidiary company/firm which relies on waste from primary firm as the source of its inputs

(5x2=10mks)

(b) Errors that a trial balance may not show

(i) Error of omissions-no record/entry of transaction is made in the ledger accounts
(ii) Error of commission-a transaction is recorded in the wrong account but of the same class with the correct account in which the entry should have been made (NB: Accept an illustration as explanation)
(iii) Error of principle-a transaction is recorded in the wrong account and also of the wrong class from that in which the entry should have been made (NB: Accept an illustration as explanation)
(iv) Error of compensation-the effect of the error in the different accounts is such that it cancels out the other. (NB Accept on illustration as explanation)
(v) Error of complete reversal of entries-where an account to be debited is credited and the one to be credited is debited
(vi) Error of original entry-where transposed figures of the correct amount are entered as debit and credit entries in the correct accounts. (NB Accept an illustration as explanation)

(5x2=10mks)

6. (a) Benefits of filing documents

(i) Tidiness/cleanliness–since papers are well arranged
(ii) Proper storage-for future reference
(iii) Safety-against loss/damage by pests/bad weather
(iv) Security-against theft
(v) Saves time-as it aids in quick retrieval when needed
(vi) Confidentiality–since documents are kept away from unauthorized access

(5x2=10mks)

(b) Measures the government can take to reduce income inequalities

(i) Equitable development-its expenditure should be spread fairly across all sectors/regions of the economy/country
(ii) Creation of jobs-to enable as many people as possible to earn income from employment
(iii) Fair taxation policies-to ensure that those who earn more are taxed higher/more than those who earn less
(iv) Affirmative action-in order to assist economically marginalized groups/people/regions to uplift themselves economically
(v) Provision of loans-to assist/encourage people to start businesses to earn an income
(vi) Social welfare-provide a living income to the old/aged unemployed
(vii) Provide social amenities/schools/hospitals-free at subsidized costs to the general public

(5x2=10mks)