

KIRINYAGA CENTRAL SUB-COUNTY JOINT EXAMINATION - 2015
565/1 BUSINESS STUDIES PAPER 1 MARKING SCHEME

1. **Services offered by wholesalers to retailers.**

- (a) Offer transport facilities.
- (b) Break bulk for benefit of retailers.
- (c) May offer advice to retailer for example on offer available.
- (d) Conduct sales promotion hence saving retailers the problem of having to do so.
- (e) Avail goods at places convenient to retailers.
- (f) They grade, sort, blend, pack and brand goods.
- (g) Stock a variety of goods therefore the retailer does not have to move to different producers.

(Any 4 x 1 = 4 marks)

2. **Benefits enjoyed by a trader who does not sell on credit.**

- (a) Does not suffer from bad debts.
- (b) Does not spend money on debt collection.
- (c) Does not incur cost of keeping records of debtor.
- (d) He/she does not suffer cash flow shortage/working capital is readily available.
- (e) Does not waste time following customers to pay.

(Any 4 x 1 = 4 marks)

3. **Features of a good filing system.**

- (a) Should occupy less space/compactness.
- (b) Should be simple and easy to understand/simplicity.
- (c) Should protect document from loss, misplacement, theft and destruction/safety.
- (d) Should be capable of expansion/elasticity.
- (e) Should be appropriate to the needs of the organization/suitability.
- (f) Should not be expensive to start and to maintain/economical.
- (g) Should be easy to retrieve information without disturbing other documents/ accessibility.

(Any 4 x 1 = 4 marks)

4. **Roles of an entrepreneur in production.**

- (a) Starts the business/project.
- (b) Controls the production process.
- (c) Makes the decision on what to produce and when to produce it.
- (d) Acquires and pays for all the factors of production.
- (e) Bears all the risks
- (f) Enjoys the profit
- (g) Pays all the expenses
- (h) Owns the whole project

(Any 4 x 1 = 4 marks)

5. **Reasons why a trader may prefer to transport his goods by train.**

- (a) If goods are heavy and bulky.
- (b) If goods are not perishable.
- (c) If the value of goods is high since cases of theft are rare.
- (d) When goods are not urgently needed.
- (e) When the distance is relatively long.
- (f) In case of large quantities because it has large carrying capacity.
- (g) Railway transport is cheap and economical over long distances.
- (h) In case the trader wants to make advance plans for movement of goods because trains follow regular timetables.
- (i) Railways stations have warehouses to store goods before they are collected by owners.
- (j) Railway stations have many cargo handling facilities for loading and off loading of goods hence saves time.

(Any 4 x 1 = 4 marks)

6. **Sources of monopoly power.**

- (a) The firm may have the sole right to a technique used in production.
- (b) A firm may control a strategic input or entire raw material used in the production of a commodity.
- (c) The initial capital investment required to set up a firm in a given line of production is very high and only one firm which can afford.
- (d) The firm may grow very big that it enjoys extensive internal economies of scale hence able to reduce cost of production.
- (e) The government may set up a parastatal and give it exclusive rights to produce.
- (f) A group of firms merge into one huge firm by combining all their operations.
- (g) If the firm has patent/copy rights which bans other firms from producing/selling the product.

(Any 4 x 1 = 4 marks)

7. **Problems experienced by a trader who stores goods in a public warehouse.**

- (a) Charges levied are relatively high.
- (b) Owner pays extra charges if goods overstay.
- (c) Location may not suit the trader.

- (d) Long procedure in documentation.
- (e) Competition for space with other traders.
- (f) Goods may get damaged.
- (g) Trader may lose contact with customer since they get goods from rented warehouse. (Any 4 x 1 = 4 marks)

8. **Injection into or leakages from the circular flow of income.**

	Item	Injection/Leakage
(a)	Savings	Leakage
(b)	Taxes	Leakage
(c)	Government expenditure	Injection
(d)	Investments	Injection
(e)	Exports earning	Injection
(f)	Expenditure on imports	Leakages

(6 x ½ = 3 marks)

9. **Balance Sheet** Tumaini Traders Balance Sheet
As at 31st December, 2011

	Shs			Shs	
Fixed Assets		Capital	960,000	✓✓	
Motor vehicle	600,000				
Equipment	400,000	Long term liabilities			
		5 year bank loan	350,000	✓	
Current Assets		Current liabilities			
Stock	220,000	Creditors	150,000	✓	
Debtors	250,000	Bank overdraft	70,000	✓	
Cash	60,000				
	<u>1,530,000</u>		<u>1,530,000</u>		

(10 x ½ = 5 marks)

10. **Ledger Accounts.**

Furniture a/c		
2010		Shs.
Jan 15 ✓	Rashid Traders ✓	100,000 ✓

Rashid Trader a/c		
2010		Shs.
Jan 15 ✓	Furniture ✓	100,000

Kanji Traders a/c		
2010		Shs.
Jan 20 ✓	Sales ✓	320,000 ✓

Sale a/c		
2010		Shs.
Jan 15 ✓	Kanji traders ✓	320,000

(12 x ½ = 4 marks)

11. **Type of inflation.**

	Description	Type of inflation
(a)	A rise in prices due to an increase in money supply.	Demand - pull
(b)	An increase in prices due to an increase in the prices of factors of production.	Cost - push
(c)	A rise in prices as a result of buying expensive goods from foreign countries.	Imported inflation
(d)	A rise in prices due to uneven growth in some sectors of the economy.	Cost - push

(4 x 1 = 4 marks)

12. **Causes of unemployment in Kenya.**

- (a) High population growth rate.
- (b) Low demand for goods and services which leads to closure of industries.
- (c) Minimum wage laws: People cannot be employed at rates below the set minimum as it would be illegal.
- (d) Shortage of capital which hinder the establishment and expansion of industries/ lack of factors of production.
- (e) Inappropriate education system: The education system does not instill the right skills that can be applied immediately after leaving school.
- (f) Choice of production methods: Choice of capital intensive methods where labour is abundant.
- (g) Seasonality in production/poor climatic conditions.
- (h) Job selection due to poor wages.

- (i) Poor government policy on job creation.
- (j) Inappropriate land tenure.

(Any 4 x 1 = 4 marks)

13. **Diseconomies of scale that a firm may face when it expands its operations.**

- (a) Difficult/complexity in management/managerial diseconomies.
- (b) Increase in overhead costs of production, marketing and promotion.
- (c) Slow decision making.
- (d) Wastage of resource due to lack of close supervision.
- (e) Lack of enough market to sustain capacity/marketing diseconomies.
- (f) Staff laxity, apathy and poor morale which decrease productivity.
- (g) Labour disputes and industrial unrest.
- (h) Underutilization of resources if it is producing below capacity.
- (i) Use of obsolete technology/technical diseconomies.

(Any 4 x 1 = 4 marks)

14. **Functions of the commercial banks.**

- (a) Accept deposits.
- (b) Provide safer means of payment.
- (c) Provide loan facilities/lending money.
- (d) Provision of foreign exchange.
- (e) Provide safe keeping for valuables.
- (f) Provide financial information/advice.
- (g) Provide money transfer facilities.
- (h) Discounts bills of exchange.
- (i) Acts as guarantors or referees.
- (j) Acts as intermediaries between savers and borrowers of money.
- (k) Provide trustee services.
- (l) Credit creation.

(Any 4 x 1 = 4 marks)

15. **Benefits of running a sole proprietorship business.**

- (a) Decision making and implementation is fast.
- (b) Owner exercises direct personal control on the business at all times.
- (c) Owner has close and personal contacts with customers.
- (d) The trader is accountable to himself/herself.
- (e) Trader enjoys profit alone.
- (f) Flexibility of business.
- (g) Can keep business secrets/high level of confidentiality.
- (h) Few legal procedures are required.
- (i) Trader can get assistance from family members.

(Any 4 x 1 = 4 marks)

16. **Factors that a trader may consider when determining the appropriate means of transport.**

- (a) Cost.
- (b) Reliability.
- (c) Nature of goods.
- (d) Security
- (e) Distance

(Any 4 x 1 = 4 marks)

17. **Changes that may take place in a country to indicate that it is experiencing economic development**

- (a) Shift from agricultural sector to manufacturing sector.
- (b) Reduction of illiteracy level.
- (c) Increase in skilled manpower.
- (d) Improvement in health facilities.
- (e) Improved technology.
- (f) Increased entrepreneurial ability.
- (g) Improvement in research activities.
- (h) Improved infrastructure.
- (j) Increased in level of savings and investments

(Any 4 x 1 = 4 marks)

18. **Circumstances when the government may borrow from internal sources.**

- (a) If there is budget deficit in the country.
- (b) When there is need to improve infrastructure.
- (c) When there is need to reduce inflation.
- (d) If internal loans attract low interest rates than external ones.
- (e) In case the external loans have strict/tough conditions attached to them.
- (f) When relief/emergency services are required in the country.

(Any 4 x 1 = 4 marks)

19. **Book of original.**

	Transaction	Book of original entry
(a)	Bought a computer on credit	General journal
(b)	Sold goods on credit	Sales journal
(c)	Returned goods previously bought on credit	Purchases returns journal
(d)	Goods sold on cash	Cash receipt journal/cashbook

(4 x 1 = 4 marks)

20. **Advantages of written communication.**

- (a) Can be retained for future reference.
- (b) It is suitable for confidential messages.
- (c) Can be used as evidence.
- (d) Can be addressed to many people.
- (e) Message cannot be distorted.
- (f) Can be used to communicate complicated messages.
- (g) Suitable if the message is detailed.
- (h) It is relatively cheap.

(Any 4 x 1 = 4 marks)

21. **Ways the government may regulate business activities in a country.**

- (a) Issuing licenses.
- (b) Enacting legislation.
- (c) Formulating policies.
- (d) Setting standards.
- (e) Issuing directives.
- (f) Price controls.
- (g) Taxation and offering subsidies.
- (h) Fixing quotas.

(Any 4 x 1 = 4 marks)

22. **Explain the meaning.**

- (a) **Joint demand.** Refers to goods and services that are consumed together and therefore demanded together e.g. pen and ink, car and petrol etc. (1 x 2 = 2 marks)
- (b) **Excess supply.** This is a situation where the quantity of goods and services supplied in the market by suppliers is more than the quantities the consumers are able to buy. (1 x 2 = 2 marks)

23. **Circumstances in which a country may find it necessary to control imports.**

- (a) Where there is need to protect local/infant industries which may not withstand competition from established foreign industries.
- (b) Where there is need to control dumping to prevent adverse effects on the economy.
- (c) Where balance of trade/payment continues to deteriorate to reduce payment on imports.
- (d) Where goods are hazardous/harmful for consumption in order to protect the health of consumers.
- (e) Where goods involved are a security risk to the country to ensure peace and stability.
- (f) Where it is necessary to counter the actions of trading partners as a retaliatory measure.
- (g) Where there is need to avoid imported inflation arising from overpriced imports.
- (h) Where it is politically expedient to do so in order to promote good governance in another country (embargoes).
- (i) Where there is need to preserve morals and culture the country.
- (j) Where there is need to expand market for locally produced goods. (Any 4 x 1 = 4 marks)

24. **Advantages of advertising to the producer.**

(4 marks)

- (a) It informs existing and potential customers about goods and services available in the market, thus increasing sales.
- (b) It gives information about changes to a product such as price, packaging and improvement to enhance quick decisions to buy.
- (c) It helps to persuade existing and potential customers to buy the product.
- (d) It helps to maintain the sales of an already existing product.
- (e) It improves the good image of a company.
- (f) It provides the necessary information about the product to potential customers, including price, use of the product, where to get the product and the benefits of using it, this expanding the market.
- (g) It supplements the work of the salespersons hence reducing expenses on personal selling.

(Any 4 x 1 = 4 marks)

25. **Calculation of:**

- (a) **Cost of goods sold.**
Gross profit = $0.15 \checkmark \times 300,000 \checkmark$

$$\begin{aligned} &= \text{Shs.}45,000 \checkmark \\ \text{Cost of goods sold} &= 300,000 \checkmark - 45,000 \checkmark \\ &= \text{Shs.}255,000 \checkmark \end{aligned} \quad (6 \times \frac{1}{3} = 2 \text{ marks})$$

(b) **Closing stock.**

$$\begin{aligned} \text{Cost of good sold} &= \text{Opening stock} + \text{Purchases} - \text{Returns outwards} \\ &\quad - \text{Closing stock} \\ &225,000 \checkmark = 60,000 \checkmark + 180,000 \checkmark - 5,000 \checkmark - C \\ \text{Closing stock} &= \text{Shs.}20,000 \checkmark \checkmark \end{aligned} \quad (6 \times \frac{1}{2} = 2 \text{ marks})$$

KIRINYAGA CENTRAL SUB-COUNTY JOINT EXAMINATION - 2015
565/2 BUSINESS STUDIES PAPER 2 MARKING SCHEME

- Q1. (a) **Benefits of division of labour.**
- (i) Output per worker is greatly increased.
 - (ii) Workers engage in the trade they are best suited/talented, leading to increased productivity.
 - (iii) Encourages invention and innovation, one becomes a better worker after doing certain task repeatedly over sometime.
 - (iv) Enhances the use of modern machines making production faster and more efficient.
 - (v) Enables a worker to acquire skills in a particular field.
 - (vi) Less mental/physical effort is spent when one gets used to a particular job/less fatigue. (Any 5 x 2 = 10 marks)
- (b) **Factors considered when determining the chain of distribution.**
- (i) The nature of the goods e.g. perishable goods may require a shorter channel of distribution.
 - (ii) Needs to keep control of the goods, if the producer wants to keep track from the beginning to the end he will distribute directly.
 - (iii) Ability of the firm to access most of his customers/location of the market for scattered customers a longer channel may be used.
 - (iv) Cost of the channel – Use one which the distributor can afford.
 - (v) Government policy where the government requires a particular channel to be used the producer will have no choice.
 - (vi) The size of market where consumers are few a shorter channel may be appropriate.
 - (vii) Nature of competition, stiff competition requires direct link with consumers. (Any 5 x 2 = 10 marks)
- Q2. (a) **Factors that may cause a shift of supply curve S_1S_1 to S_2S_2 .**
- (i) An increase in either costs of production or inputs such as raw material and labour will make producers to reduce production/force some producers out of market.
 - (ii) In availability/inadequate factors of production.
 - (iii) Decrease in price of a good produced jointly with commodity X.
 - (iv) Increase in price of a commodity that may be produced in place of commodity X.
 - (v) Low levels of technology applied in production of the commodity.
 - (vi) Increase in tax charged on commodity.
 - (vii) Decrease in subsidies offered by government in production of the commodity.
 - (viii) Future expectation that the price of the commodity will increase.
 - (ix) Unfavorable climatic condition such was drought and floods especially if commodity is an agricultural commodity.
- (b) **Problems that a country which is under populated may experience.**
- (i) Limited labour supply – A small population may not provide enough labour for production.
 - (ii) Limited market – A small population may not provide enough market for goods and services. Some business may end-up closing down.
 - (iii) Underutilization of resources – Resources in the country may be left idle because of lack of people to use them.
 - (iv) Uneconomical to provide public utilities – The available population may be scattered all over the country making it uneconomical for the government to provide public utilities.
 - (v) Lack of specialization – People in an under populated country may not engage in specialization leading to production of poor quality goods.
 - (vi) Reduced phase of economic development for under populated countries, there is less resources. This reduces peoples creativity and innovation that may

retard economic growth and development. (Any 5 x 2 = 10 marks)

- Q3. (a) **Benefits of a wholesaler operating warehouse.**
- (i) Affords security/safety to the goods from theft/damage/loss.
 - (ii) Allows the distributor enough time to plan for the distribution of goods.
 - (iii) Goods can be tested and checked if still in good conditions before use/sale.
 - (iv) Goods not fully manufactured may be completed in a private warehouse e.g. packing, branding.
 - (v) Allows continuous supply of goods in the market/avoid shortages since the firm can add more stock depending on the amount of stock held at one time.
 - (v) Enables the wholesaler to pole up stock in anticipation of high seasonal demand.
 - (vi) Can purchase stock in bulk and hence accrue the economies of scale.
 - (vii) Assurance of space all the time since there is no competition.
- (b) **Methods of correcting B.O.P.**
- (i) Limiting imports by strict tariffs.
 - (ii) Promoting exports by subsidizing exports produced using customs draw backs/export compensation.
 - (iii) Devaluation of local currency which makes exports cheaper.
 - (iv) Seeking financial assistance from international financial institutions.
 - (v) Releasing the foreign exchange reserves held by the central bank.
 - (vi) Increase taxation/reduce government expenditure to reduce local inflation compared to other countries.
 - (vii) Restricting foreign exchange allocation to a certain maximum. (Any 5 x 2 = 10 marks)
4. (a) **Insurance policies that may be beneficial to a hardware trader.**
- (i) Work men's compensation policy to cover workers who may be injured in the cause of their duties.
 - (ii) Personal injury policy that covers the owner in case of injuries/incapacitation.
 - (iii) Fire policy to cover the risk of fire
 - (iv) Burglary/theft policy to cover theft of stock and damaged of doors and windows.
 - (v) Goods on transit policy to cover any loss of goods as they are transported.
 - (vi) Fidelity guarantee policy to cover any loss caused by dishonest workers.
 - (vii) Window/glass policy to cover any damage to windows and glass in the premises.
 - (viii) Cash on transit policy to cover any loss of cash as its being transported to the bank. (Any 5 x 2 = 10 marks)
- (b) **Benefits M-banking.**
- (i) Can transfer his money between his accounts in the same bank or in different banks.
 - (ii) Can check account balance to know how much he has in the accounts through sms.
 - (iii) Pay bills e.g. electricity, worker's wages etc.
 - (iv) Receive/check most recent transaction details.
 - (v) Can top-up mobile phone airtime.
 - (vi) Convenient as he can use the service whenever he wants.
 - (vii) Reduced transaction charge since the service is cheaper than transacting over the counter.
- Q5. (a) **Negative effects of inflation.**
- (i) Discourages savings since people use their earnings on consumption.
 - (ii) Increase in the interest rates hence high cost of borrowing.
 - (iii) Low standards of living especially for people with fixed incomes because the value of their earning is eroded by inflation.
 - (iv) Money lenders loose real value of money if the interest rate does not change accordingly.

- (v) Social political/unrest especially among low income earners.
 (vi) Worsening balance of payment since exports become dear/expensive leading to fall in their demand.

- (vii) The gap between the rich and the poor widens the rich become richer at the expense of the poor.
 (viii) Hampers effective implementation of development plans since the cost becomes higher than precedented.
 (ix) Loss of coincidence and the local currency leading to the use of foreign currency.
 (Any 5 x 2 = 10 marks)

(b) **Ali's ledger account.**

Bank a/c					
July 2009		July 2009			
1	B/d	50,000 ✓	13	C/d	64,000
6	Furniture	4,000 ✓			
13	Sales	10,000 ✓			
		<u>64,000</u>			<u>64,000</u>

Debtor's a/c					
July 2009		July 2009			
1	B/d	30,000 ✓	9	Cash	11,000 ✓
			13	C/d	19,000 ✓
		<u>30,000</u>			<u>30,000</u>

Creditor's a/c					
July 2009		July 2009			
13	B/d	66,000 ✓	1	B/d	50,000 ✓
			2	Purchases	16,000 ✓
		<u>66,000</u>			<u>66,000</u>

Purchases a/c					
July 2009		July 2009			
1	B/d	20,000 ✓	6	Bank	36,000 ✓
2	Creditors	16,000 ✓			
		<u>36,000</u>			<u>36,000</u>

Furniture a/c					
July 2009		July 2009			
1	B/d	35,000 ✓	6	Bank	4,000 ✓
			13	C/d	31,000 ✓
		<u>35,000</u>			<u>35,000</u>

Sales a/c					
July 2009		July 2009			
13	C/d	10,000 ✓	13	Bank	10,000 ✓
		<u>10,000</u>			<u>10,000</u>

Cash a/c

July 2009			July 2009		
9	Debtor	11,000 ✓	13	C/d	11,000 ✓
		<u>11,000</u>			<u>11,000</u>

(20 x ½ = 10 marks)

- Q6. (a) Internal factors that may encourage the achievement of business goals.
- Proper human resource management.
 - Well laid down business structure allows proper flow of instructions and team work within the organization.
 - Adequate financial/proper finance management allows acquisition of assets/stock/expansion of business.
 - Adequate physical resources such as buildings, machines/furniture.
 - Developed business culture with proper values.
 - Well set-out objectives of the business to guide activities in the organization.
 - Committed/qualified/experienced owner who are able to make sound decisions, provide resources etc. (Any 5 x 2 = 10 marks)

- (b)
- Umeme Traders profit and loss account.**

- (i)

Umeme Traders
Profit and loss account
For the year ended 31st Dec, 2009

	Shs.		Shs.
<u>Expenses</u>			
Bank loan interest	1,440	Gross profit b/d	624,720
Discount allowed	170,400	Rent received	144,000
Electricity	30,240	Net loss a c/d	74,316
Furniture repairs	86,436		
Maintenance on premise	72,000		
Motor vehicle maintenance	360,000		
Sundry expenses	122,520		
Net loss b/d	<u>74,316</u>		
	<u>843,036</u>		<u>843,036</u>

(10 x ½ = 5 marks)

- (b) (ii)

Umeme Traders
Balance sheet
As at 31st Dec, 2009 ✓

	Shs.	Shs.		Shs.
<u>Assets</u>			<u>Capital & liability</u>	
<u>Fixed assets</u>			Capital	1,680,000 ✓
Premises	648,000 ✓		Less net loss	74,316 ✓
Motor vehicles	1,080,000 ✓			1,605,684 ✓
Furniture	489,804 ✓	2,217,804 ✓	<u>Liabilities</u>	
			Bank loans	567,000 ✓
<u>Current assets</u>			Creditors	<u>272,400 ✓</u>
Stock	87,000 ✓			839,400 ✓
Debtors	140,280 ✓	<u>227,280</u>		
		<u>2,445,084</u>		<u>2,445,084</u>

