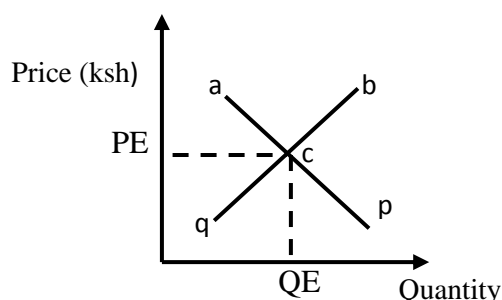


MACHAKOS COUNTY FORM 4 TRIAL AND PRACTICE EXAM 2015**Kenya Certificate of Secondary Education (K.C.S.E.)****565/1****BUSINESS STUDIES****PAPER 1****TIME: 2 HOURS****1. Four features of a market include.****(4 marks)**

- (a) The product (a good or service offered for sale)
- (b) Existence of buyers and sellers
- (c) A place (a specific location)
- (d) Interaction between buyers and sellers (exchange of goods or services for money)

2. (a) ap - Demand curve**bq – Supply curve****letter c – Equilibrium point****(b)****3. Four advantages of after sales services as a method of sales promotion to a customer.****(4 marks)**

- (a) The consumer is assisted with technical advice on how to use the item.
- (b) Consumer may be assisted in installation of the product at no cost.
- (c) Consumer is usually given a guarantee on the item for a certain period of time.
- (d) Consumer saves on servicing costs.
- (e) Consumer saves on transportation cost.
- (f) Where an item has a major technical breakdown it can easily be replaced at no extra cost.

4. FOUR reasons why a consumer should satisfy basic wants before secondary wants.**(4 marks)**

- (a) They are essential for survival.
- (b) The consumer has limited resources.
- (c) They cannot be postponed.
- (d) They are felt needs.

5. FOUR reasons why a multinational company may prefer setting up a production unit in developing country instead of exporting finished goods to the country.**(4 marks)**

- (a) To take advantage of cheap labour available in the country.
- (b) To avoid paying tax on the goods that would otherwise be imports.
- (c) To take advantage on available raw materials in the country.
- (d) To make products cheaper hence more sales.
- (e) To make transport cheaper.

6. Factor of production that each of the following resources relate to:-**(5 marks)**

Resource	Factor of production
(a) Manager	Labour
(b) Quarry	Land
(c) Vehicle	Capital
(d) Water	Land
(e) Owner	Entrepreneurship

7. In the spaces provided below, indicate with a tick (✓) whether each of the following statements relates to preference or ordinary shares. (3 Marks)

Statement	Preference	Ordinary
(a) Represents real owners of company		✓
(b) Rate of dividends is fixed	✓	
(c) Has voting rights		✓
(d) Redeemable	✓	
(e) May be cumulative	✓	
(f) Considered last in liquidation		✓

8. **FOUR features of trade credit as a source of finance for business units.** (4 Marks)

- (a) It is a short term credit facility.
- (b) Does not require a down payment.
- (c) Buyer takes ownership of goods immediately.
- (d) Usually paid at once.
- (e) No interest payable if paid within agreed period.

9. **The term that best fit each of the following descriptions** (4 Marks)

- (a) Capital
- (b) Stock
- (c) Drawings
- (d) Loan (Liabilities)

10. Gross profit = $\frac{25}{100} \times 360,000 = \text{KSh. } 90,000$

- (a) Gross profit = Sales – Cost of sales
Cost of sales = $360,000 - 90,000 = 270,000$

(b) $\text{ROSTO} = \frac{\text{COS}}{\text{AS}} \quad \text{AS} = \frac{\text{OS} + \text{CS}}{2}$
 $= \frac{50,000 + 70,000}{2} = 60,000$

- (c) Rate of stock turnover

$\text{ROSTO} = \frac{270,000}{60,000} = 4.5 \text{ times}$

(2 Marks)

11. Capital A/C

	Bank 500,000 ✓
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Motor vehicle A/C

	Bank 250,000 ✓
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Salaries A/C

	Cash 18,000 ✓
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Bank A/C

	Bank 500,000 ✓	MV 250,000 ✓
		Cash 50,000 ✓

Cash A/C

	Bank 50,000 ✓	Salaries 18,000 ✓
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8 x ½ = 4 marks

12.

Kelly Traders
Two – Column cash book
for the month of June 2015

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
2015 June 1	Bal b/f	6000✓		2015 Jun 1	Bal b/f		2000✓
2	Debtors		80,000✓	5	Telephone	1200✓	
8	Bank	16,000✓		8	Cash		16,000✓
				9	bal c/d	20,800✓	62,000✓
		22,000	80,000			22,000	80,000
9	bal b/d	20,800	62,000				

8 x ½ = 4 marks

(4 Marks)

13. **FOUR** ways of curbing cost push inflation.

- Implementing a policy that maintains stable wages.
- Controlling costs of raw materials, capital and land.
- Control of government taxation of inputs and where possible subsidize the costs of production
- Control the prices of the final product to ensure the producer minimize the costs.

14. **FOUR** circumstances under which the per capita income statistics would be good indicator of the welfare of the citizens of country.

(4 Marks)

- When the national income is evenly distributed among the citizens.
- When national income statistics are in real terms and allowances made to take care of price fluctuations.
- When the output per year is based on essential and final goods / services consumed by the masses.
- When real statistics on population figures is obtained and not projections used.

15. **FOUR** challenges associated with a high ageing population in a country.

(4 Marks)

- High dependency ratio from many retirees.
- Low mobility of labour since older people are less mobile.
- Restricted patterns of consumption which lower demand.
- Less progress due to resistance of the older people to change.
- Low labour supply.

16. **FOUR** purposes of taxation.

(4 Marks)

- To promote economic growth.
- Equity in distribution of income and wealth.
- To control the economy by influencing consumption of goods / services.
- To influence the balance of payments by imposing taxes on imports /exports.
- To protect social and cultural values by overtaxing goods that have negative impact on the society.
- To control inflation.
- To influence the price system and protect infant and strategies industries.

17. **FOUR** basis of international trade

(4 Marks)

- Absolute advantage.
- Comparative advantage.
- Resource endowment.
- Historical ties/factors.
- International agreements.

18. **FOUR** methods that a country may use to restrict international trade.

(4 Marks)

- Use of tariffs
- Use of subsidies
- Use of quotes
- Total ban
- Lengthy administrative procedures.
- Through legislation
- Product standard control

- (h) Moral suasion
19. Importance of an incoming invoice in accounting. (4 Marks)
- (a) It is a source document for purchases journal
 - (b) It provides documentary proof of goods purchased on credit
 - (c) It provides documentary proof of purchase of other assets.
 - (d) It is a source of entries made in the general journal for purchase of other assets on credit
20. **FOUR** items that are included when computing national income using expenditure approach. (4 Marks)
- (a) Consumption by general public on consumer goods (personal expenditures – C)
 - (b) Expenditure by general public on capital goods (Investments – I)
 - (c) Government expenditure on goods and services (G)
 - (d) Net expenditure on foreign goods ($x - m$)
21. **FOUR** features of insurable risks
- (a) Can be predicted in terms of probability of occurrence
 - (b) Resulting financial loss arising from their occurrence can be accurately determined
 - (c) Premiums payable to provide cover can be accurately determined
 - (d) The number of people likely to suffer loss from the occurrence within a given period of time can be predicted
22. **FOUR** features of chain stores. (4 Marks)
- (a) Owned by the same business organization
 - (b) Managed and controlled by a central administration at the head office
 - (c) Each shop is managed by a branch manager accountable to the head office
 - (d) Goods are sold strictly on cash basis
 - (e) The prices are standard in shops
 - (f) Goods can be transferred from one shop to another
 - (g) Mainly deal in fast moving goods such as household goods
23. **FOUR** factors that constitute an efficient transport system. (4 Marks)
- (a) The cost should be convenient to the user (fare or freight charges should be low and economical)
 - (b) The speed of the system should match the cost
 - (c) Should have reliability and regularity (dependable in keeping time)
 - (d) Should have flexibility and convenience (flexible to operate at the convenience of the user)
 - (e) Should provide comfort to users
 - (f) Should provide safety to both goods and passengers
24. **FOUR** goals of development. (4 Marks)
- (a) Improving standards of living through adequate provision of essential goods and services
 - (b) Increasing productivity of all the factors of production in order to increase income and output
 - (c) Improving the quality of socio – economic institutions such as education and political institutions
 - (d) Reducing economic dependence through diversification
 - (e) Reducing unemployment through creation of employment opportunities
 - (f) Improving efficiency in production
 - (g) Providing a wide variety of goods and services
25. **FOUR** disadvantages of use of Automatic Teller Machines (ATMs) in banking. (4 Marks)
- (a) May lead to overspending
 - (b) Thieves may trap
 - (c) The machines may breakdown
 - (d) Customers may forget PIN and lose access to the account
 - (e) Subject to fraudulent activities by relatives and bank staff

MACHAKOS COUNTY FORM 4 TRIAL AND PRACTICE EXAM 2015*Kenya Certificate of Secondary Education (K.C.S.E.)*

565/2

BUSINESS STUDIES**PAPER 2****TIME: 2 HOURS**

1. (a) **Explain five methods of payments offered by the commercial Banks in Kenya (10mks)**
- Use of cheques –Instruction to the bank to make payment to the named person.
 - Standing orders – Instruction to make a periodic payment of a specific amount to a named person until instructed otherwise.
 - Credit transfer – Payment of several people by use of one cheque.
 - Travelers cheques –Used majorly by businessmen who travel a lot to make payments outside.
 - Bankers cheque – It's a cheque written by a bank to another bank to make payments to a named person /institution thus the payment is guaranteed. *(any five well explained points @2=10mks)*
- b) **Highlight five reasons as to why a high national income may not necessarily mean better welfare for the citizens of a country (10mks)**
- Uneven income distribution – Where too much of it is in the hands of few citizens and too little for many citizens.
 - Incorrect statistics (-incorrect statistics could have been used) thus getting a wrong and exaggerated value of national income.
 - No leisure -High income might have been as a result of overworking labour force or even working under difficult circumstances / thus compromising employees health
 - The income might have been realized through activities that might have been detrimental to the environment or health of the workers.
 - Illegal activities – The income might have be rising from illegal activities.
 - High inflation rate – The high income might have been consumed by high levels of inflation hence retarding the purchasing power of citizens. *(Any five well explained points @2=10mks)*
2. (a) **Kapa oil manufacturers have decided to eliminate wholesalers in their chain of distribution. Outline five possible effects that would result if wholesalers were eliminated.(10mks)**
- Manufacturers would set up distribution centers /depots or warehouses which are additional costs to manufacturers.
 - The cost of distribution may be increased and the subsequent increase passed on to consumers inform of higher prices.
 - The retailers would have to go to manufacturers, which is an additional cost to retailers.
 - The producers would have to break the bulk because retailers may not be able to buy in large quantities.
 - Manufacturers may be required to extend credit facilities to retailers, which require additional financial capital.
 - Due to additional functions to producers, it will reduce their specialization in production.
 - Prices may fluctuate due to unsteady flow of goods. *(any five well explained points @ 2=10mks)*
- (b). **Differentiate between a perfect competition from a monopolistic competition.(10mks)**
- | PERFECT COMPETITION | MONOPOLISTIC COMPETITION |
|--|---|
| a) Sellers deal in homogeneous products | - Sellers deal in differentiated products |
| b) Are not involved in promotion of products. | - incur heavy expenses in promotion of products |
| c) It's a price taker | - it's a price setter /giver |
| d) Large number of sellers | - Large number of sellers operating independently. |
| e) Activities of one firm does not influence the activities of other firms | - Activities of one firm are closely monitored by the rest in the industry. |
3. a) **Explain five causes of inflation an economy (10mks)**
- Increase in government expenditure making more money available to people which increase aggregate demand leading to an upward pressure on prices.
 - Excessive credit creation by commercial banks increase money supply and hence purchasing ability leading to inflation.
 - Increase in money income which increase purchasing power causing an upward pressure on prices of goods and services.
 - Storage of goods and services leading to excessive demand hence pulling the prices of commodities upwards.

- v) Call for increase in wages and salaries, which will be reflected in the increased prices of commodities.
- vi) Increase in indirect taxes (e.g VAT.) which makes firms to increase their prices.
- vii) Increase in profit margins by management and shareholders leading to an increase in prices.
- viii) Increase in cost of inputs (e.g raw materials) causes the prices of finished goods to be high.
- ix) Reduction in subsidies leading to an increase in cost of production which will be reflected in an increase in the price of the commodities. (Any five well explained points @ 2=10mks)

b) Outline five challenges that Kenya face when trying to implement her development plans.(10mks)

- i) Inadequate skilled personnel/ machines etc to implement the plans.
- ii) Continuous reliance on donor funding which at times fail to be remitted.
- iii) Natural calamity ie (the country may suffer from calamities like drought, flood etc) which draw funds that were not planned for.
- iv) Lack of co-operation and coordination between executing parties i.e. ministry of finance and planning.
- v) Failure to involve local people hence making the plan to lack support from the local people as they view it to be imposed on them by few people at the top.
- vi) Lack of political will i.e. where political crisis is an obstacle to the achievement of the vision. (any five well explained points @ 2=10mks)

4. (a) Explain five reasons why a public limited company may prefer to raise finances through issues of ordinary shares instead of debentures (10mks)

- i) Debentures are units of loans which must be paid by a public company unlike ordinary shares which is a unit of capital and companies are not obligated to pay.
- ii) Debenture holders are paid in fixed rates of interest while ordinary shares interest is not fixed.
- iii) Failure to pay debentures rates leads to a company being declared bankrupt unlike payment of share dividends.
- iv) Debenture interest must be paid by a public company unlike ordinary shares.
- v) In the event of a company winding up, it is obliged to pay debentures first while shares may come last.
- vi) Raising money through shares requires no security while debentures may require a security.
- vii) Securing finance through debentures is more expensive than through ordinary shares.
- viii) Debentures reduce the borrowing power of a company while shares enhance.
- ix) Share dividends can be converted to bonus shares while it is not possible with debentures interest. (Any five well explained points @2=10mks)

b) (i) Profit and loss account for the year ending 31/12/2004

5½mks

Masaku Traders

Profit and loss account for the year ending 31/12/2004

Expenses: Rent	48,000 ✓	Gross Profit b/d	320,000✓
Lighting	7,200✓	Commission received	12,320✓
Water	9,220✓	Discount received	<u>8,500✓</u>
Salaries	75,000✓		
Discount allowed	4,600✓		
General expenses	98,000✓		
Net profit	<u>98,850 ✓</u>		
	<u>340,870</u>		<u>340,870✓</u>

11 ticks @ ½ = 5 ½ mks

(ii) Balance sheet as at 31/12/2004

4½mks

Masaku Traders

Balance sheet as at 31/12/2004

<u>Fixed assets</u>	Kshs	<u>Capital</u>	Kshs
Furniture	650,000✓	add:Net profit	3,000,000✓
Motor vehicle	2,300,000✓		98,850✓
			3,098,850
<u>Current assets</u>		<u>Current liabilities</u>	
Stock	25,250✓	Creditors	<u>396,400✓</u>
Debtors	270,000✓		
Bank	200,000✓		
Cash	<u>50,000✓</u>		
	<u>3,495,250</u>		<u>3,495,250</u>

9 ticks @ ½ = 4 ½ mks

5. a) **Explain six measures that the government of Kenya may take to control her persistent Balance of payment deficit (12mks)**

- Increase the volume of export i.e. by giving incentives to traders so that they can produce more output.
- Reduce the level of imports i.e. by using restrictive measures such as import total ban etc.
- By diversifying the rate of export of the country so that when some fail others can still sell in the world market.
- Through Devaluation of the country's currency – this makes the export cheaper and hence more competitive in the market.
- By negotiating for foreign debt reduction- which will off load the debt burden.
- By adding value to the export e.g processing of primary products so as to fetch better prices when exported.

Any six well explained points @2 =12mks

b) **Outline four differences between endowment policy and whole life policy.(8mks)**

Endowment policy		Whole life policy
i) Benefits go to the insured unless death occurs	i)	Benefits goes to the beneficiaries.
ii) Focuses on financial security of insured and beneficiaries.	ii)	Aims at financial stability of beneficiaries
iii) premiums paid only for the agreed period	iii)	Premium paid throughout one's life time
iv) Compensation paid after the risk or expiry of period	iv)	Compensation paid only after death of insured
v) Can be used as collateral for loan	v)	Cannot be used as collateral for loans

Any four clear differences @2=8mks

6. a) **Explain five factors that limit the usage of Railway as a means of transport.(10mks)**

- High costs: Railway construction is an expensive venture, requiring huge investments. These are not affordable.
- Existence of road network: There exists relatively wide network /competition from other modes of transport.
- Poor management: the railway transport sub-sector has been poorly run, hence stagnation.
- Lack of modern technology: modern technology required for efficient railway system is absent in Kenya/can only be imported.
- Little government commitment: the government has committed its resources on other forms of transport.
- Lack of flexibility: in ability to render door to door services.
- Speed: its relatively low speed renders it in appropriate for carrying certain goods.
- Lack of competition: Railway enjoys protected position making it impossible tom operate.
- Low industrial base: this has led to low demand for railway services.

(Any five well explained points @2=10mks)

b) **The accounts Hakuna Matata Traders showed the following balances on 1st January 2014.10mks**

DR	PURCHASES A/C		CR
2010	sh	2010	
Jan 2 creditors	<u>50,000</u> ✓	Jan 31 st Bal c/d	<u>50,000</u> ✓
Jan 31 Bal b/d	50,000		

DR	BANK A/C		CR
2010	SH	2010	
Jan 25cash	<u>100,000</u> ✓	jan 31 bal c/d	<u>100,000</u> ✓
Jan 31 b/d	100,000		

DR	CREDITORS A/C		CR
2010	SH	2010	SH
Jan 12 cash	52,000 ✓	Jan 1 bal b/d	42,000 ✓
Jan 31 bal c/d	<u>40,000</u> ✓	Jan 2 purchases	<u>50,000</u> ✓
	<u>92,000</u>		<u>92,000</u>
		Jan 31 Bal b/d	40,000

DR	STOCK A/C	CR
2010	sh	
Jan 1 bal b/d	<u>30,000</u> ✓	bal c/d <u>30,000</u> ✓

DR	MOTOR VEHICLE A/C	CR
Bal b/d	<u>310,000</u> ✓	bal c/d <u>310,000</u> ✓

DR	CASH A/C	CR
2010	SH	2010
Jan Bal b/d	250,000 ✓	JAN 10 loan 70,000 ✓
Jan 3 sales	80,000 ✓	Jan 12 creditors 52,000 ✓
Jan 5 Debtors	<u>20,000</u> ✓	Jan 16 furniture 45,000 ✓
		Jan 20 salaries 40,000 ✓
		Jan 25 bank 100,000 ✓
		Jan 31 BAL C/D <u>43,000</u> ✓
	<u>350,000</u>	<u>350,000</u>
Jan 31 bal b/d	43,000	

DR	DEBTORS	A/C	CR
2010	SH	2010	
Jan 1 bal b/d	<u>60,000</u> ✓	Jan 5 cash	20,000 ✓
		Jan 31 bal c/d	<u>40,000</u> ✓
	<u>60,000</u>		<u>60,000</u>
Jan 31 bal b/d	40,000		

DR		BANK A/C		CR	
2010	SH		2010		SH
Jan 10 cash	70,000 ✓		Jan 1 bal b/d		20,000✓
Jan31 bal c/d	<u>50,000</u> ✓				
	<u>120,000</u>				<u>120,000</u>
			Jan 31 bal b/d		50,000

DR	FURNITURE A/C		CR
2010	SH	2010	
Jan cash	<u>45,000</u> ✓	Jan bal c/d	<u>45,000</u> ✓
JAN Bal b/d	45,000		

DR		SALARIES A/C	CR
2010	SH	2010	SH
Jan 20 cash	<u>40,000</u> ✓	bal c/d	<u>40,000</u> ✓
Jan 31 bal b/d	40,000		

30 ticks @ 1/3 = 10mks