

33.0 BUSINESS STUDIES (565)

33.1 Business Studies Paper 1 (565/1)

- 1 Types of wholesalers
 - (a) Specialized wholesaler
 - (b) Regional wholesaler
 - (c) Rack jobbers
 - (d) General line wholesaler

(4 x 1 mark = 4 marks)

- 2 Factors to consider before buying office equipment include:
 - (a) space available
 - (b) use of which it be put
 - (c) technological trends in the industry
 - (d) funds available
 - (e) skills available

(Any 4 x 1 mark = 4 marks)

- 3 Malpractices by traders against which consumers may need protection by the government include:
 - (a) selling of contraband goods
 - (b) overcharging
 - (c) selling under weight goods
 - (d) selling expired goods
 - (e) giving misleading information about the product
 - (f) hoarding

(Any 4 x 1 mark = 4 marks)

- 4 Features of insurable interest include:
 - (a) presence of property rights or interest
 - (b) potential insurable risk must be present
 - (c) the property must have monetary value
 - (d) the insurable risk must be legal
 - (e) there must be the possibility of suffering financial loss incase of a risk happening

(Any 3 x 1 = 3 marks)

- 5 Ways of reducing the level of unemployment in Kenya include:
 - (a) encouraging self-employment
 - (b) establishment of more labour intensive industries
 - (c) impart the right skills through education and training
 - (d) expanding the market for agricultural goods
 - (e) exporting surplus manpower

(Any 4 x 1 mark = 4 marks)

- 6 Services offered by a commercial bank to its customers include:
 - (a) acceptance of deposits
 - (b) safeguarding valuable items
 - (c) advancing loans
 - (d) offering management and consultancy services
 - (e) advisory services on financial matters
 - (f) foreign exchange services

(Any 4 x 1 mark = 4 marks)



7 Sources of public finance include:

- (a) taxes
- (b) licences
- (c) court fines
- (d) donor aid
- (e) fees
- (f) treasury bonds and bills

(Any 4 x 1 mark = 4 marks)

8 Reasons why countries may trade with each other include:

- (a) to sell their surplus
- (b) to enhance bilateral ties
- (c) to acquire what they are not able to produce
- (d) protect special interest
- (e) to improve the quality of life of their citizens/improve access to a variety of goods

(Any 4 x 1 mark = 4 marks)

9 Reasons why economic development is desirable to a country include:

- (a) improve standard of living of the citizens
- (b) improve infrastructure
- (c) create employment
- (d) increase life expectancy
- (e) reduce rural-urban disparity
- (f) improve the social welfare of citizens

(Any 4 x 1 mark = 4 marks)

10 Factors of production and rewards they earn:

Factor of production	Reward
(a) Land	Rent
(b) Labour	Wages/salaries
(c) Capital	Interest
(d) Entrepreneur	Profits

(4 x 1 mark = 4 marks)

11 Circumstances under which a co-operative society may be dissolved include:

- (a) by Government order
- (b) where the co-operative continuously make losses
- (c) where stipulated majority of members agree to dissolve it
- (d) by a court order
- (e) where the co-operative society has achieved objectives for which it was formed

(Any 4 x 1 mark = 4 marks)

12 Features of a bonded warehouse include:

- (a) mostly located at points of entry into a country like the ports
- (b) stores goods that are under bond



- (c) guarantees payment of customs duty to customs authority
- (d) very spacious to accommodate even bulky goods like motor vehicles
- (e) must issue release warrants to owners of goods for customs clearance
- (f) works hand in hand with customs officials for inspection of goods

(Any 4 x 1 mark = 4 marks)

13 Factors that may be considered when measuring the size of a firm include:

- (a) the level or volume of output
- (b) the number of employees
- (c) the capital invested
- (d) the production methods (technology) used
- (e) the market served
- (f) the floor area covered by the firm's premises
- (g) the sales volume

(Any 4 x 1 mark = 4 marks)

14 Ledger Accounts

(a) Salim Traders Account			
			Ksh.
		March 10: Purchases	200,000
(b) Shah Traders Account			
			Ksh.
March 25:	Sales	420,000	
(c) Purchases Account			
			Ksh.
March 10:	Salim Traders	200,000	
(c) Sales Account			
			Ksh.
	March 25:	Shah Traders	420,000

(4 x 1 mark = 4 marks)

15 Amount paid

	Ksh.
Invoice price	12,000
Less: Trade discount (12,000 x 5%)	600
	11,400
Less: Cash discount (11,400 x 10%)	1,140
	10,260

(4 x 1 mark = 4 marks)



- 16 Calculation of rate of return on capital

$$\begin{aligned}
 C &= A - L \\
 &= 500,000 - (150,000 + 100,000) \\
 &= 500,000 - 250,000 \\
 &= 250,000 \\
 \text{ROROC} &= \frac{C}{NP} \times 100 \\
 &= \frac{50,000}{250,000} \times 100 \\
 &= 20\%
 \end{aligned}$$

(8 x ½ mark = 4 marks)

17

Amina Traders Trading Account for the year ended 31st December, 2006				
	Ksh.	Ksh.		Ksh.
Opening stock		75,000	Sales	$\frac{320,000}{100} \times 125$
Purchases	260,000			400,000
Add: Carriage	12,500	<u>272,000</u>		
		347,500		
Less: closing stock		<u>27,500</u>		
Cost of Goods Sold		320,000		
Gross profit				
$\frac{320,000}{100,000} \times 25$		<u>80,000</u>		
		<u>400,000</u>		<u>400,000</u>

- 18 Benefits that a farmer may get by transporting her produce to the market by road include:

- (a) Relatively flexible
- (b) Relatively cheap
- (c) Relatively available
- (d) Relatively fast
- (e) Variety of means of road transport

(Any 4 x 1 mark = 4 marks)

- 19 Causes of the declining supply of sukuma wiki include:

- (a) fall in the price of kales (sukuma wiki) may have discouraged producers (farmers) as they opt to produce other goods
- (b) there may have been an outbreak of diseases affecting the sukuma wiki
- (c) there may have been prolonged drought which affects the sukuma wiki
- (d) there may have been increased cost of farm inputs like fertilizer and seeds
- (e) the farmers could be using inappropriate technology to produce the sukuma wiki
- (f) this may just be the ploughing time and many farmers have not yet planted sukuma wiki

(Any 4 x 1 = 4 marks)

- 20 Ways in which households may contribute to national income of a country include:

- (a) consumption of goods
- (b) payment of taxes



- (c) provision of factors of production
- (d) provision of savings for investment

(4 x 1 mark = 4 marks)

21 Circumstances in which a trader may use oral communication include:

- (a) when there is need to negotiate a deal
- (b) when there is need to explain the use and features of a product
- (c) when there is need for immediate feedback
- (d) when there is need to give an immediate compliment
- (e) when selling over the counter

(4 x 1 mark = 4 marks)

22 Reasons why a firm may remain small include:

- (a) Target market is small
- (b) Limited production capacity
- (c) Nature of the product
- (d) Owner's decision to remain small
- (e) Inadequate appropriate technology

(4 x 1 mark = 4 marks)

23 Two-column cash book for the month of January

RECEIPTS

Date	Details	Cash	Bank
		Ksh.	Ksh.
2007			
Jan 1	Balance b/d	25,250	-
5	Sales	21,500	-
16	Debtor		360,000
		46,750	360,000
Feb 1	Balance b/d	26,750	130,000

PAYMENTS

Date	Details	Cash	Bank
		Ksh.	Ksh.
2007			
Jan 1	Balance b/d	-	150,000
28	Creditor	-	80,000
28	Creditor	20,000	-
31	Balance c/d	26,750	130,000
		46,750	360,000

(10 x ½ mark = 5 marks)

24 Benefits that accrue to a trader who advertises products in a newspaper include:

- (a) wide coverage - message can reach a lot of people
- (b) evidence of the message exists
- (c) graphical details can be included
- (d) a trader has a chance to compete with other traders
- (e) a trader has a chance of increasing sales.

(4 x 1 mark = 4 marks)

25 Calculation of the increase in consumer price index

Base year 2006 = 100%

$$\therefore \frac{1600}{1200} \times 100 = 133\%$$

$$\text{Increase } (133 - 100) = 33\%$$

(4 x 1 mark = 4 marks)



- (c) provision of factors of production
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33.2 Business Studies Paper 2 (565/2)

1. (a) Explaining the types of inflation
 - (i) Demand-Pull inflation
Refers to a progressive increase in the general level of prices brought about by an expansion in demand. There is too much money chasing very few goods.
 - (ii) Cost-Push inflation
A progressive increase in the general price level brought about by a general increase in the cost of production.
 - (iii) Imported inflation
Refers to an increase in domestic prices resulting from importation of primary goods and inputs at higher prices.
 - (iv) Structural inflation
Refers to a persistent rise in prices resulting from failure of the economy to meet the general increase in demand.

(4 x 2 = 8 marks)
- (b) Factors that may hinder the development of a country include:
 - (i) Low demand for goods and services which discourages production activities hence interfering with development.
 - (ii) Inadequate capital which leads to low levels of development
 - (iii) Negative sociocultural practices which may hinder production and consumption of certain goods and services.
 - (iv) Inadequate foreign exchange which limits access to imports hence affecting production and consumption.
 - (v) Limited entrepreneurial abilities resulting into inefficiency in production.
 - (vi) Poor management of resources arising from inadequate skills, corruption and poor governance which limit the extent of growth and development.
 - (vii) Poor nutrition and disease prevalence which renders some of the people unproductive as well as channelling much of the income into provision of health care instead of investment.
 - (viii) Use of inappropriate technology which compromises the quantity and quality of goods and services produced.

(Any 6 x 2 = 12 marks)
2. (a) Circumstances under which containerization may be used to transport goods include:
 - (i) Where bulky goods are imported. Bulky goods are usually transported by sea where containers are used.
 - (ii) Where specialized equipment are available for handling containers.
 - (iii) Where container terminals are available - containerization require container terminals which are specially built to handle them.
 - (iv) Where specialized means of transport like railways are available.
 - (v) Where security of goods need to be guaranteed. Goods of very high value and those that are risky require high level of security which is guaranteed by containers.
 - (vi) Where skilled personnel are available. The handling of containers require specially trained workers to handle and manage them.

(Any 5 x 2 = 10 marks)



(b) (I) Procedure for making an insurance claim

- (i) Notifying the insurer of the loss suffered.
- (ii) Filling a claim form from the insurer.
- (iii) Carrying out investigation to determine or ascertain the cause of loss.
- (iv) Insurance company making a report.
- (v) Determination and payment of the claim.

(5 x 1 = 5 marks)

(II) Determination of compensation

Compensation = $\frac{\text{Sum assured}}{\text{value of property}}$ x Actual loss

$$= \frac{900,000}{1,200,000} \times 500,000$$

$$= \text{Ksh } 375,000$$

(5 x 1 = 5 marks)

3. (a) Factors to consider when choosing a method of promoting a product include:

- (i) Cost of the method. The organization should choose a promotion method that is affordable.
- (ii) Geographical area of coverage. The organization should choose a method that will reach the customers in their various locations.
- (iii) Target group. The organization must choose a method that appeals to the relevant target group.
- (iv) Speed of the medium or method in relation to urgency of the message. The organization should choose a method that will reach the customers within the desired time frame.
- (v) Nature of the product. Different methods may be chosen depending on the nature of the product e.g. technical products may require demonstrations best achieved through personal selling.
- (vi) Nature of the message. The organization should choose a method that will best present the various aspects of the message.

(Any 5 x 2 = 10 marks)

(b) Features of economic resources include:

- (i) Scarcity. They are found in small quantities compared to the many uses into which they have to be put and hence not sufficient to satisfy all human wants.
- (ii) Monetary Value. They have a price attached to them which have to be paid for their use.
- (iii) Uneven distribution. They are not distributed uniformly in society, hence some people, regions or countries have more of the resources than others.
- (iv) Combinability. They can be used in different proportions to produce goods and services.
- (v) Usefulness. They are used to satisfy human wants (have utility).
- (vi) Transferability. They may be transferred from one person to another in terms of ownership.

(Any 5 x 2 = 10 marks)



4. (a) Benefits that may accrue to an organization that adopts an open office plan include:

- (i) Easy supervision. It is easy to monitor employee's performance since they are in the same room.
- (ii) Economy of space. More floor space is available since space has not been lost through partitions.
- (iii) Minimal cost. It is cheap to construct and maintain.
- (iv) Sharing of resources. It makes possible for joint use of office facilities.
- (v) Easy communication. Communication between workers and departments is made easier and faster since there are no physical barriers between them.
- (vi) Easy reorganization. It is easy to re-arrange the office when need arises.
- (vii) Enhanced teamwork. Employees work as a team and learn to be together.

(Any 5 x 2 = 10 marks)

(b) Circumstances under which a partnership may be dissolved include:

- (i) Expiry of time or accomplishment of purpose. Where the partnership was formed for a definite time or a particular purpose, the expiry of time and accomplishment of purpose terminates the partnership.
- (ii) Mutual agreement among partners - where the partners agree among themselves to terminate the partnership.
- (iii) Bankruptcy of a general partner - where a court declares the value of one of the general partner's property insufficient to settle his or her debts.
- (iv) Change in law that makes the operations of the partnership illegal.
- (v) Permanent inability of a general partner to perform or fulfil his part of the partnership agreement either as a result of disease, insanity or death.
- (vi) Internal dissension among partners - where partners disagree irreconcilably, then the partnership may be terminated.
- (vii) Persistent losses in operation - where the business has continued to operate at a loss, then it is terminated.
- (viii) Fraud, mistake or misrepresentation - where the partnership was formed under fraud, mistake or misrepresentation, a Court of Law may order its dissolution.

(Any 5 x 2 = 10 marks)

5. (a) Factors that may influence the choice of a channel for distributing flowers include:

- (i) Nature of the flowers - flowers are perishable and therefore need a short channel in order to be distributed quickly.
- (ii) Cost. The cost of different channels of distribution should be considered and the cheapest channel used.
- (iii) Nature of the market. If consumers are widespread, then agents may be necessary to reach them.
- (iv) Tastes and preferences of consumers. Consumers may have specific preferences which might require the personal attention of the producer hence use of a shorter channel.



- (v) Competition. Where competition is high, the producer will have to close to the consumers and will therefore use a short channel of distribution.
- (vi) Quantity. If the quantity of flowers to be sold is large, then more middlemen may be required.
- (vii) Availability of technical personnel. If the producer does not have the required technical personnel, then he may have to use a longer channel.

(Any 6 x 2 = 12 marks)

(b) Reasons for maintaining books of original entry include:

- (i) To reduce details to be recorded in the ledger accounts.
- (ii) Act as back-up data from which other information may be extracted if need arise.
- (iii) Contain information which act as reference such as units, trade discounts and terms of sale.
- (iv) The general journal is used to correct errors made when recording transactions.
- (v) The three-column cash book is used as a book of original entry as well as a ledger.

(Any 4 x 2 = 8 marks)

6. (a) Causes of unfavourable balance of payment for most developing countries include:

- (i) Reliance on primary products for export. Most developing countries mainly export primary agricultural products which fetch low prices in the international market.
- (ii) Heavy importation of finished goods. Most developing countries import finished manufactured goods whose value are very high hence spend more on them.
- (iii) Low levels of technology. Most developing countries rely on low levels of technology in production which compromises the quality of their exports and also lowering their value.
- (iv) Too much reliance on foreign borrowing. Most developing countries finance their development projects through heavy borrowing yet such loans are repaid with heavy interests.
- (v) Susceptibility to natural calamities. Many developing countries are easily affected by natural disasters like drought which adversely affect their production.
- (vi) Preference towards foreign goods. Most consumers in developing countries prefer goods manufactured in foreign countries in the belief that they are of better quality.
- (vii) Unfavourable world economic order. The developing countries have very little say in international trade forums and cannot influence the world economic order in their favour.

(Any 5 x 2 = 10 marks)



(b)

Rehema Traders
Balance Sheet
As at 31 December 2007

	<u>Kshs.</u>	<u>Kshs.</u>		<u>Kshs.</u>
<u>Fixed Assets</u>			Capital	590,000
Motor Van	200,000			
Furniture	<u>140,000</u>	340,000	<u>Current Liabilities</u>	
			Creditors	210,000
<u>Current Assets</u>				
Stock	160,000			
Debtors	100,000			
Cash	<u>200,000</u>	<u>460,000</u>		
		<u>800,000</u>		<u>800,000</u>

(10 X 1 = 10 marks)

