

Name _____ Index No. _____

Candidate's signature _____

Date _____

565/1

BUSINESS STUDIES

PAPER 1

JULY 2011

TIME : 2 HOURS

MAKINDU DISTRICT INTER-SECONDARY SCHOOLS EXAMINATION

Kenya Certificate of Secondary Education

BUSINESS STUDIES

PAPER 1

INSTRUCTIONS TO CANDIDATES

- Answer all the questions in the spaces provided.
- Write your name and index number in the spaces provided.

FOR EXAMINER'S USE ONLY

Question	1	2	3	4	5	6	7	8	9	10	11	12	13
Marks													

14	15	16	17	18	19	20	21	22	23	24	25



1. For each of the following statements, state the appropriate term used. (4 marks)
 - a) Obtaining nature resources from the nature setting.
 - b) Process of changing raw materials into finished goods by combining different components.
 - c) Mental / physical effort applied in production .
 - d) Building of structures such as premises / buildings.

2. Give four social responsibilities of a business to its employees. (4 marks)

3. Name the business document to which each of the following description relate.

	Description	Document used
(a)	Issued by a seller to buyer as payment for good / service in cash	
(b)	Used to correct an overcharge	
(c)	Used to inform the buyer that the goods ordered have been dispatched	
(d)	Document send by the buyer to find out whether the seller stocks certain specified goods	

4. State four negative effects of an ageing population. (4 marks)

5. State four factors that influence the level of national income. (4 marks)

6. Give four limitations of automatic teller machines (ATMs) used by commercial banks to provide services to customers. (4 marks)

7. Outline four problems that can be faced by producers in the absence of intermediaries in the chain of distribution. (4 marks)

8. State four ways in which monopolistic competition differ from pure monopoly. (4 marks)

9. The Kenyan government has been trying to attract business operations in certain areas. Highlight four measures that the government can take to achieve this. (4 marks)

10. Assuming a normal demand and supply curve, illustrate with a diagram the effect of an increase in consumer income on the equilibrium price and quantity. (4 marks)

11. State four electronic means of advertising. (4 marks)

12. The following information was obtained from the books of Makindu Cycles Ltd as at 31st December 2010

	Kshs.
Plant and machinery	700,000
Motor vehicles	800,000
5 year Bank loan	600,00
Stock	250,000
Debtors	300,000
Cash in hand	200,000
Creditors	300,000

Required:

Prepare Makindu Cycles Ltd balance sheet as at 31/12/10.

(4 marks)

13. Give four disadvantages to a trader who stores goods in a public warehouse. (4 marks)

14. The following balances were extracted from the books of Kawa traders as at 30th June 1982.

Buildings	99,000
Debtors	50,000
Capital	130,000
Sales	91,000
Purchases	53,000
Stock in 1 st Jan 1982	25,400
Creditors	30,700
General expenses	31,800
Bank overdraft	7,500

Required:

Prepare a trial balance as at 30th June 1982

15. List four factors that enhance effective communication. (4 marks)

16. Record the following transactions in three column cash book of Mary retailers for the month of January 2010 and balance it off as at that date.

Jan 1	Balance b/f bank (cr) sh. 1,500, cash (Dr) sh 15,000
Jan 2	Cleared the bank overdraft in cash.

- Jan 3 Received cash 9,800 from a debtor after 2% cash discount.
- Jan 4 Banked all the money leaving a balance of sh. 300 in cash till. (4 marks)
17. The following terms relate to Insurance. State term used for each description. (4 marks)
- a) Temporary Certificate of contract between the insurer and the insured
 - b) Periodic payments made by the policy holder
 - c) Transfer of rights on destroyed property from the insured to the Insurance
 - d) Life assurance lasting for specific period.
18. Highlight four factors that contribute to inability of consumer organizations to execute their functions. (4 marks)
19. State four advantages of an open office plan. (4 marks)
20. Highlight four benefits an individual would enjoy from buying shares in company such as Kenya Airways. (4 marks)
21. “Boda boda” transport has become a popular means of transport. Give four reasons for this trend. (4 marks)
22. State four disadvantages of specialization. (4 marks)
23. State four indicators of poorly motivated workers. (4 marks)
24. State four ways in which the government controls the exploitation of its natural resources. (4 marks)
25. State the structural changes that may take place in a country experiencing economic development. (4 marks)

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PAPER 1

MARKING SCHEME

1. Benefits of engaging in business.

- Extraction
- Manufacturing
- Labour
- Construction *Any 4 x 1*

2. • Rewarding employees fairly / better wages, salaries.
• Promoting them on merit.
• Taking them for training.
• Providing them with better tools and equipment
• Providing conducive working environment
• Taking care of workers welfare.
• Effective and efficient personnel administration. *4 marks*

3. • Receipt
• Credit note
• Advice note
• Letter of inquiry (specific inquiry)

4. • Deficiency of an economically active labour force.
• Increased welfare costs.
• Need to import labour that exploits foreign exchange reserves.
• High dependency ratio.
• Rigidity to change
• Fall in demand of goods and services required by the youth.
• Less progressive / low savings and low investments *Any 4 x 1*

5. Factors influencing level of national income

- Labour supply
- Capital
- Entrepreneurship
- Land
- Level of technology
- Political stability
- Attitude of citizens towards work
- - Level of foreign investment. *Any 4 x 1 = 4 marks*

6. Limitations of ATMs

- Expensive to install
- Ignorance of some customers on how to operate them.
- Customers are inconvenience when the machine is out of order.
- No personalized service.
- Limited amount than one can withdraw.
- No access to money when the AMT is lost *Any 4 x 1 = 4 marks*

7. Meeting all the storage expenses

- Incurring all costs of transporting the goods to the **market**.

- Incurring all the product promotion expenses
- Bearing the risks involved in distribution leading to increased losses.
- Breaking bulk – extra costs
- Incurring research costs
- Lack of finance due to selling on small quantities unlike in large sales.

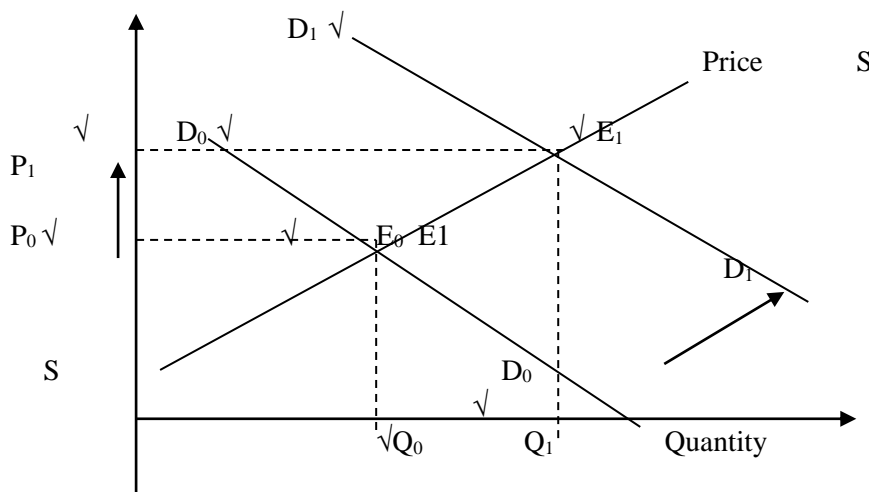
8.

Monopolistic competition	Monopoly
• Many sellers	• Single seller
• There are close substitutes	• No close substitutes
• Engages in price competition	• No price competition
• Free entry and exit of new firms	• Barriers of entry of new firms

Any 4 x 1 = 4 marks

- 9.
- Provide incentives.
 - Provide credit facilities to investors
 - Provide land or subsidize the cost of land
 - Improve the infrastructure of such areas e.g. transport and communication network
 - Provide security
- Any 4 x 1

10.



8 x 1/2 = 4 marks

- 11.
- Radio
 - Cinemas
 - TV
 - Internet
 - Electronic neon lights

12. Total assets = 2,250,000
Total liabilities = 900,000

Capital = total assets – liabilities
= 2,250,000 – 900,000
Ksh. 1,350,000 ✓✓

Makindu Cycles Ltd
Balance sheet as at 31.12.10 ✓

Assets	sh	sh		sh
<u>Fixed Assets</u>				Capital 1,350,000 ✓
Plant and machinery	700,000 ✓			
Motor vehicle	<u>800,000</u> ✓	1,500,000	<u>L. Term liabilities</u>	
			5 yr bank loan	600,000 ✓
<u>Current Assets</u>			<u>S. Term liabilities</u>	
Stock	250,000 ✓		Creditors	300,000 ✓
Debtors	300,000 ✓			
Cash in hand	<u>200,000</u> ✓	750,000		

2,250,000 ✓

2,250,000

$\sqrt{12 \times \frac{1}{3}} = 4 \text{ marks}$

13. Disadvantages of public warehouses

- Charges levied are relatively high
- Owner pays extra charges if goods overstay
- Location may not suit traders
- Long procedure in documentation
- Competition for space
- Goods may get damaged

Any 4 x 1 = 4 marks

14.	Item	Dr	Cr
	Buildings	99,000	
	Debtors	50,000	
	Capital		130,000
	Sales		91,000
	Purchases	53,000	
	Stock in 1 st Jan 1982	25,400	
	Creditors		30,700
	General expenses	31,800	
	Bank overdraft	<u> </u>	<u>7,500</u>
		<u>259,200</u>	<u>259,200</u>

15. • Language used should be understandable by the receiver
- Good listening
 - Use of the correct medium
 - Good timing
 - Absence of noise
 - Clarity and accuracy of the message
 - Good attitude of the receiver.

**16. MARY RETAILERS
CASH BOOK**

Dr						Cr					
Date	Detail	F	Disc. All	Cash	Bank	Date	Details	F	Disc. Re c.	Cash	Bank
2010						2010					
Jan 1	Bal. b/f			15,000✓		Jan 1	Bal b/d				1,500✓
2	Cash				1,500✓	2	Bank			1,500✓	
3	Debtors		200✓	9800✓		4	Bank			23,000✓	
4	Cash				23,000✓	4	Bal c/d			300	23,000
			200	24,800	24,500					24,800	24,500
5	Bal b/d			300	23,000						

8 x 1/2 = 4 marks

17. • Cover note
- Premium
 - Subrogation
 - Endowment

18. • Lack of support from government
- Lack of capital to finance their operations
 - Ignorance of consumers about their rights.
 - Reluctances of many consumers to join and voice their complaints as one.

- Lack of initiatives from consumers (apathy) to check traders' performance and report cases.

19. Advantages of an open office

- Easy supervision of work.
- Construction cost is low
- Economic use of space
- Cheap to decorate
- Economic use of office equipment
- Easy location of workers
- Promotes team work *Any 4 x 1 = 4 marks*

- 20.**
- Entitled to vote
 - Entitled to dividends
 - Becomes owner of a company
 - Can dispose shares at a profit.
 - Can claim on assets when a company winds up

- 21.**
- It is flexible
 - Convenient for short distance
 - It is readily available
 - It offers services up to the door step
 - It is faster since passengers do not have to wait
 - It can access areas that are not easily accessible by other means *Any 4 x 1 = 4 marks*

- 22.**
- Monotony and boredom on the workers
 - Lack of motivation of the worker
 - Shortages may arise when there are conflicts amongst countries
 - Workers may suffer from structural unemployment when trying to change jobs.
 - Specialized firms may become monopolist and hence exploit customers through pricing. *Any 4 x 1 = 4 marks*

23. Indicators of poorly motivated workers

- High rate of absenteeism
- Many cases of breakages and accidents
- High rate of turnover of labour
- High level of anti-social behaviour
- High rate of sick –offs by workers *Any 4 x 1 = 4 marks*

- 24.**
- Setting laws to control usage.
 - Conservation of natural / resources
 - Direct control on quantity exploited.
 - Employing security to protect the resources
 - Government management of such resources.

- 25.**
- Shift from agricultural sector to manufacturing sector
 - Reduction of illiteracy level
 - Increase in skilled manpower
 - Improvement in health facilities
 - Improved technology
 - Increased entrepreneurial ability
 - Improvement in research activities
 - Improved infrastructure

5.

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PAPER 2

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BUSINESS STUDIES

PAPER 2

INSTRUCTIONS TO CANDIDATES

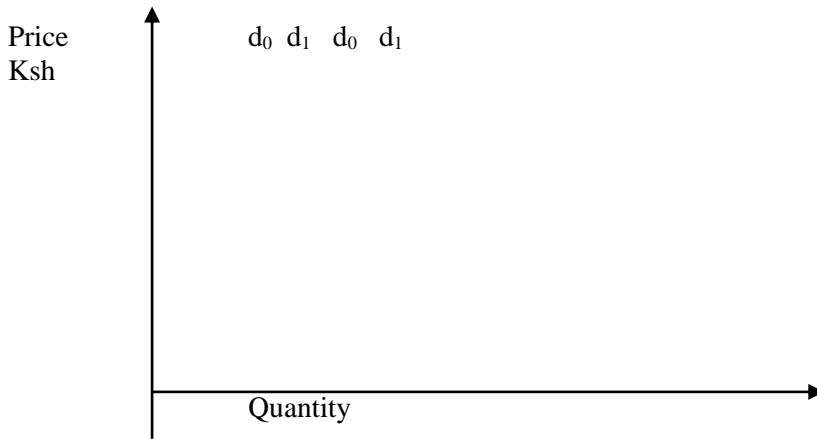
1. (a) Explain five features of a current account offered by commercial banks. (10 marks)
- (b) The following transactions relate to Mamu traders for the year ended 31st May 2010.
- | | | |
|----------|---|---|
| May 2010 | 1 | Received cash from debtors 150,000/= |
| | 2 | Paid rent 16,000/= |
| | 3 | Bought goods for resale cash 14,000/= |
| | 4 | Sold good for 45,000/= less cash discount 10% |
| | 5 | Paid cash for the following expenses stationery 4,000/=, insurance 3,000/=, rites 4,000/= |
| | 6 | A debtor paid cash 17,000/= |
| | 7 | Bought good worth 60,000/= on credit from Jambo traders |
| | 8 | Debtors paid cash 20,000/= in full settlement of a debt of 23,000. |
| | 9 | Paid for goods 4,000/= cash less 5% cash discount. |

Required:

Prepare a cash receipt and payment journals.

(10 marks)

2. The graph below shows a demand curve. Use it to answer the question that follow.



- (a) Explain four reasons that may result to the situation shown. (8 marks)
- (b) The following trial balance relates to the books of Terry traders for the year ended 31st Dec. 2007

	Dr	Cr
Sales		128,000
Sales returns	6,000	
Purchases	90,000	
Purchases returns		5,000
Carriage inwards	15,000	
Stock 1/1/2007	23,000	
Insurance	4,000	
Advertising	8,000	
Land and buildings	120,000	
Motor vehicles	75,000	
Debtors / Creditors	19,000	31,000
Loan from IDB		60,000
Cash in hand	13,000	
Cash at bank	27,000	
Drawings	10,000	
Discounts	3,000	5,000
Capital		184,000
	413,000	413,000

Stock on 31st Dec. 2007 was sh. 28,000

Required:

Prepare:

- a) Trading , profit and loss account
- b) Balance sheet as at 31/12/2007.

(12 marks)

3. (a) Kamau is an artist and decides to take his new products to the trade fairs and exhibitions. Explain five benefits he will get from the exhibition.
(b) Explain five circumstances under the retailer and wholesaler may be eliminated from the chain of distribution.

4. (a) Kilukumi started a business on 1st January 2010 with sh. 60,000 in cash. His transaction in the month of January were as follows. He also brought in his motor vehicle worth Ksh. 350,000.

Jan	2	Bought stock for sh. 10,000 and paid in cash.
	3	Got a loan sh. 80,000 in cash from Barclays bank.
	4	Opened a bank account and deposited sh. 40,000 from the cash till
	5	Bought office equipment for sh. 15,000 by cheque.
	7	Paid part of the loan sh. 9000 by cheque

Required:

Record the transactions in the relevant ledger accounts

- (b) Explain four conditions necessary for a **market** under perfect competition

5. (a) Explain five factors that may limit the use of containers as a method of transporting goods in a developing country.
(b) Explain five strategies that a small scale firm could adopt to expand so as to enjoy economies of scale.

6. (a) Explain five differences between a public corporation and a public limited company.

(10 marks)

- (b) Explain five disadvantages of delocalizing firms.

(10 marks)

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1. (a)

- Holder can withdraw all money
- Withdrawal done by cheques
- Withdrawal can be done by other people
- Overdraft is available
- Earns no interest.
- Standing order facilities

5 x 2 = 10 marks

(b) Cash payment journal ✓

Date	Details	Discount	Cash
2.5.10	Rent		16,000 ✓
3.5.10	Purchase		14,000 ✓
5.5.10	Stationery		4,000 ✓
5.5.10	Insurance		3,000 ✓
5.5.10	Rates		4,000 ✓
9.5.10	Purchase	200 ✓	3,800 ✓
		200 ✓	44,800 ✓

Cash receipt Journal ✓

Date	Details	Discount allowed	Cash
1.5.10	Debtors		150,000 ✓
4.5.10	Sales	4,500 ✓	40,000 ✓
6.5.10	Debtors		17,000 ✓
8.5.10	Debtors	3,000 ✓	20,000 ✓
		7,500 ✓	227,500 ✓

20 x 1/2 = 10 marks

2. (a)

- Increase in the consumer’s disposable income leading to increased ability to buy more goods.
- Increase in the prices of a commodity’s substitute or a reduction in the prices of its complementary products.
- Changes in taste, fashion and preference that favour the commodity.
- Favourable government policy such as reduced taxation, increased subsidies or favourable legislation.
- Increase in the size of the population or an increase in population of young and youthful population.
- Expect price increase or shortage in future such that the consumers may need to store enough at present.
- A commodity that is in season e.g. during the rainy season the demand for umbrella and warm clothes is in high demand.
- Favourable terms of sale e.g. better discounts offer of goods in credit etc.

Any 4 x 2 = 8 marks

(b)

Terry Traders
Trading, profit and loss A/C
For the year ended 31st Dec. 2007 /

	Sh	Sh	
Opening stock	23,000 /	Sales	128,000 /
+ Purchases	90,000 /	Less sales returns	6,000 /
Carriage inwards	15,000 /	Net sales	122,000 /
	128,000 /		
- Returns outwards	5,000 /		
GAFS	123,000 /		
- Closing stock	28,000 /		
CGS	95,000 /		
G.P c/d	27,000 /		
	122,000 /		122000

Expenses		G.P b/d	27,000 /
Insurance	4,000		
Advertising	8,000 /	Discount received	5,000 /
Discount allowed	3,000 /		
Net profit c/d	17,000 /		
	32,000 /	Net profit b/d	32,000
			17,000

21 x 1/3 = 7 marks

Terry Traders
Balance sheet
As at 31/12/2007 /

	Sh /		sh /
<u>Fixed assets</u>		Capital	184,000 /
Motor vehicles	75,000	Add net profit	17,000 /
Land and buildings	120,000 /		201,000 /
	195,000 /	Less drawings	10,000 /
			191,000 /
<u>Current assets</u>		<u>Long term liabilities</u>	
Stock	28,000	IDB loans	60,000 /
Debtors	19,000 /	Current liabilities	
Cash at bank	27,000 /	Creditors	31,000 /
Cash in hand	13,000 /		
	87,000 /		
	282,000 /		282,000 /

20 x 1/4 = 5 marks NB: 1/4 mark for use of order of permanence

5 marks

3. (a)

- Will be able to display his products to customers to see.
- Will be able to demonstrate and explain the use of the products collectly
- He will be able to learn new ideas to help him improve the quality of his products.
- Will be able to give detailed information about his products.
- Will be able to respond to as from prospective customers
- Will be able to receive new orders
- Will make new conducts to customers

10 marks

(b)

- Sale and purchase by tenders
- Technical goods
- Low distribution costs
- Small markets / localized markets
- Specialized orders / classified goods / services
- Perishable goods
- Retail outlet – manufacturers have their own retailers.

10marks

4. (a)

Motor vehicle	
1/1/10 capital 350,000 ✓	Bal c/d 350,000 ✓
350,000	350,000
Bal b/d 350,000	

Capital a/c	
Bal c/d 410,000 ✓	1/1/2010 cash 60,000 ✓
	1/1/2010 motor vehicle 350,000 ✓

410,000

410,000

Purchases a/c	
2/1/10 cash 10,000 ✓	Bal c/d 10,000 ✓
Bal b/d 10,000	410,000
Bal b/d 10,000	Bal b/d 60,000

Cash a/c			
1/1/2010 capital 60,000 ✓	2/1/2010 purchase 10,000 ✓		
3/1/10 Barclays 80,000 ✓	4/1/10 Bank 40,000 ✓		
	6/1/10 Furniture 3,000 ✓		
	Bal c/d 87,000		
140,000		140,000	
Bal b/d 87,000			

B

Barclays Bank			
7/1/10 bank 9,000 ✓	3/1/10 cash 80,000 ✓		
Bal c/d 71,000 ✓			
80,000	Bal b/d 71,000	80,000	

Bank a/c			
4/1/10 cash 40,000 ✓	5/1/10 office equipment 15,000 ✓		
	7/1/10 Barclays bank 9,000 ✓		
	Bal c/d 16,000 ✓		
Bal b/d 40,000		40,000	
Bal b/d 16,000			

Office equipment a/c	
5/1/10 Bank 15,000 ✓	Bal c/d 15,000 ✓
Bal b/d 15,000	15,000

Office furniture	
6/1/10 cash 3,000 ✓	Bal c/d 3,000 ✓
Bal b/d 3,000	3,000

24 x 1/2 = 12 marks

(b)

- A large number of sellers and buyers such that the exit of entry one does affect the other's decision

- Homogeneity the product so that no special advantage for purchasing or selling to a particular individual
- Free entry and exit of firms without restrictions
- No government interference i.e. no subsidies
- Perfect knowledge of the market by both sellers and buyers
- Perfect mobility of the factors of production
- No transport costs. *Any 4 x 2*

5. (a) **Limitations of use of containers**

- Specialized equipment which are expensive. Goods are handled using expensive equipment that may not even be there or expensive to use or maintain
- Organization personnel / talents / training / operational / management skills needed for the method may be lacking or expensive training.
- Volume of business may not be large enough to warrant heavy investment / volume of business may be low.
- Initial capital needed for the system / not easily affordable or is high.
- The method requires construction of the ports which may be expensive.
- Use of medium technology which is limited and may slow the processing of goods.
- General resistances to change by stakeholders who may not be willing to embrace new technology. *Any 5 x 2 = 10 marks*

(b)

- Amalgamation / merger with other firms at different stages of production.
- Diversification into a capture a wider market / increase market share.
- Rationalize operations so as to concentrate on more efficient units / cut down on wastage
- Buying / acquiring other similar businesses to widen the scope of activities
- Secure loans or credit facilities to expand its capital base.
- Arrange for franchising, by securing rights to produce / selling goods under a name of another company.
- Expand markets to increase the volume of sales
- Adopting appropriate technology to increase quantity / quality.
- Ploughing back profits to finance its operation
- Forming cartels with similar business. *Any 5 x 2 = 10 marks*

6. (a) Differences between public corporation and public Limited Company

Public Corporation	Public Limited Company.
• Formed by act of parliament	• Formed under Company act
• Not profit motivated	• Profit motivated
• Financed by the government	• Capital is raised through sale of shares to investors
• Owned by the government	• Owned by individual shareholders
• Managed by a board of directors appointed by the government.	• Managed by a board of directors appointed / elected by shareholders

Any 5 x 2 = 10 marks

(b) Disadvantages of delocalizing firms

- Spread of pollution
- Skilled man-power may be lacking in rural areas.
- Security may be a problem in some areas
- Service industries may not be available.
- Incentives offered by government are an added burden to the tax payer
- Continued protection from foreign competition by the government may make the firm to produce sub-standard products. *Any 5 x 2 = 10 marks*