

BUSINESS STUDIES

KASSU PP1 2017 MARKING SCHEME

1. Outline four aspects of demographic environment that influences the operations of business.

- a) Size of the population*
- b) Geographical distribution*
- c) Age and sex distribution*
- d) Population density*
- e) Birth and death rates*

2. Highlight four unethical practices that business may get involved in. (4 marks)

- a) Cheating on the performance of the product.*
- b) Cheating on the ingredients of the product hence commodity not working as customer expected.*
- c) Not disclosing side effect the commodity may have hence exposing consumers to health problems.*
- d) False pricing by initially overpricing and later lowering to make it look like there is a reduction.*
- e) Negative effects on the environment by using methods that litter the environment or producing excessive noise.*
- f) Social cultural conflicts by promoting goods using style that conflicts with the cultures of the local communities*

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

- a) Difficult in changing with world trend.*
- b) Hinders innovation and invention as old people are more conservative.*
- c) Diverting resources to provision of pension and commodities for the aged.*
- d) Shortage of labour.*
- e) Increased dependency on working population.*
- f) High unemployment.*
- g) Increased pressure on health facilities*

4 Highlight four merits that will accrue to a business by adopting the internet as a means of communication (4mks)

- a. Worldwide connectivity*
- b) Faster means of communication*
- c) Facilitate buying / selling of goods on a global scale*
- d) Information and data can be downloaded and printed*
- e) Product promotion can be done over the internet*
- f) Video conferences can be held over the internet*

5. State four conditions necessary for successful development planning to take place in a country. (4 marks)

- a) *A planning body made up of experts in development planning.*
- b) *Accurate statistical data that provide a clear picture of the economic situation of the country.*
- c) *Set of realistic targets that can be effectively achieved within the time given and using the resources available.*
- d) *Proper research to confirm the data provided and the resources available.*
- e) *Effective administration of the economic policies and planning principles during the development planning and the application of the resulting development plan.*

6. Five channels of distribution for exported Agricultural products.

- a) *Local farmer/producer → foreign consumer.*
- b) *Local farmer/producer → (foreign) wholesaler → (Foreign) retailer → foreign consumers*
- c) *Local farmer/producer → (foreign) agent → (foreign) wholesaler → (foreign) retailer → Foreign Consumer.*
- d) *Local Farmer/Producer → (Foreign) wholesaler → Foreign Consumer*
- e) *Local Farmer/Producer → (Foreign) Retailer → Foreign Consumer*

7 How an efficient transport system can promote trade

- i. *Goods will be transported easily to the market*
- ii. *Buyers and sellers will be able to move from one market to another*
- iii. *Good will be transported from areas of excess to areas with shortages*
- iv. *It will be able to open many areas of trade-increased market*
- v. *It will lead to time saving due to fewer delays on the road*
- vi. *It will lead to reduced cost of transport hence cheaper goods.*
- vii. *It enables producers to specialize on what they can produce best*
- viii. *It will ensures continuous supply on the market*

8 Effects of business transactions on the assets, liabilities or capital.

Transaction	Assets	Liabilities	Capital
a) Bought furniture on credit	<i>Increase</i>	<i>Increase</i>	<i>No effect</i>
b) Paid creditors by cash	<i>decrease</i>	<i>decrease</i>	<i>No effect</i>
c) Investment by the owner	<i>Increase</i>	<i>No effect</i>	<i>Increase</i>
d) Purchase stock by cheque	<i>No effect</i>	<i>No effect</i>	<i>No effect</i>

9.Highlight four features of oligopoly market structures. (4mks)

- a) *Sellers are few*
- b) *Characterised by price wars*
- c) *Firms face kinked demand curve*
- d) *Price / output decisions are highly interdependent*

e) Action of each firm in terms of price/ output is likely to lead to reactions from other firms in the industry

9 . The following transactions relate to Mutinda traders for the month of January 2008.

- January 8 Purchased goods on credit from Furaha traders worth sh.12000
 12 Sold goods to Jane traders worth sh.20000

Record the transactions in the ledger accounts given below. (4 marks)

Recording transactions in ledger accounts)

DR	Purchases A/C	CR	DR	Furaha Traders(Creditor)	CR
	Furaha 12,000				Purchases 12,000

DR	Jane Traders(Debtor)	CR	DR	Sales A/C	CR
	Sales 20,000				Jane Traders 20,000

10.The statements below contains descriptions relating to some type of warehouse. In the space provided, write the type of warehouse to which each description refers.

- | Description | Type |
|---|------|
| a) Used to store exports and imports..... | |
| b) Anybody can rent spaces in it for storing goods temporary..... | |
| c) Operated for owners exclusive use | |
| d) Owned and operated by farmers and manufacturers..... | |

- a) bonded warehouse
- b) Public warehouse
- c) Private warehouse
- d) Producers warehouse

11.Functions of Non-banking financial institutions

- i. Offer advisory services to their clients in matters such as business opportunities available.
- ii. Encourage clients to carry out business activities

- iii. *They encourage investment by advancing loans to individual members*
- iv. *They supervise and monitor the investment activities of people to whom they have given loans*

12.Reasons consumers must make a choice when satisfying competing wants

- i) *Limited resources*
- ii) *Different prices of goods*
- iii) *Different tastes, preferences or fashion*
- iv) *Government policy on consumption of goods*
- v) *Unlimited wants to be satisfied*

13.Assumptions that are used to explain the circular flow in an closed economy

- i) *There are only two sectors in the economy-Firms and Households*
- ii) *The households spent all their income on goods and services provided by the firms*
- iii) *The firms use all the income from sell of goods and services on payment for factors of production provided by the households*
- iv) *There is no government intervention. That is, there is no taxation of incomes*
- v) *There is no import and export trade*

14.State four characteristics of subsistence production in Kenya (4mks)

- a) *Goods or service are produced mainly for one's own use*
- b) *Usually carried out in small scale*
- c) *Methods used for production are usually simple*
- d) *It involves little or no specialization*
- e) *The quantities produced are relatively low*
- f) *There is usually no surplus for the market.*

15. The following table shows the price of 2kg of maize flour 1 loaf of bread, and 1 packet of milk in 2013 and 2014 with their weights.

Items	Prices		Weights
	2013	2014	
Flour	80	85	2
Bread	50	60	1
Milk	40	60	3

Required:

Calculate Consumer Price Index (C.P.I) for the year 2014 for the basket of goods composed of the three items using the Weighted Average Method and determine rate of inflation.(4 Marks)

Consumer price index

$$(85 \times 2) + (60 \times 1) + (60 \times 3) = 410$$

$$(80 \times 2) + (50 \times 1) + (40 \times 3) = 330$$

$$410 / 330 = 124.24 \checkmark$$

$$\text{rate of inflation } 124.24 - 100 = 24.24\% \checkmark$$

16. State four disciplines in Business studies.(4marks)

- a) *Economics*
- b) *Accounting*
- c) *Commerce*
- d) *Entrepreneurship*
- e) *Office practice*

17.Name of the document that matches the following descriptions

	Description	Document
(a)	Prepared by an exporter giving details about the country where goods are imported from	<i>Certificate of origin</i>
(b)	Shows prices charged as certified by the importing country's officials	<i>Consular invoice</i>
(c)	An order sent by an importer to an agent in the exporting country	<i>Indent</i>
(d)	Enables the importer to initiate clearing of customs duty early enough to avoid delays.	<i>Proforma invoice</i>

18. Highlight four features of a mail order shops in home trade.(4 marks)

- a) *Mail order shops operate from a designated office with a warehouse*
- b) *They receive orders from customers through mail*
- c) *They pack goods and deliver them to customers through mail*
- d) *Customers make payment for goods through cash with order*
- e) *There is usually no contacts between the seller and the buyer*
- f) *They advertise their goods through distributing catalogues to the public and through the media*
- g) *Their customers are spread in and outside the country.*

19.The diagram below shows a shift in the supply curve of a given commodity.



State four reasons for the shift in the supply curve. (4 marks)

Reasons for the shift in the supply curve.

- a) *Decrease in costs of production / decrease in resource prices.*
- b) *Improved technology.*
- c) *Favourable government policies (taxes and subsidies)*
- d) *Future expectation of fall in prices.*
- e) *Influx of imports / number of supplies.*
- f) *Favourable natural factors.*
- g) *Time.*
- h) *Objectives of the firm.*
- i) *Availability of factors of production*

20. Identify the types of unemployment described below.

- a).....is a type of unemployment that occurs when demand for labor declines due to either change in the method of production or decrease in supply of goods and services.
- b).....is a type of unemployment which occurs when workers full capabilities are not fully utilized.
- c).....is a type of unemployment which occurs to those employed on contract basis
- d).....occurs when a country goes through economic activities alternating from boom to recession

- a) *Frictional*
- b) *Hidden*
- c) *Erratic*
- d) *Cyclical*

21. Circumstances under which an insurance contract may be terminated

- i) *Where the principle of utmost good faith was violated*
- ii) *Where the insured ceases to have insurable interest in the property insured*
- iii) *Where the insured has been compensated*
- iv) *Where the policy matures and is settled – life*

- v) *Where the insured person decides to terminate the contract*
- vi) *Where a court of law orders termination*
- vii) *Where the insured fails to remit premiums*
- viii) *Where the insured company is declared bankrupt*

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

- a) *Difficult in changing with world trend.*
- b) *Hinders innovation and invention as old people are more conservative.*
- c) *Diverting resources to provision of pension and commodities for the aged.*
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23.State four importance of balance sheet. (4marks)

- a) *Financiers will know whether the business will be able to meet its claims*
- b) *Shareholders will determine whether their funds are invested wisely*
- c) *It is a requirement for taxation by the government*
- d) *Potential investors will be able to make decisions on which shares to buy*
- e) *The management will be able to compare its performance between periods or with other similar businesses to identify areas of urgent actions for business success.*

24.Reasons for returning a cheque back to the payee indicated “refer back to the drawer”

- i) *Insufficient funds in the account*
- ii) *If the signature on the cheque differs from the drawers specimen signature in the bank.*
- iii) *If the cheque is stale i.e. presented for payment after six months from the date of issue.*
- iv) *If the amount in figures is different from the amount in words*
- v) *If there are alterations on the cheque which are not countersigned by the drawer*
- vi) *If the cheque is torn, dirty or default making it illegible*
- vii) *If the drawer instructs the bank not to pay the particular cheque*
- viii) *If the cheque contains errors which need to be corrected*
- ix) *If the drawer has closed his/her account.*

25. The following balances were extracted from Mwangaza traders’ books of accounts.

Shs.
Opening stock 25,000
Closing stock 35,000
Purchases 190,000
Mark - up 20%
Calculate:

Cost of sales (1mark)

Gross profit (1 mark)

Sales

(1 mark)

Rate of stock turnover (ROSTO) (1 mark)

$$\begin{aligned} \text{i) Cost of Sales} &= \text{Opening stock} + \text{purchases} - \text{closing stock} \\ &= \text{kshs } 25000 + \text{kshs } 190000 - \text{kshs } 35000 \\ &= \text{sh. } 180,000 \end{aligned}$$

$$\begin{aligned} \text{ii) Gross Profit} &= \text{Cost Of Sales} \times \text{Mark - up} \\ &= \text{kshs } 180000 \times 1/5 \\ &= \text{sh. } 36,000 \end{aligned}$$

$$\begin{aligned} \text{iii) Sales} &= \text{Cost of sales} + \text{Gross Profit} \\ &= \text{shs } 180,000 + \text{shs } 36,000 \\ &= \text{sh. } 216,000 \end{aligned}$$

iv) *R.O.S.T.O*

$$\text{Avg. Stock} = (\text{opening stock} + \text{closing stock}) \div 2$$

$$= (\text{shs } 35000 + \text{shs } 25000) \div 2 = \text{kshs } 30000$$

$$\text{R.O.S.T.O} = \text{Cost of Sales} / \text{Avg. Stock}$$

$$= \text{shs } (180,000 \div 30,000)$$

$$= 6 \text{ times}$$