

MOKASA II MARKING SCHEME 2019

BUSINESS STUDIES

PAPER ONE

1. Outline four reasons why filing is an important function of an organization. (4mks)

- *Documents are protected from loss and landing into unauthorized hands.*
- *It aids in office tidiness and efficiency*
- *Documents are kept neat and tidy*
- *An important aid to memory- reference can be made anytime and in future.*
- *Ensures that information is stored systematically and thus can be retrieved easily when needed.*

2. Koech started a business dealing in ladies clothing ten years ago. His business has gradually been growing and making more profits. Outline **four** reasons that may account to this.

- *Adequate capital*
- *Availabilities of adequate labour*
- *Proper marketing plans*
- *Fair competition*
- *Use of modern technology*
- *Political stability*
- *Adequate market*
- *Appropriate pricing policies*
- *Good time management*
- *Good infrastructure*
- *Proper business planning*
- *Good customer relations*
- *Favourable government policies*

3. The table below contains descriptions of some goods. Classify them as either Consumer, Intermediate, Free goods or Capital goods.

(4marks)

Description	Classification
a)Goods used in the production of other goods but does not form part of the finished products	<i>Capital goods</i>
b)Goods that are in their final state of usage	<i>Consumer goods</i>
c)Goods that are abundant in supply and have no monetary value	<i>Free goods</i>
d)Goods that are not ready for use before they are further processed	<i>Intermediate goods</i>

4 Outline **four** examples of open trade credit used in home trade.

(4mks)

- *Simple credit (prompt cash)*
- *Monthly credit*
- *Budget accounts*
- *Trade credit*
- *Credit card facilities*

5. Outline **four** factors that determine the amount of money held by an individual for speculative motive.

- *Level of income*
- *Individual's temperament (pessimistic/optimistic)*

- *Duration between incomes*
- *Family status*
- *Number of dependants.*

6. Using a (+) for increase, (-) for decrease and (0) for no effect , indicate the effects of the following transactions on Assets , Liabilities, Capital and the balance sheet totals.

(4 marks)

Description	Assets	Liabilities	Capital	Balance sheet totals
a)Bought goods worth 5000/=on credit	+	+	0	+
b)Sold goods worth 7000/= for 8000/= Cash	+	0	+	+
c)The Proprietor took goods worth 2000/= for personal use	-	0	-	-
d)The Proprietor donated personal motor vehicle to the business	+	0	+	+

$$16 \times \frac{1}{4} = 4 \text{ marks}$$

7.Outline **four** reasons that may have led to the change in quantities demanded of commodity X in the market as shown in the schedule below. (4mks)

Time	January	February	March	April
Price (shs)	120	120	120	120
Quantities demanded	6,000	4,000	2,800	2,000

- *Decrease in consumer's income*
- *Consumers may have expected a further decrease in prices*
- *There might have been decrease in the general population*
- *Government may have increased the taxation on that commodity*
- *Consumers may have developed a dislike to the commodity i.e. of fashion*
- *There might have been increase in the price of complimentary goods*
- *There might have been a decrease in the price of substitute to the commodity*

8. The capital of Kimosop traders on 1st January 2018 was shs. 85,000. During the year, additional investments of shs.50,000 and drawings of shs.60,000 were made. The capital as at 31st Dec 2018 was 65,000. Calculate Kimosop trader's profits or loss.

(4 marks)

$$\begin{aligned}
 CC &= OC + P + I - D \\
 P &= CC - OC - I + D \\
 &= 65,000 - 85,000 - 50,000 + 60,000 \\
 &= -10,000 \\
 &= \text{Loss} = 10,000
 \end{aligned}$$

9. Highlight four reasons why the government may decide to reduce her shareholding in public corporations to a level below 50%. (4 marks)

- *To raise government revenue*
- *To reduce the tax burden of financing poor performing parastatals*
- *To encourage healthy competition among the businesses into the country*

- *To improve on the management in the running of the businesses*
- *To deal with the problem of corruption, misuse of funds and mismanagement of resources in parastatals*
- *Increased private sector participation*

10 State how the following components are treated in the measurement of national income.
(4marks)

National income component	State whether added or subtracted
a). Transfer Payments	<i>Subtracted</i>
b). Depreciation	<i>Subtracted</i>
c). Subsistence farming	<i>Added</i>
d). Net income from Abroad	<i>Added</i>

11. State **four** differences between ordinary shares and preference shares.

Preference shares	Ordinary shares
- <i>Have a fixed rate of sharing dividends</i> - <i>Have a prior claim of dividends over ordinary shares</i> - <i>Have no voting rights</i> - <i>If the company is liquidated, they are paid first.</i> - <i>cummulative</i> - <i>may be redeemable</i>	- <i>No fixed rate of sharing dividends</i> - <i>Have a claim of dividends after preference shares</i> - <i>have voting rights</i> - <i>If the company is liquidated they are paid last</i> - <i>non cumulative</i> - <i>non-redeemable</i>

12. State four circumstances under which the use of face to face communication may be appropriate.
(4 marks)

- *When there is need for immediate feedback*
- *If the message being passed is confidential*
- *When there is need to persuade and convince the other person*
- *When addressing a large number of people at once e.g when in a meeting*
- *When the parties involved are close to each other*
- *When the message being communicated is informal*

13 Highlight **four** disadvantages of using sea transport.
(4marks)

- *It is very slow hence not suitable for transporting perishable and agent goods and services*
- *It is not flexible as it does not offer door to door services*
- *Ships are very expensive to buy and maintain hence many countries cannot afford*
- *It is very expensive to construct and maintain a port hence many countries cannot afford*
- *Water transport is easily disrupted by poor weather e.g. rainstorms, strong winds*
- *Water transport is only used where there is water.*
- *Some water ways might not be navigable especially if they have rapids, dangerous animals and hyalines*
- *It is expensive to provide facilities at the port hence many countries cannot afford*
- *It may be affected by piracy which causes great loses*

14. Outline **four** circumstances under which a intermediaries is used in distribution of a firms products.

- Where the market is widely spread out.
- Where the market is full of risks
- Where it is a government policy
- Where the producer lacks storage facilities
- Where the producer wishes to specialize in production and leave distribution function to intermediaries.
- Where it is means used by competitors
- Where there is need to break bulk
- Where the firm produces large quantity of commodities.
- Where the products are not perishable
- where the firm cannot afford to sell directly
- -

15. Balance the following ledger accounts and extract a trial balance.

<i>Dr</i>		<i>Debtors a/c</i>		<i>Cr</i>	<i>Dr</i>
<i>Capital a/c</i>		<i>Cr</i>			
<i>Bal b/d</i>	7000	<i>Cash</i>	1500		<i>Bal c/d</i> 16000
<i>Bal b/d</i>	16000				
		<i>Bal c/d</i>	5500		<u>16000</u>
<u>16000</u>					
	<u>7000</u>		<u>7000</u>		
<i>Bal b/d</i>	16000✓				
<i>Bal b/d</i>	5500✓				

<i>Dr</i>		<i>Cash a/c</i>		<i>Cr</i>	<i>Dr</i>
<i>Creditors a/c</i>		<i>Cr</i>			
<i>Bal b/d</i>	12,000	<i>Creditors</i>	2000		<i>Cash</i> 2000
<i>Bal b/d</i> 3000					
<i>Debtors</i>	1500	<i>Bal c/d</i>	11500		<i>Bal c/d</i> 1000
	<u>13500</u>		<u>13500</u>		<u>3000</u>
<u>3000</u>					
<i>Bal b/d</i>	11500✓				
<i>Bal b/d</i> 1000✓					

Trial Balance

As at 30th June 2015

Details	Dr	Cr
Debtors	5500✓	
Capital		16000✓
Cash	11500✓	
Creditors		1000✓
Total	<u>17000</u>	<u>17000</u>

$$8 \times \frac{1}{2} = 4 \text{ marks}$$

16 .State **four** causes of structural unemployment.
(4mks)

- *Change in the method of production/mechanization/capital intensive methods*
- *Technological change*

- *Widespread change in government policies*
- *Decrease in demand for products*

17. Highlight **four** characteristics of a public warehouse.
(4 marks)

- *A rental fee is charged on goods stored.*
- *Strategically located near road junctions, bus stations, airports, railway stations border points and sea ports.*
- *Goods are prepared for sale through branding and packing*
- *Goods are insured against risks such as damages by fire and theft*
- *Goods can be sold without their physical movement from the warehouse.*
- *more Documentation*
- *The owner of the goods have no direct control over the goods stored.*
- *They are situated far away from the liner's premises*

18. The following balance sheet belongs to Rivatex Traders.

Rivatex

Balance Sheet

As at 30th June 2019

<u>Fixed Assets</u>	sh		Sh
sh			
Premises		Capital	
90,000		120,000	
Furniture and Fixtures		Add Profit	
70,000		<u>30,000</u>	
Land		Net Capital	
<u>140,000</u>	300000	150,000	
<u>Current Assets</u>			
Cash		<u>Long Term Liabilities</u>	

7000	5 year bank loan	
Stock	200,000	
15000	<u>Short term liabilities</u>	
Bank	Bank overdraft	—
10000	<u>7,000</u>	
Pre-paid rent		-
<u>25000</u> 57000	<u>357,000</u>	
<u>357000</u>		

Required: Calculate

i) Working Capital (1 mark)

$$W.C = C.A - C.L$$

$$57,000 - 7,000 = 50,000$$

ii) Borrowed Capital (1 mark)

$$L.T.L = 200,000$$

iii) Capital Employed (1 mark)

$$T.A - C.L$$

$$357,000 - 7,000 = 350,000$$

iv) Capital Owned (1 mark)

$$Shs 120,000$$

19. State **four** levels of inflation.
(4mks)

- *Hyper/runaway inflation*
- *Gallop/rapid inflation*
- *Stagflation*
- *Creeping/Mild/moderate inflation*

20. The following statements relate to a description of a certain type of tax. Identify the tax and classify it as either direct or indirect tax.

	Description	Tax	Classification
(a)	A tax that is imposed on goods that are manufactured and sold within a country.	<i>Excise duty</i>	<i>Indirect</i>
(b)	Tax usually levied on profits of companies	<i>Corporation tax</i>	<i>Direct</i>
(c)	Tax levied on the value that a business adds to a product.	<i>Value added tax (V.A.T)</i>	<i>Indirect</i>
(d)	Tax levied on personal wealth that goes beyond a certain limit.	<i>Wealth tax</i>	<i>Direct</i>

21. Record the following transactions in the relevant journals (4 marks)

2019

Feb 2: Bought goods on Credit worth 6500/= from Eldolink suppliers

Feb 8: Sold goods worth 5000/= on credit to Jamal.

Feb 12: Sold stock valued at 8500/= on credit to Musyoka

Feb 16: Bought goods worth 3000/= on credit from Jetlink traders

Purchases Journal

Date	Particulars	Invoice No.	Ledger Folio	Amount
2019 Feb 2	Eldolink Suppliers			6500✓

Feb 16	Jetlink Traders			3000✓
	Totals posted to purchases a/c (Debit)			<u>9500</u>

Sales Journal

Date	Particulars	Invoice No.	Ledgers Folio	Amount
2019				
Feb 8	Jamal			5000✓
Feb 12	Musyoka			8500✓
	Totals posted to Sales a/c (Cr)			<u>13500</u>

22. John and Peter bought a Nissan matatu worth sh. 3,000,000. John paid sh. 2,000,000 and Peter sh. 1,000,000. They insured the matatu for a comprehensive cover for 2,500,000. Later the matatu was involved in an accident to a loss of sh 1,500,000. How much were they compensated and give reasons in support of your answer?

$$\text{Compensation} = \frac{\text{Sum insured} \times \text{Value loss}}{\text{Actual value of the property}}$$

$$\frac{2,500,000 \times 1,500,000}{3,000,000}$$

$$= \text{shs}1,250,000$$

$$\text{For @ John} - \frac{2}{3} \times 1,250,000 = \text{shs}833,333$$

Peter - $\frac{1}{3} \times 1,250,000 = \text{shs } 416,667$

Reason: Under insurance

23. Outline **four** reasons why subsistence production is discouraged in many countries.
(4 marks)

- *Leads to production of low quantity and quality goods*
- *It discourages invention and innovation*
- *Limited variety of goods is produced*
- *Low levels of technology is applied*
- *Wastage of time as one moves from one productive activity to another*

24. Highlight four features of an Oligopoly market structure.
(4 marks)

- *Few large scale sellers*
- *Barriers to entry of new firms in the market*
- *Firms are price givers or makers*
- *There is price rigidity causing a kinked demand curve*
- *There can be pure oligopoly where products are identical or differentiated through branding*
- *Goods dealt in are close substitutes*
- *There may be price wars*
- *Tacit collusion*
- *There may be non price competition*
- *Firms are interdependent in terms of price, market share and output decision.*

25. Describe the following terms of sale as used in international trade.
(4 marks)

a)

LOCO.....

.....

b)Free Alongside Ship

.....

.....

c) Cost &
Freight.....

.....

d)
Franco.....

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