
KENYA NATIONAL EXAMINATION COUNCIL
REVISION MOCK EXAMS 2016
TOP NATIONAL SCHOOLS

PRECIOUS BLOOD SCHOOL
BUSINESS STUDIES
THEORY
Paper 2
MARKING SCHEME

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PRECIOUS BLOOD KCSE TRIAL AND PRACTICE EXAM 2016

BUSINESS STUDIES PAPER 2

MARKING SCHEME

1. a) **Reasons why per capital income is not an indicator of better living standards in a country.**
- i) Statistical problem/inaccurate data:
 - Data collection may be inaccurate meaning that the national income figures might be inaccurate hence wrong per capital income.
 - ii) Changes in the value of money /currency.
 - If the currency has been devalued, there can be a change in value of money which may not necessarily represent changes in the people's welfare.
 - iii) Income distribution /inequality in income distribution:
 - National income may be high but if the national cake is in the hands of a few, one cannot say that people's welfare is improved.
 - iv) Nature of the products;
 - If the products are not meant to satisfy immediate wants, then an increase in per capital income may not lead to a higher economic welfare.
 - v) Social costs/negative impact on the population and environment;
 - Some developments may leave citizens worse than before an increase in national income such includes pollution, congestion, migration which strains family relationships, environmental disruptions etc.
 - vi) Inappropriate application of National income:
 - The per capital income may appear to be high but most of the income has been used in a way that did not benefit majority of the population.
 - vii) Change in population:
 - If a static population is assumed, a false state of higher economic welfare may be the result.
 - viii) Quantity of goods and services.
 - Increase in per capital income may be as a result of inflation but not increase in the quantity of goods and services. (5 x 2 = 10 marks)
- b) **Factors that may have accounted for the decline in terms of Trade.**
- Higher prices of imports compared to exports of a country.
 - Fall in exchange rates which makes imports expensive.
 - Competition from similar products from other countries which lower demand hence lower export prices.
 - Devaluation of local currency which makes imports expensive and exports cheap.
 - Prices of exports remain constant while those of imports increase.
 - Prices of imports remain constant while those of exports decline.(5 x 2 = 10 marks)
- 2 a) **Circumstances under which a high population growth may be desirable.**
- Where there is need to increase market demands.
 - Where there is need to increase labour supply /where a country is expecting low levels of labour supply.
 - When the government requires to boost a large army for defense/security purposes
 - Where the country wants to attract more investments both foreign and local through increased consumption by the high population.
 - If the government wants to reap the benefits of specialization and division of labour.
 - When there is need to fully utilize the country's resources.(5 x 2=10 marks)

b) Principles of insurance

-urberimae fidei / utmost goodfaith:

The client is required to furnish the insurer with all the details regarding the risk to be covered.

-indemnity

The insured should be restored to the original financial position he was in before the loss occurred.

- contribution:

When the risk occurs two or more insurers share the loss, in proportion to the sum-insured with each.

-subrogation

Once the insured is fully compensated for the loss suffered he/she is not supposed to gain out of the loss.

-insurable interest

One should only insure property that he/she stands to suffer a direct financial loss in case the risk insured against occurs.

-proximate cause

For the insured to be compensated there must be a very close connection between the loss suffered and the risk insured against. (5 x 2 =10marks)

3. a) Factors influencing the amount of money held for transaction motive.

-The level of household/individual income:

The higher the amount of income the higher the amount of money that an individual would hold for transaction motive.

-The price level/cost of living

The higher the cost of living the higher the amount of money and individual would hold.

-The number of dependants an individual has /family size: Individual with a large family will keep large amount of money for transaction purpose.

- The possibility of getting credit:

The more difficult it is, the higher the amount an individual would hold for transacting purpose.

-Lifestyle of an individual / psychological environment.

An individual with an expensive lifestyle or high income neighborhood will hold more money for transactions purpose.

-Pattern of payment /interval between payment

Weekly wage earner will need to hold less than a person who receives his salary monthly.

(5 x 2 = 10 marks)

b) Circumstances under which signs may be used in communication?

-When the recipient is deaf.

-Is the communicator is dumb.

-Incase one is communicating a secret message.

-When silence is vital e.g. in hospitals.

-Where environment is noisy e.g. in a factory.

-Where the communicators are far apart but can see each other.

-When the communicator and the recipient lack a common spoken language.

(5 x 2 =10marks)

4. a) Reasons for motor cycles popularity.

-Cheap to buy, hence affordable to many low income earners.

-Maintenance costs are low.

-Flexible means of transport which can offer door to door services.

-Cheap to hire as compared to other means e.g. motor vehicles.

-Convenient to the users, since they are readily available.

-fast /saves time.

(4 x 2 =8marks)

b) i)

Kitui Millers Ltd
Trading, profit and Loss Account✓
For the year ended 31st December 2011

	Shs	Shs		Shs	Shs
Opening stock		40,000	Sales	570,0	
Add: purchases	325	✓	Less : Returns inwards	00✓	
Less: Returns outwards	000	✓	Net sales	<u>10,000</u> ✓	50,000✓
Add : carriage inwards	<u>150</u>				
	<u>00</u> ✓	<u>31400</u>			
	310,	<u>0</u>			
C.O.g.a.f.s	000	35400			
Less: closing stock		0✓			<u>50,000</u>
	4,00	<u>35000</u>			
C.o.g.s	0✓	✓			
Gross profit c/d		31900			41000✓
		0	Gross profit b/d		3000✓
		<u>24100</u>	Discount received		
Expenses		<u>0</u> ✓			
Carriage outwards		<u>560,00</u>			
		<u>0</u>			
Rent					<u>50,000</u>
Wages and salaries					
General expenses	5000				
	✓				
		77500			
Net profit c/d	180				
	<u>00</u> ✓	17250			
		0✓			
	400				
	<u>00</u> ✓	<u>250,00</u>			
		<u>0</u>			
	<u>14500</u> ✓				

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(16 x ½ = 8 marks)

ii)

Kitui Millers Ltd
Balance sheet
As at 31st December 2011

shs		shs	shs		shs
<u>Fixed</u>			Capital		283200✓
<u>Assets</u>		360,000✓	Add: Net		<u>172500</u> ✓
Machinery			profit		455700
<u>Current</u>		35000✓	<u>8000</u> ✓		
<u>Assets</u>		42700✓	Less		447700
Stock		<u>30000</u> ✓	Drawings		
Debtors		<u>107 700</u>	S.T.L		<u>20000</u> ✓
Bank		<u>467 700</u>	creditors		<u>467700</u>

(8 x ½ =4 marks)

5. a) The economic importance of natural resources.

- They provide raw materials for industries.
- They bring foreign exchange to the country when exported.
- They are a source of energy.
- They provide settlement for both human beings and wildlife.
- They are a source of food.
- They create employment when they are being exploited. (5 x 2 = 10marks)

b) Negative effects of inflation in an economy.

- Erosion of people's purchasing power leaving them poorer than they were before inflation.
- Loss of confidence in the local currency by the citizens. This results to the people preferring to use other country's currency.
- Lowering of people's standard of living since the cost of living becomes higher.
- It discourages savings as well as investment by individuals and firms.
- It may result to high interest rates which make the cost of acquiring credit/finance to be very high.
- It may result to emergence of black markets in the country.
- It can even result to political instability in the country. (5 x 2 = 10 marks)

6. a) Ways in which central bank of Kenya may reduce the supply of money in the country.

- Bank rate :It's the rate at which the central bank lends to commercial banks. The rate is raised in order to discourage borrowing and therefore reducing money supply.
- Open market operations: The central bank sells treasury bills and bonds in the market.
- Special deposits /compulsory deposits /minimum reserve requirements. These are raised upwards.
- Cash ratio/ liquidity ratio: The ratio is increased in order to reduce money supply.
- moral persuasion: The central bank may appeal /request/persuade credit rationing.
- Directives/ instructions to financial institution to landless (4 x 2 = 8 marks)

b)

Three Column Cashbook

Dr						Cr					
Date	particulars		Disc allow shs	cash shs	Bank shs	Date	particulars	L . f	Disc Rev shs	Cash shs	Bank shs
2012						2012					
Jan 1	Balance			10,000✓	15000✓	Jan 2	Purchases			1500✓	
Jan 5			20✓			Jan 4					
Jan 5	Mary		40✓		980✓	Jan 8	Salaries		150✓	7500✓	2850✓
Jan 25	Kiplimo				1960✓	Jan 8	Juma				
Jan 26	Sales			200✓		Jan 12	Kasani		60✓		1140✓
Jan 28	Kioko			300✓		Jan 20	Machinery				5000✓
Jan 29	Capital			200✓	6000✓	Jan 29	Drawings	C		1000✓	
	Cash					Jan 29	Bank	c / d	210✓	6000✓	
			60✓	0✓			Balance			1000✓✓	14950✓
					23940					17000	23940
	Balance			17000	14950						
				1000							
				0							

24 x ½ = 12 marks