

FORM FOUR CLUSTER KCSE MODEL 3

BUSINESS STUDIES PAPER 1 ANSWERS

1. (a)

- i) They are scarce / limited in supply relative to their many uses / wants.
- ii) They have money value can be expressed through its price / exchange value.
- iii) Un-evenly distributed. Available in varying quantities at different places.
- iv) Have utility. Have ability to satisfy human wants /needs.
- v) Have alternative uses. Can be put into different uses depending on the need.
- vi) They can change ownership. Can be sold / donated to change ownership.
- vii) Can be combined in various quantities to produce other goods /services.
- viii) Can be complimentary. Different economic resources may be consumed / used together.

(b)

- i) Ability to raise large capital / amount of money through sale of shares to the public.
- ii) Have a wider source of capital e.g. sale of shares / debentures / short term /long term bank loans.
- iii) The Company is a legal entity hence can acquire / own property without interference (from the shareholders)
- iv) It has perpetual existence hence changes in shareholding does not affect it.
- v) Transparency / accountability are promoted through audit report / published financial statements.
- vi) Professional management / specialization is possible as it is able to employ skilled personnel.
- vii) It enjoys limited liabilities hence shareholders can only lose their share capital contribution.
- viii) Non-withdrawal of capital by the shareholders hence no fluctuation in the share capital of the company

2. (a)

- i) Cultural belief: Some communities believe that many children are wealth e.g. girls can be married off in exchange for dowry
- . ii) Improved health care which has raised the survival rate by reducing infant mortality rate.
- iii) Immigration - the movement of many refugees from politically unstable countries has significantly increased population growth
- . iv) High poverty levels; where poor people tend to believe that many children will serve as providers for their parent's needs.
- v) Early marriages; thus prolonging the woman's productivity.

- vi) Ignorance of family life education and planning hence families tend to have many children.
- vii) Religious beliefs that encourage large families and discourage use of family planning
-) i) It is difficult to get a period when prices are all stable hence at any one time some prices will be changing.
- ii) The basket of commodities selected is only assumed to be representative. This may not give a true picture of consumption pattern.
- iii) The prices collected may not represent the general price levels as prices differ from one part of the country to another.
- iv) Consumer tastes change over time and this may not be reflected in the basket.
- v) Difficulty of selecting a sample of population that represent a "typical family".
- vi) Difficulty of allocating weights to different items of the basket in the case of a weighted price indices.

3. (a)

- i) It may lead to increased sales thus leading to increased turnover.
- ii) The seller is able to sell perishable goods faster to save them from going bad.
- iii) The seller is able to attract and retain more customers.
- iv) Credit selling increases the rate of turnover leading to increased profit.
- v) Goods sold on credit are usually sold at a higher price hence generate more profit.
- vi) Enhancement of customer relations as it bonds the seller and customer thus establishing good customer relations.

(b)

- i) High initial cost / heavy capital Outlay. This may make it difficult for firms to enter the market as they not afford.
- ii) Exclusive ownership of raw materials / resource which other firms may not have access.
- iii) Legal factors / legislation / patent rights making it difficult for other firms to enter the market.
- iv) Size of the market / small size of the market making the market saturated for other firms.
- v) Economies of scale barrier / economies of scale being enjoyed by existing firm making it difficult for other firms to enter the market and compete effectively

a.

- i) Economical in collection as they are collected at source and cost of collecting them is fairly low.
- ii) Tax revenue is certain as it may be calculated fairly accurately in advance from government income tax / data.
- iii) Equitable as it ensures that there is fairness in contribution of tax.
- iv) It brings redistribution of wealth as the wealthier members of the community are taxed more than the poorer.
- v) It is simple to understand by both the contributor and the collector.
- vi) It is flexible hence can be expanded to cover as many areas as desirable.

vii) It is elastic thus can be raised or reduced according to the needs of the economy

(b) SABASTIAN THREE COLUMN CASH BOOK

Date	Details	Dis. All	Cash	Bank	Date	Details	Dis. Rec	Cash	Bank
Sep 1	Bal b/d		55,000	250,000	Sep 1				
2	Sales			35,260	3	Ribbons		4,500	
12	Brown	1,200		58,800	8	Wanga	6,000		94,000
25	Bank "c"		50,000		15	Salaries		34,000	
28	Ahero	7,500		67,500	25	Cash 'c'			50,000
30	Cash 'c'			52,800	30	Bank 'c'		52,800	
					30	Bal. c/d		13,7000	320,360
		8,700	105,000	464,360			6,000	105,000	464,360
Oct 1	Bal b/d		13,700	320,360					

(30√x½=10mks)

5. (a)

- Cost of transport. This should be affordable to the user in terms of fare / freight charges,
- Speed / urgency. Should be fast enough to enable the users to reach / get delivery of their goods / services in time.
- Reliability. It should be dependable in time keeping and regularity.
- Flexibility in order to make it possible to deliver goods / services on door to door basis.
- Safety of goods / passengers. It should ensure safety of goods / services by minimizing risks.
- Comfort of passengers. It should be comfortable to enable the passengers reach their destinations relaxed and refreshed.
- Availability; the user should be assured of its availability at any time he or she may need to travel.

(b)

- Nature of a country exports: Prices of primary products tend to be lower compared to those manufactured goods/ a country that exports manufactured products is likely to experience favourable terms of trade than that exporting primary products.
- Nature of country's imports: A country that imports manufactured goods is likely to experience unfavourable terms of trade than that that imports primary products.
- Change of demand for a country's export: Where there is an increase in demand for a country's exports in the world market, such a country is likely to experience favourable terms of trade.
- Existing world economic order: Countries with a strong bargaining power tend to have favourable terms of trade than those having a weaker bargaining power
- Total quantity supplied: A country that relies on exportation of commodity that is in short supply in the world market may experience favourable terms of trade.
- Trade restrictions by trading partners: If a country imposes restrictions to reduce its imports and the other country does not reiterate, the country may end up exporting more thus experiencing favourable terms of trade.
- Foreign exchange rate: Where a country's currency is strong in terms of other currencies. It will experience favourable terms of trade.
- Availability of substitutes for a country's exports may make a country have unfavorable terms of trade / lack of substitutes for a country's exports may make the country have favourable terms

of trade.

6. . (a)

- i) Premium paid accumulate as savings payable to the insured on maturity.
- ii) Money paid acts as in investment entitled to interest or bonus paid with the sum assured.
- iii) The policy may be taken to provide specially planned saving scheme.
- iv) Premium is paid for a specified time hence one can easily plan /budget on how to pay.
- v) The policy can be used as security to acquire loan from financial institutions.
- vi) The policy has a higher surrender value than whole life policy.

(b).

MARION TRADERS
PROFIT AND LOSS ACCOUNT
FOR THE TRADING PERIOD ENDING 31ST DECEMBER, 2015

	<u>Sh</u>		<u>Sh</u>
General expenditure	54,000	Gross profit b/d	380,000
Wages and salaries	132,000	Commission received	20,000
Net profit c/d	214,000		
	<u>400,000</u>		<u>400,000</u>

(6x½=3 mks)

MARION TRADERS
BALANCE SHEET AS ST 31ST DECEMBER, 2015

	<u>Sh</u>	<u>Sh</u>		<u>Sh</u>	<u>Sh</u>
Fixed assets			Capital	259,000	
Premises		103,000	Add Net profit	214,000	
				<u>473,000</u>	
Current Assets			Less drawings	83,000	
Stock	274,000		Final capital		390,000
Debtors	123,000		Borrowed capital		
Cash at bank	33,000	430,000	Bank loan		50,000
			Current liabilities		
			Creditors		93,000
		<u>533,000</u>			<u>533,000</u>

(14x½=7 mks)

