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# *TERM 2 2025*

## *BUSINESS STUDIES PAPER 1 M/SCHEME*

1. State four difficulties consumers face when satisfying human wants. (4mks)
   (i) Human wants are too many to be satisfied fully
   (ii) Resources to satisfy them are scarce
   (iii) Human wants reccur and they require fresh resources to satisfy them
   (iv) Human wants are competitive therefore faced with a task of deciding which want will be satisfied.
   (v) Human wants are complimentary and require more resources to satisfy them.
   (vi) They change with time, age and gender.

   (Any 4 x1 = 4 mks)

2. Outline four roles played by the insurance industry in the development of business activities in the country. (4mks)
   (i) Creates confidence in the investors for taking up risky but profitable business
   (ii) Encourages savings that can be borrowed for business purposes
   (iii) Life assurance policy can be used as security to get loan from financial institutions
   (iv) Enables continuity of business through compensation
   (v) Encourage investments by ensurance companies in for example buildings used for business.
   (vi) Enables wide spread risks amongst the insured businesses and therefore making the burden of los light.
   (vii) The government gets revenue that it uses in financing its state corporation (Parastatals )
   (viii) Provide job opportunities therefore giving income to employees who use the same for business purposes.

   (any 4x1=4mks)

3. Outline four benefits that Kenya will get by making Pipeline extensions throughout the country for transporting oil products. (4mks)
   (i) Will incur low maintenance cost after construction of the pipeline
   (ii) Will have a high volume of oil throughout the country due to continuous flow (has 24 hrs operations)
   (iii) Damage of the roads by tankers will be reduced as oil delivery will be done through pipes.
   (iv) There will be less congestion and traffic Jams as oil delivery can be done through pipes and not tankers on the roads.
   (v) Accidents on the roads by tankers will be reduced as pipeline transport can be used for this purpose.
   (vi) Saves labour expenses as it is a capital intensive
   (vii) It is a cheap means of transport resulting to low prices of oil
   (viii) Packaging costs of oil reduces as packaging materials will not be necessary.

   (any 4 x 1 = 4mks)

4. State four roles of Nairobi stock exchange market in the development of the Kenyan economy. (4mks)
   (i) Facilitates the buying of shares
   (ii) Facilitates the selling of shares
   (iii) Safeguard investors interests
   (iv) Provide useful information to users such as investors

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(v) Assists companies to raise capital through the issue of new shares.
(vi) Help to create employment for example through brokers.
(vii) The government gets revenue in form of taxes.
(viii) Avails a variety of securities/ share to investors / potential investors
(ix) Acts as an indicator of economic performance of the country (measurer the country's economic progress).
(x) Promotes the culture of saving
(xi) Indicates the market value of shares securities (indicates true market value of securities)

(any 4 x 1 = 4mks )

5. State four problems that may be taken by entrepreneurs without business plans. (4mks)
(i) The entrepreneur will commit to many mistakes or errors in the business operations
(ii) The entrepreneur will not be able to identify strength and weakness of the business
(iii) The entrepreneur / business will not be able to meet the requirements by the financiers before they provide finance.
(iv) There will be a mis location of resources / poor allocation of resources
(v) The entrepreneur may not be able to determine the finance / capital that is required by the business.
(vi) The workers of the business may not be motivated as they may not be aware to the direction to be taken / there will be confusion in the business.
(vii) The entrepreneur may get a problem in adopting with new and unpredictable changes that may come up in future to the business.

(Any 4 x 1 = 4mks)

6. Outline four reasons why an ageing population may not be desirable to a country. (4mks)
(i) Old people tend to provide less labour force
(ii) An ageing population provides low labour supply/ insufficient labour supply as old people lend to be less productive.
(iii) There will be high dependency ratio of old people on the working population
(iv) The society becomes less productive / progressive as it lacks the input of the energetic youth
(v) May result to employment due to falling in demand for good and services required by the youth.

(any 4 x 1 = 4mks)

7. Highlight four circumstances under which the government may issue licences. (4mks)
(i) When there is need to regulate the number of business in any given order to control unhealthy competition.
(ii) When there is need of doing away with illegal business in the country
(iii) When the government wants to ensure that traders engage only in those business for which they have been licenced.
(iv) When the government wants to ensure that those who engage in professional activities meet the requirement.
(v) When there is need to control the types of goods that enter or leave the country.
(vi) When there is need to protect consumers against the exploitation by traders.
(vii) When the government wants to earn revenue from the issuing of licences.

(any 4 x 1 =4mks)

8. Outline your ways in which consumers are likely to suffer in situations where there is no warehousing. (4mks)
(i) The consumers will suffer from the problem of unstable and high prices
(ii) The consumers will suffer from the shortage of goods as there will be no continuous supply due to lack of warehousing.
(iii) Consumers will not get a variety of goods
(iv) Consumers will not have a continuous supply of seasonal produced goods.

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(v) Consumers may get damages as there will be protection from bad weather
(vi) Consumers will not have an opportunity of inspecting goods before buying
(vii) Consumers may suffer from the problem of buying poor quality goods such as wine and tobacco or banana.
(viii) Consumers may not get goods that are well packed or blended, the work usually done while goods are in the ware house.

(4mks)

9. State four circumstances under which sign language may be used in carrying business activities. (4mks)

(i) Where there is no common verbal language
(ii) Where there is a lot of noise interruption
(iii) Where silence must be observed
(vi) Where there is need to emphasize / demonstration / reinforce verbal communication
(v) Where one party is cheap or dumb
(vi) Where the meaning of signs is well understood by the two parties
(vii) Where it is the only means of communication
(viii) Where the distance between the communicating parties is relatively long through this two parties are able to see each other or get the sign or see the sign.

(any 4x1=4mks)

10. Outline four characteristics of Oligopoly market competition. (4mks)

(i) There are price wars
(ii) Firmas are interdependent in relation to pricing
(iii) Firms are relatively large and command a substantial part of the market
(iv) Firms are few in the market
(v) They experience kinked demand curve
(vi) Products can be similar through differentiated by branding or packaging or they can be identical.
(vii) They conduct a lot of advertising

(any 4 x 1 =4mks)

11. Highlight four circumstances under which an entrepreneur may establish his business where other business already existed. (4mks)

(i) So as to benefit from the already existing or available trained and skilled labour force.
(ii) So as to benefit from the already available improved infrastructure
(iii) So as to benefit from supportive services such as banking and insurance that will be readily available.
(vi) So as to benefit from complementary industries / goods that will be readily available.
(v) So as to benefit from joint research with other businesses.
(vi) So as to benefit from the already available market (readily available market from other firms)
(vii) So as to benefits from the joint disporsal of waste products with other firms.

(any 4 x1 = 4mks )

12. KL traders had the following information in its books of accounts on 1st Jan 2012.

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| | Kshs. |
|---|---|
| Bank overdraft | 38,000 |
| Machinery | 500,000 |
| Cash at Bank | 40,000 |
| Capital | 620,000 |
| Cash at hand | 100,000 |
| Stock | 30,000 |
| Debtors | 38,000 |
| Creditors | 50,000 |

For the year ended 31st Dec 2012, the following information was available

(i) Sold all the stock for Ksh 60,000 and received the amount of change.

(ii) Bought into the business cash from a private source 200,000/=

**Required**

Draw a balance sheet as at 31.12.2013

**KL TRADERS**
**BALANCE SHEET**
**AS AT 31.12.2013**

| | | | |
|---|---|---|---|
| Assets | | Capital | 620,000✓ |
| F.A | | w. | |
| | | add profit | 30,000✓ |
| | | | 650,000 |
| Machinery | 500,000✓ | | |
| | | Add investment | 200,000 |
| | | | 850,000 |
| C.A | | | |
| Cash | 300,000✓ | | |
| Bank | 100,000✓ | Liabilities | |
| Debtor | 38,000✓ | Creditors | 50,000✓ |
| | 438,000 | Bank overdraft | 38,000✓ |
| | 938,000 | | ✓938,000 |

10ticks x ½ = 5mks

13. Outline three unethical issues in product promotion. (3mks)

(i) Cheating on permanency of the product
(ii) Cheating on ingredients of the product
(iii) Not disclosing the side effects of the product
(iv) False pricing of the product
(v) Negative effects on the environment
(vi) Social cultural conflicts
(vii) Cheating on quality / quantity of good

(Any 3 x 1 = 3mks )

14. The following information was extracted from the records of Mn traders for the month of January 2010.

(i) January 2: Bought Motor Car on credit from Kizito Limited worth Sh. 150,000
January 5: Sold an old type write to Shan traders on credit worth sh 40,000
January 10: Sold furniture whose book value was Sh. 20,000 for 25,000 on credit to Patel Enterprise.

**Required:**

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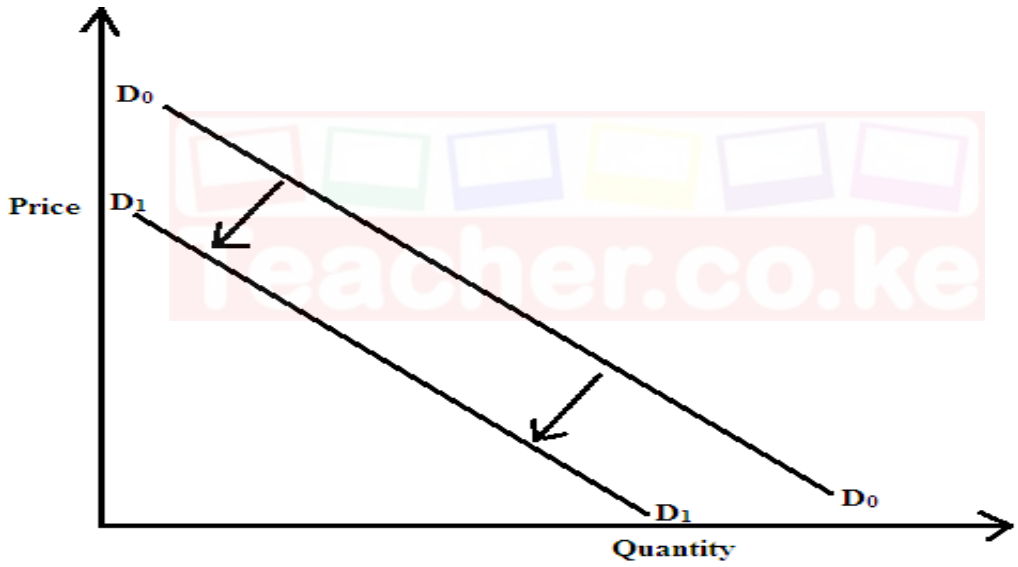
Prepare the relevant book of original entry. (4mks)

## GENERAL JOURNAL / JOURNAL PROPER

| Date | Details | LF | DR | CR |
|---|---|---|---|---|
| **2010** | | | | |
| 2 -1 | Motor car A/c kizito limited A/C (Being Motor car bought on credit | | 150 000✓ | 150,000✓ |
| 5-1 | Shah traders A/C<br>Typewriter A/C<br>Being typewrite sold on credit | | 40 000✓ | 40,000✓ |
| 10-1 | Patel Enterprise A/C<br>P& L A/C<br>Furniture A/C<br>(Being furniture sold at a gain | | 20 000✓<br>5000✓ | 25,000✓ |

(8 x ½ = 4mks)

15. The diagram below show a shift in the demand curve of a commodity from $D_0D_0$ to $D_1D_1$.




Outline four factors that may have contributed to the above shift.

(i) Decrease in consumers income
(ii) Unfair distribution of income
(iii) Decrease in population
(iv) Unfavourable tastes and preferences
(v) Unfavourable seasonal / weather changes
(vi) Increase in taxes / unfavourable government policy
(vii) Future expectations of a decrease in price of the commodity
(viii) Decrease in price of substitute good.
(ix) Increase in price of complimentary goods (any 4 x 1 = 4mks)

16. Yu traders had the following information in its records.

| | Shs |
|---|---|
| Creditors | 45,000 |
| Debtors | 70,000 |
| Opening Stock | 50,000 |

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| | |
|---|---|
| Purchases | 300,000 |
| Sales | 600,000 |
| Closing Stock | 20,000 |

**Calculate:**

**(i) Gross Profit** **(1mk)**

$Gross\ Profit = Sales - cost\ of\ sales$

$Cost\ of\ sales = Opening\ stock + Purchases - Closing\ stock$

$600,000 - (50,000 + 300,000 - 20,000)$ ✓1mk

$600,000 _ 350,000 + 20,000$

$600,000 - 330,000$

$G.p = 270,000$

**(ii) Margin** **(1mk)**

$$Margin = \frac{Gp}{Sales} \times 100$$

$$= \frac{270,000}{600,000} \times 100$$ ✓ ½ mk

$$= \frac{270}{6}$$

$= 45\%$ ✓ ½ mk

(iii) Current ratio (1mk)

$$= \frac{C.A}{C.L}$$

$(debtor) + (Cl.stock)$

$C.A = 70,000 + 20,000$ ✓ ½ mk

$= 90,000$

$$= \frac{45,000}{90,000}$$

$= 1:2$ ✓ ½ mk

(iv) Rate of stock turnover (1mk)

$$= \frac{Cost\ of\ sales}{Average\ sdtock}$$

$C.O.S = 330,000$ ✓ ½ mk

$$Average\ stock = \frac{Op.Stock + Cl.\ Stock}{2}$$

$$\therefore \frac{50000 + 20000}{2} = \frac{70000}{2}$$ ✓ ½ mk

$$R.O.S.T.O = \frac{330,000}{350,00}$$ ✓ ½ mk

$= 9.4 times$

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17. State four reasons for the population of motor cycles as a means of transport.
(i) Cheap to acquire
(ii) Low maintenance cost
(iii) Flexible- does not have fixed timetable or route.
(iv) Charge relatively lower fare
(v) Few legal formalities required
(vi) Fills faster
(vii) Does not require special skills
(viii) Relatively faster than human porterage and cartage

(4 x1=4mks)

18. Outline four characteristics of Money (4mks)
(i) Portability
(ii) Divisibility
(iii) Acceptability
(iv) Homogeneity
(v) Durability
(vi) Malleability
(vii) Scarcity
(viii) Cognizability

(any 4 x1= 4mks )

19. Highlight four circumstances under which a manufacturer may opt to sell his products directly to the consumers rather than through intermediaries.
(i) If the products are of technical nature and require demonstration
(ii) When the goods are of high value.
(iii) When the manufacturer wants to avoid competition
(iv) When the market served is small.
(v) When the manufacturer have enough financial resources.
(vi) When the market is concentrated in one area.
(vii) When the nature of the goods are perishable and require a shorter channel.
(viii) When the manufacturer wants to curb cases of boarding by middlemen. **(Any 4x1=4mks)**

(any 4 x1= 4mks)

20. Use the cash book below to state the transactions that took place on 2nd , 5th , 6th and 7th of may 2010.

| Date | Detail | If | Cash | Bank (sh) | Date | Details | If | Cash(sh) | Bank (sh) |
|---|---|---|---|---|---|---|---|---|---|
| 2010 may 1 | Bal | | 100,000 | 250,000 | 2010 may 2 | Creditors | | | 30,000 |
| 5 | Bank | © | 20,000 | | 3 | Rent | | 4,000 | |
| 7 | James | | | 11,000 | 5 | Cash | © | | 20,000 |
| | | | | | 6 | Drawings | | 12,000 | |
| | | | 120,000 | 261,000 | 8 | Bal | c/f | 104,000 | 211,000 |
| | Bal | b/f | 104,000 | 211,000 | | | | 120,000 | 261,000 |

Transactions :
(i) 2nd - paid a creditor sh 30,000 by cheque.

(ii) 5th - Withdraw sh. 20,000 from the bank for business use.

(iii) 6th - Took (withdrew) sh. 12,000 from the cash deal for private use.

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(iv) 7th - Received a cheque of sh. 11,000 from James. **(4x1=4mks)**

21. In March 1st 2013, kk traders had Kshs. 50,000 cash at hand and Kshs, 400, 000 during the month
2nd settled its account with whom traders of kshs 30,000 by cheque less 5% cash discount.
3rd Received Kshs 2,500 from Jane a debtor in cash housing deducted 5% cash discount.
Required: make entires in a three column cash book.

**Three column Cash book**

| Date | Details | $L_f$ | Discount allowed | Cash | Bank | Date | Details | $L_f$ | Discount received | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 March | | | | | | 2012 March | | | | | |
| 1st | Balance | b/d | | 50,000✓ | 400,000✓ | 2nd | Uhuru | | 1,500✓ | | 28,500✓ |
| 3rd | Jane | | 132✓ | 2,500✓ | | | Traders | | | | |
| | | | | | | 30th | Bank | (c) | | 50,000✓ | |
| 30th | Cash | (c) | | | 50,000✓ | | | | | | |
| | | | | | | 30th | Balance | c/d | | 2,000✓ | 421,500✓ |
| | | | 132 | 52,500 | 450,000 | | | | 1,500 | 52,500 | 450,000 |
| 30th | | b/d | | 2,000 | 421,500 | | | | | | |

10 ticks x ½ mk = 5 mks

22. Outline four reasons that make it necessary for a country to get involved in development planning.
(i) Enables appropriate allocation of resources
(ii) Enable encourages stimulation of effort
(iii) Helps to support foreign aid bargain
(iv) Enable project evaluation
(v) Encourages long term decision making
(vi) Helps to avoid the duplication of industries / projects
(vii) Promote balance in regional development.

Any 4 x 1 = 4 mks

23. State three factors that affect the circular flow of national income. (3mks)
(i) Savings - Leackages
(ii) Taxes - leakages
(iii) Government expenditure – injections
(iv) Investment – Injections
(v) Foreign trade – Injections

Any 3 x 1 = 3mks

24. State three circumstances under which the seller may issue a credit note to the buyer. (3mks)

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(i) When damaged goods are returned by the buyer to the seller.
(ii) When empty cases and packaging containers are returned to the seller by the buyer.
(iii) When there is an arithmetical error resulting to an over charge in the already written invoice.
(iv) When the seller has not given an allowance discount.

Any 3x1 = 3mks

25. Open ledger accounts using the following information
On 1st Jan 2012 started business with Ksh 50,000 in cash
On 2nd Jan 2012 bought goods on credit from ML traders worth Kshs 5000.
On 3rd Jan 2012 paid ML Kshs 3000 in cash
On 4th paid salaries Kshs 10,000 in cash.

| Dr | Capital a/c | | | Cr |
|---|---|---|---|---|
| | | 1.1.2012 | Cash 50,000✓ | |

| Dr | Cash a/c | | | Cr |
|---|---|---|---|---|
| 1.1. Capital | 50,000✓ | 3.1.2012 | mL = 3,000✓ | |
| | | 4.1.2012 | salaries = 10,000✓ | |

| Dr | mL a/c | | | Cr |
|---|---|---|---|---|
| 3.1.2013 Cash | 3,000✓ | 2.1.2012 | Purchases 5,000✓ | |

| Dr | Purchases | Cr |
|---|---|---|
| 2.1.2012 mL | 3,000✓ | |

| Dr | Salaries a/c | Cr |
|---|---|---|
| 4.1.2012 Cash | 10,000✓ | |

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