

NTIMA JOINT EVALUATION 2016
BUSINESS STUDIES
565/1
PAPER 1
Marking scheme

1. Gaps that may exist in a market leading to a business opportunity
 - In availability of products
 - Poor quality products
 - insufficient quantities being offered
 - Unaffordable prices in the market
 - Where customers are not well served / poor services 4 x 1 = 4mks

2. Features of land as a factor of production
 - It is a basic factor of production / production cannot take place without it
 - Its supply is fixed
 - It lacks geographical mobility
 - It has occupational mobility
 - Quality is not homogeneous
 - Productivity of land may be increased by increasing quantity and quality of capital
 - It is subject to the law of diminishing returns
 - It is a natural resource
 - Its rewards are rent / lease / loyalty rates 4x1= 4mks

3. Reasons why many organisations prefer open office layout
 - Easy supervision of workers
 - Construction cost is low because partitions are few
 - Easy location of workers
 - Staff movement is minimised thus saving time in passing information
 - Office equipment and machinery are not misused due to close supervision of workers
 - Office equipment and machinery can be shared
 - Promotes teamwork amongst employees
 - Maintenance cost is low
 - Floor space is saved
 - It is cheap to decorate
 - Discourages absenteeism by employees 4x1= 4mks

4. Reasons why shopping malls have become popular in Kenya
 - Offer extensive parking facilities
 - Customers do all their shopping in one building hence saves time
 - Shopping malls save on space which reduces rents and rates
 - Usually open for long hours
 - They accept credit cards
 - They offer a wide variety of goods
 - They are convenient to shop in since they provide services such as restaurants, post offices, reading rooms etc.
 - Are usually situated in town centres 4x1 = 4mks

5. External
 - Internal
 - External
 - Internal 4x1= 4mks

6. Money transfer services offered by commercial banks in Kenya
 - Cheques (personal cheques)
 - Bankers cheque (bank overdrafts)
 - Standing orders
 - Electronic fund transfer
 - Direct debit
 - Travellers cheques
 - Mobile phone money transfer services
 - Credit transfers 4x1= 4mks

7. Circumstances under which a partnership business would be preferred to a sole proprietorship

- Where there is possibility of raising more capital in a partnership
- Where the partners bring in different talents and skills enhancing specialisation
- In case the partner can share the workload
- If it ensures that when losses occur partners shall share them
- Where it leads to better decision making due to discussion of decisions by partners before implementation
- Where the partnership ensures limited liability for most partners 4x1= 4mks

8. Elements of transport

- Method of propulsion
- Terminal
- Unit of carriage
- Way 4x1= 4mks

9. compensation = $\frac{\text{value of policy} \times \text{loss}}{\text{value of property}}$

$$\text{Loss} = \frac{80}{100} \times 1,500,000 \checkmark = 1,200,000 \checkmark$$

$$\text{compensation} = \frac{1000000 \times 1200000}{1500000} = \text{Ksh.}800,000 \checkmark$$

4x1= 4mks

10. Types of advertising

- Institutional advertising
- Celebrity advertising
- Product advertising
- Informative advertising 4x1= 4mks

11. Factors that may lead to decline in supply

- Increase / rise in the cost of production
- In availability / scarcity of factors of production
- Poor state of technology
- Unfavourable government policy
- Future expectation of increase in prices
- Unfavourable natural factors / calamities
- Products out of season / inappropriate time
- Withdrawal of firms from the industry
- Production of firms from the industry
- Rise in price of products due to strikes or power failure
- Fall in the price of its by-product 4x1= 4mks

12. Problems experienced by a country that is overpopulated

- Strain on the available social amenities
- Low standards of living due to reduced incomes
- Encouraging rural-urban migration
- High dependency level
- Imbalance in demand and supply especially; excess demand
- Food shortage / food insecurity
- Increase in crime rate e.g. stealing
- Environmental degradation
- Development of informal settlements / slums 4x1= 4mks

13. Users of a balance sheet

- Financiers / lenders use it to know whether the business is at a position to pay back
- Shareholders use it to determine whether the; funds are invested wisely
- Government requires the documents for: taxation purposes
- Potential investors can use it to make decisions such as which shares to buy
- Management the financial position of business at a given time 4x1= 4mks

14. Meru Traders Balance sheet as at 2nd July 2012

Furniture	88,000	Capital	136,000
Computer	45,000	Creditors	407,000
Motorvan	400,000		543,000
Bank	5,000		
Cash	<u>5,000</u>		
	<u>543,000</u>	<u>543,000</u>	
	543,000		

8 x ½ = 4mks

15.

<u>Dr</u>	<u>Sales A/C</u>	<u>Cr</u>
	1/1/2014 Mawira	60,000
<u>Dr</u>	<u>Mawira (Debtor) A/C</u>	<u>Cr</u>
1/1/2014 \$ Sales	60,000	
<u>Dr</u>	<u>Purchases A/C</u>	<u>Cr</u>
2/1/2014 Mutua	120,000	
<u>Dr</u>	<u>Mutua (creditor) A/C</u>	<u>Cr</u>
2/1/2014 Purchases	120,000	

12 x ½ = 4mks

16. Positive effects of inflation in a country

- Debtors benefit by paying less in real terms in future
- Sellers may earn more by buying at low price and selling when prices are high
- Motivation to work as people try to cope with the higher prices
- May lead to increased production
- There is better use of available resources i.e. in a more economical way

4x1= 4mks

17. Causes of unfavourable balance of payment

- Unfavourable / deterioration in a country's terms of trade
- Reduced demand for the country's exports
- Increase in demand for imports
- Restriction by trading partners
- Less capital inflow compared to outflow
- Over valuation of domestic currency
- Devaluation of currency by a trading partner

4x1= 4mks

18. Source documents

- Outgoing invoice / copy of sales invoice
- Credit note
- Payment voucher / cash payment voucher
- Receipt

4x1= 4mks

19. Factors that hinder economic development

- Low natural resource endowment / low quantities of natural resources
- Inadequate capital
- Low levels of technology
- Poor human resource endowment / lack of skilled labour
- Political instability
- High population growth rate
- Insecurity
- Negative social-cultural factors

4x1= 4mk

20.

Muindi Traders
Trading account
For the period ended 31st Dec.2011

	shs.		shs.
Opening stock	30,000	Sales	198,000
Add purchases	150,000		
Less closing stock	15,000		
Cost of sales	165,000		
Gross profit c/d	33,000		
	<u>198,000</u>		<u>198,000</u>

8 x ½ = 4 mks

21. Benefits that accrue to a firm that expands its scale of operation

- Marketing economies
- Technical economies
- Financial economies
- Staff welfare economies
- Research economies
- Managerial economies
- Risk bearing economies

4x1= 4mks

22. Ways in which goods are prepared for sale in a warehouse

- By branding
- By packaging
- Through sorting
- By blending
- Breaking bulk
- By grading

4x1= 4mks

23. Examples of direct taxes

- Personal income tax
- Corporation tax
- Stamp duty
- Estate / death duty
- Wealth tax
- Capital gains tax
- Capital transfer / gift tax

4x1= 4mks

24. Channels that can be used to export goods

- Local producer - foreign consumer
- Local producer — retailer - foreign consumer
- Local producer - wholesaler - retailer - foreign consumer
- Local producer —wholesaler —foreign consumer

NB:

- local and foreign aspects should be brought out
- Arrows should be drawn and directed properly
- Accept other complete channels 4x1= 4mks

25. Assumptions of the circular flow of income

- The economy has only two players; firms and households
- There is not government involvement
- There is no foreign trade / the economy is closed
- Households use all their incomes to acquire goods produced by firms
- Firms spend all their revenues on acquisition of factor services from households

4x1= 4mks

NTIMA JOINT EVALUATION 2016**BUSINESS STUDIES**

565/2

PAPER 2**Marking scheme**

1. a) Problems encountered when measuring national income
- Transfer payments poses a problem as it is difficult to impute the proportion of income constituted by those transfers
 - Inaccurate data / inadequate data where there could be underestimation or overestimations
 - Price fluctuations may devalue or over value the income figures
 - Ignoring illegal goods / services yet they constitute generated income
 - Subsistence sector goods and services are not marketed hence unaccounted for
 - Differentiating between final expenditure and intermediate expenditure may be difficult which may lead to double counting
 - Lack of qualified personnel to collect and compile data
 - Lack of adequate resources to finance the gathering of relevant information
 - Valuing of government output - many services are not sold in the open market (5x2=10mks)
- b) Reasons why a country imposes taxes on citizens
- Raise government revenue - to cater for various government expenditure
 - Reduce income disparity - by facilitating fair distribution of incomes and resources by taxing rich more
 - Discourage consumption - of harmful products and engagement in illicit activities
 - Control inflation - by reducing money supply through reduction of people's disposable income
 - Correct unfavourable balance of payments- by taxing imported products more to discourage importation
 - Influence business location e.g. high tax on urban centres make entrepreneurs to go to rural areas
 - To subsidize various undertakings for the benefit of the society 5x2= 10mks
2. a) Five ways of improving the efficiency of a warehouse
- Ensuring that there is proper adequate handling equipment - to handle goods safely and easily
 - Ensuring that the staff is well trained and motivated - so as to enhance their performance
 - To ensure that legal requirements are followed to avoid conflict with law enforcers
 - Provision of sufficient loading / off loading areas - to avoid congestion and delays
 - Ensure there is adequate security - to avoid theft of goods and safety of workers
 - Ensure proper use of space - by proper arrangement of goods
 - Ensure there is proper system of inventory control to monitor stock movements to avoid theft
 - Ensure there is safety equipment / personnel - to take care of pests, fire, water leaks to safeguard goods from damage
- 5x2=10mks

b) Sales Journal

Date	Particulars	Amount
2012		Shs.
May 2	Asunta	24,000
	Janet	32,000
May 23	Asunta	16,000
	Tom	22,000
	Joseph	<u>26,000</u>
		<u>120,000</u>

Purchase Journal

Date	Particulars	Amount
2012		Shs.
May 8	Patel traders	80,000
May 15	Karoki	68,000
May"	Petero	<u>62,100</u>
		<u>210,000</u>

Sales returns Journal

Date	Particulars	Amount
2012		Shs
May 2012	Asunta	4,000
May 27	Janet	4,000
		<u>8,000</u>

Purchase Returns Journal

Date	Particulars	Amount
2012		Shs.
May 20	Asunta	12,000
	Janet	<u>6,000</u>
		<u>18,000</u>

General Journal

Date	Particulars	Dr	Cr
2012		Shs.	
May 30	Motor vehicle	1,000,000	
	General motors (being purchase of motor vehicle on credit)		1,000,000

20 x ½ = 10mks

3. a) Five features of monopoly
- There exists only one single seller of the product
 - No close substitute or rival suppliers of the product
 - The demand curve steeply slopes from left to right because monopolist cannot have control of both price and output at the same time
 - Price discrimination is possible
 - May produce low quality products due to lack of competition
 - Prices are fixed by the supplier
 - Difficult for other firms (suppliers) to enter the market

5x2 = 10mks

b) Benefits accruing to a community involved in home trade

- Variety of goods / services - enhance consumer choice
- Promotes peace and harmony - among trading partners as they interact
- Source of government revenue - from licences, fee, taxes on goods etc.
- Employment - those engaged in trading activities
- Improved infrastructure - to facilitate movement of people and goods
- Utilization of locally available resources - that would have otherwise remained idle
- Sale / disposal of surplus - minimising wastage
- Improved technology - due to exchange of ideas leading to improved quality

5x2 = 10mks

4. a) i) Mutwiri Trader
Profit and Loss A/C
For the year ended 31st Dec 2011

	Shs		Shs
Salaries	24,800	G.P b/d	76,200
Carriage outwards	28,000	+ discount rec.	52,800
Advertising	44,400	Rent income	25,200
Insurance	18,800		
N.P	37,400		
	<u>154,200</u>		<u>154,200</u>

10 x ½ = 5mks

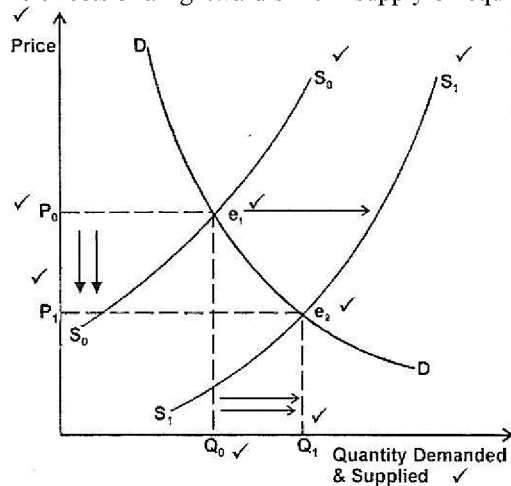
ii)

Mutwiri Traders
Balance Sheet
As at 31st Dec 2011

F. Assets	shs	shs		shs
Motor vehicle	1,206,000		Capital	1,207,120
Equipment	401,200		+NP	<u>37,400</u>
Furniture	<u>188,800</u>	1,796,000		1,244,520
C. Assets			<u>Liabilities</u>	
Stock	160,400		Creditors	248,400
Cash	210,120		Bank overdraft	825,400
Debtors	151,800	<u>522,320</u>		
		<u>2,318,320</u>		<u>2,318,320</u>

10 x ½ = 5 mks

b) The effects of a rightward shift in supply on equilibrium price and quantity



- (i) A rightward shift in supply / increase in supply brings about a drop in equilibrium price (P_0 to P_1)
 (ii) A rightward shift in supply / increase in supply brings about an increase in equilibrium quantity (Q_0 to Q_1)
 (10x1 = 10mks)

5. a) Reasons why a business may replace an old machine

- Adaptability - when the machine is not able to cope with new changes / obsolete
- Lack of spare parts - which makes it difficult to service / repair
- When it has affected the office - morale negatively to improve performance
- When the complementary resources e.g. power are lacking yet the new one can use the new resources
- When the manpower available for its operation is no longer available
- When its no longer secure to store the machine in the premises which makes it endangered
- When it suffers from occasional breakdown hence making it expensive to operate 5 x 2 = 10mks

b) Factors that hinder entrepreneurial activities

- Unfavourable government policies which tend to discourage establishment of businesses e.g. high taxation
- Poor infrastructure which discourage smooth running of businesses
- Lack of adequate knowledge and skills to start and manage businesses
- Lack of market which discourages establishment of new businesses / continuation of the existing ones
- Inadequate resources to start / run businesses smoothly
- Stiff competition with cheap and higher quality imports making demand for local goods to decline hence closure of local businesses
- Political instability creating a poor environment for businesses to start / thrive
- (Unfavourable) culture - some values and norms discourage establishment of businesses / consumption
 (5x2 = 10mks)

6 a) Reasons for trade restrictions

- Protection of local industries from foreign cheaper products which may lower demand for local goods
- Protection of strategic industries for steady supply of extremely essential goods
- Creation and protection of employment by protecting local industries
- Prevention of dumping to reduce unfair competition with foreign cheaper goods
- Preservation of balance of trade where imports value need to be less than export value
- Protection of cultural and social values where foreign traders may bring in negative cultures in the country
- Expanding market for local products by reducing importation of foreign cheaper or higher quality goods
- Promoting self reliance by avoiding overreliance on imported goods incase the exporting country stops supplying for whatever the reason
 (5x2=10mks)

b) Reasons for development planning

- Appropriate resource allocation to avoid / reduce wastage
- Stimulation of efforts by showing possible achievements which makes people to apply greater efforts
- Supports foreign aid bargain because the plan is used to convince donors to give resources
- Project evaluation - as implementation of the project is done on the basis of pre-determined criteria contained in the plan
- Long term decision making because the plan contains a long term view for making decisions
- Avoiding duplication - to avoid establishment of similar industries in same localities
- Promoting balance in regional development
- by avoiding establishment of industries in same localities
- Correct imperfections in the market - like presence monopolies and oligopolies which contribute to misallocation of resources
 (5x2 = 10mks)