

### 3.5 BUSINESS STUDIES (565)

Business Studies is an integrated subject comprising five thematic fields of study namely; Commerce, Accounting, Economics, Office Practice and Entrepreneurship. The aim of the subject is to expose the candidates to broad areas of study thus enabling them to specialize at post-secondary level. For those who may not further their education, the objective is to enable them be self-reliant and partake of national development through self-employment and entrepreneurship.

Business Studies was tested in two papers. Paper 1 (565/1) had 25 short answer structured items and was marked out of 100 marks. Paper 2 (565/2) had six extended answer questions out of which the candidates were expected to attempt five questions. The paper was also marked out of 100 marks.

#### 3.5.1 General candidates' performance

The table below shows candidates' overall performance in Business Studies (565), in the year 2022. The other years, 2017 to 2021 are also given for comparison purposes.

**Table 14: Candidates' overall performance in the years 2017, 2018, 2019, 2020, 2021 and 2022**

Year	Paper	Candidature	Maximum Score	Mean Score	Standard Deviation
2022	1	376,397	100	36.29	21.30
	2		100	28.18	16.96
	<b>Overall</b>		<b>200</b>	<b>64.46</b>	<b>36.82</b>
2021	1	346,819	100	47.12	22.12
	2		100	28.56	18.19
	<b>Overall</b>		<b>200</b>	<b>75.65</b>	<b>38.79</b>
2020	1	308,058	100	46.40	20.36
	2		100	31.89	18.97
	<b>Overall</b>		<b>200</b>	<b>76.73</b>	<b>38.01</b>
2019	1	284,137	100	38.69	17.29
	2		100	37.33	21.53
	<b>Overall</b>		<b>200</b>	<b>76.00</b>	<b>37.7</b>
2018	1	276,058	100	32.76	18.18
	2		100	30.34	18.26
	<b>Overall</b>		<b>200</b>	<b>62.10</b>	<b>36.44</b>
2017	1	270,755	100	33.60	16.91
	2		100	28.54	17.35
	<b>Overall</b>		<b>200</b>	<b>62.12</b>	<b>32.8</b>

A study of the trend of the performance statistics presented in the table above reveals the following:

- (i) The subject realised an increased enrolment of 29,578 candidates. The candidature in 2022 was 376,397 up from 346,819 in 2021. This was an increase of 8.53%.
- (ii) The subject registered a decline in performance. The subject mean score for year 2022 was 64.46, a decline of 11.19 as compared to the year 2021 when the mean was 75.65.



- (iii) Candidates performed better in paper one (565/1) when compared to paper two (565/2) as per the respective means of 36.29 and 28.18. This implies that many candidates found it easier to tackle the short answer questions in Paper 1 (565/1) when compared to the extended answer questions in Paper two (565/2).

This report discusses some of the questions that candidates found challenging in the two papers offered for the Business Studies examination

### 3.5.2 Business Studies Paper 1 (565/1)

#### Question 2

State four limitations of direct trade.

This question required candidates to state limitations of direct trade.

#### Weaknesses

Majority of the candidates could not interpret the question correctly. It was interpreted to mean limitations of direct production.

#### Expected responses

- a) Higher cost of distribution and operation will be borne by the producer in order to serve all consumers.
- b) It may be harder to reach potential customers with the network where they are widely scattered.
- c) It is suitable for a limited range of product/may not be applicable in the distribution of all products.
- d) Risks involved are borne by the producer alone.
- e) The producer bears the cost of packaging which could be otherwise done by the intermediaries.
- f) Logistical challenges in managing distribution points serving consumers/buyers in various parts of the country.
- g) Consumers may access fewer varieties of goods hence quality may be low.
- h) Producer may have challenges of storage to hold enough stock to supply the market.

#### Advice to teachers

Teachers to expose learners to many forms of classification of trade.

#### Question 3

Kaimosi Traders owned a house whose book value was Ksh1,000,000. They insured the house for Ksh800,000 against the risk of fire. Fire occurred and partly destroyed the house to a cost of Ksh 800,000.

- Required: (a) Work out the amount of compensation that Kaimosi Traders would receive.  
(b) State the reason for paying the amount as determined in 3(a) above

This question required candidates to work out the amount of compensation in the case of under insurance.



**Weaknesses**

Candidates performed poorly in this question because they could not recall and apply the formula required.

**Expected responses**

$$\begin{aligned} \text{a) Compensation} &= \frac{\text{Sum Insured}}{\text{Real value}} \times \text{Loss} \quad \checkmark \\ &= \frac{800,000}{1,000,000} \times 800,000 \quad \checkmark \\ &= 640,000 \quad \checkmark \end{aligned}$$

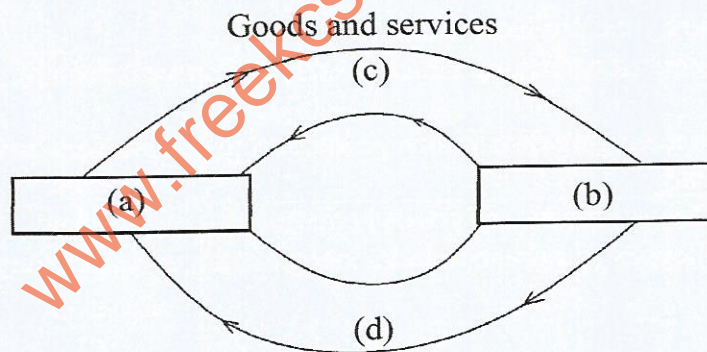
- b) The house was underinsured.  
Under the principle of indemnity.

**Advice to teachers**

Teachers should expose learners on questions on calculation of compensation.

**Question 4**

The diagram below represents the circular flow of income in a two-sector economy.



Identify what is represented by the letters (a), (b), (c) and (d).

Candidates were required to identify the elements of circular flow of income in a two-sector economy.

**Weaknesses**

Most candidates were unable to identify the elements correctly.

**Expected responses**

- Firms
- Households
- Payments for factor inputs/factors of production.
- Provision of factors of production/payment for goods and services

**Advice to teachers**

Learners to be exposed to drawing the circular flow of incomes and naming the elements correctly.



**Question 5**

Name the books of original entry in which the following transactions are recorded:

No.	Statement	Component
(a)	Bought goods on credit from Kamau wholesalers.	
(b)	Kibisu a debtor, returned goods.	
(c)	Cash sales	
(d)	Sold an old tractor on credit.	

This question required candidates to name books of original entry in which the transactions are recorded.

**Weaknesses**

Most candidates were not familiar with books of original entry, instead they were mentioning ledger accounts.

**Expected responses**

- Purchases Journal
- Sales Returns Journal/Returns inwards Journal
- Cash Receipt Journal/Cash Book
- General Journal/Journal proper

**Advice to teachers**

The topic requires thorough revision.

Emphasis to be made between journals and ledgers.

Relationship between source documents, books of original entry and ledger should be clearly explained and brought out.

**Question 8**

Highlight four ways in which the economic environment may lead to business success.

Candidates were required to highlight ways in which the economic environment may lead to business success.

**Weaknesses**

Most candidates could not give the elements of economic environment in relation to business success.

**Expected responses**

- Low interest on loans hence affordable capita
- Low/moderate inflation favouring costs of productio
- Price stability leading to predictable income
- Low taxes boosting profit ma gins
- Increased Government subsidies lowering production cost
- Increase in consumers level of disposable income increasing demand
- Low exchange rates leads to business success.
- Equitable distribution of income leads to business success.

**Advice to teachers**

Teachers to expose the learners to elements of various business environment.



**Question 14**

State whether the transactions given in the table below will cause decrease, increase or no effect on the totals of the balance sheet.

This question required candidates to state the effects of transactions given on the balance sheet total.

**Weaknesses**

Many candidates failed to apply the knowledge of business transactions and their effects on balance sheet totals. They identified the items without relating to balance sheet totals.

**Expected responses**

- a) No effect
- b) Increase
- c) Increase
- d) Decrease

**Advice to teachers**

Teachers to expose learners more on the rules, classes and effects of transactions on balance sheet totals.

**Question 15**

Highlight four benefits of product promotion to the producer.

This question required candidates to highlight benefits of product promotion to the producer.

**Weaknesses**

Most candidates could not relate the benefits of product promotion to the producer, instead they gave general benefits of product promotion.

**Expected responses**

- (a) To counter competition
- (b) To increase sales volume of a given product/expand market.
- (c) To create awareness about a product
- (d) To enhance customer loyalty
- (e) To influence/persuade the consumer to try out a new product
- (f) To remind consumers about the existence of a product
- (g) To correct misinformation about a product.
- (h) To improve the business image

**Advice to teachers**

Teachers to separate the benefits of product promotion to:

- i. Producers
- ii. Consumers



**Question 21**

Outline four benefits of electronic filing system

Candidates were required to outline benefits of electronic filing.

**Weaknesses**

Most candidates did not understand the meaning of electronic filing and the difference between electronic and manual filing

**Expected responses**

- a) Require little space
- b) Easier and fast retrieval of information
- c) Easily adaptable to future requirements of a firm/can be updated with a lot of ease/flexibility
- d) Relatively cheap
- e) Enhances security of stored document through passwords
- f) Documents stored can be accessed by people far away from site of location through internet
- g) Provides for back-up system
- h) Reduces paper work
- i) Enhances tidiness/neatness in the office
- j) Can store large volume of information
- k) Easily portable

**Advice to teachers**

Teachers to enlighten the learners about storage of information- using computers, phones to mean the same as electronic filing

Teachers to expose learners to unique benefits not general ones

**Question 22**

Highlight four benefits that Kenya may get from being a member of the East African Community.

Candidates were required to highlight benefits Kenya may get from being a member of EAC.

**Weaknesses**

Many candidates took it to mean benefits of international trade instead of benefits of economic integration.

**Expected responses**

- a) Enables Kenya to dispose of surplus products.
- b) Enable Kenyan citizens get wider variety of goods to choose from.
- c) Enables Kenya to specialize in producing what it has comparative advantage in.
- d) Promotes effective utilization of locally available resources to meet the high market demands.
- e) It enables the country to expand the market for its goods.
- f) Enhance peace and understanding among trading East African Countries.
- g) Facilitate transfer of technology among the East African Countries.
- h) Enables free movement of factors of production e.g labour.
- i) Enables creation of employment.
- j) Enables development of infrastructure.
- k) Enables Kenya to have a common bargaining power.
- l) Enable Kenya to acquire goods at lower prices.



**Advice to Teachers**

Teachers to cover the types of economic integration and their benefits adequately giving examples

Teachers to expose the learners to many questions on this area.

**3.5.3 Business Studies Paper 2 (565/2)****Question 1(b)**

Explain five factors that may lead to an increase in the level of National Income of a country.

(10 marks)

This question required candidates to explain the factors that may lead to an increase in the level of National income of a country.

**Weaknesses**

Many candidates gave factors that influence or affect the level of national income while the question required them to show how these factors can increase the level of national income.

**Expected responses**

- (i) Political stability. Encourages investors/investment/increased production activities thus high levels of national income.
- (ii) Use of appropriate/modern/better technology to produce high quality and quantity goods/ services which increase output.
- (iii) When citizens have positive attitude towards work productivity is enhanced.
- (iv) Increased foreign investments may bring more injections in the domestic economy/increased production thereby increasing the level of national income.
- (v) Existence/availability of established entrepreneurial culture promotes effective exploitation of available resource endowment/ enhance productivity.
- (vi) Availability of adequate/sufficient capital will enhance production of high-quality goods/ services which attract better returns.
- (vii) Discovery of natural resource to be exploited for production.
- (viii) Good governance/accountability/transparency leading to better use of resources/efficient production attract investments.
- (ix) Reduced subsistence sector/increase market sector where most of what is produced is sold to generate income.
- (x) Favorable/improved terms of trade leading to increased earning.
- (xi) Enhanced security that encourages investment
- (xii) Improved infrastructure that leads to more efficient production flow of goods and services
- (xiii) Increase in skilled/trained labour/manpower leading to increased/efficient/quality production
- (xiv) Better/maximum/optimum/increase use of existing/idle resources that leads to increased production of goods/services.
- (xv) Favourable government policy that can create a conducive environment for production/ investment.

**Advice to teachers**

Teachers to clarify and differentiate how factors can influence the level of national income and in which way they can lead to an increase in the level of national income.



**Question 3 (a)**

- (a) The following balances were extracted from the books of Mtito Andei Wholesalers on 1st October 2021:

Details	Ksh
Bank	80,000
Cash	15,000
Juma (creditor)	24,000
ICDC loan	70,000
Motor vehicle	210,000
Stock	45,000
Mangu (debtor)	26,000
Capital	237,000

The following transactions took place in the first week of the month:

- October 2nd Withdrew Ksh 14,000 from the bank to pay Juma.
- October 3rd Mangu paid his debt of Ksh 10,000 cash.
- October 4th Took a loan from bank worth Ksh 170,000 cash of which Ksh 70,000 was used to clear outstanding ICDC loan.
- October 5th Purchased goods worth Ksh 40,000 in cash.

**Required**

- (i) Record the above transactions into their relevant ledger accounts and balance them off. (8 marks)
- (ii) Extract a trial balance as at 5th October 2021. (4 marks)

This question required candidates to record the transactions into ledger accounts and balance them and also extract a trial balance.

**Weaknesses**

Many candidates did not record the opening entries in the ledger accounts, gave wrong details in the accounts and had a challenge with the double entry concepts.







**MTITO ANDEI W/SALERS****TRIAL BALANCE****AS AT 5<sup>TH</sup> OCTOBER 2021**

ITEMS	Dr. Sh	Cr. Sh
Bank	66,000√	
Cash	85,000√	
Juma		10,000√
Motor vehicle	210,000√	
Mangu	16,000√	
Capital		237,000√
Bank loan		170,000√
Purchases	40,000√	
	<u>417,000</u>	<u>417,000</u>

**Advice to Teachers**

Teachers to simplify the double entry concept to learners and give many practical exercises which should also be marked.

**Question 4(a)**

Explain five ways in which employees may contribute to the success of a business.

The candidates were required to explain ways in which employees may contribute to the success of a business.

**Weaknesses**

Most candidates had a challenge interpreting and answering the question correctly.

**Expected responses**

- (i) Skilled/qualified employees will produce/offer quality goods /s vices.
- (ii) Employees who have skills that match their job requirements lead to minimum wastage.
- (iii) Proper time management will enable the business to offer time y delivery of services/goods.
- (iv) Employees who treat customers well will improve the image of the business
- (v) Disciplined employees do not need a lot of supervision since they are responsible/lead to reduced operational cost.
- (vi) By offering their labour for continuity of productio
- (vii) Quality/good/proper decisions made in the interest of the business.
- (viii) Pass positive feedback from customers for improvement of the business.
- (ix) Innovative/creative employees leading to better/new goods/services.
- (x) Committed/hardworking employees leading to increased productivity.
- (xi) Loyalty/positive attitude to protect the interest of the business.



**Question 5 (a)**

Explain five limitations of mobile phones in communication

This question required candidates to explain the limitations of mobile phones in communication.

**Weaknesses**

Many candidates had challenges coming up with the correct limitations of mobile phones in communication and clarifying them as required by the question.

**Expected responses**

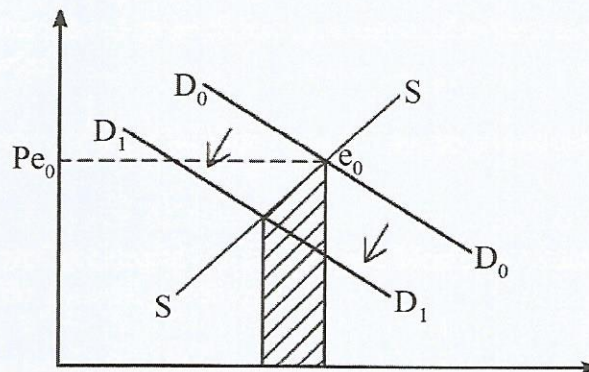
- (i) Poor network coverage/transmission channel overload may limit/hinders effective communication in some areas.
- (ii) May not be suitable for the deaf /dumb/hearing impaired/visually impaired as that may not be able to receive/relay calls (information) on their own.
- (iii) A health hazard to the user as it exposes them to radioactive waves due to prolonged use.
- (iv) May be distractive hence result into undesired consequences like waste of working time/ disrupt peoples' attention/distract people's attention.
- (v) Mobile phone usage may be restricted in some areas/business premises due to security reasons/may be a security threat in churches/banks/meetings.
- (vi) Expensive/costly to operate since it requires regular top-up of airtime/data upload etc.
- (vii) Require regular charging thus may go off when needed the most and there is no power.
- (viii) Costly/expensive to buy/acquire making it unaffordable to some users.
- (ix) May lack confidentiality since information/calls may be tapped/ intercepted/monitored/hacked.
- (x) Prone to theft leading to theft of handset/information/data.

**Advice to teachers**

Teachers to involve learners in identifying factors that may limit communication when using different means of communication.

**Question 5 (b)**

- (b) Use the diagram given below to answer the questions that follow.



- (i) Explain **four** effects of the shift in demand curve from  $D_0$  to  $D_1$ . (8 marks)
- (ii) State what is represented by the shaded area. (2 marks)



This question required candidates to explain the effects of the shift in demand curve and state what was represented by the shaded area on the graph.

### Weaknesses

Some candidates misinterpreted the question to mean factors that may lead to decrease in demand, while some could not interpret the effects of a shift in the demand curve to the left.

### Expected responses

- (i) The equilibrium point will shift from  $E_0$  to a lower point where the new demand ( $D_1$ ) curve meets the supply curve.
- (ii) The equilibrium quantity will fall, moving from  $Q_{e0}$  to a lower level at the point where the new demand curve  $D_1$  meets the supply curve.
- (iii) The equilibrium price will drop from  $P_{e0}$  to a lower level where  $D_1$  meets the supply curve.
- (iv) There will be excess supply as demand falls with supply remaining constant.
- (v) Supply will have to reduce in the long run due to suppressed prices.
- (vi) May be wastage/high costs of storage in the short run.

### Advice to teachers

Teachers to explain using correct illustrations the effect of shift in demand or supply when either demand or supply is constant.