

EDUZEDCO

565/1 BUSINESS STUDIES

Paper 1

Form 4 End Term Examination

Time: 2 ½ Hours

Name:

Adm No:

School:

Class:

Signature:

Date:

INSTRUCTIONS TO CANDIDATES

- (a) Write your name and index number in the spaces provided at the top of this page.
- (b) Write your school name, sign and write the date of the examination in the spaces provided above.
- (c) This paper consists of **Two** sections: **Section I** and **Section II**.
- (d) Answer **ALL** questions in Section I and any **five questions** from Section II.
- (e) Marks may be given for correct working, relevant points, and clear presentation.
- (f) Non-programmable silent electronic calculators may be used where necessary.
- (h) This paper consists of **8 printed pages**.
- (i) Candidates should check the question paper to ensure that all the pages are printed as indicated and no questions are missing.
- (j) Candidates should answer the questions in English.

For Examiner's Use Only

SECTION I

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Total

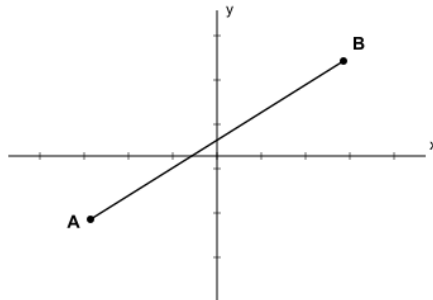
SECTION II

21	22	23	24	25	26	Total	Grand Total

SECTION I (50 Marks)

Answer **all** questions in this section in the spaces provided.

1. Define Business Studies. (2 marks) (2 mks)
2. Name two external environmental factors that affect a business. (2 marks) (2 mks)
3. State two features of a public limited company. (2 marks) (2 mks)
4. Give two reasons why the government may regulate business activities. (2 marks) (2 mks)
5. State two factors that can cause a shift in the demand curve for a product. (2 marks) (2 mks)



6. The table below shows the quantity demanded and supplied of a commodity at different prices. Determine the equilibrium price. (4 marks) (4 mks)

Price (Ksh)	Quantity Demanded (units)	Quantity Supplied (units)
10	100	40
20	80	60
30	60	80

40	40	100
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7. Distinguish between labour intensive and capital intensive production. (2 marks) (2 mks)
8. Explain three characteristics of an entrepreneur. (3 marks) (3 mks)
9. Name two sources of long-term finance for a business. (2 marks) (2 mks)
10. A business deposits Ksh 100,000 in a bank account that pays compound interest at 10% per annum. Calculate the amount in the account after two years. (3 marks) (3 mks)
11. State two functions of commercial banks. (2 marks) (2 mks)
12. Explain two reasons why people hold money. (2 marks) (2 mks)
13. Distinguish between visible trade and invisible trade. (2 marks) (2 mks)
14. Name two documents used in home trade. (2 marks) (2 mks)
15. Give two advantages of road transport. (2 marks) (2 mks)

16. Name two modern means of communication. (2 marks) (2 mks)

17. Explain the following principles of insurance: (4 mks)

(i) Utmost good faith (2 marks)

(ii) Indemnity (2 marks)

18. The following is a balance sheet for ABC Ltd as at 31/12/2023. Calculate the current ratio and comment on the liquidity position. (4 marks) (4 mks)

Assets	Ksh	Liabilities	Ksh
Cash	20,000	Current liabilities	30,000
Debtors	30,000	Long-term liabilities	50,000
Stock	40,000	Capital	60,000
Fixed assets	50,000		
Total	140,000	Total	140,000

19. Explain two effects of a maximum price control (price ceiling) in a market. (4 marks) (4 mks)

20. Explain two ways in which entrepreneurship contributes to economic development. (4 marks) (4 mks)

SECTION II (50 Marks)

*Answer any **five** questions from this section in the spaces provided.*

21.

(10 mks)

- (a) Explain the steps involved in forming a private limited company. (5 marks)
- (b) Discuss the management structure of a private limited company. (5 marks)

22.

(10 mks)

- (a) Define internal trade. (2 marks)
- (b) Analyse four ways in which internal trade contributes to economic development. (8 marks)

23.

(10 mks)

- (a) State three functions of a central bank. (3 marks)
- (b) Discuss how a central bank regulates commercial banks to ensure stability in the financial system. (7 marks)

24.

(10 mks)

- (a) Compare road transport and railway transport in terms of cost, speed, and flexibility. (6 marks)
- (b) Explain two advantages of air transport over water transport. (4 marks)

25. The following information is extracted from the books of XYZ Traders for the year ended 31/12/2023: Sales: Ksh 500,000 Cost of goods sold: Ksh 300,000 Net profit: Ksh 100,000 Current assets: Ksh 200,000 Current liabilities: Ksh 100,000 Total assets: Ksh 400,000 Calculate: (10 mks)

- (a) Gross profit margin (2 marks)
- (b) Net profit margin (2 marks)
- (c) Current ratio (2 marks)
- (d) Return on assets (2 marks)
- (e) Comment on the profitability of the business. (2 marks)

26. (10 mks)

- (a) Define risk management. (2 marks)
- (b) Explain four ways in which insurance helps in risk management. (8 marks)

565/1 BUSINESS STUDIES MARKING SCHEME

Form 4 Paper 1

SECTION I (50 marks)

1. Define Business Studies. (2 marks) (2 marks)

Definition: Business Studies is the study of how individuals and organizations produce, distribute, and consume goods and services to satisfy wants. (1 mark) [1]

Importance: It equips learners with skills for business, entrepreneurship, and financial management. (1 mark) [1]

Alternative method/answer:

Definition: The study of activities involved in the production, distribution, and consumption of goods and services. (1 mark)

Importance: Helps in understanding business operations and making informed decisions. (1 mark)

2. Name two external environmental factors that affect a business. (2 marks) (2 marks)

First factor: Economic factors (e.g., inflation, interest rates) (1 mark) [1]

Second factor: Political factors (e.g., government policies, stability) (1 mark) [1]

Alternative method/answer:

Social factors, Technological factors, Legal factors, Environmental factors (any two, 1 mark each)

3. State two features of a public limited company. (2 marks) (2 marks)

Feature 1: Shares are traded on the stock exchange. (1 mark) [1]

Feature 2: Liability of shareholders is limited to the value of shares. (1 mark) [1]

Alternative method/answer:

Has a separate legal entity, can raise capital from the public, has a board of directors (any two, 1 mark each)

4. Give two reasons why the government may regulate business activities. (2 marks) (2 marks)

Reason 1: To protect consumers from exploitation. (1 mark) [1]

Reason 2: To ensure fair competition among businesses. (1 mark) [1]

Alternative method/answer:

To control monopolies, to promote economic stability, to protect local industries (any two, 1 mark each)

5. State two factors that can cause a shift in the demand curve for a product. (2 marks) (2 marks)

Factor 1: Change in consumers' income. (1 mark) [1]

Factor 2: Change in tastes/preferences. (1 mark) [1]

Alternative method/answer:

Prices of related goods (substitutes/complements), population changes, expectations of future prices (any two, 1 mark each)

6. The table below shows the quantity demanded and supplied of a commodity at different prices. Determine the equilibrium price. (4 marks) (4 marks)

At equilibrium, quantity demanded equals quantity supplied. (1 mark) [1]

From table: at price 20, $Q_d=80$, $Q_s=60$; at price 30, $Q_d=60$, $Q_s=80$. Equilibrium lies between 20 and 30. (1 mark) [1]

Interpolation: $(20+30)/2 = 25$. At price 25, $Q_d=70$, $Q_s=70$. (1 mark) [1]

Equilibrium price = Ksh 25. (1 mark) [1]

Alternative method/answer:

Using formula: $(P_1+P_2)/2 = (20+30)/2 = 25$ (accept if student shows correct reasoning and answer)

7. Distinguish between labour intensive and capital intensive production. (2 marks) (2 marks)

Labour intensive: uses more human labour relative to machinery. (1 mark) [1]

Capital intensive: uses more machinery and equipment relative to labour. (1 mark) [1]

Alternative method/answer:

Labour intensive: production that relies heavily on manual work. Capital intensive: production that relies heavily on automated machines. (1 mark each)

8. Explain three characteristics of an entrepreneur. (3 marks) (3 marks)

Risk-taking: willingness to take calculated risks. (1 mark) [1]

Innovation: ability to introduce new ideas or products. (1 mark) [1]

Persistence: determination to overcome obstacles. (1 mark) [1]

Alternative method/answer:

Self-confidence, creativity, leadership, decision-making (any three, 1 mark each)

9. Name two sources of long-term finance for a business. (2 marks) (2 marks)

Source 1: Shares. (1 mark) [1]

Source 2: Debentures. (1 mark) [1]

Alternative method/answer:

Long-term loans, retained earnings, venture capital (any two, 1 mark each)

10. A business deposits Ksh 100,000 in a bank account that pays compound interest at 10% per annum. Calculate the amount in the account after two years. (3 marks) (3 marks)

Formula: $A = P(1+r)^n$. (1 mark) [1]

Substitution: $A = 100,000(1+0.1)^2 = 100,000 \times 1.21$. (1 mark) [1]

Final answer: Ksh 121,000. (1 mark) [1]

Alternative method/answer:

Year 1: $100,000 \times 10\% = 10,000$, amount = 110,000. Year 2: $110,000 \times 10\% = 11,000$, amount = 121,000. (3 marks for correct working and answer)

11. State two functions of commercial banks. (2 marks) (2 marks)

Function 1: Accepting deposits from customers. (1 mark) [1]

Function 2: Granting loans. (1 mark) [1]

Alternative method/answer:

Money transfer, foreign exchange, safe custody of valuables (any two, 1 mark each)

12. Explain two reasons why people hold money. (2 marks) (2 marks)

Transactions motive: to make everyday purchases. (1 mark) [1]

Precautionary motive: to meet unexpected expenses. (1 mark) [1]

Alternative method/answer:

Speculative motive: to take advantage of future investment opportunities. (1 mark each for any two)

13. Distinguish between visible trade and invisible trade. (2 marks) (2 marks)

Visible trade: involves exchange of tangible goods (e.g., machinery). (1 mark) [1]

Invisible trade: involves exchange of services (e.g., banking, tourism). (1 mark) [1]

Alternative method/answer:

Visible trade: trade in physical products. Invisible trade: trade in intangible services. (1 mark each)

14. Name two documents used in home trade. (2 marks) (2 marks)

Document 1: Invoice. (1 mark) [1]

Document 2: Receipt. (1 mark) [1]

Alternative method/answer:

Delivery note, purchase order, credit note, debit note (any two, 1 mark each)

15. Give two advantages of road transport. (2 marks) (2 marks)

Advantage 1: It offers door-to-door service. (1 mark) [1]

Advantage 2: It is flexible in reaching remote areas. (1 mark) [1]

Alternative method/answer:

Lower cost for short distances, suitable for perishable goods, easy to load and unload (any two, 1 mark each)

16. Name two modern means of communication. (2 marks) (2 marks)

Means 1: Email. (1 mark) [1]

Means 2: Mobile phone. (1 mark) [1]

Alternative method/answer:

Social media, video conferencing, fax (any two, 1 mark each)

17. Explain the following principles of insurance: (4 marks)

(i) Utmost good faith: Both parties must disclose all material facts honestly. (2 marks) [2]

(ii) Indemnity: The insured is restored to the financial position before the loss, no more. (2 marks) [2]

Alternative method/answer:

(i) Uberrimae fidei: full disclosure of all relevant information. (2 marks)

(ii) The insurer compensates only the actual loss suffered. (2 marks)

18. The following is a balance sheet for ABC Ltd as at 31/12/2023. Calculate the current ratio and comment on the liquidity position. (4 marks) (4 marks)

Current assets = Cash + Debtors + Stock = 20,000 + 30,000 + 40,000 = 90,000. (1 mark) [1]

Current liabilities = 30,000. (1 mark) [1]

Current ratio = Current assets / Current liabilities = 90,000 / 30,000 = 3:1. (1 mark) [1]

Comment: The ratio is 3:1, indicating good liquidity as it is above the acceptable 2:1. (1 mark) [1]

Alternative method/answer:

Current ratio = 3:1. The company can easily meet its short-term obligations. (4 marks for correct calculation and comment)

19. Explain two effects of a maximum price control (price ceiling) in a market. (4 marks) (4 marks)

Effect 1: Shortage – quantity demanded exceeds quantity supplied. (2 marks) [2]

Effect 2: Black market – goods may be sold illegally at higher prices. (2 marks) [2]

Alternative method/answer:

Rationing, reduced supply, queuing, deterioration of product quality (any two, 2 marks each)

20. Explain two ways in which entrepreneurship contributes to economic development. (4 marks) (4 marks)

Way 1: Entrepreneurs create employment opportunities, reducing unemployment. (2 marks) [2]

Way 2: They introduce innovative products and services, improving standards of living. (2 marks) [2]

Alternative method/answer:

Wealth creation, increased competition, regional development, tax revenue (any two, 2 marks each)

SECTION II (50 marks)

21. (10 marks)

(a) Steps in forming a private limited company: (5 marks) - Choose a company name (1 mark) - Prepare memorandum and articles of association (1 mark) - Submit documents to the registrar of companies (1 mark) - Obtain certificate of incorporation (1 mark) - Raise capital (1 mark) [5]

(b) Management structure: (5 marks) - Shareholders own the company (1 mark) - They elect the board of directors (1 mark) - Board appoints managing director (1 mark) - Managing director oversees daily operations (1 mark) - Other managers handle specific departments (1 mark) [5]

Alternative method/answer:

(a) Any five correct steps: reservation of name, drafting of legal documents, payment of fees, issuance of certificate, allotment of shares. (1 mark each) (b) Any five correct points: shareholders, directors, managing director, company secretary, departmental managers. (1 mark each)

22. (10 marks)

(a) Definition: Internal trade is the exchange of goods and services within the boundaries of a country. (2 marks) [2]

(b) Contribution 1: Promotes specialization and division of labor. (2 marks) [2]

Contribution 2: Creates employment opportunities in retail and wholesale. (2 marks) [2]

Contribution 3: Stimulates growth of industries through demand. (2 marks) [2]

Contribution 4: Facilitates even distribution of goods across regions. (2 marks) [2]

Alternative method/answer:

(a) Trade conducted within a country's borders. (2 marks) (b) Any four: encourages competition, increases variety of goods, generates government revenue, promotes infrastructure development. (2 marks each)

23. (10 marks)

(a) Functions of central bank: (3 marks) - Issuing currency (1 mark) - Banker to the government (1 mark) - Lender of last resort (1 mark) [3]

(b) Regulation of commercial banks: (7 marks) - Setting cash reserve ratio (CRR) to control money supply (2 marks) - Setting discount rate to influence lending (2 marks) - Conducting open market operations (2 marks) - Supervising and inspecting banks to ensure compliance (1 mark) [7]

Alternative method/answer:

(a) Any three: controlling money supply, managing foreign reserves, regulating financial institutions. (1 mark each) (b) Any seven points: moral suasion, selective credit controls, licensing, setting interest rates, acting as banker's bank, clearing house functions, publishing reports. (1 mark each)

24. (10 marks)

(a) Comparison: (6 marks) - Cost: Road has lower capital cost but higher operating cost per unit; Railway has high capital cost but lower operating cost per unit for bulk. (2 marks) - Speed: Road is slower for long distances; Railway is faster for long distances. (2 marks) - Flexibility: Road is more flexible (door-to-door); Railway is less flexible (fixed routes). (2 marks) [6]

(b) Advantages of air over water: (4 marks) - Air is much faster, reducing travel time significantly. (2 marks) - Air can access areas not served by water transport. (2 marks) [4]

Alternative method/answer:

(a) Any three points of comparison with correct contrast. (2 marks each) (b) Air transport is more reliable in terms of time, and has lower risk of damage for high-value goods. (2 marks each)

25. The following information is extracted from the books of XYZ Traders for the year (10 marks)

ended 31/12/2023: Sales: Ksh 500,000 Cost of goods sold: Ksh 300,000 Net profit:

Ksh 100,000 Current assets: Ksh 200,000 Current liabilities: Ksh 100,000 Total assets:

Ksh 400,000 Calculate:

(a) Gross profit = Sales - COGS = 500,000 - 300,000 = 200,000. Gross profit margin = $200,000/500,000 = 0.4 = 40\%$. (2 marks) [2]

(b) Net profit margin = $100,000/500,000 = 0.2 = 20\%$. (2 marks) [2]

(c) Current ratio = $200,000/100,000 = 2:1$. (2 marks) [2]

(d) Return on assets = $100,000/400,000 = 0.25 = 25\%$. (2 marks) [2]

(e) Comment: The business is profitable with healthy margins and good return on assets. (2 marks) [2]

Alternative method/answer:

(a) 40% (2 marks) (b) 20% (2 marks) (c) 2:1 (2 marks) (d) 25% (2 marks) (e) The business has strong profitability and efficient use of assets. (2 marks)

26. (10 marks)

(a) Definition: Risk management is the process of identifying, assessing, and controlling risks. (2 marks) [2]

(b) Way 1: Transfers risk from the insured to the insurer. (2 marks) [2]

Way 2: Provides financial compensation in case of loss. (2 marks) [2]

Way 3: Encourages risk prevention through lower premiums for safe practices. (2 marks) [2]

Way 4: Gives peace of mind to businesses. (2 marks) [2]

Alternative method/answer:

(a) The process of minimizing the impact of risks. (2 marks) (b) Any four: reduces uncertainty, promotes investment, facilitates credit, stabilizes income, protects assets. (2 marks each)