

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 2021. The other years, 2017 to 2021 are also given for comparison purposes.

Table 11: Candidates' Overall Performance in the years 2017, 2018, 2019, 2020 and 2021

Year	Paper	Candidature	Maximum Score	Mean Score	Standard Deviation
2021	1		100	47.12	22.12
	2		100	28.56	18.19
	Overall	346,819	200	75.65	38.79
2020	1		100	46.40	20.36
	2		100	31.89	18.97
	Overall	308,058	200	76.73	38.01
2019	1		100	38.69	17.29
	2		100	37.33	21.53
	Overall	284,137	200	76.00	37.7
2018	1		100	32.76	18.18
	2		100	30.34	18.26
	Overall	276,058	200	62.10	36.44
2017	1		100	33.60	16.91
	2		100	28.54	17.35
	Overall	270,755	200	62.12	32.80

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 38,761 candidates. The candidature in 2021 was 346,819 up from 308,058 in 2020. This was an increase of 12.58%.
- (ii) The subject registered minimal decline in performance. There was a decline of 0.96% in performance. The subject mean score for year 2021 was 75.65, a decline of 1.08 as compared to year 2020 when the mean was 76.73.
- (iii) Candidates performed better in paper one (565/1) when compared to paper two (565/2) as per the respective means of 47.12 and 28.56. 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

List **four** types of business activities.

(4 marks)

This question required candidates to list types of business activities only as taught in the topic of Business and its environment

Weaknesses

Candidates mistook the question and took it to mean occupations found in the levels of production

Expected responses

- a) Extraction.
- b) Processing of raw materials.
- c) Manufacturing.
- d) Construction.
- e) Distribution of goods.
- f) Trade.
- g) Provision of services.

Advice to Teachers

Teachers to expose students on the content of topics which are related to help them avoid mixing the two aspects.

Question 5

Highlight **four** factors that may be considered when choosing a means for transporting cash.

This question required candidates to highlight factors that may be considered when choosing a means for transporting cash.

Weaknesses.

Candidates performed poorly in this question because they gave all the factors in choosing means of transport as they overlooked “cash” which was specific.

Expected responses

- a) Affordability of the means/cost
- b) Reliability
- c) Safety of means
- d) Speed of the means/urgency/fast
- e) Availability of the means
- f) Distance to be covered
- g) Security of means

Advice to Teachers

Teachers should expose learners to application of knowledge and take some case studies on the factors that may influence choice of means of transport.

Question 12

Write the bookkeeping equation for the business whose transactions are given below. (4 marks)

- Started a business with Ksh 10,000 in cash.
- Acquired a loan of Ksh 50,000 which was directly banked.

Candidates were required to write the bookkeeping equation using the transaction that was provided.

Weaknesses

Many candidates wrote the equation but did not substitute it with the transactions they were provided. This led them to score less.

Expected responses

Assets = Capital + liabilities
 Cash + bank = Capital + Loan
 10000 + 50000 = 10000 + 50000
 60000 = 60000

Advice to Teachers

Teachers to clearly show the relationship between bookkeeping and effects of transactions on the balance sheet items.

Question 13

Outline **four** channels for distributing locally manufactured products to local consumers. (4 marks)

This question required candidates to outline channels for distributing locally manufactured products to local consumers.

Weaknesses

The use of arrows to show direction from the manufacturer to the producer was a problem. Candidates used producers in place of manufacturers as the question stated.

Expected responses

- a) Manufacturer → Retailer → Consumer
- b) Manufacturer → Consumer
- c) Manufacturer → Wholesaler → Retailer → consumer
- d) Manufacturer → Marketing board → Wholesaler → Retailer → Consumer
- e) Manufacturer → Government Agency → Wholesaler → Retailer → Consumer
- f) Manufacturer → Manufacturer's Outlet → Wholesaler → Retailer → Consumer
- g) Manufacturer → Wholesaler → Consumer
- h) Manufacturer → Manufacturer's agent → Wholesaler → Retailer → Consumer

Advice to Teachers

Teachers to guide learners on the use of arrows and let them know that producers and manufacturers are quite different in a way.

Question 16

Identify the book of original entry prepared from each of the following source documents. (4 marks)

	Source Document	Book of original entry
a)	Outgoing invoice	
b)	Received receipt	
c)	Copy of credit note	
d)	Original invoice	

Candidates were required to identify the books of original entry from the source documents provided.

Weaknesses

Candidates could not call them journals but referred to them as accounts or ledgers.

Expected responses

- Sales journal/Debtors journal
- Cash payment journal/Cash disbursement journal
- Returns inwards/sales returns journal
- Purchases journal/creditors journal

Advice to Teachers

Teachers to explain journals, ledgers, and accounts well and bring out the difference. Teach the documents outgoing/original/copies and those used in issuing and receiving.

Question 17

List **four** types of capital in a business.

(4 marks)

This question required candidates to list types of capital in a business.

Weaknesses.

Candidates listed sources of capital for a business unit.

Expected responses

- Capital employed
- Capital invested (owners' equity)/share capital/capital owned
- Working capital/circulating capital
- Borrowed capital/loan capital

Advice to Teachers

Teachers to address types and sources of capital at length to avoid missing marks in simple questions

Question 20

The following information was extracted from the books of Adow Traders on 31st December 2020. (4 marks)

Details	Ksh
5-year loan	256,700
land	120,000
cash	24,600
Creditors	37,400
Buildings	430,500

Prepare Adow Traders Balance Sheet as at 31st December, 2021.

This question required candidates to prepare a simple balance sheet by calculating capital first.

Weaknesses

Candidates did not know that they needed to determine capital first using the balance sheet equation, then prepare the balance sheet.

Expected responses

**ADOW TRADERS
BALANCE SHEET
AS AT 31ST DECEMBER 2020/2021**

Land	120 000	Capital	281 000
Buildings	430 500		
		5 year loan	256 700
Cash	24 600		
	-	Creditors	37 400
	575 100		575, 100

Advice to Teachers

Teachers to teach the three components of a balance sheet and how to calculate the value of any when not given.

Question 21

Jane decided to take an insurance cover for her car against theft from Serufi Insurance Ltd. It was valued at Ksh 600,000 and she was required to make monthly payments of Ksh 6,000. Identify the appropriate insurance term for: (4 marks)

- a) Ksh 600,000
- b) Jane
- c) Serufi Insurance Ltd
- d) Theft

Candidates were required to identify the appropriate insurance terms for given aspects.

Weaknesses.

Candidates used descriptions/sentence instead of using one term to describe as used in insurance as the response.

Expected responses

- a) Sum Insured
- b) Insured
- c) Insurer
- d) Risk/Peril/Contingent/Hazard

Advice to Teachers

Teachers to teach on single terms as questions require and avoid their descriptions of the term

3.5.3 Business Studies 2 (565/2)**Question1(a)**

Explain **five** circumstances under which a producer may sell goods directly to the consumer.

(10 marks)

This question required candidates to explain the circumstances under which a producer may sell goods directly to the consumer.

Weaknesses

Many candidates were unable to come up with correct circumstances for direct selling and some who did so were unable to qualify their responses.

Expected responses

- (i) When the size of the market served is small that the producer can access all the buyers/ economically serve the entire market
- (ii) If the product is highly perishable that can easily go bad if a long channel is used.
- (iii) If the producer wants to get immediate feedback about the performance of the product.
- (iv) If the product is technical in nature that requires demonstration/installation/maintenance/after sales service
- (v) If the product is tailored to meet customer specification/produced according to customer specification/made to satisfy individual needs/tastes/preference
- (vi) When the producer wants to avoid further increase in prices of the product created/avoid high cost of distribution.
- (vii) If it is government's policy which directs that goods should be distributed directly to the consumers.
- (viii) If it is the policy of the business requires that all goods must be sold directly to the consumers
- (ix) If the producer has enough/ adequate resources to set up retails/distribution outlets/buy distribution vehicles/ hire sales personnel.
- (x) When goods are of very high value/expensive and middlemen are unwilling/ unable to stock them.
- (xi) If the competition is stiff/high in order to capture a higher share of the money.

Advice to Teachers

Teachers to use repeated testing on content taught to build learners mental/cognitive capabilities.

Question 1 (b)

Explain each of the following terms of sale as used in international trade:

(10 marks)

- (i) Ex-works
- (ii) Cost and Freight
- (iii) FOB
- (iv) Landed
- (v) In Bond

This question required learners to explain the terms of sale as used in international trade

Weaknesses

Most of the candidates failed to explain the terms as used in international trade. Some candidates confused the terms with the documents used in international trade.

Expected responses

- (i) **Ex-works/Ex-warehouse/Ex-factory**
The price quoted includes only the cost of goods as they leave the place of manufacture or the warehouse of the exporter other expenses are to be met by the buyer.
- (ii) **Cost and Freight**
The price quoted includes the cost of goods, loading cost and freight charges upto the port of entry.
- (iii) **Free on Board (FOB)**
The price quoted includes the cost of goods handling and loading charges up to the ships. All other expenses are borne by the buyer.
- (iv) **Landed**
The price quoted include all expenses up to the port of destination as well as offloading costs.
- (v) **In bond**
The price quoted includes all expenses of handling goods from the manufacturer's premises until they are delivered in a bonded warehouse in the receiving country.

Advice to Teachers

Teachers should explain the terms used in international trade clearly and clarify the difference between terms and documents used in international trade.

Question 3 (a)

Explain five errors that may not be detected in a trial balance. (10 marks)

This question required candidates to explain the errors that may not be detected in a trial balance.

Weaknesses

Many candidates could not name the errors correctly and some who did, failed to explain them correctly.

Expected responses

- (i) **Errors of omission**
Occur when a transaction takes place but not recorded at all.
- (ii) **Error of original entry**
Occurs when both the debit and credit entries are made using similar but erroneous figures recorded in the ledger.
- (iii) **Error of principle**
Entries are made correctly but in the wrong class of accounts.

- (iv) Error of commission
Entries are made in the wrong accounts of the same class with the correct amounts.
- (v) Compensating errors
Occurs where the errors in both the debit and credit balances are of equal magnitude so they cancel out/occurs where the effect cancels out
- (vi) Error of transposition
Occur when the sequence of figures is interchanged.
- (vii) Complete reversal of entries
Occur where the entries are entered on the wrong sides of the relevant accounts.

Advice to Teachers

Teachers to clarify and explain how errors not disclosed by the trial balance arise and give clear illustrations to learners.

Question 3(b)

Explain five documents prepared by the seller after receiving an order up to the point of delivery.
(10 marks)

The candidates were required to explain the documents prepared by the seller after receiving an order up to the point of delivery.

Weaknesses

Most candidates could not correctly identify documents prepared by the seller after receiving an order for goods up to the time of delivery.

Expected responses

- (i) Acknowledgement Note
To inform the buyer that the order has been received and appropriate action is being taken.
- (ii) Packing Note/packing sheet/packing list/slip/dispatch note/packaging note
The document shows the details of goods packed
- (iii) Advice Note
Sent to inform the buyer when the goods are dispatched
- (iv) Delivery Note
Details of goods to be delivered for verification purposes
- (v) Consignment Note/flight note/airway bill
A document showing terms of carriage/used when means of transport is hired.
- (vi) Proforma Invoice
Polite request for payment before the goods are delivered.

Advice to Teachers

Teachers to clearly identify documents prepared by the seller and by the buyer in home trade.

Question 4 (b)

The following information was extracted from the books of Ushirika Traders as at 31st December 2020.

Details	Ksh
Gross profit	94,000
Commission Received	32,000
Carriage Outwards	8,000
General Expenses	15,000
Discount Received	29,000
Total Fixed Assets	1,110,000
Insurance	17,000
Capital	490,000
Drawings	37,000
Long Term Liabilities	610,000
Discount Allowed	12,000
Commission Allowed	4,000
Current Liabilities	162,000
Current Assets	192,000
Salaries	22,000

- (i) Prepare a Profit and Loss Account. (6 marks)
- (ii) Determine:
- I. Working capital (1 mark)
 - II. Return on Capital Employed. (3 marks)

This question required candidates to prepare a Profit and Loss account and determine the ratios

Weaknesses

Some candidates prepared a full Trading, Profit and Loss Account instead of a Profit and Loss Account alone. Some could not identify profit and loss items and those that go to the balance sheet.

Expected responses

USHIRIKA TRADERS			
Profit and Loss Account			
Dr	For the period ended 31 st December 2020		Cr
Carriage Outwards	8,000	Gross Profit	94,000
Commission Allowed	4,000	Commission Received	32,000
Discount Allowed	12,000	Discount Received	29,000
Insurance	17,000		
Salaries	22,000		
General Expenses	15,000		
Net Profit c/d	<u>77,000</u>		
	<u>155,000</u>		<u>155,000</u>

Working Capital = Current Asset – Current Liabilities

$$= 192,000 - 162,000$$

$$= 30,000$$

$$\text{Return on Capital Employed} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100\%$$

Capital Employed = Total Asset – Current Liabilities

$$= 1,302,000 - 162,000$$

$$= 1,140,000$$

OR

$$\text{C.E.} = \text{W.C.} + \text{Final Asset}$$

$$= 30,000 + 1,110,000$$

$$= 1,140,000$$

$$\text{CE} = \text{Capital owned} + \text{LTL}$$

$$= 530,000 + 610,000$$

$$= 1,140,000$$

$$\begin{aligned} \text{R.O.C.E.} &= \frac{77,000}{140,000} \times 100\% \\ &= 6.754\% \end{aligned}$$

Advice to Teachers

Teachers to clearly clarify the difference between the Trading, Profit and Loss Account and the Profit and Loss Account and the items that are to be reflected in them. Practice questions be given on calculation of accounting ratios and how to correctly express the answers.

Question 5 (a)

Explain five reasons that make it necessary for the Government to train businesspeople. (10 marks)
This question required candidates to explain the reasons that are necessary for the government to train businesspeople

Weaknesses.

Many candidates misinterpreted the question and gave responses for government involvement in business activities and consumer protection.

Expected responses

- (i) To improve their skills by exposing them to basic management techniques.
- (ii) To expose/educate them on modern/current trend of business operations like effective methods of advertising, keeping books of accounts, stock-taking etc.
- (iii) To expose businesspeople to possible solution /possible problems affecting them like raising capital, identify investment opportunities etc.
- (iv) To impart proper business ethics to avoid consumer exploitation/ensure fair competition

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- (v) To educate them on efficient use of the available resources to minimize cost and maximize profit.
 - (vi) To inform them on various available profitable business opportunities/market/gaps to be exploited.
 - (vii) To sensitize businesspeople on government initiatives that are beneficial to them like SME Loans.
 - (viii) To educate them about government policies regarding business activities.

Advice to Teachers

Teachers to correctly and clearly teach reasons why government trains businessmen to distinguish from the reasons for government involvement in business.

Question 5 (b)

Explain **five** problems that the Kenyan Government may experience when implementing the Vision 2030. (10 marks)

This question required candidates to explain the problems that the Kenyan government may experience when implementation the Vision 2030

Weaknesses

Many candidates could not correctly place the question in the topic tested and ended up giving irrelevant answers.

Expected responses

- (i) Inadequate/limited resources like skilled personnel/human resource to interpret/translate plans into reality/effectively implement the plans.
- (ii) Over reliance on foreign Aid/donor funding whose remittance is uncertain thus the plan may fail to take off /be completed.
- (iii) Failure by the local people to support the plan because they were not involved during the formulation of the plan.
- (iv) Outbreak of natural calamities may lead to diversion of funds meant to finance the plan.
- (v) Some unrealistic aspects of the plan/over ambitious plan that are difficult to implement.
- (vi) Inflation which makes the cost of implementation to rise/increase beyond the allocated funds.
- (vii) Lack of political will if there is no political commitment to start/complete projects, it remains on paper.
- (viii) Non observance of sequence/timeliness of implementing the plan/the logical order is not followed leading to incomplete/stalling of projects/white elephants
- (ix) Imported models/plans that are inappropriate for local situations/needs.
- (x) Corruption/poor governance that leads to loss/misuse of funds
- (xi) Political instability that derails/delays implementation/destroys projects
- (xii) Insecurity that may either delay/derail implementation plans
- (xiii) Inadequate/limited finance/capital to effectively fund/pay for the plan.
- (xiv) Lack/inaccessibility of appropriate technology to implement/actualize projects
- (xv) Poor/lack of coordination/cooperation among implementing parties/agencies.

Advice to Teachers

Teachers should clearly illustrate development plans prepared by the government for learners to contextualize concepts being taught.

$$= 192,000 - 162,000$$

$$= 30,000$$

$$\text{Return on Capital Employed} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100\%$$

$$\text{Capital Employed} = \text{Total Asset} - \text{Current Liabilities}$$

$$= 1,302,000 - 162,000$$

$$= 1,140,000$$

OR

$$\text{C.E.} = \text{W.C.} + \text{Final Asset}$$

$$= 30,000 + 1,110,000$$

$$= 1,140,000$$

$$\text{CE} = \text{Capital owned} + \text{LTL}$$

$$= 530,000 + 610,000$$

$$= 1,140,000$$

$$\text{R.O.C.E.} = \frac{77,000}{1,140,000} \times 100\% \\ = 6.754\%$$

Advice to Teachers

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Question 5 (a)

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This question required candidates to explain the reasons that are necessary for the government to train businesspeople

Weaknesses.

Many candidates misinterpreted the question and gave responses for government involvement in business activities and consumer protection.

Expected responses

- (i) To improve their skills by exposing them to basic management techniques.
- (ii) To expose/educate them on modern/current trend of business operations like effective methods of advertising, keeping books of accounts, stock-taking etc.
- (iii) To expose businesspeople to possible solution /possible problems affecting them like raising capital, identify investment opportunities etc.
- (iv) To impart proper business ethics to avoid consumer exploitation/ensure fair competition