3.5   BUSINESS STUDIES (565)

Business Studies is a broad area of study that comprises five thematic fields namely; Commerce, Accounting, Economics, Office Practice and Entrepreneurship. This integrated approach aims at exposing 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.

GENERAL CANDIDATES' PERFORMANCE

The table below shows candidates' overall performance in Business Studies (565), in the year 2017. The other years, 2013 to 2016 are also given for comparison purposes.

Table 12:   *Candidates' Overall Performance in the years 2013, 2014, 2015, 2016 and 2017*

Year	Paper	Candidature	Maximum Score	Mean Score	Standard Deviation
2017	1	270,755	100	33.6	16.91
	2		100	28.54	17.35
	Overall		200	62.12	32.8
2016	1	256,671	100	37.77	18.79
	2		100	33.23	18.51
	Overall		200	70.94	36.07
2015	1	234,038	100	50.22	18.3
	2		100	37.32	19.99
	Overall		200	87.52	36.37
2014	1	215,394	100	51.75	21.30
	2		100	41.95	20.02
	Overall		200	93.64	39.53
2013	1	196,518	100	58.80	20.41
	2		100	34.57	16.17
	Overall		200	94.24	34.57

The following observations can be made from the table above:

(i)   There is increased enrolment in the subject as attested to by the increase in candidature by 14,085candidates. The candidature for the year 2017 was 270,755, up from 256,571 in the year 2016. This was an increase of 5.5%

(ii)   There was a drop in the overall performance by candidates in the subject. The subject mean score for 2017 was 62.12 as compared to a mean of 70.94 in 2016.

(iii)   Candidates performed better in paper one (565/1), when compared to Paper 2 (565/2) as per the respective means of 33.6 and 28.54. This implies that most candidates find 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).

(iv) In terms of paper performance; paper one registered a drop of 5.1. The mean for year 2017 was 33.6, down from 37.77 in 2016. Paper two also registered a drop in performance of 4.69. The mean for 2017 was 28.54, down from 33.23 in 2016.

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 1
State **four** elements of the demographic environment that may influence the operations of a business.

(4 marks)

This question required candidates to state the elements or features of the population that may have effects on the day to day activities of the business.

Weaknesses
Many candidates seemed to have been at a loss and were unable to relate the "demographic environment" to features of the population.

Expected responses
a. The population size.
b. The geographical distribution of the population.
c. The population density.
d. The distribution of the population by sex/Gender.
e. The distribution of the population by age.
f. The population growth rate.
g. The birth rate.
h. The death rate/mortality rate/attrition rate.
i. Immigration rate.
j. Emigration rate
k. Health of the population.

Advice to Teachers

Teachers should expose learners to a variety of teaching/learning approaches and help them establish linkages and interrelationships between topics. Aspects of population should be discussed in relation to the business environment.

Question 3

The following information was extracted from the books of Salome Traders: Capital Ksh 1,119,300; Long term liabilities Ksh 1,807,000; and Current liabilities Ksh 978,700.

Required:
(a) Determine Salome Traders Rate of Return on Capital Employed if the business made a net profit of Ksh 438,945

(4 marks)

(b) State the importance of the rate of return on capital employed.

(1 mark)

This question required candidates to work out the value of capital employed, and then make use of the net profit given to determine the rate of return on the capital employed. The part 'b' of the question required the candidates to state the importance of the rate of return on capital employed.

Weaknesses.

Most candidates failed this question since they were unable to work out the correct value for capital employed and therefore could not determine the rate of return on capital employed.

The candidates also confused capital employed with owner's capital since many gave answers that favoured the latter.

Expected responses
a.　$CE = C + LTL$
$$= 1,119,300 + 1,807,000$$
$$= \underline{\textbf{2,926,300}}$$

Rate of Return on Capital Employed

$$ROCE = \frac{NP}{CE} \times 100$$

$$= \frac{438,945}{2,926,300} \times 100$$

$$= \underline{\textbf{15\%}}$$

b.　**Importance of the rate of return on capital employed.**
i.　It enables the business to determine the rate at which net profit is generated in relation to the total investments into the business.
ii.　To compare the performance of the business with similar ones.
iii.　To compare the performance of the business over time.
iv.　Shows whether the finances of the business have been invested wisely.

Advice to Teachers

Teachers should expose learners to a lot of exercises on the business calculations and discuss the importance of business ratios with them.

Question 4
Highlight **four** indicators of economic growth that may be observed as a country progresses.
(4marks)

This question required candidates to give evidence of economic growth by stating observable attributes of the economy that would show that a country is growing.

Weaknesses
This question was poorly done as most candidates simply wrote features of economic development without the implication of progress.

Expected responses
a. Increasing national income.
b. Increasing national output/GDP.
c. Improved infrastructure.
d. Improvement in the provision of health facilities.
e. Increased education opportunities.
f. Increasing life expectancies.
g. Improved housing for the population.
h. Provision of more social amenities for leisure e.g. stadia.
i. Improved standards of living for the citizens.
j. Increased per capita income.
k. Increased employment opportunities.
l. Reduced dependency ratio/self employment.
m. Reduced income disparities.
n. Reduction of negative cultural practices.
o. Good governance/democracy.

Advice to Teachers

Being a topic in economics, teachers should cover it deeply with a lot of application to the day to day economic experiences in the country.

Question 9
Highlight **four** items that would be included in the measurement of national income using the income approach. (4marks)

This question required the candidates to come up with the items that constitute earnings or incomes that are measured in order to determine the value of national income.

Weaknesses.
Many candidates could not differentiate between incomes approach and the other approaches, i.e. output and expenditure hence ended up giving mixed answers.

Expected responses
a. Salaries/wages or personal earnings by households.
b. Interest received for use of capital.
c. Profits made by public enterprises.
d. Dividends received by shareholders.
e. Rent received for the use of land.
f. Undistributed profits before tax on firms.
g. Stock appreciation.
h. Transfer payments e. g. grants to students.
i. Provision for depreciation on capital.
j. Net income from abroad.

Advice to Teachers
Teachers are advised to discuss the different approaches to measuring national income, help learners to differentiate them and understand their strengths and weaknesses.
Question 10

The table below shows general price changes over a period of five years:

Year	Price (ksh)	CPI
2010	90.00	-
2011	100.80	-
2012	103.50	-
2013	105.30	-
2014	108.00	-

Using the year 2010 as the base year, determine the consumer price index for the years 2011, 2012, 2013 and 2014. (4 marks)

This question required the candidates to compute the consumer price index for each of the years given taking 2010 as the base year.

Weaknesses

Many candidates did not know how to determine the CPI and did a lot of guess work. Many of them also used the previous year as the base year ignoring what was given in the question.

Expected responses

The C.P.I. for the year:

$$2011 = \left(\frac{100.80}{90} \times 100\right) = 112$$

$$2012 = \left(\frac{103.50}{90} \times 100\right) = 115$$

$$2013 = \left(\frac{105.30}{90} \times 100\right) = 117$$

$$2014 = \left(\frac{108}{90} \times 100\right) = 120$$

Advice to Teachers

Teachers should give learners a lot of exercise in this topic. Methods of testing should also be varied.

Question 13
The following information relates to Zawadi Traders rental income:

1.1.15   Had Ksh 50,000 in the rent income account at the beginning of the year.
10.6.15   Received Ksh 120,000 from tenants
12.11.15 Refunded Ksh 20,000 to a tenant who had vacated the premises.

Required:

Prepare Zawadi Traders rental income account. (4maks)
The question required candidates to prepare Zawadi Traders rental income ledger account.

Weaknesses.

Many candidates failed this question for entering the transactions into the wrong side of the account.

Expected responses

Zawadi Traders

Rent income Account

Dr.					Cr.
12/11/15	Tenants	20,000	1/1/2015	Bal. b/d	50,000
31/12/15	Bal. c/d	150,000	10/6/2015	Tenants	120,000
	(P&L)				
		170,000			**170,000**

Advice to Teachers
Teachers should accord learners the opportunity to practice the preparation of incomes and expense accounts. A lot of practice is encouraged to enable learners master this content area.

Question 15

The equation given below relate to quantity demanded and quantity supplied at the equilibrium point
$Qd_e = 4P + 50$
$Qs_e = 8P + 30$
Determine the equilibrium price and quantity. (4marks)

This question required candidates to calculate the values of the price and quantity at the equilibrium point.

Weaknesses.

Many candidates failed to realise that at the point of equilibrium, Demand equals Supply hence the equations given would be used to form a simultaneous equation where like terms for 'P' would be collected to get the equilibrium price. This would then be substituted in any of the equations to get equilibrium quantity.

Expected responses

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Where: $Qd_e = 4P + 50$
and $Qs_e = 8P + 30$

$4P + 50 = 8P + 30$
$50 - 30 = 8P - 4P$
$20 = 4P$

$$\frac{20}{4} = P$$

$\underline{5} = P$

∴ **equilibrium price = 5**

Equilibrium quantity = $(5 \times 4) + 50$
$= 20 + 50$
$= \underline{70}$

Advice to Teachers
Teachers should expose learners to various ways of determining the equilibrium quantity and price since many candidates seem to be conversant with only the graphical method.

Question 22
The aggressive campaign for citizens to plan their families seems to be causing a decline in the country's population growth. Outline **four** possible effects of this. (4 marks)

This question required candidates to outline the effects of a declining population as a result of the aggressive campaigns.

Weaknesses.

Many candidates gave the methods of family planning instead of the consequences while others only came up with negative effects of declining population.

Expected responses
a. Reduced pressure on land.
b. Shrinking market for goods and services.
c. Reduced levels of unemployment.
d. Reducing government expenditure on the provision of social amenities.
e. Reduced dependency burden.
f. Low labour supply.
g. Reduced social problems like crime, lack of housing, traffic jams.
h. Possibility of attaining optimum population.
i. May lead to increased savings and investment.

Advice to Teachers

Offer learners broad exposure on the topic of population and employment. Teachers should also source for a variety of reference materials for the learners.

3.5.3   **Business Studies Paper 2 (565/2)**

amount of tax to be paid is at the discretion of the tax authorities.

iv. Not an adequate source of government revenue. Most people in developing countries are low income earners hence limiting the amount of tax revenue from this source.

v. Reduced ability to save and invest. Direct taxes take away money from the citizens hence reducing their purchasing power causing low investments.

vi. Tax payers are not involved in the expenditure of the tax revenue. There is low civic involvement and call for government accountability since tax payers do not make decisions on government expenditure.

vii. May encourage capital flight. Foreign investors may conceal their profits in order to transfer such earnings to other countries.

Advice to Teachers

Extensively cover the sources of government revenue including their merits and demerits. Teachers should also guide the candidates on question interpretation and how to frame their responses to address the demands of the question.

Question 5(a)

Explain **five** demerits of the output approach in measuring national income.   (10 marks)

This question required the candidates to explain the disadvantages of the output approach in measuring national income.

Weaknesses

Most candidates were not able to distinguish between this approach and the other two approaches; the expenditure approach and the income approach hence wrote irrelevant responses.

Expected responses

i. It excludes crucial services that contribute to national income but not paid for like government services, and self-employment. It is difficult to make a decision about the goods and services to include in this measure.

ii. Problem of subsistence sector/output. It is difficult to value subsistence output.

iii. Some activities considered illegal generate a lot of income but are not included in the measure of national income. These activities inject a lot of money into the economy.

iv. Difficulty in valuing stock at the end of the accounting year as this differs with their value at production.

v. Difficulty in determining the increase in value as a result of increasing volumes of output. Final price is usually affected by market forces.

vi. Difficulty in deciding on the value to use when making records. The values keep changing in line with market forces.

vii. It is difficult to determine the value of depreciation hence failure to record accurately the value of capital goods.

viii. Fluctuations in prices which may cause output to appreciate.

Advice to Teachers

Teachers should cover all the approaches to measuring national income ensuring that candidates master their features, merits and demerits.