

**565/1**  
**BUSINESS STUDIES**  
**Paper 1**  
**March 2015**  
**2 HRS**

## **MARKING SCHEME**

**1. Highlight four reasons why people engage in Business activities. (4mks)**

- i) To create employment opportunities
- ii) To make use of available local resources
- iii) To be their own bosses
- iv) To increase their present income
- v) To utilize their free time
- vi) To commercialize their skills and talents

**2. Outline four types of resources that are important in Business. (4mks)**

- i) Human resources
- ii) Financial resources
- iii) Physical resources
- iv) Technology

**3. State four functions of an entrepreneur in the production of goods and services. (4mks)**

- i) They bear all the risks associated with production
- ii) They provide the required capital to carry out production
- iii) They acquire all other factors of production
- iv) They identify and set up viable business
- v) They coordinate and organize the other factors of production

**4. Identify the machine used to perform the following tasks.**

**(4mks)**

<b>Statements</b>	<b>The machine</b>
a) To count coins and notes	Money counting machine
b) To trim paper into required sizes and shapes	Gullotine
c) To fold documents, place them in envelope and seal the envelope	Composite machine
d) To print postage impression on envelopes	Franking machine

**5. Outline four differences between chain stores and departmental stores.**

**(4mks)**

<b>Chain stores</b>	<b>Departmental stores</b>
i) They have branches all over the country e.g ART Ltd	All departments operate under one roof
ii) Stock a limited variety of goods	Stock a wide variety of goods
iii) All branches sell similar goods. Purchases are centralized	Each department deals with different line of goods. Purchases are decentralized
iv) Prices are uniform in all branches	Each department sets its own price

**6. State four statistics that are associated with the measurement of National income. (4mks)**

- i) Gross National Product
- ii) Net National product
- iii) Gross Domestic product
- v) Net Domestic product

**7. Prepare Sunshine Traders Balance sheet from the following list of balances extracted from his books as at 31 December 2013. (4mks)**

Capital	357,000
Stock	40,000
Machines	150,000
Furniture	7,000
Motor vehicles	200,000
Bank	20,000
Creditors	25,000
Cash	5,000
Debtors	60,000
Loan from KCB	100,000

**SUNSHINE TRADERS  
BALANCE SHEET  
AS AT 31/12/2013**

<b>Assets</b>	<b>Sh.</b>	<b>Capital + Liabilities</b>	<b>Sh.</b>
Stock	40,000	Capital	357,000
Machines	150,000	<u>Liabilities</u>	
Furniture	7,000	Creditors	25,000
Motor vehicles	200,000	Loan from KCB	100,000
Bank	20,000		
Cash	5,000		
Debtors	60,000		
	<b>482,000</b>		<b>482,000</b>

**8. Outline four characteristics of a good filing system (4mks)**

- i) Simplicity
- ii) Compactness i.e occupy little office space
- iii) Suitability
- vi) Should be economical
- vii) Safety
- viii) Accessibility

**9. Highlight four methods that Government uses to protect consumers. (4mks)**

- i) Setting up standards
- ii) By licensing
- iii) Weights and measures act
- iv) Food and drug act
- v) Trade description act / sale of good act
- vi) Public health act
- vii) Rent and tribunal act

**10. State four factors that a manager should bear in mind to ensure that he/she effectively communicates with the employees. (4mks)**

- i) The timing of sending / passing information should be appropriate
- ii) There should be mutual respect between the two parties
- iii) Should speak in a proper language the is understood by all parties
- iv) The manager should into have negative attitude towards any employee
- v) The manager should not have pre judgement

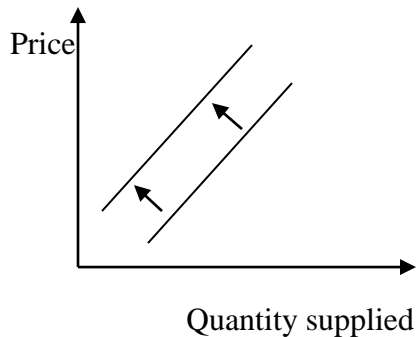
**11. State the meaning of the following principles of insurance. (4mks)**

- a) **Subrogation** - This states that after the insured has been compensated the remnant of the insured item becomes the property of the insurer
- b) **Contribution** - When a property is insured by more than one insurance company upon the occurrence of the event of loss, all the insurance companies will share the loss proportionately.
- c) **Insurable interest** - One can only insure a property whose loss will affect him financial.
- d) **Indemnity**- States that the insured can only be compensated for the actual loss suffered.

**12. Highlight four characteristics of underdevelopment. (4mks)**

- Low standards of living in the country.
- Low per capita of income
- Rapid population on growth rate
- Under- utilized natural resources
- Low literacy levels
- Use of simple / rudimentary technologies in production
- Pronounced income inequalities
- Low levels of productivity
- Poor infrastructure
- High levels of unemployment

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**State four factors that may have caused the change shown in the diagram above.**

- i) Use of traditional techniques in production process
- ii) Unfavourable weather conditions
- iii) Inadequate supply of factors of production
- iv) Unfavourable change in government policy
- v) High cost of production
- vi) Expected increase in the price of the product in future

**14. Highlight four causes of unemployment in Kenya.**

**(4mks)**

- Rapid population growth rate
- Introduction of capital intensive methods of production
- Inappropriate education system which is white collar job oriented
- The people may be too selective when choosing the jobs they want which may not be available.
- Low demand for goods and services due to low incomes.
- Inadequate resources required for production to be carried out.
- Rural – urban migration.
- Changes in seasons particularly in tourism and agricultural sectors.

**15. Outline four circumstances under which Mr Ondieki (a farmer) may distribute his products directly to his customers.**

**(4mks)**

- i) Where the goods are produced according to customer's specifications
- ii) Where goods are technical in nature
- iii) Where goods are perishable in nature
- iv) Where the farmer is very close to the market
- v) Where the market being targeted is small
- vi) Where the producer wants to have direct contacts with the customers
- vii) Where the producer has his own retail outlets

**16. Tripple SSS wholesalers had the following information as at 31 December 2013 (4mks)**

Closing capital	70,000
Total expenses	5,000
Drawings of goods	6,000
Total incomes	3,000

Calculate the capital at the beginning of the year.

$$O.C - L - D = C.C$$

$$O.C - (5000 - 3000) - 6000 = 70,000$$

$$O.C - 2000 - 6000 = 70,000$$

$$O.C - 8000 = 70,000$$

$$O.C = 78,000 \quad \checkmark$$

**17. Highlight four advantages of localization of firms. (4mks)**

- i) A pool of skilled labour is created where the firms can get employees from
- ii) Employment is created in such areas
- iii) Development of infrastructure may be carried out in areas where localized firms are
- iv) Joint management of waste can be carried out by all firms
- v) Establishment of solid amenities such as hospitals and schools
- vi) Firms may benefit from already established markets
- vii) It leads to development of auxiliary firms such as banks and insurance in the area.

**18. State four characteristics of good money. (4mks)**

- |                         |                 |
|-------------------------|-----------------|
| - General acceptability | - Stability     |
| - Scarcity              | - Cognizability |
| - Durability            | - Homogeneity   |
| - Divisibility          | - Malleability  |
| - Portability           |                 |

**19. Identify the day book associated with the following source documents given below. (4mks)**

Source documents	Day books
Invoice received	Purchases Journal
Credit note received	Purchases Returns Journal
Receipt issued	Cash receipt journal
Credit note issued	Sales returns journal

**20 Highlight four purposes of public finance.**

**(4mks)**

- i) To provide essential goods and services
- ii) To control consumption of certain products
- iii) Re-distribution of wealth
- iv) To promote balanced regional development
- v) To raise revenue for the government
- vi) To control balance of payments

**21. The following balances were extracted from the books of Okinda wholesalers on 31<sup>st</sup> December 2006.**

**(4mks)**

	<b>Sh</b>
Capital	800,000
Sales	250,000
Debtors	70,000
Purchases	160,000
Creditors	45,000
Opening stock (1.1.2006)	40,000
Closing stock (31.12.2006)	20,000
General expenses	50,000
5 year bank loan	200,000
Insurance expenses	20,000
Salaries and wages	80,000

**Required, calculate**

i) **Mark up** =  $\frac{\text{Gross Profit} \times 100}{\text{Cost of goods sold}}$   $\frac{70,000 \times 100}{180,000}$  (1mk)

$= 38.88\%$

ii) **Current ratio** (1mk)

$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{90,000}{45,000} = 2:1$

iii) **Rate of stock turnover** (1mk)

Cost of goods 180,000

Average stock 30,000

Average stock =  $\frac{40,000 + 20,000}{2} = 6 \text{ times}$

iv) **Rate on return on capital** (1mk)

$$\frac{\text{Net loss}}{\text{Capital invested}}$$

$$\frac{80,000}{720,000} \times 100\%$$

= 11.11% or 1:9

**23. Highlight four uses of a proforma invoice.** (4mks)

- i) It can be used to serve as quotation
- i) Sent to show what the buyer would have to pay if the order s approved
- ii) Issued to an agent who sells goods on behalf of the seller
- iii) Used by importers to get customers clearance before goods are delivered
- iv) Sent when the seller does not want to give credit

**24. State four factors that affect the productivity of an office worker.** (4mks)

- i) Personal attributes e.g hygiene and moral behaviours
- i) Office etiquette e.g respect and punctuality
- ii) Knowledge and skills
- iii) Emotional qualities

**25. In each of the following cases, state the type of inflation described** (4mks)

a) The unrest in Libya has resulted to an increase in the price of oil	<b>Imported inflation</b>
b)The price of bread has gone upto sh.60 due to increase in the price of wheat	<b>Cost-push inflation</b>
c) A lot of money in circulation has led to the general increase of price	<b>Demand pull inflation</b>
d) Arise in price due to uneven growth in some sectors of the economy.	<b>Structural inflation</b>



TRE-ROCK MARKING SCHEME

Revised

1a BENEFITS THAT ACCRUE TO A COUNTRY  
AS A RESULT OF DELOCALIZATION.

1. Reduced income disparities — people have access to jobs/incomes.
2. Better auxiliary services — rural areas develop
3. Increased job opportunities <sup>leading to</sup> — better stds of living
4. Increase use of locally available resources  
factors of production  
— they earn incomes  
— would otherwise have been idle
5. Improved standards of living — rural development  
leads to <sup>variety</sup> increased/improved goods/services
6. Reduced rural urban migration / congestion in towns  
— reduced pressures on urban resources.
7. Balanced economic/regional development — as firms  
or economic activities are spread throughout  
country
8. Technology skills transfer — leading to improved  
Productivity
9. Infrastructural development — opens rural areas to  
development  
— facilitates movement of  
goods or services
10. Improvement/development of social facilities — leading  
to improvement in welfare in rural areas
11. Minimised effects of pollution — negative on health
12. Market for raw materials / goods produced in area.
13. Minimises effects of calamities that would paralyse country

1b EXPLAIN FEATURES OF PERFECT COMPETITION.

(i) Large number of buyers and sellers

(ii) Uniformity of product

(iii) Limiting factors to entry

(iv) No government interference

(v) Perfect knowledge of market by buyers & sellers

(vi) Demand & supply determine the market price.  
No excess demand and supply on the market.

(vii) Perfect mobility of factors of production

(viii) No transport costs

Any 5 well explained

Any 5 well explained.

200 RECORDS IN THE RELEVANT BOOKS OF ORIGINAL ENTRY.

Purchases day book / Journal

Date	Details	Folio	Amount
Dec 1	Wleka		46200
1	Mioko		15600
1	Limo		38360
11	Tuktak		34830
22	Fatuma		22100
22	Temo		38350

Sales day book / Journal

Date	Details	Folio	Amount
Dec 3	Lwanda		39200
3	Motor Grocers		25560
3	Mawe		12650
15	Motor Grocers		6800
15	Marion traders		12800
	Ngula		16060
	Oyunga		12960
	Mawe		15260

Sales returns journal

Date	Details	Folio	Amount
Dec 12	Motor Grocers		4550
12	Lwanda Retailers		1280
18	Marion traders		2060

Purchases day book

Date	Details	Folio	Amount
Dec 7/5	Micho		4200
7th	Limo		6140

2b

## FACTORS THAT ENHANCE EFFICIENT RUNNING OF A WAREHOUSE

- (i) Labour — Skilled / adequate to handle volume of goods.
- (ii) Record Keeping / Documentation — should be good to enable monitor movement of goods.
- (iii) Spacious — Adequate / big to accommodate the volume of goods.
- (iv) Adequate / relevant equipment / handling facilities for ease of movement.
- (v) Adherence to legal requirements — to avoid conflict with government.
- (vi) Presence of storage facilities — for preservation of goods — goods maintain quality.
- (vii) Security / safety measures — to avoid theft / losses / damage — Protection of employees.
- Building design / structure — acceptable standards to handle goods dealt in.
- Location — accept examples of near road / port.
- Location — near entry points for ease of clearance.

3a	NEGATIVE EFFECTS OF INFLATION TO A
2010	COUNTRY'S ECONOMIC DEVELOPMENT.
	Discourages savings
	Increases interest rates
	People with fixed incomes negatively affected
	Lenders lose.
	SocioPolitical unrest
	Worsening balance of payments
	Low income earners
	Investments
	Unemployment.
	Hinders implementation of development Plans.

## 59 PROCEDURE TO BE FOLLOWED WHEN TAKING INSURANCE POLICY.

### (i) Filling a Proposal form

The person intending to take policy applies by filling a form.

### (ii) Determination of Premium

The insurance company studies information provided in proposal form to determine premiums to be paid.

### (iii) Payment of first premium

### (iv) Issuance of Cover note/binder

- evidence that agreement entered by the two parties.

### (v) Issuance of Insurance Policy/Certificate

The insurance company issues policy/certificate details the agreement between the two giving terms and conditions of agreement

Any 5 well explained x 2  
(10 marks)

## LIMITATIONS OF USING CONTAINERISATION.

- (I) Requires specialised equipment for handling  
- This is lacking or is expensive to buy/maintain
- (II) Requires specialised staff. - is lacking  
- training is expensive
- (III) Volume of business may not be large enough to warrant investment / uneconomical
- (IV) Initial capital required is high - not available
- (V) Method requires redesigning of parts or construction - expensive
- (VI) Resistance by employees / COTU and other interested parties as it causes unemployment.
- (VII) Requires use of technology which is lacking or not available

## 6a BENEFITS ENJOYED BY A COUNTRY AS A RESULT OF INDIRECT PRODUCTION.

- (i) Use available resources - idle / wasted
- (ii) Creation of employment for those engaged in trading activities
- (iii) Expanded / wide market for goods
- (iv) Variety of goods / services - gives people a wide choice / to satisfy different consumer needs.

### Classing

- (v) Increased incomes
- (vi) Increased business opportunities
- (vii) Increased production of goods & services - more goods available to country citizens
- viii Increased specialisation - increased quality / output
- ix Improved technology due to exchange of ideas
- x Enhances peace / understanding due to interaction
- xi Disposal / sale of surplus goods - minimising wastage / loss
- xii Receive goods / services they don't produce by buying from others
- xiii Improved infrastructure (eg roads) lead to easy of movement



20 tickets @  $\frac{1}{2}$  =  
No mark at net purchases 1644.00