

**BUTULA SUB-COUNTY JOINT EVALUATION**

**565/1 BUSINESS STUDIES PAPER 1**

**MARKING SCHEME**

1. What are the reasons that would make an individual engage in business? (4marks)
- a. To provide goods and services.
  - b. To create employment.
  - c. To exploit economic resources
  - d. To earn profit/income
  - e. To be self-reliant & independent/own boss
  - f. To make use of spare time.
  - g. As an outlet for creativity and innovation.
  - h. To exploit their talents/hobbies/skills.
  - i. For prestige.
  - j. To take advantage of government incentives e.g. loans for youth & women.

2.

Description	Document
(a) Shows details of goods offered for sale.	<b>Catalogue</b>
(b) Give quantity, unit price and total amount to be paid	<b>Invoice</b>
(c) Show the transactions since the date of last statement.	<b>Statement of account</b>
(d) Shows description of goods bought, prices and total amount paid.	<b>Cash sales slip</b>

3. State the best name that can be given to the following set of items. 4mks

<b>SET</b>	<b>NAME</b>
a. Tea and Coffee	<b>Substitute goods</b>
b. Education and Security	<b>Secondary wants</b>
c. Bus and Diesel	<b>Complementary goods</b>
d. Beer and Cigarette	<b>Habitual/addictive</b>

4. List any four sources of capital to public limited companies.
  - a. Sale of shares.
  - b. Sale of debentures.
  - c. Profits ploughed back.
  - d. Loans from financial institutions.
  - e. Renting/leasing out property.
  - f. Disposal of assets.
  - g. Purchase of goods on credit.
  
5. Outline four tools of monetary policy that a government may use to reduce excess money in circulation. (4mks)
  - a. O.M.O. – to sell government securities through the central bank.
  - b. Bank rate – raising interest rates on loans to banks.
  - c. Cash/liquidity can be raised for commercial banks.
  - d. Directives – can be given to commercial banks to reduce money supply.
  - e. Raising margin requirements – raise the value of assets required as security for loans.
  - f. Selective credit control – freeze lending to some sectors of the economy.
  
- 6.

ENOTIKA TRADERS  
Balance sheet  
As at 31st December 2020

Fixed Assets	480,000	Capital	300,000
Current Assets	145,220	<u>Long term liabilities</u>	
		2 year Bank loan	230,220
		<u>Current liabilities</u>	
		Creditors	95,200
	625,220		625,220

(5 x 1 = 5 marks)

7. State four complains that may be received from consumers by consumer associations. 4mks
  - a. Poor quality of goods and services/damaged.
  - b. Incorrect weight and measures.
  - c. Unfair pricing.
  - d. Contra – band items/prohibited goods.
  - e. Misleading advertisement.
  - f. Breach of contract

8. Highlight four circumstances under which personal selling may be appropriate in product in product promotion.
- When a new product is being launched in the market.
  - Where the firm is financially able to finance sales persons.
  - When the product is tailored to meet customer's specifications.
  - Where the product is of high value.
  - Where it is necessary to demonstrate the use of the product.
  - Where the market is limited to a small area.

9. State four features of liners in sea transport. 4mks
- Ferry passengers or cargo.
  - Follow a regular time table / schedule.
  - Call at ports at regular intervals.
  - Follow a regular route.
  - Form associations / conferences to protect themselves against unfair competition.
  - Charge fixed freightage and fare regardless of demand.

10. Given the statements in the table below, indicate the type of entry to be made in the relevant ledger accounts:

Statement	Type of Entry
(i) An increase in revenue	Credit entry
(ii) A decrease in an asset	Credit entry
(iii) An increase in an expense	Credit entry
(iv) A decrease in liability	Debit entry

11. State four principles of insurance. 4mks
- Principle of insurable interest.
  - Principle of indemnity.
  - Principle of proximate cause.
  - Principle of utmost good faith/Ubberima fides
  - Principle of contribution.
  - Principle of subrogation.

12. List three levels of inflation. (3mks)
- Moderate inflation
  - Gallopig inflation
  - Hyper-inflation

13. State four channels of distribution that a trader can use to import Covid-19 PPEs from China to Kenya.

- a. Foreign manufacturer → local consumer
- b. Foreign manufacturer → local wholesaler → retailer → consumer
- c. Foreign manufacturer → local retailer → consumer
- d. Foreign manufacturer → Chinese embassy in Kenya → local consumer
- e. Foreign manufacturer → Kenya Ministry of health → local wholesaler → consumer
- f. Chinese manufacturer → KEMSA → consumer

14. Highlight four characteristics of a perfectly competitive market (4mks)

- a. Large amount of buyers and sellers
- b. No buyers and sellers have perfect knowledge of the market conditions
- c. No government interference in the market
- d. No transport costs are incurred
- e. Free entry and exit to firms
- f. Perfect mobility of factors of products
- g. Uniformity of buyers and sellers
- h. Both buyers and sellers are price maker

15. Zawadi operates a hardware business in her home town. Outline four methods she can use to determine prices for her goods other than the forces of demand and supply.

- a. Bargaining/Haggling.
- b. Abiding by the government policy.
- c. Tendering
- d. Sale by auction

16. Identify the type of utility associated with each the following production activities.

- | <b>Production activity</b> | <b>Utility</b>    |
|----------------------------|-------------------|
| a. Distribution            | <b>Place</b>      |
| b. Warehousing             | <b>Time</b>       |
| c. Processing              | <b>Form</b>       |
| d. Selling                 | <b>Possession</b> |

17. State four hindrances to entrepreneurial development in Kenya
- a. Difficulties in accessing markets.
  - b. Difficulties in accessing resources like capital.
  - c. Lack of entrepreneurial culture.
  - d. High taxation rates/Unfavourable government policies
  - e. Opposition from existing businesses/Stiff competition.
  - f. Discouragement from peer groups/members of society with negative remarks.
  - g. Lack of self-motivation/self-drive.
  - h. Inadequate personnel/labour resources.
  - i. Poor infrastructural development.
  - j. Lack of support/auxiliary services.
18. State four ways in which a good filing system may facilitate the operations in an office.(4mks)
- a. Office is kept tidy.
  - b. Documents are kept neat and tidy.
  - c. Facilitates quicker decision making.
  - d. Security of document is ensured.
  - e. Information is preserved for future reference.
  - f. Easy retrieval of information.
  - g. Ensures confidentiality of information by controlling access by unauthorized people.
19. State the book of original entry in which the information will be recorded. (4 marks)
- | Source of document        | Book of original entry                          |
|---------------------------|---|
| a) Received credit notes  | <b>Purchase returns/Return outwards journal</b> |
| b) Cash receipts received | <b>Cash Payments journal</b>                    |
| c) Received invoices      | <b>Purchases journal</b>                        |
| d) Issued credit notes    | <b>Sales returns/Return inwards journal</b>     |
20. Outline FOUR reasons for the popularity of WhatsApp as a trend in communication. 4mks
- a. It offers unlimited messaging.
  - b. It has no hidden costs.
  - c. It offers international messaging.
  - d. It is simple to use/user friendly.
  - e. Video calling is available.
  - f. It possible to send documents & other media like pictures, videos.
  - g. One can send messages to many people at once in WhatsApp groups.
  - h. It is secured through use of phone PIN.
  - i. It is confidential since messages have end to end encryption.

21. Outline four conditions under which a warehouse may be considered to be operating efficiently. (4 marks)

- a. The warehouse should be conveniently located
- b. There warehouse should be managed by qualified personnel
- c. Operational procedures and guidelines should be in place
- d. Security systems should be in place
- e. Should have suitable buildings
- f. Appropriate equipment
- g. Compliance with one law
- h. Adequate space
- i. Proper record keeping
- j. Good transport system
- k. Good communication network

22. Highlight four external factors that may negatively influence the operations of a business. 4mks

- a. Unfair competition.
- b. Inadequate technology.
- c. Unstable political environment.
- d. Unstable economic environment.
- e. Unfavourable legal framework.
- f. Unreliable supply system.
- g. Strong consumer bargaining power.
- h. Poor physical facilities and infrastructure.
- i. Low population level.
- j. Insecurity.
- k. Unfavourable socio-cultural environment.
- l. Natural calamities.

23. State the differences between goods and services.

4mks

Goods	Services
They are tangible/can be touched	They are intangible/cannot be touched
They can be stored	They cannot be stored
They can be standardized	They cannot be standardized
They can change possession	They cannot be separated from the provider
Not all goods are perishable	They are highly perishable
Most of them can be seen/visible	They cannot be seen/invisible

24. The following information relates to Papap Enterprises.

	Kshs
Sales	200,000
Mark-up	$\frac{1}{4}$
Opening Stock	30,000
Closing Stock	25,000
Expenses	15,000

Calculate;

a) Gross profit (1mk)

$$\text{Mark up} = \frac{1}{4}$$

$$\text{Margin} = \frac{1}{4+1} = \frac{1}{5}$$

$$\begin{aligned} \text{Gross profit} &= \frac{1}{5} \times 200,000 \\ &= \text{sh } 40,000 \end{aligned}$$

b) Net profit (1mk)

$$\begin{aligned} \text{Net profit} &= \text{Gross profit} - \text{Expenses} \\ &= 40,000 - 15,000 \\ &= 25,000 \end{aligned}$$

c) Rate of stock turnover (2mks)

$$\begin{aligned} \text{Cost of sales} &= \text{Sales} - \text{Gross profit} \\ &= 200,000 - 40,000 \\ &= 160,000 \end{aligned}$$

$$\begin{aligned} \text{Average stock} &= \frac{(30,000 + 25,000)}{2} \\ &= 27,500 \end{aligned}$$

$$\begin{aligned} \text{ROSTO} &= \frac{\text{Cost of Sales}}{\text{Avg. Stock}} \\ &= \frac{160,000}{27,500} \\ &= 5.8 \text{ times} \end{aligned}$$

25. Juma bought furniture worth sh.50,000 from Bumala Enterprises for which he paid sh. 30,000 in cash and the rest to be paid later. State four effects of the above transaction on the balance sheet items. 4mks

- Asset furniture increased by sh. 50,000
- Asset cash reduced by sh. 30,000
- Liability creditors increased by sh. 20,000
- Total liabilities increased by sh. 20,000