

565/1
BUSINESS STUDIES
PAPER 1
MARKING SCHEME
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THE KENYA NATIONAL EXAMINATION COUNCIL
KENYA CERTIFICATE OF SECONDARY EDUCATION
BUSINESS STUDIES
PAPER 1

MARKING SCHEME
(CONFIDENTIAL)

1. Factors in the external environment that may influence the operations of a business include:-
 - a) Legal/regulatory issues/government policy
 - b) Economic factors
 - c) Socio-cultural factors
 - d) Technological factors
 - e) Physical facilities (infrastructure)
 - f) Demographic considerations (population)
 - g) Political environment
 - h) Competitors
 - i) Suppliers
 - j) Natural factors e.g. climate
 - k) Market (customers)
 - l) Security

2. Characteristics of direct production include:-
 - a) Production is for own use/substance production
 - b) Low level of technology is used in production
 - c) Goods produced are often of low quality

- d) Goods are produced in small quantities/no surplus produced
- e) The producer is involved in all stages processes of production
- f) The producer earns no extra income
- g) The producer's living standards is low for lack of variety
- h) The producer strives to produce a variety of commodities

3. The documents described in the statements are:-

- a) Proforma invoice
- b) Quotation
- c) Advice note
- d) Credit note

4. Reasons for government involvement in business include:-

- a) To provide subsidize essential services
- b) To protect citizens from exploitation
- c) To create employment
- d) To earn revenue
- e) To stimulate economic growth
- f) To venture into businesses requiring large capital investment beyond the capability of private investors
- g) To provide commodities that are too sensitive to be left in the hands of private investors e.g. printing of money and manufacture of firearms
- h) To prevent foreign dominance of economy
- i) To provide commodities which private investors are unwilling to venture into due to low profit
- j) Safeguard national interest by controlling strategic industries i.e to attract foreign investment.
- k) To attract foreign investment

5. Factors that may lead to a negative shift in demand include:-

- a) Decrease in consumer's income
- b) Unfavorable government policies (increased taxes, strict licensing)
- c) Decrease in population
- d) Future expectation that prices will decline
- e) Unfavorable/off peak season for particular commodities
- f) Negative taste and preference for a particular product
- g) Availability of better substitutes
- h) Reduced prices of substitute goods
- i) Increase in price of complimentary goods
- j) Unfavorable terms of sale

6. Circumstances under which a trader would prefer to transport goods by air include:-
 - a) When the goods are perishable
 - b) When goods are urgently required
 - c) When securing highly valuable goods
 - d) When accessing remote areas (note accessed by other means)
 - e) When goods are to be delivered over a long distance
 - f) When the business can afford to use it
 - g) Where it is the most easily accessible
 - h) When it is the policy of the business to transport goods by air.

7.
$$\begin{aligned} \text{Total assets} &= 20,000 + 1,500 + 2,000 + 4,0000 &= & 27,500 \\ \text{Capital} &= 24,000 \\ \text{Assets} &= \text{capital} _ \text{liabilities} \\ \text{: Liabilities} &= \text{Assets} - \text{capital} \\ &= (27,500 - 24,000) \\ &= 3,500 \end{aligned}$$

8. Services that commercial banks offer to their customers
 - a) Accepting deposits (from clients)
 - b) Lending money to clients
 - c) Safekeeping of valuable items
 - d) Effects payments for clients/money transfer services
 - e) Providing foreign exchange services
 - f) Giving investment advice to clients
 - g) Guarantor to their customers when taking loans with other financial institutions

9. Reasons that may make Kenya restrict trade with other countries include:-
 - a) To protect local infant industries from unhealthy competition
 - b) To safeguard against overdependence on foreign firms for essential commodities
 - c) To raise revenue through tariffs
 - d) To prevent dumping of substandard goods in the country
 - e) To curb against borrowing of unacceptable foreign culture
 - f) To correct unfavourable balance of payments
 - g) To restrict entry of harmful goods
 - h) To protect strategic industries
 - i) To create employment opportunities
 - j) To make use of natural local resources

10. Classification of resources:-
 - A) Human
 - B) Man-made
 - C) Natural
 - D) Human

11. Sources of capital for a sole proprietorship include:-
 - a) Owner’s savings
 - b) Contribution from friends/relatives
 - c) Borrowing form financial institutions/friends
 - d) Credit buying
 - e) Ploughing back profits
 - f) Inheritance
 - g) Leasing of assets
 - h) Renting of assets

12. Circumstances under which firms may be located near the source of raw materials include:-
 - a) Where it is cheaper to transport finished goods than raw materials
 - b) Where the firm needs to ease handling of bulky raw materials
 - c) When dealing with highly perishable raw materials to avoid spoilage
 - d) If the government policy requires the firm to be located near the source of raw materials
 - e) Where the firm wants to control an important raw material
 - f) Where the raw materials is fragile/brittle
 - g) Where the raw material is dangerous to carry over long distances
 - h) Where the firm needs to easy handling heavy raw materials

13. Kombo Traders
Trial Balance
As at 30th April 2018

Particulars	Dr. Shs.	Cr. Shs.
Land and buildings	150,000	
motor car	120,000	
Bank	4,000	
cash	25,500	
creditors		1, 500
Sales		5,000

Purchases	18,000	
Capital		311,000
TOTAL	317,500	317,500

14. Reasons that would make an entrepreneur to prepare a business plan include;-
 - a) To foresee and avoid mistakes that could be committed in future
 - b) To identify strengths and devise ways to dealing with the weaknesses of the business
 - c) It's a requirement by financiers
 - d) To help determine required resources
 - e) To enable an entrepreneur identify potential market
 - f) To enable the business organization avoid goals blindness
 - g) To allocate resources appropriately
 - h) To use it as a monitory tool
 - i) To be able to motivate employees
 - j) To adopt to future changes

15. Office equipment described in the statements are:-
 - a) Franking machine
 - b) Telephone/radio call
 - c) Safe/cabinet
 - d) Dictaphone/dictating machine/recorder

16. Sources of government revenue include:-
 - a) Court fines
 - b) Rent and rates received for use of government property
 - c) Fees license
 - d) Dividends and profits earned from its investments
 - e) Taxes
 - f) Internal borrowing
 - g) External borrowing
 - h) Proceeds from sales government property
 - i) Escheats
 - j) Interest earned on loans
 - k) Grants and donations

17. Measures which may be taken by the government to correct under development include:-
 - a) Increasing (government), investments to create more job opportunities
 - b) Control population explosion to reduce overdependence and pressure on resources
 - c) Improve infrastructure to ease communication, movement and access to inputs
 - d) Improve technology for maximum utilization of natural resources

- e) Improve education system to alleviate illiteracy and impart appropriate skills
 - f) Income redistribution
 - g) Invest in social amenities to foster welfare
 - h) Provision of incentive to promote culture of savings and investors
18. Benefits of personal selling to a trader include:-
- a) The trader is able to reach both literate and illiterate customers
 - b) Able to demonstrate the uses and capabilities of a product
 - c) The trader is able to get immediate feedback
 - d) Can tailor the presentation to suit the needs of individual customers
 - e) Facilitate establishment of interpersonal relationship with clients which promotes repeated purchaser
 - f) Enables the trader to focus on a targeted group of customers
 - g) Seller has opportunity to get information on competitors from the buyers
 - h) May promote instant sales
 - i) It's more persuasive and convincing customers.
19. Distribution channels that can be used for imported goods include:-
- a) Foreign producer – Agent – wholesaler – retailer – customer
 - b) Foreign producer – local wholesaler-retailer –customer
 - c) Foreign producer –local consumer
 - d) Foreign producer – local wholesaler – customers
 - e) Foreign producer – local retailer – customer
20. Merits of a bonded warehouse to the government include:-
- a) Enable the government to earn revenue
 - b) Enable the government to control the quality of goods imported
 - c) Helps the government prevent importation of harmful commodities
 - d) Enables the government to curb tax evasion
 - e) Helps the government collect statistics on imported goods/goods on transit
 - f) Enables the government to inspect goods entering the country
 - g) It helps the government solve the problem of unemployment
 - h) Enables the government control quantity of goods imported.
21. The source documents are:-
- a) Outgoing credit note
 - b) Purchases invoices/incoming invoice
 - c) Copy of cash sale receipt/cash receipt
 - d) Sales invoices/outgoing invoice

22. Ways through which leakages of national income may happen in a four sector economy include:-
- a) Savings by households
 - b) Government taxes on citizens and firms
 - c) Payment for imports
 - d) Transfer payments by government
 - e) Foreign aid and grants by government
 - f) Retained profits by firms
23. Benefits of using computers in an office include:-
- a) Facilitates easy communication through the internet
 - b) They are efficient in preparation and reproduction of documents
 - c) They reduce paper work.
 - d) They are capable of storing huge volumes of information
 - e) Facilitates easy access to information
 - f) They facilitate e-commerce
 - g) Its output presentable/neat
 - h) It encourages security of documents
 - i) Its labour saving
24. Identifying factors of production relating to the resources:-
- a) Labour
 - b) Capital
 - c) Land
 - d) Entrepreneurship
25. Sources of business ideas include:-
- a) Print media
 - b) Electronic media
 - c) Vocational training
 - d) Hobbies
 - e) Listening to what people say
 - f) Unutilized waste materials
 - g) Observing established entrepreneurs
 - h) Experience
 - i) Research and development
 - j) Shows and exhibitions
 - k) Sporting and market gap
 - l) Brain storming
 - m) Business seminars/workshops