**MOKASA 1 JOINT EXAMINATION-2021**

**BUSINESS STUDES-565/1**

**PAPER 1**

**MARKING SCHEME**

1. **The essential elements of transport (4mks)**
* The way
* The unit of carriage
* Method of propulsion
* Terminals
1. **Reasons why shelter is considered a basic want. (4mks)**
* Shelter protects us from wild animals.
* It prevents diseases.
* For purpose of privacy
* Provides space for relaxation and sleeping.
* Provides warmth to the body.
* Protects man against adverse weather conditions.
* For storage of basic wants.
1. **The book of original entry in which the information will be recorded. (4mks)**

|  |  |  |
| --- | --- | --- |
|  | **Source document** | **Book of original entry** |
| a. | Received credit notes | **Purchase returns journal** |
| b. | Cash receipts received | **Cash payment journal** |
| c. | Received invoices | **Purchase journal** |
| d. | Issued credit notes | **Sales returns journal** |

1. **Assumptions in the circular flow of income in a two sector economy (4mks)**
* **Existence of two sectors only.** It is assumed that the economy has only two sectors that is households and firms. The households provide the factors of production while firms are involved in the production of goods and services.
* **Total spending by households**. It is assumed that the households spend all their income on the goods and services produced by the firms i.e. no savings.
* **Total spending by the firms**. It is assumed that the firms spend the money received from the sale of goods and services to pay for the rewards of production factors.
* **Lack of government intervention.** The government does not influence how the firms and households carry out their activities. Such interventions are in the form of taxes, price controls among others.
* **Closed economy**. Exports and imports do not exist in such an economy.
1. **Benefits of youthful population to an economy. (4mks)**
* Provide large and cheap labour force
* Market for products demanded by the youth
* Greater invention and innovation
* Provide a large tax base for the country
* Provides a more mobile labour force
1. **Effects of transactions on the balance sheet items and totals (4mks)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Transaction** | **Assets** | **Capital** | **Liabilities** | **Totals** |
| a. | Took a loan from KCB and used it to pay a KIE loan | **No effect** | **No effect** | **No effect** | **No effect** |
| b. | Bought furniture and paid by cheque | **No effect** | **No effect** | **No effect** | **No effect** |
| c. | Took stock of goods and donated to a local church | **Decrease** | **decrease** | **No effect** | **Decrease** |
| d. | Sold stock of goods on credit at a profit | **Increase** | **Increase** | **No effect** | **Increase** |

1. **Features of the oligopoly market structure (4mks)**
* Has few large sellers and many buyers.
* The firms are interdependent among themselves especially in their output and pricing.
* Non-price competition, firms are in a position to influence the prices. However, they try to avoid price competition for the fear of price war.
* There is barriers to entry of firms due to reasons such as; requirement of large capital, Ownership of production rights, control over crucial raw materials, Restrictive practices etc
* High cost of selling through methods of advertisement due to severe competition.
* Products produced are either homogeneous or differentiated.
* Uncertain demand curve due to the inter-dependence among the firms. Hence the shifting of the demand curve is not definite.
* There is price rigidity i.e. once a price has been arrived at in an oligopolistic market, it tends to remain stable.
1. **Define the following principles as used in insurance (4mks)**
2. **Indemnity**

During compensation, insurance aims to reinstate the insured back to the financial situation he/she was just before the risk occurred

1. **Utmost good faith**

When taking an insurance policy or making a claim, the insured is expected to disclose all material facts to the insurer.

1. **Subrogation**

Once the insured has been compensated appropriately, any other benefits that he/she may get will revert to the insurer.

1. **Contribution**

In case of double insurance, any compensation due to an insured will be paid by the insurers in an agreed proportion so as to conform to the principle of indemnity

1. **Complete the following diagram (4mks)**

 Trade

 a c

 Retail trade b d Import Trade

1. Home trade
2. Wholesale trade
3. Foreign trade

d. Export trade

1. **Importance of entrepreneurship in an economy. (4mks)**
* Creation of employment to the owner and others
* Formation of capital from profits made and salaries and wages paid to workers
* Raising standards of living due to access to varieties of goods and services
* Encourages utilization of local resources that could have been left idle.
* Improving infrastructural facilities like roads, security etc
* Savings on imports
* Reducing foreign dominance of the economy
* Promotion of technology/promotion of innovation, research and development
* Promotion of entrepreneurial culture/helps in the creation of role models
* It contributes to government revenue
* It promotes economic growth
* It may promote self-actualization and esteem.
1. **Advantages of a public warehouse to a trader. (4mks)**
* A trader can get a short-term loan by using goods stored in the warehouse as security.
* Goods are stored against risks such as damage by fire.
* Traders do not incur the high initial cost of constructing their own warehouse.
* Trader can look for the market for goods while they are still in the warehouse.
1. **Level of production that matches the following occupations (4mks)**

|  |  |  |
| --- | --- | --- |
|  | **Occupation** | **Level of production** |
| a. | Carpentry | **Secondary** |
| b. | Lumbering | **Primary** |
| c. | Fishing | **Primary** |
| d. | Banking | **Tertiary** |

1. **Ways in which internal business environment may affect business negatively. (4mks)**
* Poor business structure may lead confusion.
* Inadequate finances hampering resource acquisition.
* Poor business culture leading to wastage of time.
* Non-committal owner leading to poor management.
* Unskilled personnel leading to poor implementations of decisions.
* Lack of innovation and invention leading poor quality production
1. **Sources of capital to public limited companies. (4mks)**
* Sale of shares
* Sale of debentures
* Profits ploughed back
* Loans from financial institutions
* Renting and leasing out property
* Disposal of assets
* Purchase of goods on credit
1. **Circumstances under which personal selling may be appropriate in product promotion. (4mks)**
* When the product is being launched in the market.
* Where the firm is financially able to finance sales persons.
* When the product is tailored to meet customers specification.
* 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 local area.
1. The following transactions were obtained from the books of Kimende traders in the month of February 2017.

2nd Feb. 2017. Opening balance cash in hand kshs 500,000 and cash at bank kshs 50,000.

3rd Feb. 2017. James, a debtor, paid kshs 20,000 by cheque.

5th Feb 2017. Purchased a motor vehicle worth kshs 300,000 from Shah motors on credit.

Capital account cash account

 2/2/17 cash 500,000 2/2/17 capital 500,000

 2/2/17 bank 50,000

 Bank account James account

3/2/17 James 20,000 3/2/17 bank 20,000

 Motor vehicle account shah motors account

 5/2/17 shah motors 300,000 5/2/17motor veh.300000

1. **Reasons for popularity of WhatsApp as a trend in communication. (4mks)**
* It offers unlimited messaging
* It has no hidden costs
* It offers international messaging
* It is simple to use
* Video calling available
* It is possible to send documents
1. **Benefits that may accrue to a firm as a result of growth of the industry. (4mks)**
* **Easier access to labour-** where many firms are located in one area a pool of labour of various skills is usually available. Therefore firms relocating to the area find it easy to obtain.
* **Improved/efficient infrastructure-** usually where many firms are located, infrastructure would be highly developed e.g. roads, power, water and communication facilities. Firms relocating in that area thus enjoy the services of infrastructure already in place.
* Firms may be able to dispose off their waste product easily
* **Ready** market may be available from the surrounding firms
* Readily available services such as banking, insurance and medical care
* Adequate supply of power due to large volume of consumption e.t.c
1. **The following information was extracted from the books of Kemei traders for the month December 2010;**

Opening stock shs60,000

Sales shs 360,000

Gross profit 25% of sales

Closing stock 70,000

Calculate;

1. **Mark-up. (2mks)**

Mark-up= Gross profit/cost of sales

 = 90000/270000

 = 1/3

1. **Rate of stock turnover. (2mks)**

 ROSTO= C.O. S/A.S

 = 270000/65000

 = 4.15Times

1. **Reasons why the government trains potential traders. (4mks)**
* Expose them to modern developments in management.
* Educate them on efficient methods of operating business.
* Expose business people to problems facing them and their possible solution.
* Impart proper business ethics.
* Educate them on how to use available resources to minimize costs and maximize profits.
* Inform them on various available profitable business opportunities in their environment.
* Expose them to government policies regarding business activities in the country.
1. **Complete the table (4mks)**

|  |  |  |
| --- | --- | --- |
| Assets  | Capital  | Liabilities  |
| 100,000  |  **65,000** | 35,000  |
| **192,000** | 112,000 | 80,000 |
| 310,000 | 100,000 | **210,000** |
| **200,000** | 140,000 | 60,000 |

1. **Reasons why a producer may prefer to sell directly to consumers. (4mks)**
* Financial strength. Can use own retail outlets established in the market.
* Number of established /regular customers. If the established number is low, then direct sales are viable.
* Perishable goods. There is need to reach customers fast to avoid spoilage.
* Technical goods. So that he can demonstrate how they are used.
* Feedback required. In order to get quick response from the customer about their feelings on the product.
* Scale of production. When the producer has a small amount of output can sell directly
* Need to keep prices low. Producers may want to control prices and keep them low by avoiding middlemen.
* Customer specification. If customers order goods directly, then direct sales are done.
* Concentrated markets. Where large markets are concentrated and accessible, then direct sales can be done.
* Government policy. When the government dictates that direct sales be done
* Sensitive goods. To be handled by producers themselves direct to consumers.
* Nature of the consumers. If customers can afford to buy large quantities, then direct sales can be done.
* Profit maximization. Producers may want to by-pass middlemen to leap maximum profits from direct sales.
* Level of competition. If there is stiff competition, the producer may sell directly to consumers to capture the market and outdo other products of competitors.
* When goods are quite expensive for middlemen, then the producer has no option but shoulder all the sales direct to consumers.
1. **Reasons for the shift of supply curve to the left. (4mks)**
* Increase in the cost of production
* Shortage of factors of production
* Decrease in the levels of technology
* Unfavourable government policies such as an increase in tax
* Future expectation of an increase in price
* Unfavourable natural factors e.g. floods
* Wrong timing. E.g agricultural products are only available during certain times.
* Withdrawal of firms from the industry
1. **Reasons why most organizations prefer locating their offices in the outskirts of town. (4mks)**
* To get ample parking space.
* Enough space for future expansion.
* Avoid traffic jam.
* To avoid noise interruptions associated with CBD.
* Cuts on rental charges/cost.
1. **Nature of transactions. (4mks)**
2. Began business with cash in hand Sh.15,000 and a bank overdraft of

sh. 20,000

1. Rent of sh. 5,000 was paid in cash.
2. Sh.10,000 was withdrawn from Bank for office use.
3. A cheque of sh. 35,000 from Onyango was dishonored.