

**BUSINESS STUDIES PAPER 1 FORM THREE**  
**MARKING SCHEME**

1. **Identify four factors that influence the level of capital of a business enterprise.(4 marks)**
- Net profit /ploughed back profits/dividends✓
  - Additional investment/new investment ✓
  - Loss made✓
  - Drawings✓

*4x@ 1 mark=4 marks*

2. **Give four features of economic resources (4 marks)**
- They are scarce/limited in supply✓
  - They have monetary value✓
  - They have alternative uses/occupational mobility✓
  - They are unevenly distributed fro one region to another✓
  - They have utility/usefulness✓
  - They are transferable from one party to another/geographical mobility✓
  - They can be combined to produce goods/services✓

*4x@ 1 mark=4 marks*

3. **Indicate with a tick(✓) in the appropriate column the business environment associated with each of the factors mentioned below. (4 marks)**

	FACTOR	INTERNAL	EXTERNAL
i)	Government policy		✓
ii)	Technological environment		✓
iii)	Financial resources	✓	
iv)	Firm structure	✓	

*4x@ 1 mark=4 marks*

4. **State four reasons why people engage in business activities. (4 marks)**
- Creation of employment(for self/others)✓
  - Provision of goods/services(to others)✓
  - For profit generation/maximization✓
  - For prestige/enhance own image in society✓
  - To acquire what they lack✓

*4x@ 1 mark=4 marks*

5. **Outline four tools used by the government to influence the quantity of a product supplied in a market. (4 marks)**
- Imposing taxes✓
  - Offer of subsidies to producers✓
  - Use of quotas✓
  - Use of price controls✓

*4x@ 1 mark=4 marks*

6. **Highlight four factors that may be used to determine the size of a firm. (4 marks)**
- Volume of output✓
  - Floor area covered/size of land occupied✓
  - Quantity of capital invested✓
  - Number of employees engaged✓
  - Production methods/techniques/technology✓
  - Market size served✓
  - Volume of sales✓

*4x@ 1 mark=4 marks*

7. Indicate by writing the word “TRUE” or “FALSE” against the statements below, giving characteristics for goods and services. (5 marks)

	STATEMENT	TRUE or FALSE
a)	Goods are inseparable from their producers	FALSE✓
b)	Services can be standardized in form of size, appearance or quality	FALSE✓
c)	Services are experienced not owned	TRUE✓
d)	Goods are not always perishable	TRUE✓
e)	Services are highly perishable	TRUE✓
f)	Goods can change in value overtime	TRUE✓

6x ½ mark=3 marks

8. The central bank is a banker to the government. Outline four banking services it provides to the Kenya government. (4 marks)

- Giving financial advice to the government✓
- Receiving payment on behalf of the government from foreign donors/income tax depts./custom etc✓
- Giving credit/loan to the government✓
- Making various payments on behalf of the government✓
- Getting credit/loan from other sources on behalf of the government✓
- Collecting credits/loans from other sources on government behalf✓

4x@ 1 mark=4 marks

9. The following are types of advertising: Product advertising, competitive advertising, informative advertising and institutional advertising. In the table below, match each type with its appropriate description. (4 marks)

	TYPE OF ADVERTISING	DESCRIPTION
a)	INSTITUTIONAL✓	Promotes the name of the manufacturer
b)	COMPETITIVE✓	Persuades the consumers to buy a product
c)	INFORMATIVE✓	Creates awareness about a product
d)	PRODUCT✓	Promotes a particular brand of a product

4x@ 1 mark=4 marks

10. Outline four barriers to written communication. (4 marks)

- Standard/level of language✓
- Poor handwriting/Illegibility/Inability to be read/not clear✓
- Unfamiliar terms/language/jargon/foreign language/technical/long✓
- Hostile tone/too persuasive to create misconception✓
- Unfamiliar subject/topic✓
- Blindness/visual impairment✓

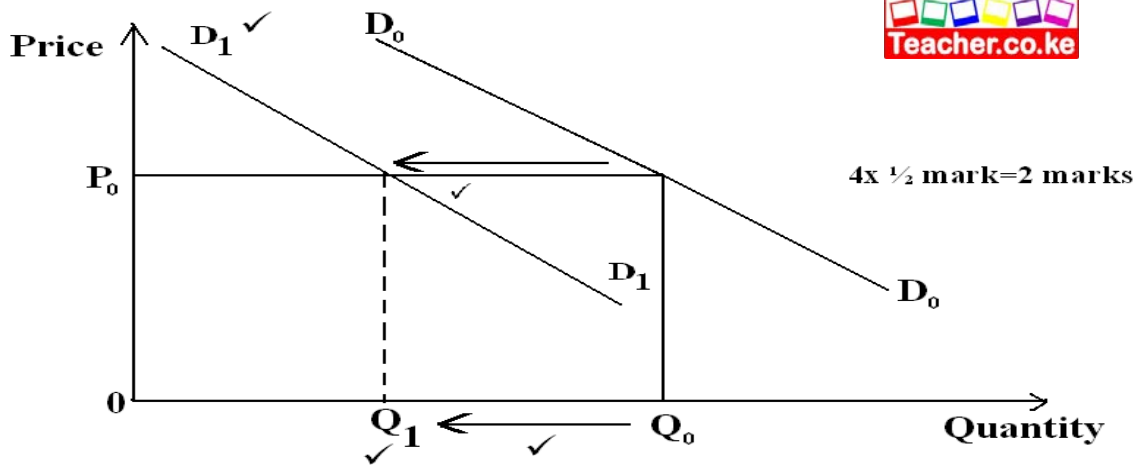
4x@ 1 mark=4 marks

11. For each of the following cases, name the motive for holding money. (4 marks)

	CASE	MOTIVE
a)	To meet daily bus fare expenses	TRANSACTIONARY✓
b)	To meet unexpected medical emergencies	PRECAUTIONARY✓
c)	To stock maize when prices fall	SPECULATIVE✓
d)	To meet daily food requirements	TRANSACTIONARY✓

4x@ 1 mark=4 marks

12. The diagram below shows the current demands for petrol.



- a) What is the effect of an increase in the price of cars on demand for petrol. (2 marks)

Few/less cars ✓ would be demanded and this would decrease/reduce ✓ the demand for petrol at the same price

2x@ 1 mark=2 marks

- b) Draw a new demand curve on the diagram above to show the effect of an increase in price of cars. (2 marks)

Check the diagram: 4x@ 1/2 mark=2 marks

13. State four reasons why few Kenyans take out life assurance policies. (4 marks)

- Ignorance of the importance of these policies ✓
- Widespread poverty/low incomes ✓
- Fear of losing their money because of past experience of collapse of companies ✓
- Lack of enough knowledge to interpret the clauses in the policy ✓
- Corruption and embezzlement of funds by insurance company officials, resulting in delays of compensation ✓
- The elaborate and time consuming procedures of claiming compensation ✓

4x@ 1 mark=4 marks

14. For each of the following transactions given below, indicate in the appropriate columns, the source documents and the book of original entry in which the transaction should be recorded. (4 marks)

	Transaction	Book of original entry	Source document
a)	Sale of tables on credit	GENERAL JOURNAL ✓	INVOICE ISSUED ✓
b)	Purchase of stock on credit	PURCHASE JOURNAL ✓	INVOICE RECEIVED ✓
c)	Goods returned by a customer	SALES RETURNS JOURNAL ✓	CREDIT NOTE RECEIVED ✓
d)	Payment to a creditor	CASHBOOK/CASH PAYMENT JOURNAL ✓	RECEIPT/CASH SALE SLIPS ✓

4x@ 1 mark=4 marks

15. Outline four sources of a business idea. (4 marks)

- Newspapers/Magazines ✓
- Shows and exhibitions ✓
- Hobbies ✓
- Vocational training and experience ✓
- survey ✓
- market gaps/shortages
- events/games/activities

4x@ 1 mark=4 marks

16. Write down the international trade document that relate to each of the following statements

	STATEMENT	COMMENT
a)	Indicate the country of origin of the imported goods	Certificate of origin✓
b)	A document of title to the goods traded in international trade	Bill of lading✓
c)	Used to demand for payment before delivery of goods	Proforma invoice✓
d)	Facilitates an importer to obtain credit	Letter of credit✓

4x@ 1 mark=4 marks

17. The financial period of Buteba Traders ends on 31<sup>st</sup> December every year. On 31<sup>st</sup> December 2011 the business had the following assets and capital.

Item	Sh.
Capital	24,000
Stock of goods	1,500
Debtors	2,000
Machinery	20,000
Cash	4,000

Required:

Calculate the total liabilities and prepare a balance sheet as at 31<sup>st</sup> December 2011. (4 marks)

BUTEBA TRADERS  
BALANCE SHEET  
AS AT 31<sup>ST</sup> DECEMBER 2011

	Sh.		Sh.
Machinery	20,000✓	Capital	24,000✓
Debtors	2,000✓	Liabilities	3,500✓✓
Stock	1,500✓		
Cash	4,000✓		
	<u>27,500</u> ✓		<u>27,500</u>

8x@ 1/2 mark=4 marks

18. Highlight four circumstances under which a country may be classified as underdeveloped (4 marks)

- i) When the rate of unemployment is high✓
- ii) When there is high population growth/mortality rates✓
- iii) When the standard of living of citizens is low✓
- iv) When productivity in a country is low✓
- v) When the country has a high dependency ratio✓
- vi) When there is inefficient /traditional technology✓
- vii) When the country has a large subsistence/direct economy✓

4x@ 1 mark=4 marks

19. Record the following transactions in the cash book of Jerussa Enterprises for the month of January 2011 and balance it.

2011

Jan. 1: Cash in hand sh. 10,000, cash at bank sh. 20,000

Jan. 10: Paid Luke h. 8,800 and Joan sh. 11,000 after deducting 12% cash discount in each case by cheque

Jan. 30: Banked all the cash leaving sh. 1,200 in the cash box.

(5 marks)

JERUSSA ENTERPRISES

**CASHBOOK FOR JANUARY 2011**



Date	Details	Disc. Allow.	Cash	Bank	Date	Details	Disc. Rec.	Cash	Bank
2011					2011				
1.1.11	Bal. b/d		10,000✓	20,000✓	10.1.11	Luke	1,200✓		8,800✓
					10.1.11	Joan	1,500✓		11,000✓
30.1.11	Cash(c)			8,800✓	30.1.11	Bank(c)		8,800✓	
					30.1.11	Bal. c/d		1,200✓	9,000✓
			<u>10,000</u>	<u>28,800</u>			<u>2,700</u>	<u>10,000</u>	<u>28,800</u>
30.1.11	Bal. b/d		1,200	9,000					

*10x @ 1/2 mark=5 marks*

**20. State four benefits that consumers get from small scale retailers. (4 marks)**

- i) Free advice on product use/comparison/availability etc✓
- ii) Personal attention✓
- iii) Stable prices✓
- iv) Steady supply of goods
- v) Credit facilities✓
- vi) Place utility i.e goods are bought nearer✓
- vii) Small quantities( break bulk)✓

*4x@ 1 mark=4 marks*

**21. The following information was obtained from the books of Okame Traders on 30<sup>th</sup> June 2011.**

<b>Opening stock</b>	<b>8,000</b>
<b>Purchases</b>	<b>53,000</b>
<b>Sales</b>	<b>62,900</b>
<b>Returns outwards</b>	<b>2,700</b>
<b>Closing stock</b>	<b>12,700</b>

**Prepare Okame Traders Trading Accounts for the year ended 30<sup>th</sup> June 2011. (4 marks)**

OKAME TRADERS TRADING ACCOUNT		FOR THE YEAR ENDED 30-6-2011	
DR.		CR.	
	Sh.		Sh.
Opening stock	8,000✓	Sales	62,900✓
Add purchases	53,000✓		
Less returns outwards	<u>2,700✓</u>		
COGAFS	58,300		
Less closing stock	<u>12,700✓</u>		
Cost of goods sold(COGS)	45,600		
Gross profit	<u>17,300✓✓</u>		
	<u>62,900</u>		<u>62,900</u>

*8x@ 1/2 mark=4 marks*

**22. The following balances were extracted from the books of Mwambo Wholesalers for the year ended 31<sup>st</sup> December, 2005..**

Sales	500,000
Purchases	320,000
Opening stock(1.1.2011)	80,000
Closing stock(31.1.2011)	40,000
Debtors	140,000
Creditors	90,000
Calculate	

- a) Margin  
 b) Current ratio  
 c) Rate of stock turn over

a)  $\text{Margin} = \frac{G.P}{Sales} \times 100$

Gross profit = Sales - (opening stock + purchases - closing stock)  
 = 500,000 - (80,000 + 320,000 - 40,000)  
 = 140,000

$\text{Margin} = \frac{140,000}{500,000} \times 100 \checkmark \checkmark$

= 28% or 0.28 or  $\frac{7}{25} \checkmark \checkmark$

b)  $\text{Current ratio} = \frac{CA}{CL}$

=  $\frac{\text{Closing Stock} + \text{Debtors}}{\text{Creditors}} = \frac{140,000 + 40,000}{90,000}$

=  $\frac{180,000}{90,000} = \frac{2}{1} = 2:1 \checkmark \checkmark$

c)  $\text{ROSTO} = \frac{\text{Cost of Sale}}{\text{Average Stock}} = \frac{360,000}{\frac{80,000 + 40,000}{2}} = \frac{360,000}{60,000}$

= 6 times  $\checkmark$

8 x @ 1/2 mark = 4 marks

23. The following statistics refer to a hypothetical economy. Use it to calculate the per capita income using the income approach. (4 marks)

	(Ksh in millions)
Total profits by entrepreneurs	80,000
Total rent received by landlords	130,000
Total interests earned by financial institutions	40,000
Total salaries paid by employees	-50,000
Total population	40

Gross National Product  
 = (80,000 + 130,000 + 40,000 + 50,000 - 50,000) Millions  $\checkmark$   
 = 250,000 millions  $\checkmark$

Per capita income =  $\frac{250,000 \text{ Millions}}{40 \text{ millions}} \checkmark$   
 = Ksh. 6,250  $\checkmark$

4x @ 1 mark = 4 marks

24. Give four features that differentiate a public corporation from a public limited company. (4 marks)

Public corporation	Public limited company
i) Formed under Act of Parliament	i) Formed under Company's Act
ii) Fully owned by the government	ii) Owned by private people with shares
iii) Initial capital is by the government	iii) Initial capital through share issue/dobent
iv) Management/ board appointed by government/president	iv) Management/Board elected by shareholders
v) Set up to offer essential services	v) Set up to make profit
vi) Profits are earned by the government	vi) Profits shared by share holders as dividends
vii) Financial statements presented to parliament	vii) Financial statements presented in press

4x @ 1 mark = 4 marks

25. Highlight four undesirable effects of inflation to the Kenyan economy (4 marks)

- i) Has adverse effects on contractual agreement for provision and supply of goods and services✓
- ii) Weakens the value of the local currency✓
- iii) Leads to decline in the standards of living for people earning fixed income✓
- iv) Lenders loose to borrowers✓
- v) Increases the cost in implementation of development projects/plans✓
- vi) Leads to balance of payment deficits✓
- Vii) Leads to fall in investment and increase level of unemployment ✓
- viii) High inflation rates lead to general industrial unrest✓

*4x@ 1 mark=4 marks*

