



565/1 MS
BUSINESS STUDIES
Paper 1
MARKING SCHEME
MARCH 2021

**THE KENYA NATIONAL EXAMINATIONS COUNCIL
KENYA CERTIFICATE OF SECONDARY EDUCATION
BUSINESS STUDIES
Paper 1**

**MARKING SCHEME
(CONFIDENTIAL)**

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This marking scheme consists of 10 printed pages.

1.	<p>Factors in the external environment that may influence the operations of a business include:</p> <ul style="list-style-type: none"> a) <u>Legal/regulatory</u> issues / <u>Government policy</u> b) <u>Economic</u> factors c) <u>Sociocultural</u> factors d) <u>Technological advancement</u> factors e) <u>Physical facilities/environment</u> (infrastructure) f) <u>Demographic</u> considerations (population) g) <u>Political</u> environment. h) <u>Competitors</u> i) <u>Suppliers</u> j) <u>Natural factors</u> e.g. climate k) <u>Market / customers</u> l) <u>Security</u> 	(Any 4 x 1 = 4 marks)
2.	<p>Characteristics of direct production include:</p> <ul style="list-style-type: none"> a) Production is for <u>own use</u> / <u>subsistence production</u> b) <u>Low level of technology</u> is used in production c) Goods produced are often of <u>low quality</u> d) ^{goods} Goods are produced in <u>small quantities</u> / <u>no surplus produced</u> e) The <u>producer is involved in all stages/processes</u> of production / <u>lack of division of labour</u> f) The producer <u>earns no extra income</u> g) The producer's <u>living standards</u> is low for lack of variety h) The producer <u>strives to produce a variety</u> of commodities / <u>lack of specialisation</u> 	(Any 4 x 1 = 4 marks)

3.	<p>The documents described in the statements are:</p>	(4 x 1 = 4 marks)
4.	<p>Reasons for government involvement in business include:</p> <ul style="list-style-type: none"> a) To <u>provide subsidized essential services</u> / <u>at low cost</u> (most be essential) b) To <u>protect citizens from exploitation</u> c) To <u>create employment</u> d) To <u>earn revenue</u> e) To <u>stimulate economic growth</u> f) To <u>venture into businesses requiring large capital investment</u> beyond the capability of private investors g) To <u>provide commodities that are too sensitive to be left in the hands of private investors</u> e.g. printing of money and manufacture of firearms h. To <u>prevent foreign dominance of the economy</u> i) To <u>provide commodities which private investors are unwilling to venture into due to low profit</u> j) <u>safeguard national interest by controlling strategic industries</u> k) <u>to attract foreign investment.</u> 	<p>(Any 4 x 1 = 4 marks)</p>
5.	<p>Factors that may lead to a negative shift in demand include:</p> <ul style="list-style-type: none"> a) <u>Decrease in consumer's income</u> b) <u>Unfavourable government policies</u> (increased taxes, strict licensing) c) <u>Decrease in population</u> d) <u>Future expectation that prices will decline</u> e) <u>Unfavourable/off peak season</u> for particular commodities f) <u>Negative taste & preference</u> for a particular product (out of fashion) g) <u>Availability of better substitutes</u> h) <u>Reduced prices of substitute goods.</u> i) <u>Increase in price of complementary goods</u> j) <u>Unfavourable terms of sales</u> 	(Any 4 x 1 = 4 marks)

6.	<p style="text-align: center;"><i>When, where, if, incase must be included</i></p> <p>Circumstances under which a trader would prefer to transport goods by air include:</p> <ol style="list-style-type: none"> <u>When the goods are perishable</u> <u>When goods are urgently required</u> <u>When securing highly valuable goods</u> <u>When accessing remote areas</u> (not accessed by other means) / <i>only means available</i> <u>When goods are to be delivered over a long distance</u> <u>When the business can afford to use it.</u> <u>Where it is the most easily accessible.</u> <u>When it is the policy of the business to transport goods by air</u> 	(Any 4 x 1 = 4 marks)
7.	<p>Total asset = 20,000 + 1,500 + 2,000 + 4,000 = 27,500</p> <p>Capital = 24,000</p> <p>Assets = Capital + Liabilities</p> <p>∴ Liabilities = Assets - Capital</p> <p style="margin-left: 40px;">= (27,500 - 24,000) ✓</p> <p style="margin-left: 40px;">= 3,500 ✓</p>	<p><i>Balance method accepted.</i></p> <p style="margin-left: 100px;"><i>6 + 1/2 =</i></p> <p>(Any 6 x $\frac{1}{2}$ = 3 marks)</p>
8.	<p>Services that commercial banks offer to their customers</p> <ol style="list-style-type: none"> <u>Accepting deposits</u> (from clients) <u>Lending money to clients</u> <u>Safekeeping of valuable items</u> <u>Effects payments for clients</u> / <i>money transfer services</i> <u>Providing foreign exchange services</u> <u>Giving investment advice to clients</u> <u>Guarantor to their customers</u> when taking loans with other financial institutions. 	(Any 4 x 1 = 4 marks)
9.	<p>Reasons that may make Kenya restrict trade with other countries include</p>	<p><i>(i) Acts as a referee (ii) Acts as a trustee (iii) provision of night safes</i></p>

	<p>a) To <u>protect local infant industries</u> from unhealthy competition</p> <p>b) To <u>safeguard against overdependence on foreign firms</u> for essential commodities</p> <p>c) To <u>raise revenue</u> through tariffs</p> <p>d) To <u>prevent dumping of substandard goods</u> in the country.</p> <p>e) To <u>curb against borrowing of unacceptable foreign culture</u></p> <p>f) To <u>correct unfavourable balance of payments</u></p> <p>g) <u>To restrict entry of harmful goods</u></p> <p>h) <u>to protect strategic industries</u></p> <p>i) <u>to create employment opportunities</u></p> <p>j) <u>To make use of natural local resources.</u></p>	(Any 4 x 1 = 4 marks)
10.	<p>Classification of resources:</p> <p>a) <u>Human</u></p> <p>b) <u>Man-made/artificial</u></p> <p>c) <u>Natural</u></p> <p>d) <u>Human</u></p>	(4 x 1 = 4 marks)
11.	<p>Sources of capital for a sole proprietorship include:</p> <p>(a) <u>Owner's savings</u></p> <p>(b) <u>Contribution froms friends/relatives</u></p> <p>(c) <u>Borrowing from financial institutions/friends</u></p> <p>(d) <u>Credit buying (Trade credit, hire purchase)</u></p> <p>(e) <u>Ploughing back profits/retained earnings</u></p> <p>(f) <u>Inheritance</u></p> <p>(g) <u>Leasing renting of assets</u></p> <p>h) <u>Renting of assets</u></p>	(Any 4 x 1 = 4 marks)
12.	<p>Circumstances under which firms may be located near the source of raw materials include:</p>	

13, where, when a increase ~~input~~ must be used

- (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 are fragile/brittle
- (g) Where the raw material is dangerous to carry over long distances

(Any 4 x 1 = 4 marks)

(d.) Where the firm needs to easily handle heavy raw materials.

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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 ✓
TOTALS	317,500 ✓	317,500

Must be correct format (No T-account)

(10 x $\frac{1}{2}$ = 5.marks)

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

	<p>b) To identify <u>strengths and devise ways of dealing with the weaknesses of the business</u></p> <p>c) <u>It's a requirement by financiers</u></p> <p>d) To help <u>determine required resources and allocate them appropriately</u></p> <p>e) To enable an entrepreneur <u>identify potential market</u></p> <p>f) To enable the business organization <u>avoid goal blindness</u></p> <p>g) <u>To allocate resources appropriately</u></p> <p>h) <u>to use it as a monetary tool</u></p> <p>i) <u>to able to motivate employees</u></p> <p>j) <u>To adapt to future changes</u></p>	(Any 4 x 1 = 4 marks)
15.	<p>Office equipment described in the statements are:</p> <p>(a) <u>Franking machine</u></p> <p>(b) <u>Telephone/radio call</u></p> <p>(c) <u>Safe/cabinet</u></p> <p>(d) <u>Dictaphone/dictating machine/recorder</u></p>	(4 x 1 = 4 marks)
16.	<p>Sources of government revenue include:</p> <p>a) <u>Court fines</u></p> <p>b) <u>Rent & rates received for use of government property</u></p> <p>c) <u>License fees (License)</u></p> <p>d) <u>Dividends & profits earned from its investments</u></p> <p>e) <u>Taxes</u></p> <p>f) <u>Internal borrowing</u></p> <p>g) <u>External borrowing</u></p> <p>h) <u>proceeds from sales government property</u></p> <p>i) <u>EScheates ESchetes</u></p> <p>j) <u>Interest earned on loans</u></p> <p>k) <u>Grants and Donations</u></p>	(Any 4 x 1 = 4 marks)
17.	<p>Measures which may be taken by the government to correct under development include:</p> <p>a) <u>Increasing(government.) investments to create more job opportunities</u></p>	

	<p>b) <u>Control population explosion</u> to reduce overdependence & pressure on resources</p> <p>c) <u>Improve infrastructure</u> to ease communication, movement and access to inputs</p> <p>d) <u>Improve technology</u> for maximum utilization of natural resources</p> <p>e) <u>Improve education system</u> to alleviate illiteracy & impart appropriate skills</p> <p>f) <u>Income redistribution</u></p> <p>g) <u>Invest in social amenities</u> to foster welfare,</p> <p>h) <u>provision of incentives to promote culture of savings and investment</u></p> <p>i) <u>Encourage good governance to promote self reliance</u></p> <p>j) <u>Sensitising and legislating on outdated cultural practices</u></p>	<p>(Any 4 x 1 = 4 marks)</p>
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18.	<p>Benefits of personal selling to a trader include:</p> <p>a) The trader is able to <u>reach both literate and illiterate customers</u></p> <p>b) <u>Able to demonstrate the uses and capabilities</u> of a product</p> <p>c) The trader is able to <u>get immediate feedback</u></p> <p>d) <u>Can tailor the presentation to suit the needs of individual customers</u></p> <p>e) Facilitates <u>establishment of interpersonal relationship</u> with clients which promotes repeat purchaser / <u>create customer loyalty</u></p> <p>f) Enables the trader to <u>focus on a targeted group of customers</u></p> <p>g) Seller has <u>opportunity to get information on competitors</u> from the buyers</p> <p>h) <u>May promote instant sales</u></p> <p>i) <u>It's more persuasive and convincing customer</u></p>	<p>(Any 4 x 1 = 4 marks)</p>
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19.	<p>Distribution channels that can be used for imported goods include:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;"></td> <td style="text-align: center;">local</td> </tr> <tr> <td>a)</td> <td>foreign producer → agent → wholesaler → retailer → consumer</td> </tr> <tr> <td>b)</td> <td>foreign producer → local wholesaler → retailer → consumer</td> </tr> <tr> <td>c)</td> <td>foreign producer → local consumer</td> </tr> </table>		local	a)	foreign producer → agent → wholesaler → retailer → consumer	b)	foreign producer → local wholesaler → retailer → consumer	c)	foreign producer → local consumer	
	local									
a)	foreign producer → agent → wholesaler → retailer → consumer									
b)	foreign producer → local wholesaler → retailer → consumer									
c)	foreign producer → local consumer									

	<p>d) <i>foreign producer → local wholesaler → consumer</i></p> <p>e) <i>foreign producer → local retailer → consumer</i></p> <p>f) <i>Foreign producer → local agent → wholesaler → retailer → consumer</i></p> <p>g) <i>Foreign producer → local producer → local producer rep → adviser → retailer → consumer</i></p>	(Any 4 x 1 = 4 marks)
20.	<p>Merits of a bonded warehouse to the government include:</p> <p>(a)</p> <p>a) Enable the government to <u>earn revenue</u></p> <p>b) Enable the government to <u>control the quality/quantity of goods imported</u></p> <p>c) Helps the government <u>prevent importation of harmful commodities</u></p> <p>d) Enables the government to <u>curb tax evasion</u></p> <p>e) Helps the government <u>collect statistics on imported goods</u> / <u>goods on transit</u></p> <p>f) Enables the government to <u>inspect illegal goods entering the country</u> / <u>type of goods</u></p> <p>g) It helps the government <u>solve the problem of unemployment</u></p> <p>h) <u>Enables the government control quantity of goods imported</u></p>	Any 4 x 1 = 4 marks
21.	<p>The source documents are</p> <p>a) <u>Outgoing credit note</u> / <u>issued credit note</u></p> <p>b) <u>Purchases invoice/incoming invoice/received invoice</u></p> <p>c) <u>Copy of cash sale receipt/cash book receipt</u></p> <p>d) <u>Sales invoice/outgoing invoice/issued invoice</u></p>	(4 x 1 = 4 marks)
22.	<p>Ways through which leakages of national income may happen in a four sector economy include:</p> <p>a) <u>Savings by households</u></p> <p>b) <u>Government taxes on citizens and firms</u></p> <p>c) <u>Payment for imports</u></p> <p>d) <u>Transfer payments by government</u></p> <p>e) <u>Foreign aid and grants by government</u></p> <p>f) <u>Retained profits by firms</u></p>	(Any 4 x 1 = 4 marks)
23.	<p>Benefits of using computers in an office include:</p> <p>a) <u>Facilitates easy communication through the internet</u></p> <p>b) <u>They are efficient in preparation and reproduction of documents</u> / <u>saves time</u></p> <p>c) <u>They reduce paperwork</u></p> <p>d) <u>They are capable of storing huge volumes of information</u></p> <p>e) <u>Facilitates easy access to information</u> (<u>retrieving information</u>)</p>	

	<p>f) They facilitate e-commerce</p> <p>g) It's output is presentable / neat ("No" ^{to} findings of the office)</p> <p>h) It enhances security of documents (information)</p> <p>i) It's labour saving</p>	<p>(Any 4 x 1 = 4 marks)</p>
24.	<p>Identifying factors of production relating to the resources:</p> <p>a) <u>Labour</u></p> <p>b) <u>Capital</u></p> <p>c) <u>Land</u></p> <p>d) <u>Entrepreneurship</u> (no ^{to} entrepreneur)</p>	<p>(4 x 1 = 4 marks)</p>
25.	<p>Sources of business ideas include:</p> <p>a) <u>Print media</u> e.g. news paper, <u>Souths</u> and <u>magazines</u></p> <p>b) <u>Electronic media</u> e.g. Television, computer</p> <p>c) <u>Vocational training</u></p> <p>d) <u>Hobbies / Talents</u></p> <p>e) <u>Listening to what people say</u></p> <p>f) <u>Unutilized waste materials</u></p> <p>g) <u>Observing established entrepreneurs / role models</u></p> <p>h) <u>Experience</u></p> <p>i) <u>Research and development / Surveys</u></p> <p>j) <u>Shows and exhibitions</u></p> <p>k) <u>spotting a market gap / niche</u></p> <p>l) <u>Brain storming</u></p> <p>m) <u>Business Seminars / workshops</u></p>	<p>(Any 4 x 1 = 4 marks)</p>