Business Studies paper 1 Marking Scheme

**NAME ………………………………………… INDEX NO. …………………………**

**SCHOOL ………………………………………… SIGNATURE ………………………...**

**DATE ………………………...**

**565/1**

**BUSINESS STUDIES**

**PAPER 1**

**DECEMBER, 2020**

**TIME: 2 HOURS**

**SUKELLEMO - JOINT EVALUATION TEST, 2020**

*Kenya Certificate of Secondary Education (K.C.S.E)*

## INSTRUCTIONS TO CANDIDATES

## Answer all the questions in the spaces provided.

This paper consists of ***10*** printed pages. Candidates should check the question paper to ensure that all pages are printed as indicated and no questions are missing

### FOR EXAMINER’S USE ONLY

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| **Question No** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** |
| **Marks** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Question No** | **14** | **15** | **16** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** | **25** |
| **Marks** |  |  |  |  |  |  |  |  |  |  |  |  |

1. State the most appropriate document as used in home trade. (4mks)

|  |  |
| --- | --- |
| Circumstances | Document |
| 1. A document that contains detailed information of a good stocked by a seller | **Catalogue** |
| 1. A document that shows that the amount owed have been reduced by a certain amount | **Debit Note** |
| 1. A document that contains all information on all transactions between a buyer and the seller for a certain period of time | **Statement of account** |
| 1. Shows that goods have been dispatched by a seller to the buyer. | **Advice note** |

2. Highlight **four** reasons that compel an insurance company to re-insure. (4mks)

**–Value of the property**

**-High risk of loss**

**-Number of risk covered**

**-Need to spread risks**

**-Government policy**

1. The following items belong to Mlamba Wholesalers as at 31st Dec 2018

|  |  |
| --- | --- |
|  |  |
| Motor vehicle | 75,000 |
| Stock | 4,000 |
| Overdraft | 11,100 |
| Creditors | 5,740 |
| Debtors | 6,200 |
| Commission paid | 2,000 |
| Cash | 10,000 |
| Returns Outwards | 3,400 |
| Returns Inwards | 1,400 |
| Capital | 78,360 |

Required, draw Mlamba’s trial balance as at 31st December 2018. (5mks)

**Mlamba’s Wholesalers**

**Trial Balance**

**As at 31st Dec, 2020**

|  |  |  |
| --- | --- | --- |
| **Items** | **DR** | **CR** |
| **Motor vehicle** | **75,000** |  |
| **Stock** | **4,000** |  |
| **Overdraft** |  | **11,100** |
| **Creditors** |  | **5,740** |
| **Debtors** | **6,200** |  |
| **Commission paid** | **2,000** |  |
| **Cash** | **10,000** |  |
| **Returns Outwards** |  | **3,400** |
| **Returns Inwards** | **1,400** |  |
| **Capital** |  | **78,360** |
| **Total** | **98,600** | **98,600** |

1. The bodaboda motorcycles are very popular both in urban and rural environment. Highlight **four** disadvantages of this method of transport. (4mks)

**– Causes noise pollution**

* **Over speeding that my result to accidents or death**
* **Affected by extreme weather conditions**
* **Carries limited capacity of goods**
* **Not suitable for long distances.**
* **Not suitable for bulky or heavy goods**
* **Some results in social evils e.g theft**

1. With an aid of a diagram, show what happens to the equilibrium price and quantity when demand increases and quantity supplied remains constant. (4mks)

D1 S

Do

P1 e1

P0 eo

Price D1

Do

S

Qo Q1

Quantity demanded and supplied

**Award marks as follows**

**-Increase in price P0 – P1**

**-Increase in quantity Q0 – Q1**

**-Shift in demand dodo –d1d1**

**-New equilibrium points E0- E1**

1. Give **four** differences between shares and debentures (4mks)

|  |  |
| --- | --- |
| **Shares** | **Debentures** |
| **Shares are certificate of ownership of a company** | **Debenture are certificate of indebtness of a company** |
| **Shares are irredeemable** | **Debentures are redeemable** |
| **Shares have voting rights** | **Debentures have no voting rights** |
| **Earns dividends** | **Earns interest** |
| **During dissolution of company shares are paid last.** | **During dissolution of a company debentures are paid first** |
| **Shares are units of capital in a company** | **Debentures are units of a loan given to the company** |
| **Dividend rates on ordinary shares are based on profits** | **Interest rates for debentures are fixed at the time of issue.** |
|  |  |

1. National income under expenditure approach in arrived by adding together expenditure on all final goods and services in the economy. List down **four** components included in the expenditure approach. (4mks)

**Government spending (G)**

**-Expenditure on capital good (I)**

**Expenditure on goods by the public(C)**

**Expenditure on net export(X-M)**

1. Kenya’s young population has been rising rapidly, highlight **four** disadvantages of this increase. (4mks)

* **High dependency ratio**
* **High rate of unemployment**
* **Increased social evils**
* **Low labour supply**
* **Pressure on goods and services**
* **Reduced saving and investments**
* **Diversion of government expenditure**

1. Given the following transactions of Mwaura’s Retailers identify the journals which the transactions will be recorded. (4mks)
2. 1st Jan: Sold a motor car worth kshs.145, 000/- for kshs. 140,000/- to

Mwazighe on credit.----------------- **General Journal**

1. 2nd May: Cash received from Mwanzi of Kshs. 1,000 receipt no 001**.\_\_\_ Cash receipts journal**
2. 6th August: Goods bought on credit worth Kshs. 900 invoice No. 013 from Shah Traders------- **Purchases journal**
3. 4th February: Credit sales to Ndika Shs 400/-\_\_\_\_\_\_\_\_\_\_\_**Sales journal**
4. County Government wants to increase taxes levied on parking. Highlight **four** principles that they should consider before taking this move. (4mks)

**– Maximum social benefit**

* **Good financial management**
* **-Economy in spending**
* **Sanction of public spending**
* **Elasticity**
* **Equity**
* **Productivity**
* **Surplus**

1. Highlight **four** methods government gets involved in business activities. (4mks)

**– Regulation**

* **Training**
* **Trade promotion**
* **Provision of public utilities**
* **Enabling environment**

1. Highlight **four** costs that intermediaries relieves producers from in the process of distributing goods and services. (4mks)

**–Transportation costs**

* **Storage costs**
* **Insurance costs**
* **Salaries and wages costs**
* **Breaking bulk costs**
* **Packing costs**
* **Costs of accumulation of bulk**

1. Buketi provided us with the following information.

Sales 200,000

Mark up ¼

Opening stock 30,000

Closing stock 25,000

Expenses 15,250

Calculate

1. **Gross profit (1mk)**

**Gross profit= Mark-up/Cost of salesx100**

**Margin=1/4+1=1/5√**

**1/5=x/200,000**

**Gross profit=40,000√**

1. **Net profit (1mk)**

**Net profit=Gross profit-expenses**

**=40,000-15,250√**

**=24,750√**

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

**Rate of stock turnover=Cost of sales/Average stock**

**Cost of sale= Sales-gross profit**

**=200,000-40,000√**

**=160,000√**

**ROSTO=160,000/average stock**

**=160,000/27,500√**

**=5.8 times√**

1. If you are asked to head a committee to buy some office equipment, suggest **four** factors that you would put into consideration. (4mks)

**–Cost**

**-Adaptability**

**- Possibility of hiring rather than purchasing**

**- Durability**

**-Effect on staff morale**

**-Availability of complementary resources**

**- Availability of manpower**

**-Availability of room**

**- Security of the equipment**

1. Highlight **four** reasons that would make a trader reject payment by cheque. (4mks)

**– The trader will be required to deposit the cheque in the bank.**

* **Cheque may be dishonored.**
* **The trader must have an account with the bank.**
* **The trader will incur some bank charges thus reducing his/her profits.**
* **Cheques takes time to mature**

1. State whether the following factors constitute internal or external environment to a business. (4mks)

|  |  |
| --- | --- |
| Factor | Environment |
| 1. Shareholders resolutions | **Internal** |
| 1. Firms physical infrastructure | **Internal** |
| 1. Currency exchange rate | **External** |
| 1. Cost of finance | **External** |

1. State **four** features of oligopoly market structure (4mks)

**– There are a few large firms controlling a large share of the market.**

* **There is interdependence in pricing and output**
* **Some firms have their products differentiated.**
* **Products are close substitutes**.

18. The following transactions relate to Kimau traders for the month of January, 2018

4th Jan: Deposited sh 70,000 into business bank account from cash till.

10th Jan: Paid the following bills by cheque:

Electricity sh 4,000

Insurance sh 2,000

20th Jan: Paid 10,000 by cheque for repairs

Required. Record the transactions in the relevant ledger accounts

(4mks)

**Dr Bank a/c Cr**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Folio** | **Amount** |  | **Date** | **Particulars** | **Folio** | **Amount** |
| **4th Jan** | **Cash** |  | **70,000** |  | **10th Jan**  **20th Jan** | **Electricity**  **Insurance**  **Repairs** |  | **4,000**  **2,000**  **10,000** |

**Cash A/c**

**Dr Cr**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Folio** | **Amount** |  | **Date** | **Particulars** | **Folio** | **Amount** |
|  |  |  |  |  | **4th Jan** | **Bank** |  | **70,000** |

**Electricity A/c**

**Dr Cr**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Folio** | **Amount** |  | **Date** | **Particulars** | **Folio** | **Amount** |
| **10th Jan** | **Bank** |  | **4,000** |  |  |  |  |  |

**Insurance A/c**

**Dr Cr**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Folio** | **Amount** |  | **Date** | **Particular** | **Folio** | **Amount** |
| **10th Jan** | **Bank** |  | **2,000** |  |  |  |  |  |

**Repairs A/c**

**Dr Cr**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Folio** | **Amount** |  | **Date** | **Particulars** | **Folio** | **Amount** |
| **20th Jan** | **Bank** |  | **10,000** |  |  |  |  |  |

**8 x1/2 mks**

19. Company X intends to use personal selling as a method of product promotion. State **four** disadvantages of using this method. (4mks)

**– It is expensive it requires trained salespersons who are expensive to hire**

**- It is time consuming as salespersons need to walk around.**

**-Not suitable where the market is widely spread**

**- Managers cannot measure the success of this kind of promotion.**

**- It is labour intensive**

**- Sales persons may misuse resources eg vehicles**

**- Difficult to persuade consumers if sales person lack etiquette.**

**-It may inconvenience prospective buyer’s programme.**

20. The balance sheet of Peken Enterprises as at 31st March, 2017 showed an initial capital of 85,000. As at 31st March 2018, the following information about the business was provided.

1. Additional investment in the business was 30,000
2. Profit made during the trading period was 60,000
3. The proprietor has made monthly drawings of 3,000 from 1st April 2017 to 31st December,2017

Determine the final capital of Peken Entreprises. (4mks)

**Final capital= Opening capital+profit+Additional investment-drawings**

**=85,000+30,000+60,000 - (3,000x9)**

**= 175,000 - 27,000**

**=148,000**

1. State any **fou**r reasons why many businesses shy away from using public warehouse. (4mks)

**- Hirer may not have an opportunity to physical handle goods**

* **Hirer may get poor services**
* **During peak season the hirer may miss space due to high competition**
* **Long procedure in receiving and releasing og goods**
* **Continuous renting of space may be expensive**
* **Public warehouse may be located away from the hirer thus incurring extra costs.**

22. List **four** functions of central bank as a banker to government. (4mks)

**-Collecting credit on behalf of the government from various organization**

* **Get credit on behalf of the government**
* **Making payment on behalf of the government**
* **Give advice to the government on financial issues**
* **Receive payments on behalf of government from foreign donors, taxes or custom duty.**

23. Highlight **four** reasons why the government may encourage businesses to be located all over the country. (4mks)

**- In order to reduce rural-urban migration.**

**- To encourage balanced regional development.**

**- To provide employment opportunities to people living in rural areas.**

**- To encourage utilization of local raw materials.**

**- To encourage firms to bring goods and services closer to people in the rural areas.**

**- In order to reduce effects caused by occurrence of war, terrorism or natural calamities**

**- To provide market for locally produced raw materials**

**- Local communities will get produced goods without having to travel far**

1. Highlight **fou**r services that facilitates communication to take place in Kenya. (4mks)

**–Mailing services / postal services**

* **Telecommunication services**
* **Courier services**
* **Broadcasting services**
* **Print media services**
* **Online services.**

1. Highlight **three** characteristics of human wants.(3mks)

**–Insatiable**

**-recurrent**

**-Compete for attention**

**-vary with urgency and intensity**

**-Require resources**

**-Some are universal.**