



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

Paper 1

**MARKING SCHEME
(CONFIDENTIAL)**

**THIS MARKING SCHEME IS THE PROPERTY OF THE KENYA NATIONAL
EXAMINATIONS COUNCIL AND IT MUST BE RETURNED TO THE KENYA
NATIONAL EXAMINATIONS COUNCIL AT THE END OF MARKING.**

This marking scheme consists of 12 printed pages.

**©2018 The Kenya National Examinations Council
565/1**

Turn over

3) Labourers sell their labour but not themselves.

1.	<p>Features of labour as a factor of production include:</p> <ul style="list-style-type: none">(a) Labour is <u>perishable/cannot be stored</u>.(b) It is <u>not separable from the labourer/provider</u>.(c) <u>The quality of labour is variable.</u> <i>Cannot be standardized.</i>(d) It is <u>mobile/can move from one place to another.</u> <i>(geographically).</i>(e) It earns salary/wages/<u>commission</u>.(f) It is a basic factor of production. <p><i>(g) It is <u>operationally mobile.</u></i> <i>(h) The <u>quality</u> of labour can be improved through training.</i> <i>(i) Labour is a <u>human resource</u> / has ability to think & get things done.</i></p>	<p>(Any 4 x 1 = 4 marks)</p>
2.	<p>Ways in which peace within a country may encourage entrepreneurial development include:-</p> <ul style="list-style-type: none">(a) Entrepreneurs are <u>assured of the safety of their investment</u> hence encouraged to invest. <i>(local investors)</i>(b) <u>Funds are availed for investment</u> instead of being spent on provision of security.(c) There is <u>free movement of factors of production</u> which motivates trade.(d) There is <u>free interaction between people</u> which encourage sharing of business ideas.(e) <u>Reduced cost of insurance</u> due to lower risks.(f) <u>Increased markets</u> since even foreigners feel free to trade with the locals.(g) <u>Stable complementary institutions</u> like banks and warehouses which encourage business. <p><i>(h) More foreign investors will be attracted into the country.</i></p>	<p>(Any 4 x 1 = 4 marks)</p>

- k) Selective credit control measures
- l) Moral persuasion
- m) Reduce govt expenditure
- n) Increasing income tax
- o) Releasing buffer stock to the market / products
- p) Issuing directives - q. Raising margin requirements

5. Measures that may be taken by the government to control inflation

include:

- (a) Setting minimum and maximum wage limits to control salaries.
- (b) Restricting imports.
- (c) Controlling of exports.
- (d) Restricting terms of hire purchase and credit terms of sale.
- (e) Price control.
- (f) Offer of subsidies and other incentives to local producers. eg subsidies, tax relief
- (g) Controlling the supply and circulation of money in the economy.

- 1) Increasing bank rates
- 2) Selling govt securities in o.m.o
- 3) Increasing liquidity / cash ratio
- 4) Increasing compulsory deposits

(Any 4 x 1 = 4 marks)

6. Measures that may be taken by the government to curb unemployment include:

- (a) Diversification of economic activities.
- (b) Control of population growth.
- (c) Adoption of policies that encourage labour intensive methods of production / appropriate technology
- (d) Partner with the private sector to create employment.
- (e) Adopting relevant education system / training
- (f) Encouraging direct foreign investment.
- (g) Encouraging efficient exploitation and use of locally available resources.
- (h) Availing investment funds through favourable credit like the Youth Fund and Uwezo Fund.

- 1) Increasing govt expenditure
- 2) Rural development / decentralization of industries
- 3) Exporting excess labour
- 4) Industrialization

(Any 4 x 1 = 4 marks)

7. **Benefits of national income statistics to the government include:**
- (a) Provides information on the country's economic performance over a period of time.
 - (b) Provides information to be used for making economic policies/budgeting/planning.
 - (c) Provides information on the contribution of each sector of the economy to the national income.
 - (d) Provides a breakdown on consumer expenditure and government expenditure.
 - (e) Provides information on the distribution of income.
 - (f) Provide information on the types of factor incomes in the economy.
 - (g) Provide statistics for measuring the economic growth of the country.
 - (h) Provides information that is used to measure the standard of living in the country.
 - (i) Provide information used for comparing economic performance of the country across two or more years.
- Provides information used for comparing economic performance of the country with other countries.*

(Any 4 x 1 = 4 marks)

8.

Business	Assets	Capital	Liabilities
A		24,266 ✓	
B	219,800 ✓		
C			11,990 ✓
D		42,295 ✓	

(4 x 1 = 4 marks)

24261

219800

11990

42295

9.	<p>Categories in which the various types of business partners may be classified include:</p> <p>(a) <u>By capital contribution.</u></p> <p>(b) <u>By extent of liability to be borne.</u></p> <p>(c) <u>By activity</u> (part played in the day-to-day running of the business)</p> <p>(d) <u>By age.</u></p>	(4 x 1 = 4 marks)
10.	<p>Ways in which the government creates an enabling environment for the conduct of business include:</p> <p>(a) <u>Provision of credit facilities at favourable rates.</u></p> <p>(b) <u>Ensuring political stability and good will.</u> <i>Peace</i></p> <p>(c) <u>Training and educating the population to create a pool of skilled manpower.</u></p> <p>(d) <u>Marketing of final products for producers.</u></p> <p>(e) <u>Provision of essential social amenities like water and sewerage, health and education.</u></p> <p>(f) <u>Favourable policies and easy procedures like licensing, subsidies and favourable taxation.</u> <i>(Good will)</i></p> <p>(g) <u>Provision of infrastructure.</u></p> <p><i>h) Provision of security</i></p> <p><i>i) Ensuring good governance and accountability</i> <i>(Transparency)</i></p> <p><i>j) Loan guarantee.</i></p>	(Any 4x1=4) (4 marks)

11.	<p>Roles of transport in the facilitation of trade include:</p> <p>(a) <u>Facilitates the movement of factors of production and other inputs like raw materials.</u></p> <p>(b) <u>Enables goods to be moved to the market from their point of production.</u> / <u>Enables buyers to move to the market</u></p> <p>(c) <u>Adds value to goods and services by moving them to the point of consumption.</u> / <u>Availability.</u></p> <p>(d) <u>Opens up new markets.</u></p> <p>(e) <u>Makes it possible for the exploitation of natural resources.</u></p> <p>(f) <u>Allows for specialization since it allows people to access goods produced elsewhere.</u></p> <p>(g) <u>Promotes mass production since goods can be moved to be stored and sold elsewhere.</u></p> <p>h) <u>Saves time and avoids wastage.</u></p>	
12.	<p>Circumstances under which firms would form a cartel include:</p> <p>(a) <u>When there is need to control output by each firm.</u></p> <p>(b) <u>When there is need to be in control of market prices.</u> / <u>market</u></p> <p>(c) <u>When there is need to eliminate stiff competition among the firms.</u></p> <p>(d) <u>When there is need to restrict entry of new firms into the market.</u></p> <p>(e) <u>When there is need to increase the firms' bargaining power.</u></p> <p>(f) <u>When there is need to guarantee the income ^{hence} and financial strength of the firms.</u></p>	<p>(Any 4 x 1 = 4 marks)</p> <p>(Any 3 x 1 = 3 marks)</p>

<p>13</p>	<p>Conditions under which a manufacturer would distribute his products through a wholesaler include:</p> <p>(a) <u>When it is the dictate of government policy.</u></p> <p>(b) <u>When the manufacturer needs time to concentrate on production.</u></p> <p>(c) <u>When he wants to avoid the high costs of distribution.</u></p> <p>(d) <u>Where it is too expensive to distribute using the manufacture's own outlet.</u></p> <p>(e) <u>Where wholesalers prefer to market the product under their own brand names.</u></p> <p>(f) <u>Where the manufacturer wants to avoid marketing risks like drop in prices.</u></p> <p>(g) <u>When the wholesaler provides ready cash while purchasing in bulk.</u></p> <p>(h) <u>Where the manufacturer needs to free storage space.</u></p> <p>i) <u>Where manufacturer requires whole sales to prepare goods for sale.</u></p> <p>j) <u>Where the manufacturer requires whole sales to undertake product promotion.</u></p> <p>k) <u>Where market is widely spread.</u></p>	<p>(Any 4 x 1 = 4 marks)</p>
<p>14.</p>	<p>Reasons for maintaining a cash book in a business enterprise include:</p> <p>(a) <u>To reduce the number of entries made into the general ledger.</u></p> <p>(b) <u>To easily avail cash balances/show cash balances at a glance.</u></p> <p>(c) <u>To enhance specialization in book keeping by allocating different ledgers to different workers.</u></p> <p>(d) <u>To easily monitor the cash inflow and outflow.</u> (Receipts)</p> <p>(e) <u>To show the sources of funds into the business.</u></p> <p>(f) <u>To show the expenditure in the business.</u></p> <p>g) <u>To easily monitor cash outflow (Payment)</u></p> <p>h) <u>To show discount allowed to debtors</u></p> <p>i) <u>To show discount received from Creditors</u></p>	<p>(Any 4 x 1 = 4 marks)</p>

15.	<p>^{ways} Other methods of determining the price of a product apart from the forces of demand and supply include:</p> <p>(a) <u>Auction</u></p> <p>(b) <u>Haggling</u> (Bargaining)</p> <p>(c) <u>Price legislation/price control</u> / <i>govt intervention</i></p> <p>(d) <u>Price discrimination</u></p> <p>(e) <u>Tendering</u></p> <p>(f) <u>Retail price maintenance</u></p>	(Any 4 x 1 = 4 marks)
16.	<p>Factors that would make two people taking the same type of life assurance policy with the same insurer to pay different premiums include:</p> <p>(a) Differences in <u>their ages</u>.</p> <p>(b) Difference in <u>their occupations</u> and the risks they are exposed to.</p> <p>(c) Difference in their <u>sum assured</u> / <i>ability to pay premiums</i></p> <p>(d) Difference in <u>their places of residence</u>.</p> <p>(e) Difference in <u>their health status</u>.</p> <p>(f) Deferring <u>maturity period</u> of their policies.</p>	(Any 4 x 1 = 4 marks)
17.	<p>The lines of communication are:</p> <p>(a) <u>Horizontal communication</u></p> <p>(b) <u>Upward vertical communication</u></p> <p>(c) <u>Downward diagonal communication</u></p> <p>(d) <u>Upward diagonal communication</u></p>	(4 x 1 = 4 marks)

18.	<p>Books of original entry that may be used to record transactions affecting stock are:</p> <p>(a) <u>Purchases journal</u> / bought journal.</p> <p>(b) <u>Sales journal.</u></p> <p>(c) <u>Sales returns journal/Returns inwards journal.</u></p> <p>(d) <u>Purchases returns/Returns outwards journal.</u></p> <p>NB: Accept <u>Buy books</u>, <u>subsidiary books</u> of <u>prime entry</u> if used in the place of journal.</p>	<p>diary, book of journal. (Any 4 x 1 = 4 marks)</p>
19.	<p>External economies of scale that a firm may get when operating on a large scale include:</p> <p>(a) <u>Ready market</u> from the surrounding industries.</p> <p>(b) <u>Access to skilled labour force.</u></p> <p>(c) <u>Enjoy improved infrastructure.</u></p> <p>(d) <u>Easy disposal of wastes.</u></p> <p>(e) <u>Readily available complementary services</u> like banking, insurance and warehousing.</p> <p>(f) <u>Improved security.</u></p> <p>(g) <u>Government support/favourable policies.</u></p> <p>h) <u>Enjoy joint research.</u></p>	<p>(Any 4 x 1 = 4 marks)</p>
20. (a)	<p>Capital owned = IC + NP - D = 90,000 + 15,000 - 5,000 = <u>100,000</u></p>	<p> $CA = TIA - TIL$ $TIA = (80,000 + 20,000 + 20,000) - 20,000$ $120,000 - 20,000$ $Ksh 100,000$ (4 x 1/2 = 2 marks) </p>
(b)	<p>Acid Test Ratio = $\frac{CA - Stock}{CL}$ = $\frac{20,000}{20,000}$ = <u>1:1</u></p>	<p> $\frac{20,000 + 20,000 - 20,000}{20,000}$ $1:1$ (4 x 1/2 = 2 marks) </p>

100 percentage or fraction.

21.	<p style="text-align: center;">Watumu Enterprises Balance Sheet ✓✓ (3 lines) As at 2nd May, 2014</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 25%; text-align: center;">Shs</th> <th style="width: 25%;"></th> <th style="width: 25%; text-align: center;">Shs</th> </tr> </thead> <tbody> <tr> <td>Cash in hand</td> <td style="text-align: right;">900,000 ✓</td> <td>Capital</td> <td style="text-align: right;">1,300,000 ✓</td> </tr> <tr> <td>Cash at Bank</td> <td style="text-align: right;">150,000 ✓</td> <td>S.T.L.</td> <td></td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">100,000 ✓</td> <td>Creditors</td> <td style="text-align: right;">250,000 ✓</td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">400,000 ✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>1,550,000</u> ✓</td> <td></td> <td style="text-align: right;"><u>1,550,000</u> ✓</td> </tr> </tbody> </table> <p style="text-align: center; margin-top: 10px;">$\frac{10}{2} = 5$</p>		Shs		Shs	Cash in hand	900,000 ✓	Capital	1,300,000 ✓	Cash at Bank	150,000 ✓	S.T.L.		Debtors	100,000 ✓	Creditors	250,000 ✓	Stock	400,000 ✓				<u>1,550,000</u> ✓		<u>1,550,000</u> ✓	(10 x ½ = 5 marks)
	Shs		Shs																							
Cash in hand	900,000 ✓	Capital	1,300,000 ✓																							
Cash at Bank	150,000 ✓	S.T.L.																								
Debtors	100,000 ✓	Creditors	250,000 ✓																							
Stock	400,000 ✓																									
	<u>1,550,000</u> ✓		<u>1,550,000</u> ✓																							
22.	<p>Merits of indirect taxes include:-</p> <ul style="list-style-type: none"> (a) Tax payment is <u>voluntary</u>. (b) It's <u>not easily evaded</u>. (c) More revenue can be raised/covers a wide range of items. / <u>broad based</u> (d) It is <u>convenient/paid in bits</u>. (e) It's <u>easy to collect</u> at the selling point. (f) It <u>promotes equality/paid</u> by everyone who purchases the goods. (g) It's <u>flexible</u>. (h) <u>Can be used selectively</u>. (i) <u>it stimulates effort</u> 	(Any 4 x 1 = 4 marks)																								
23.	<p>Ways in which the technological environment may improve business performance include:</p> <ul style="list-style-type: none"> (a) <u>Increased output/mass production</u>. (b) <u>Lower cost per unit of production</u>. / <u>reduced cost of production</u> (c) <u>Minimal incidences of fraud</u>. / <u>theft</u>. (d) <u>High quality products</u>. (e) <u>Improved business image/reputation</u>. (f) <u>Increased sales</u>. (g) <u>Better communication</u>. (h) <u>Wider market/globalization</u>. (i) <u>Faster conduct of business transactions</u>. 	(Any 4 x 1 = 4 marks)																								

24.	<p>Types of ledgers into which the accounts would be found are:</p> <p>(a) <u>Debtors ledger/Sales ledger.</u></p> <p>(b) <u>Nominal ledger/General ledger.</u></p> <p>(c) <u>Creditors ledger/Purchases ledger</u> <i>Bought ledger.</i></p> <p>(d) <u>Cash book.</u></p>	(Any 4 x 1 = 4 marks)
25.	<p>Ways in which the introduction of money helped eliminate problems faced in the conduct of barter trade include:</p> <p>(a) <u>Money eliminates the need for double coincidence of wants</u> since it is a <u>medium of exchange.</u></p> <p>(b) <u>Stores the value of perishable goods</u> by selling them and keeping the money for future use.</p> <p>(c) Ensures that commodities exchanged are of comparable value, by <u>offering a standard measure of value.</u></p> <p>(d) <u>Help in the exchange of indivisible commodities</u> since it can be divided into smaller denominations without losing value..</p> <p>(e) Money <u>provides a unit of account</u> by which goods and services are valued unlike in barter trade.</p> <p>(f) Money is a <u>standard for deferred payment</u> whereas it was not possible to make payments in the future under the barter system.</p> <p>(g) Money enables the exchange of <u>fixed property like land.</u></p> <p><i>h) money helps to solve the problems of transporting heavy and bulky goods because it is portable.</i></p>	(Any 4 x 1 = 4 marks)