

MARKING SCHEME

BUSINESS PAPER 1

565/1

1. Define the following;

i). Economics;

This is the study of how human beings strive to satisfy their endless wants using available scarce resources.

ii). Commerce;

This is the study of trade and aid to trade.

iii). Accounting;

This refers to a systematic way of recording business transactions for future reference or for decision making.

iv). Office practice.

This refers to all activities that are carried out in an office i.e filing, communication and reproduction of document.

2. Characteristics of land that may differentiate it to any other factors of production.

- ✓ It is a natural resource. It is provided by nature.
- ✓ It is fixed in supply hence cannot be expanded.
- ✓ It is geographically immobile.
- ✓ Quality is not homogenous.
- ✓ It is only actor of production its productivity can be enhanced by irrigation or use of fertilizers.

3. Circumstances under which downward communication may be used in firm;

- ✓ When senior employees are providing training to junior employees.
- ✓ When management wants to inspire or motivates junior employees.
- ✓ When management is trying to solve problems affecting workers.
- ✓ When senior employee assign duties and tasks to employees.
- ✓ When senior employees are evaluating performance of junior employees.
- ✓ When senior employees correcting junior employees may be for gross misconducts.

4. Circumstances under which firms would form a cartel.

- ✓ When there is need to control of output by each firm.
- ✓ When there is need to control market prices.
- ✓ When there is need to restrict entry of new firms into the market.
- ✓ When there is need to eliminate stiff completion among the firms.
- ✓ When there is need to increase the firms bargaining power.
- ✓ When there is need of control of market of their goods and services.

5. Service offered by a commercial bank to its customers.

- ✓ Acceptance of deposits.
- ✓ Safeguarding valuable items.
- ✓ Advancing loans and overdraft.
- ✓ Offering management and consultancy services.
- ✓ Advisory services on financial matters.
- ✓ Foreign exchange services.
- ✓ Acts as guarantors.
- ✓ Trustee services.
- ✓ Act as agents e.g at the stock exchange.
- ✓ Receiving interest on behalf of the customers.
- ✓ Act as referees to the customers.

6. a). Working capital;

$$\begin{aligned}\text{Working capital} &= \text{CA} - \text{CL.} \\ &= 220,000 - (98,200 + 11,800) \\ &= \underline{\underline{\text{Shs. 110,000}}}\end{aligned}$$

b). Return on capital.

$$\begin{aligned}\text{Return on capital} &= \frac{\text{Net profit} \times 1000}{\text{Capital invested.}} \\ &= \frac{85,000 \times 100}{425,000} \\ &= \underline{\underline{20\%}}\end{aligned}$$

$$7. \text{ Company A} = \frac{90,000}{3,000,000} \times 1,000,000 = \underline{\underline{\text{Sh. 300,000}}}$$

$$\text{Company B} = \frac{1,100,000}{3,000,000} \times 1,000,000 = \underline{\underline{\text{Sh. 366,667}}}$$

$$\text{Company C} = \frac{1,000,000}{3,000,000} \times 1,000,000 = \underline{\underline{\text{Sh. 333,333}}}$$

i.e

$$\text{Amount compensated} = \frac{\text{insured amount} \times \text{loss incurred}}{\text{The value of the property.}}$$

8. Factors causes supply curve to shift to the right.

- ✓ Reduced cost of production.
- ✓ Bumper harvest.
- ✓ Increase in the price of complementary goods.
- ✓ Government incentives to producers e.g subsidy.
- ✓ Entry of new firms into the market.
- ✓ Reduced price of substitute goods.
- ✓ Improved production methods.
- ✓ Availability of factors of production.
- ✓ Reduced incidences of industrial strikes.
- ✓ Future expectation of a fall in price.

9. Benefits of personal selling to a trader.

- ✓ Its personal nature, nothing is persuasive as personal communication.
- ✓ Flexible; a marketer is able to meet the needs of each individual customer.
- ✓ Through asking and answering questions the sales person is able to clarify issues relating to the products.
- ✓ Salesperson can demonstrate the operations and use of the products.
- ✓ It gives the buyer an opportunity to negotiate the terms of purchase.
- ✓ The buyer is able to make informed decision.
- ✓ It takes care of both illiterate and literate prospective customers.

10.

Transaction.	Type of journal.
a). Bought a computer on credit.	General journal.
b). Returned goods previously bought on credit.	Purchases returns journal.
c). Sold goods on credit.	Sales journal.
d). Bought shares in accompany.	General journal.

11. Contents of a delivery note.

- ✓ Name and address of the seller and buyer.
- ✓ Date of delivery.
- ✓ Delivery note number.
- ✓ Quantities and descriptions of the goods.
- ✓ Space for the buyer of the goods to sign and comment on the condition of the goods.

12. Adjustments in the capital of a business.

- ✓ Further investment in the business by the owner(s) i.e additional investment.
- ✓ Profit made by the business.
- ✓ Losses incurred by the business.
- ✓ Withdrawal of cash and / or assets from the business for personal use.

13. Circumstances under which:

i) **Creeping inflation occurs.** - When the general price levels rise gradually over a period of time usually at single digit. Where the value of money tends to be stable over time the effects on the economy is not severe.

ii). **Hyperinflation occurs** - Where the general price rise at high rate usually more than two digits. Where there is drastic loss in the value of money effects on the economy is very severe.

14. Reasons why standard of living among the citizens has not changed include;

- ✓ Inequitable distribution.
- ✓ High population growth.
- ✓ Unequal regional development.
- ✓ Income earned could have been used in ways that do not benefit the people directly.
- ✓ Economic growth may have been obtained through a straight on people's health.
- ✓ The cost of living may have gone up thus eroding additional income earned.
- ✓ Projects undertaken by the government could be long – term, nature.

15. Circumstances under which insurer may not be compensated.

- ✓ When the insured had no insurable interest in the property destroyed.
- ✓ If the insured fail to follow the laid down procedures of claiming for compensation.
- ✓ If the insurance company is bankrupt at the time o claim.
- ✓ When the principle of proximate cause does not apply.
- ✓ When it is established that cause of damage was deliberate.
- ✓ When the policy is not in force at the time of the occurrence of the risk.
- ✓ When the claiming compensation is too late. (outside the stipulated time)
- ✓ When the destruction of property was by act of nature.

16. Duties of Commercial Attache's.

- ✓ Identifying markets for their country's products.
- ✓ Evaluating the performance of their country's products in foreign countries.
- ✓ Undertaking research to determine what improvements should be made to make their country's products more competitive in terms of pricing, quality and packaging.
- ✓ Advising traders on standards and legal requirement of products in foreign countries.
- ✓ Developing trade agreements between their countries products in foreign countries.
- ✓ Organizing trade fairs and exhibitions from their country's products in foreign countries.

17. Sources of public finance.

- ✓ Fines imposed by courts on offenders.
- ✓ Taxes.
- ✓ Government borrowing.
- ✓ Proceeds from sale of government property .
- ✓ Interest earned on loans advanced by the government firms.
- ✓ Dividends and profits earned from government direct investment.
- ✓ Rates and rents paid for the use of government property.

$$\begin{aligned} 18.a) \text{ Margin} &= \frac{\text{GP}}{\text{SALES}} \times 100 \\ &= 500,000 - (320,000 - 80,000 - 40,000) \\ \text{GP} &= 140,000 \\ &= \frac{140,000}{500,000} \times 100 \\ &= \underline{\underline{28\%}} \end{aligned}$$

$$\begin{aligned} \text{b). Current ratio.} &= \frac{\text{CA}}{\text{CL}} \\ &= \frac{180,000}{90,000} \\ &= \underline{\underline{2:1}} \end{aligned}$$

c). Rate of stock turn over.

$$\frac{\text{Cost of sales}}{\text{Average stock}}$$

360,000

$$\frac{80,000 + 40,000}{}$$

$$= \frac{60,000}{120,000}$$

= 3 times.

19. Name the columns;

a). V is folio.

b). W is discount allowed.

c). X is cash.

d). Y is Bank.

20. Benefits that a farming community would get from Nyaboke's shop includes;

- ✓ They can buy farm inputs from the shop.
- ✓ They can buy consumers goods from the shop.
- ✓ They can get goods on credit.
- ✓ They can sell some of the farm produce to Nyaboke.
- ✓ The shop can be used as communication centre.

21. Ways investor can benefits from the stock exchange.

- ✓ Encourages savings inform of shares.
- ✓ Enable investors to spread risks by buying differentiate types of shares.
- ✓ Listing shares prices enables investors to monitor their wealth.
- ✓ Avails a variety of securities to choose from.
- ✓ Provide information on company performance that helps investors to make investment decision.
- ✓ Provide mechanism for buying and selling shares and other securities.
- ✓ Provide information on shares prices that guide investors on when to buy and sell shares.
- ✓ Perfecting investor's interest by requiring quoted companies to maintain certain standards of management.

22. Benefits of intermediaries to the consumer in the chain of distribution.

- ✓ Reducing transactions between producers and consumers.
- ✓ Breaking bulk by buying in great quantities and selling in small quantities as desired by their customers.
- ✓ Providing finance.
- ✓ Passing of information. They gather information from consumers to producers and vice versa.
- ✓ Product promotion.
- ✓ Providing a variety.
- ✓ Transport and storage.
- ✓ Availing goods to consumers.

23. Circumstances under which business enterprises may choose to merge.

- ✓ Where persistent decline in profitability exists.
- ✓ Where there is intention to venture into new line.
- ✓ Where there is need to expand capital base.

- ✓ Where there is need to bring on board new skills or competences.
- ✓ Where there is need to share research information.
- ✓ Where there is need to control output.
- ✓ Where there is need to control a wider market.
- ✓ If there is too much competition.

24. Measures a manager can take to improve the working environment in the office.

- ✓ Provision of proper and adequate lighting.
- ✓ Maintaining tidiness in the office.
- ✓ Provision of relevant furniture and equipment.
- ✓ Provision of proper ventilation.
- ✓ Beautifying the office to give it a pleasant appearance.
- ✓ Provision of adequate space for working.
- ✓ Discouraging unnecessary noise.
- ✓ Provision of special facilities for the handicapped.
- ✓ Provision of safety measures and gadgets.

25. Effects of family planning campaign causing a decline in the country's population includes;

- ✓ Low labour supply.
- ✓ Reduced pressure on land.
- ✓ Shrinking market for goods and services.
- ✓ Reducing government expenditure on the provision of social amenities.
- ✓ Reducing dependency burden.
- ✓ Reduced level of unemployment.
- ✓ Reduced social problems like crimes, lack of housing, traffic jams.
- ✓ Possibility of attaining optimum population.