**565/1**

**BUSINESS STUDIES**

**PAPER 1**

**AUGUST – 2022.**

**MARKING SCHEME**

1. List four elements of economic environment that may positively influence business operations.

(4 marks)

1. Increase in buyer’s income
2. Reduced tax rates
3. Increase in price of substitutes
4. Decrease in price of complimentary goods.
5. Reduced cost of production.
6. Availability of credit facilities
7. Highlight four circumstances under which a trader may offer after sale services to a trader.

(4 marks)

1. Where goods are technical in nature
2. Where skills is needed in installation
3. Where it is the policy of the business
4. Where skills is require in servicing and repairs
5. Where product is latest in market, trader requires feedback.
6. When competition on use of promotional tool is stiff

3. Name the type of wholesaler described in each of the statements below. (4 marks)

|  |  |  |
| --- | --- | --- |
|  | Statement | Wholesaler |
| a | Specialised in selling particular lines of goods to retailers | * Rack jobbers |
| b | Customers given chance to pick goods they want and pay for them on the spot | * Cash-and – carry wholesalers |
| c | Deal with wide variety of goods | * General merchandise wholesalers |
| d | Distribute their products in all parts of the country | * Nationwide wholesalers |

4. State four factors that may influence a farmer to use a short channel for distributing his farm produce. (4 marks)

1. Customers concentrates in a small area
2. Perishable farm produce can easily get spoilt
3. More were in stiff competition in market
4. Small volume of output.
5. Government regulation on distribution of farm produce.
6. Few marketing risks
7. In availability of intermediaries
8. Profitability/to maximise on profit

5. Outline four consequences of poor arrangement of goods in a public warehouse. (4 marks)

1. Possibility of breakage of goods.
2. Pilferage of goods may be experienced.
3. Contamination of goods may be experienced
4. Goods may not be easily accessible
5. May not be easy to carry out stock taking
6. Inspection of goods may not be possible.

6. List four types of direct taxes that the government may use to collect revenue from individuals and companies. (4 marks)

1. Personal income tax (PAYE)
2. Corporation tax (corporate tax)
3. Capital transfer tax (gift tax)
4. Stamp duty.
5. Capital gain tax.
6. Estate (death duty)
7. Wealth tax/capital tax/Equity tax.
8. Withholding tax/tax on dividends/savings
9. Residential/rental income tax
10. Property tax.

7. For each of the following transactions state the account to be debited. (4 marks)

|  |  |  |
| --- | --- | --- |
|  | Transaction | Account debited |
| (a) | Proprietor took cash for personal use. | Drawings |
| (b) | Bought goods and pad by cheque. | Purchase |
| (c) | Proprietor paid rent in cash. | Rent a/c |
| (d) | Paid Job (creditor) from private source. | Job(creditor) |

8. Highlight four benefits that the bank and the customers derive from agency banking. (4 marks)

1. Convenient to customers since they can access services in the local retail outlets
2. Banks are able to reach many outlets.
3. Saves of time as banking is done as one does other activities
4. Has reduced congestion in banks hence enhance efficiency.
5. The cost of operation for banks has been reduced.
6. Has increased banking awareness in customers.

9. Distinguish between ordinary shares and debentures. (4 marks)

|  |  |  |
| --- | --- | --- |
|  | Ordinary shares | Debentures |
| (a) | Unit of capital | Unit of loan to a company |
| (b) | Shares are paid dividends | Debentures earn interest |
| (c) | Shareholders are owners of company | Debentures owners are creditors to the company |
| (d) | Irredeemable | Usually redeemable |
| (e) | No fixed rate of returns | Has fixed rate of returns |
| (f) | Have voting rights | Have no voting rights |

10. The following information relates to average prices of exports and imports in 2021 and 2022 of country k.

|  |  |  |
| --- | --- | --- |
| Year | Average price of export | Average prices of imports |
| 2021 | 100,000 | 400,000 |
| 2022 | 120,000 | 650,000 |

Required

(a). Calculate the terms of trade. (3 marks)

E.P.I = 120,000 x 100 = 120%

100,000

I.P.I = 650,000 x 100 = 162.5%

400,000

Terms of trade = 120 x 100=73.8%

162.5

(b). Comment on the term of trade calculated. (1 mark)

* Interpretation-unfavourable terms of trade

11. Name the type of supply described in ear of the following cases. (4 marks)

(a). One product is a by-product of another

* Joint supply

(b). Supply of one product reduces supply of another product.

* Competitive supply

(c). A product can be supplied from two or more sources

* Composite supply of electionary

(d). Quantities supplied over the quantities that customers are able to buy

* Excess supply

12. The table below shows some entries in cash book of CMC trades for the month of July 2020.

Two column cash book

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Dr Cr** | | | | | | | | |
| Date | Details | Cash | Bank |  | Date | Details | Cash | Bank |
| 2020 July |  |  |  |  | 2020 |  |  |  |
| July 1 | Balance c/d | 15,000 |  |  | July 1 | Balance b/d |  | 100,000 |
| July 6 | cash |  | 20,000 |  | July 6 | Bank | 20,000 |  |
| July 20 | Sales |  | 15,000 |  | July 15 | Wages | 5,000 |  |
| July 28 | Debtors | 20,000 |  |  | July 29 | Stock |  | 10,000 |
|  |  |  |  |  | July 31 | Balance c/d | 10,000 |  |

State the meaning of the following entries. (4 marks)

(a). July 31, 2020, Balance c/d sh 10,000

* Cash in hand /closing cash in hand

(b). July 1, 2020, Balance b/d, bank column, shs 100,000

* Bank overdrafts

(c). July 28, 2020 Debtors Shs 20,000

* Cash received from debtors sh 20,000

(d). July 6, 2020 cash sh 20,000and bank shs 20,000.

* Contra entry/shs 20,000 transferred from cash account to bank a/c.

13. List four challenges experienced in calculation of consumers’ price index. (4 marks)

1. Difficult to determine what should constitute basket of goods
2. Lack of accurate and adequate data on prices of goods and consumer expenditure.
3. Changes in tastes and preferences of consumers which change their expenditure pattern.
4. Prices of goods and services differ from one location to another.
5. Choosing the base year when price were stable is difficult.
6. Determining what constitute typical household goods would be difficult.

14. Give four uses of general Journal. (4marks)

1. Used to record purchase of fixed assets on credit
2. Used to record sale of fixed assets on credit
3. Used to record correction of errors
4. Used to record allotment of shares and debentures
5. Used to record bad debts written off

15. Name the insurance policy a school can take to cover the following risks. (4 marks)

|  |  |  |
| --- | --- | --- |
|  | Risk | Policy |
| (a) | Injury caused by a school bull to a passers-by | * Public liability policy |
| (b) | Losses arising from a debtors failure to pay their debt. | * Bad debts policy |
| (c) | Loss of cash when being transported to bank. | * Cash on transit |
| (d) | Loss of goods through dishonesty of an employee | * Fidelity guarantee policy |

16. Outline four advantages of specialization in production. (4 marks)

1. Output per worker is increase
2. Encourage invention and innovation
3. High quantity good and services produced
4. Increases the rate of production
5. Reduce the amount of mental and physical effort used

17. State four of using machines in an offices. (4 marks)

1. Must be operated by someone as cannot think
2. Initial cost of buying and maintaining them may be high
3. May cause unemployment as some machine may disrupt flow of work
4. Some machines may become obsolete with a short time
5. If staff are not adequately prepared to operate them, machines may create discontent among staff.

18. The diagram, below illustration price and output determination in an oligopoly market structure. Use it to answer the following questions. (4 marks)

A

Po B

C

Qo quantity

(a). What is the name given to the demand curve above (1 mark)

* **kinked demand curve**

(b). What is the effect of setting price above Po

* **Setting price above equilibrium price will result to lose of customers as may buy from other firms**

(ii). What is the effect of setting price below Po

* **Setting price below Po will attract similar reaction from other firms so more is little or no gain on sales.**

(c). Name the point labelled B **Kink**

19. Outline four problems that a country could face during implementation stage of a development plan. (4 marks)

1. Over reliance on donor funding which is not release on time.
2. Inadequate domestic resources e.g. skilled personnel.
3. Failure by local to support implementation especially if they were not involve during plan formulation
4. Occurrence of natural calamities e.g. diseases.
5. Lack of co-operation among the executing parties causing delays.
6. Some plans are over ambitious/meant to please the donors.
7. Effects of inflation/increased cost of financing project requiring more funds to be raised

20. Highlight four demerits o government involvement in business activities. (4 marks)

1. May scare away foreign investors
2. Monopoly may be created if government is the only provider of essential goods or services.
3. Businesses managed by political appointees are likely to perform poorly due to political interference
4. Corruption and misuse of funds is likely to occur due to poor supervision
5. Business may make loses since the main aim is to provided services to the public.

21. The following information was obtained from the books of Omoi traders for the period ended 30th June 2021

Sales 500,000

Opening stock 80,000

Purchases 320,000

Closing sock 40,000

Debtors 140,000

Creditors 90,000

Required

(i). Calculate margin. (1 mark)

Gross profit = 500,000 – (80,000+320000-40000)

=10000

Margin = 140,000 x 100 = 28%

500,000

(ii). Current ratio (1 mark)

= Current Assets

Current liabilities

40,000 + 140,00 = 2/1 = 2:1 or 200%

90,000

(iii).ROSTO = Cost of goods sold = 360000 - 6 times

Average stock 60000

(1 mark)

(iv). Give the importance of margin. (1 mark)

* Helps in determination of selling price that is enough to cover all the expenses leaving a satisfactions net profit.

22. Highlight four benefits that Kenya reaps due to the completion of the Lamu port and Lamu-South-South Sudan-Ethiopia transport corridor. (4 marks)

1. Cases of banditry (insecurity) in the northern frontier will reduces
2. Opening –up of largely under developed another frontier
3. Reduce over-dependence on Kenya’s main port of Mombasa-thus decongesting it and reducing delays
4. Enhanced creation of job opportunities
5. Increased exports due to increase in the exit points.

23. Outline four ways in which political instability may discourage entrepreneurial development in a country. (4 marks)

1. Entrepreneurs are not assured of their safety and safety of their investment hence discourage to invest
2. There is no free movement of factors of production, discourage trader.
3. There is no free interaction between people hence limited sharing of business ideas
4. Shrinking markets since even foreigners will fear trading with locals
5. Unsuitable complementary institutions like banks and warehouse which discourage business.

24. State four disadvantages of locating a business away from other businesses. (4 marks)

1. Difficulty in acquiring relevant labor
2. Exchange of ideas is not easy
3. Difficulty in acquiring raw materials if it is using other firm products as raw materials
4. Firm, may produce poor quality goods due to lack of competition
5. Limited exchange of technology

25. Outline four advantages of high population. (4 marks)

1. Widens market
2. Adequate labour supply
3. Better utilization of resources
4. Encourage creativity
5. Encourages investments
6. Promotes mobility of labour.