**BUSINESS STUDIES**

**565/1 PAPER 1**

**MARKING SCHEME**

1. State four banking services offered by Central Bank of Kenya to the Kenyan Government. (4mks)
* ***Accepts money deposits***
* ***Make payment on behalf of the government***
* ***Manage government borrowing i. borrows and make payments***
* ***Advisory services on financial matters.***
* ***Intervenes in foreign currency market.***
* ***Guarantor to government loans.***
* ***Lender to a government.***
1. State the term used to each of the following disciplines. (4mks)
2. Study of the process of identifying and acquiring necessary resources to start and operate a business

***Entrepreneurship***

1. Study of how human beings strive to satisfy their endless wants using the scarce resources.

***Economics***

1. Study of trade and aids to trade.

***Commerce***

1. Study of the systematic way of recording business activities and using the records for decision making

***Accounting***

1. For each of the following types of accounts, state in the spaces provided whether you debit or credit increase or decrease in the account. (3mks)

|  |  |  |
| --- | --- | --- |
| Type of account  | To increase | To decrease  |
| 1. Asset
 | ***Debit*** | ***Credit***  |
| 1. Capital
 | ***Credit*** | ***Debit***  |
| 1. Liability
 | ***Credit***  | ***Debit***  |

 6 x ½ = 3

1. Outline four benefits of using social media such a whatsapp groups for office communication.
* ***Reduced cost of communication***
* ***Provides unlimited space for filing***
* ***Fast means of communication***
* ***Facilitates quick decision making/feedback***
* ***Reduced paper work and need for paper files***
* ***Accord, convince while communicating/easy to use***
* ***Communication – can take place all time***
* ***Wide coverage/communication can be passed to many people at different places at the same time.***
1. The following balances were extracted from the books of Ufanisi enterprises on 31st December 2022.

Fixed assest 3,000,000

Current assets 500,000

Creditors 700,000

4 year loan 1,500,000

Calculate the networth of the above business as at 31st Dec 2022. (4mks) **C = A- L**

**Fixed assets 3,000,000**

**Current assets 500,000**

**Total assets 3,500,000** ˅

 **A 3,500,000**

 **L - 2,200,000**

 **C 1,300,000**

**Creditors 700,000 net worth 1,300,000**  ˅ ˅

**4 year loan 1,500,000**

**Total liabilities 2,200,000** ˅

1. Highlight four features of direct production (4mks)
* ***Production is for own use/subsistence production***
* ***Low levels of technology is used in production***
* ***Goods produced are often of low quality***
* ***Goods are produced in small quantities/ no surplus produced***
* ***The producer is involved in all stages/no division of labour***
* ***The producer earns no extra income***
* ***The producer’s living standards is low for lack of variety***
* ***The producer strives to produce a variety of commodities/lack of specialization***
1. State four reasons for observing ethical practices in product promotion. (4mks)
* ***Ensures fair competition***
* ***To protect consumers***.
* ***Ensures business comply with the law***
* ***To protect environment***
* ***To promote social responsibility***
* ***Improve/ maintain positive image***
* ***Maintain morality in society***
* ***Maintain suppliers’ trust***
1. Outline four reasons why human beings make choices when satisfying their wants.(4mks)
* ***Because goods and services have different prices.***
* ***Due to influence from many advertisements/ media campaigns.***
* ***Since resources are scarce/ inadequate to satisfy all wants.***
* ***Due to differences in tastes, fashions and preferences.***
* ***Some needs are more urgent than others.***
* ***The need to be different from others.***
* ***To be trendy.***
1. State four disadvantages of concentrating industries in one area within a country. (4mks)
* ***It would lead to congestion/ slums***
* ***It would cause pollution***
* ***It would land to unbalanced regional development.***
* ***May result in social evils.***
* ***May be target during wars/terrorism activities***
* ***May lead to widespread unemployment due to decline in demand.***
1. Highlight four external business environment that may positively affect the operations of a business. (4mks)
* ***Reliable suppliers***
* ***Fair competition***
* ***Favourable social cultural environment***
* ***Availability of advanced technology***
* ***High demand/availability of many customers***
* ***Increasing population***
* ***Conducive economic environment.***
* ***Favourable legal political environment/ enhanced security.***
* ***Availability of raw materials.***
1. Ahadi ltd had the following book balances as at 31st December 2022

Shs

 Sales 500,000

 Stock 1/1/2022 20,000

 Returns inwards 5,000

 Purchases 300,000

 Stock 31/12/2022 40,000

 Returns outwards 10,000

 Prepare Ahadi Ltd Trading Account for the year ended 31st December 2022. (5mks)

 Ahadi Ltd

 Trading Account

 For the year ending 31/12/2022 ˅

 Opening stock 20,000 ˅ Sales 500,000 ˅

 Purchases 300,000 ˅ Return inwards (5,000) ˅

 Returns outwards (10,000) ˅ Net Sales 495,000

 COGAS 310,000 ˅

 Closing Stock (40,000) ˅

 COGS 270,000 ˅

 G.P C/D 225,000 ˅

 **495,000 495,000 ( 10 x ½ = 5mks**

1. Outline four circumstances under which a trader may prefer to start a small firm (4mks)
* ***When little capital is available***
* ***When there is need of easy management***
* ***When flexibility is required***
* ***Where legal requirements to start are few***
* ***When the government encourages small firms***
* ***Where one want to lower the risks***
* ***Where there is need to maintain personal touch***
* ***Where one want to reduce the cost of operation***
* ***Where there is need to maintain business secret***
* ***When there is need to make decisions fast***
1. State four errors which may affect the agreement of a trial balance totals. (4mks)
* ***Partial omission***
* ***Posting a wrong balance***
* ***Failing to post a balance***
* ***Partial reversal of entry***
* ***Arithmetical mistakes***
* ***Transferring wrong balance***
1. Highlight four features of a bonded warehouse. (4mks)
* ***Goods are bonded until duty is paid.***
* ***Located at a point of entry to a country***
* ***Manned by government officials***
* ***Deals mainly in imported goods***
* ***Goods can be re-exported***
* ***Storage charges are paid.***
1. State the reward for each of the following factors of production. (4mks)

|  |  |
| --- | --- |
| **Factors of production**  | **Reward**  |
| 1. Land
 | ***Rent /royalties/rates*** |
| 1. Capital
 | ***Interest***  |
| 1. Entrepreneurship
 | ***Profit***  |
| 1. Labour
 | ***Wages/salaries/fees/commission/ honoraria*** |

1. Outline four negative effects of an ageing population in a developing country (4mks)
* ***Decline in labour supply***
* ***Fall in quality of labour***
* ***Decline in demand for goods for the young population***
* ***Increased expenditure on welfare benefits***
* ***High dependency ratio.***
1. Highlight four ways in which a government participate in business activities. (4mks)
* ***Regulation***
* ***Training***
* ***Trade promotion***
* ***Provision of services***
* ***Creating an enabling environment.***
* ***Consumer of goods/services.***
1. The diagram below represents the demand and supply of commodity x.

Price

 P

State four possible consequences of selling commodity x at price higher than the equilibrium price P (4mks)

* ***Increasing in quantity supplied***
* ***Decreases in demand***
* ***Excess supply,***
* ***Excess supply force sellers to reduce prices towards equilibrium/long run***
* ***Wastage***
1. State four features of an insurable interest. (4mks)
* ***Presence of property rights***
* ***Presence of insurable risk***
* ***Property must have monetary value***
* ***There should be possibility of suffering financial loss***
* ***Insurable risk must be legal***
1. Identify the source document into which the information given below would be recorded. (4mks)

|  |  |
| --- | --- |
| **Information**  | **Source document**  |
| 1. Money received from a debtor
 | ***Duplicate receipt*** |
| 1. Credit purchases
 | ***Incoming invoice*** |
| 1. Increasing amount a debtor is required to pay
 | ***Debit note*** |
| 1. Credit sales
 | ***Outgoing invoice***  |

1. Highlight four characteristics of an entrepreneur. (4mks)
* ***Creative/ imitative***
* ***Hardworking/committal***
* ***Goal oriented***
* ***Self-confidence/optimistic***
* ***Risk taker***
* ***Decision maker***
* ***Good networker***
* ***Good communication skills***
* ***Ethical***
* ***Flexible***
* ***Persistent/patient***
* ***Independent***
* ***Desires feedback***
1. Outline four ways through which firms contribute to national income of country.(4mks)
* ***Provision of goods and services***
* ***Payment of taxes***
* ***Provision of goods and services***
* ***Payment of factor services (labour, capital)***
* ***Provision of savings/capital for investment***
1. (a) ***Merger- Two or more companies combine to form one big company.***

*(b)* ***Holding company- A company acquires at least 51% of shares in another company called subsidiary.***

***c) Franchising- Is where a company gives permission to another company to produce and distribute its brand.***

***d) cartel- Companies that come together in formal agreement to control output, price and marketing of their goods and services***

1. State four ways the central bank of a country may us e to reduce money in circulation within a country. (4mks)
* ***Directives increase lending/interest rate/ only land to printing***
* ***Increasing bank rates***
* ***Increasing liquidity ratio***
* ***Increasing cash ratio***
* ***Increasing compulsory deposit***
* ***Moral persuasion to reduce lending/interest rate***
* ***Selling government security in the open market.***
1. The information below relates to R.S LTD

sh

Sales 20,000

Cost of sales 15,000

Average stock 6,000

Expenses 10% of sales

Calculate

1. Gross profit markup (1mk)
2. Gross profit margin (1mk)
3. Stock turn over (1mk)
4. Net profit (1mk)
5. **Sales 20,000 iii) R.O S.T.O =** 

**COS 10,000 = 15,000**

**G.P 10,000 6,000 = 2.5times**

**Mark up =  x 100**

**x = 33.33%**

1. **Margin**  **x 100**

** x 100 = 25%**

1. **Net profit = G.P – expenses**

**5,000 – (  x 20,000) = 3,000**