

**GRADE 10 BUSINESS STUDIES**  
**MID-TERM 2 EXAM 2026**  
**MARKING SCHEME**

**SECTION A: (20 MARKS)**

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**Question 1** [4 marks marks]

Question: State four functions of money

EXPECTED ANSWERS (Award 1 mark per function):

- 1. Medium of exchange - Money facilitates buying and selling of goods/services**  
— 1 mark(s)
- 2. Store of value - Money retains purchasing power and can be saved**  
— 1 mark(s)
- 3. Unit of account - Money provides standard measure for pricing**  
— 1 mark(s)
- 4. Standard of deferred payment - Enables payment of debts in future**  
— 1 mark(s)

**Question 2** [3 marks marks]

Question: Outline three factors that determine the supply of money in an economy

EXPECTED ANSWERS (Award 1 mark per factor):

- 1. Central Bank monetary policy - Controls through interest rates, open market operations, reserve requirements**  
— 1 mark(s)
- 2. Government fiscal spending - Government expenditure injects money into economy**  
— 1 mark(s)
- 3. Commercial bank lending - Banks create money through lending activities**  
— 1 mark(s)

**Question 3** [3 marks marks]

Question: Identify three internal factors considered when setting business goals

EXPECTED ANSWERS (Award 1 mark per factor):

- 1. Financial resources - Capital and funding available limit goal scope**  
— 1 mark(s)
- 2. Human resources - Skills, expertise, and workforce capacity**  
— 1 mark(s)

### 3. Organizational objectives/mission - Goals must align with company purpose

— 1 mark(s)

#### Question 4 [2 marks marks]

Question: Give two reasons why budgeting is important in business

EXPECTED ANSWERS (Award 1 mark per reason):

**1. Planning and control - Allocates resources and monitors spending against targets**

— 1 mark(s)

**2. Performance evaluation - Provides standards to measure actual performance**

— 1 mark(s)

#### Question 5 [2 marks marks]

Question: Name two security features found on Kenyan currency

EXPECTED ANSWERS (Award 1 mark per feature):

**1. Security thread - Metallic/holographic embedded thread**

— 1 mark(s)

**2. Watermark - Faint image visible when held to light**

— 1 mark(s)

#### Question 6 [3 marks marks]

Question: State three ethical practices related to the use of money

EXPECTED ANSWERS (Award 1 mark per practice):

**1. Honest transactions - Business dealings without fraud or deception**

— 1 mark(s)

**2. Payment of taxes - Citizens/businesses pay rightful taxes**

— 1 mark(s)

**3. Fair pricing - Reasonable prices reflecting true value without exploitation**

— 1 mark(s)

#### Question 7 [3 marks marks]

Question: Define opportunity cost

EXPECTED ANSWER:

Opportunity cost is the value of the next best alternative foregone when making a choice. It represents what an individual or business gives up when choosing one option over another.

RUBRIC:

**Clear definition showing "value of next best alternative" concept**

— 2-3 mark(s)

**Partial definition showing understanding of choosing between alternatives**

— 1-2 mark(s)

**Vague answer lacking clear concept**

— 0-1 mark(s)



## **SECTION B: (40 MARKS)**

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### **Question 8 [16 marks marks]**

- Question: (a) Explain four characteristics of money (8 marks)  
(b) Describe four motives for holding money (8 marks)

PART (a): CHARACTERISTICS OF MONEY

RUBRIC: Award 2 marks per characteristic (1 mark for naming, 1 mark for explaining)

- 1. Durability - Withstands wear/tear and lasts long without deterioration**  
— 2 mark(s)
- 2. Divisibility - Can be divided into smaller units for various transaction values**  
— 2 mark(s)
- 3. Portability - Easy to carry and transport without difficulty/loss**  
— 2 mark(s)
- 4. Acceptability - Widely accepted as payment in community**  
— 2 mark(s)

PART (b): MOTIVES FOR HOLDING MONEY

RUBRIC: Award 2 marks per motive (1 mark for naming, 1 mark for explaining)

- 1. Transaction motive - Money held for regular purchases/expenses**  
— 2 mark(s)
- 2. Precautionary motive - Money held as reserve for unexpected emergencies**  
— 2 mark(s)
- 3. Speculative motive - Money held to exploit future investment opportunities**  
— 2 mark(s)
- 4. Hoarding/Store of value motive - Money held to preserve wealth/purchasing power**  
— 2 mark(s)

### **Question 9 [16 marks marks]**

- Question: (a) Explain four benefits of setting SMART business goals (8 marks)  
(b) State four factors that affect the choice of business goals (8 marks)

PART (a): BENEFITS OF SMART GOALS

RUBRIC: Award 2 marks per benefit (1 for naming, 1 for explanation)

- 1. Clarity and direction - Clear goals help employees understand objectives**  
— 2 mark(s)
- 2. Measurability - Allows tracking progress and determining goal achievement**  
— 2 mark(s)
- 3. Motivation - Realistic goals motivate employees to perform better**  
— 2 mark(s)
- 4. Resource allocation - Helps efficiently allocate resources to achieve targets**  
— 2 mark(s)

PART (b): FACTORS AFFECTING GOAL CHOICE

RUBRIC: Award 2 marks per factor (1 for naming, 1 for explaining relevance)

- 1. Market conditions - Growth, recession, competition influence realistic goals**  
— 2 mark(s)
- 2. Available resources - Financial, human, physical resources limit scope**  
— 2 mark(s)
- 3. Stakeholder expectations - Shareholders, employees, customers influence goals**  
— 2 mark(s)
- 4. Legal/regulatory environment - Laws/regulations require certain goals**  
— 2 mark(s)

**Question 10** [8 marks marks]

- Question: (a) Explain four types of budgets used in business (4 marks)  
(b) State four steps in the budgeting process (4 marks)

PART (a): TYPES OF BUDGETS

RUBRIC: Award 1 mark per budget type identified with brief explanation

- 1. Sales budget - Forecasts expected revenue from sales**  
— 1 mark(s)
- 2. Production budget - Estimates quantity of goods to produce**  
— 1 mark(s)
- 3. Cash budget - Projects inflows/outflows for liquidity planning**  
— 1 mark(s)
- 4. Operating expense budget - Details all operating costs**  
— 1 mark(s)

PART (b): BUDGETING PROCESS STEPS

RUBRIC: Award 1 mark per step named and explained

- 1. Forecasting - Project future financial conditions/performance**  
— 1 mark(s)
- 2. Establishing targets - Set specific financial objectives**  
— 1 mark(s)
- 3. Allocation of resources - Distribute funds among departments**  
— 1 mark(s)
- 4. Monitoring and control - Track actual vs budget and adjust**  
— 1 mark(s)



## **SECTION C: (40 MARKS)**

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### **Question 11 [16 marks marks]**

Question: (a) Explain four roles of banking in business (8 marks)

(b) State four services offered by commercial banks to businesses (8 marks)

PART (a): ROLES OF BANKING

RUBRIC: Award 2 marks per role (1 for naming, 1 for explanation)

**1. Credit provision - Provide loans/credit for business expansion/working capital**

— 2 mark(s)

**2. Payments and transfers - Facilitate payments and money transfers**

— 2 mark(s)

**3. Safekeeping - Provide secure storage for valuables/documents**

— 2 mark(s)

**4. Financial advice - Offer advisory services for investments/planning**

— 2 mark(s)

PART (b): COMMERCIAL BANK SERVICES

RUBRIC: Award 2 marks per service (1 for naming, 1 for explanation)

**1. Current accounts - Checking accounts for business transactions**

— 2 mark(s)

**2. Overdraft facilities - Short-term credit when balance insufficient**

— 2 mark(s)

**3. Trade finance - Services for international trade (letters of credit)**

— 2 mark(s)

**4. Safe deposit boxes - Secure storage for valuables/documents**

— 2 mark(s)

### **Question 12 [16 marks marks]**

Question: (a) Compare sole proprietorship and partnership under four aspects (8 marks)

(b) State four advantages of cooperative societies (8 marks)

PART (a): COMPARISON OF SOLE PROPRIETORSHIP AND PARTNERSHIP

RUBRIC: Award 2 marks per aspect (1 mark each for sole proprietorship and partnership comparison)

Aspect 1 - OWNERSHIP:

**Sole proprietorship: One person owns and controls business**

— 1 mark(s)

**Partnership: Two or more persons own and control business**

— 1 mark(s)

Aspect 2 - LIABILITY:

**Sole proprietorship: Owner has unlimited personal liability**

— 1 mark(s)

**Partnership: Partners have unlimited liability (unless limited partnership)**

— 1 mark(s)

Aspect 3 - CAPITAL:

**Sole proprietorship: Capital provided by single person; limited financing**

— 1 mark(s)

**Partnership: Capital shared among partners; better access to funds**

— 1 mark(s)

Aspect 4 - DECISION-MAKING:

**Sole proprietorship: One person makes all decisions**

— 1 mark(s)

**Partnership: Decisions made collectively by all partners**

— 1 mark(s)

PART (b): ADVANTAGES OF COOPERATIVE SOCIETIES

RUBRIC: Award 2 marks per advantage (1 for naming, 1 for explanation)

**1. Democratic management - All members have equal voting rights**

— 2 mark(s)

**2. Pooled resources - Combined resources achieve economies of scale**

— 2 mark(s)

**3. Member loyalty - Members committed as they have ownership stake**

— 2 mark(s)

**4. Social benefits - Prioritizes member welfare and community development**

— 2 mark(s)

**Question 13** [8 marks marks]

- Question: (a) Explain four ways business activities satisfy human wants (4 marks)  
(b) Describe four social responsibility activities in community (4 marks)

PART (a): WAYS BUSINESS SATISFIES HUMAN WANTS

RUBRIC: Award 1 mark per way if clearly explained

- 1. Product development - Creates new products addressing specific needs**  
— 1 mark(s)
- 2. Service provision - Offers services (healthcare, education, entertainment)**  
— 1 mark(s)
- 3. Utility enhancement - Adds value through convenience/accessibility**  
— 1 mark(s)
- 4. Distribution networks - Ensures products reach consumers**  
— 1 mark(s)

PART (b): SOCIAL RESPONSIBILITY ACTIVITIES

RUBRIC: Award 1 mark per activity if clearly described

- 1. Education support - Sponsoring scholarships/building schools**  
— 1 mark(s)
- 2. Environmental conservation - Protecting environment/reforestation**  
— 1 mark(s)
- 3. Healthcare provision - Supporting health facilities/awareness**  
— 1 mark(s)
- 4. Infrastructure development - Building roads/water/electricity**  
— 1 mark(s)