

# MOMALICHE JOINT EXAMINATION-SERIES 4 CYCLE 8

Kenya Certificate of Secondary Education

565/1 - BUSINESS STUDIES - Paper 1  
NOVEMBER/DECEMBER 2021 - 2 Hours

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## MARKING SCHEME

1. State **four** reasons that would make an individual to engage in business.

- *Provision of goods/ services*
- *Provision of employment*
- *Exploitation of available resources*
- *Exploitation of individuals' creativity/innovation/hobbies/talents*
- *To earn profit/income*
- *To be self-reliant and independent/own boss*
- *To make use of spare time*
- *To take advantage of government incentives eg loans for youth/women*

(1×4)=4mks

2. Highlight **four** circumstances that can lead to creation of a monopoly. (4mks)

- *Existence of substantial economies of scale due to the size of a firm thus locking out everyone else from the market.*
- *Ownership of the source of raw material by a firm.*
- *Total control over market patents.*
- *Ownership of production rights or patents.*
- *Government policy giving exclusive rights to a firm to produce a particular product or offer a particular service.*
- *High initial capital investment making it hard for potential competitors to establish firm or firms.*
- *Takeovers and mergers of firms to create one big firm.*

(1×4)=4mks

3. Outline **four** differences between insurance and assurance.

	<b>Insurance</b>	<b>Assurance</b>
a	<i>Protection offered to property</i>	<i>Protection offered to life</i>
b	<i>Risk insured against may or may not happen</i>	<i>Risks insured against must happen(time is not known).</i>
c	<i>The insurance contract is renewable after every year(short term)</i>	<i>Insurance contract is for life and does not require renewal(long term)</i>
d	<i>Compensation is given to the owner of the property in case of loss/uncertain</i>	<i>Compensation is given to beneficiaries in case of death/certain</i>
e	<i>A replacement of the goods lost can be given/contract of indemnity.</i>	<i>Lost life can never be replaced/ not a contract of indemnity</i>
f	<i>Has no surrender value</i>	<i>Has surrender value</i>

(1×4)=4mks

4. Outline **four** benefits to a business that uses its own warehouse.

(4mks)

- *Business maintains a continuous supply of goods*
- *Customers are retained as they are sure of getting the goods on demand*
- *Goods are safe from theft*
- *Manufacturer can offer steady supply of seasonal goods*
- *Goods are protected from physical damage*
- *Goods are protected from pilferage*
- *Some goods mature/improve in quality eg wine while in warehouse*
- *Goods can be prepared for sale.*

(1×4)=4mks

5. With an aid of a diagram, illustrate a change in equilibrium points following a decrease in demand.

6. State **four** circumstances under which firms would form a cartel.

- *Where there is need to control output by each firm*
- *When there is need to be in control of market prices/market*
- *When there is need to eliminate stiff competition among the firms*
- *Where there is need to restrict entry of new firms into the market*
- *Where there is need to increase the firms bargaining power*
- *Where there is need to guarantee the income hence financial strength of the firms*

(1×4)=4mks

7. Highlight **four** measures that a government may take to reduce the mortality rate in a country.

- *Availability of better health care*
- *Food security*
- *Minimizing internal conflicts and wars*
- *Improving environmental sanitation*
- *Sensitizing of public on personal hygiene , HIV education, vaccination, family planning*
- *Disaster preparedness eg flood, fires*
- *Creation of an enabling environment to alleviate poverty*
- *Control of drug abuse and alcohol*
- *Control crimes*
- *Apply measures to reduce accidents*

(1×4)=4mks

8. In the recent past, the Kenyan government has been privatizing its state businesses. State **four** reasons for doing this.

- *To improve efficiency in their operations*
- *To generate revenue to the government through sale of shares*
- *To enhance competition*
- *To increase public participation in economic activities of the country*
- *To reduce government expenditure/dispose loss making public corporations*
- *To comply with conditions set by development partners and international donor agencies*
- *To enable the government to concentrate on other state responsibilities.*
- *To minimize political interference.*

(1×4)=4mks

9. Highlight **three** challenges that a person may encounter when using a mobile phone

- *May be damaging to ears*
- *Are relatively expensive to acquire*
- *Calls or messages sent may be tapped*
- *Its use may be limited where there is lack of network*
- *May not be used under certain circumstances eg banking halls/public service vehicles*
- *Possibility of loss of handset to thieves*
- *Relatively expensive to operate*

- *Requires constant charging*
- *Prone to misuse eg fraudsters*
- *Channel overloads(network congestion)*
- *Difficult to operate especially smart phones*

(1×3)=3mks

10. Highlight **four** ways in which a business idea can be implemented.

- *Creating a new good(waste materials)*
- *Improving an existing good(quality)*
- *Improving the process of production(efficiency)*
- *Improving marketing strategies*
- *Offering unique services*
- *Improving the quality of services*
- *Improving the quality of goods*

(1×4)=4mks

11. Outline **four** assumptions that would make circular flow of income in a two sector economy to hold.

- *Households spend all their income to buy goods and services*
- *No government participation*
- *All goods and services produced sold/no surplus*
- *No savings*
- *Firms spend all their income to pay for factor services*
- *The economy is closed/ no foreign trade*
- *A household can't be a consumer and producer at the same time*

(1×4)=4mks

12. On 1<sup>st</sup> January 2009, Kerubo Traders had Shs. 8,000.00 in cash and Shs. 70,000.00 at bank. During the month, the following transactions took place:

January

08: Paid Onsarigo Traders Shs. 15,000.00 by cheque and was given Shs.1,000.00 cash discount.

12: Sold goods for Shs. 24,000.00 cash and gave 5% discount

31: Banked all the cash except Shs. 5,200.00

Enter the above transactions in cash book and balance it off.

(5mks)

13. List **four** levels of inflation.

- *Hyperinflation/runaway*
- *Galloping/rapid*
- *Stagflation*
- *Creeping inflation/mild/moderate*

(1×4)=4mks

14. State **four** ways that may be used to control the amount of money in circulation by the Central Bank of Kenya.

- *Instructing commercial banks to only lend in priority areas/ selective credit control*
- *Practicing domestic borrowing /open market operations*
- *Increasing interest rates on loans advanced by commercial banks / bank rate increases*
- *Requirements that commercial bank maintain cash liquidity ratio*
- *Special/compulsory deposits*
- *Margin requirements higher(higher/lower collateral)*
- *Moral Permission*
- *Direct action/directives*

(1×4)=4mks

15. Outline **four** characteristics of a good tax system.

- *Equitably distributes the tax burden according to the payers ability to pay/equity*
- *Certain and clearly defines what the payer is expected to pay/certainty*
- *Convenient and easy for the taxpayer to meet the tax obligations/convenience*
- *Economical and allows the tax to be collected at the least cost/economy*
- *Flexible enough to allow for adjustments according to the prevailing conditions/flexibility*
- *Diverse as to capture as many sources as possible/diversity/broad based*
- *Simple enough to be understood by all the taxpayers/simplicity*
- *Elastic and able to generate more revenue with improved economic performance/elasticity*

(1×4)=4mks

16. State **four** reasons why food is considered a basic want.

- *One cannot do without it*
- *It is a felt need*
- *It cannot be postponed*
- *It has to be satisfied before secondary wants*

(1×4)=4mks

17. The following information was extracted from the books of Toboso Traders on 30<sup>th</sup> June 2021

Stock on January 1 <sup>st</sup> 2009	Shs. 60,000.00
Stock on December 31 <sup>st</sup> 2009	Shs. 30,000.00
Expenses	Shs. 35,000.00

Sales	Shs. 450,000.00
Margin	25%

**Calculate:**

(i) Purchases for the year (2mks)

(ii) Net profit for the year (2mks)

18. Give **four** current trends in product promotion.

- **Increased use of trade fairs and exhibitions, both locally and internationally.**
- **Increased use of radio and television for advertising.**
- **Emerging importance of public relations as many organizations have PR departments.**
- **Increased use of printed adverts due to high levels of literacy.**
- **Truthful, accurate and ethical promotion due to stiff competition and public awareness.**
- **Stiff competition which has led to fierce promotional strategies.**
- **Technological advancement that has resulted in more effective methods of product promotion.**
- **Formation of consumer-based pressure groups to lobby for the enactment of laws governing consumer and producer behaviour.**
- **Increased government regulation on the promotion of certain products e.g. alcohol**
- **Use of different promotional strategies jointly.**
- **Product promotion through the internet.**
- **Product promotion through the use of trucks and caravans.**

(1×4)=4mks

19. Name the ledger in which the following accounts are maintained.

	<b>Account</b>	<b>Ledger</b>
a	Yabasa(a debtor) a/c	<b>Sales</b>
b	Machines a/c	<b>Real/General</b>
c	Rent a/c	<b>Nominal/General</b>

d	Capital a/c	<i>Private</i>
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(1×4)=4mks

20. Highlight **four** benefits that would accrue to a firm located near other existing firms.

- *Enjoyment of existing infrastructure*
- *Access to labour*
- *Collaboration with existing firms e.g. research and development*
- *Auxiliary services*
- *Access to markets*
- *Social amenities*

(1×4)=4mks

21. List **four** ways through which the government may create a conducive environment for business operations.

- *Provision of subsidies / financial assistance/loans/ loan guarantee*
- *Reduction or removal of taxes/ tax holidays/ duty free privileges*
- *Licensing to reduce unhealthy competition*
- *Protectionist measures*
- *Training business people*
- *Getting markets for locally produced goods*
- *Provision of infrastructure*
- *Provision of security*

(1×4)=4mks

22. The following information was extracted from the records of Arti Traders for the month of January 2020.

2010

- Jan    02    : Bought a motor car on credit from Nyakweba Enterprises worth Shs. 23,000.00
- 05    : Sold an typewriter to Shon Traders on credit worth Shs. 40,000.00 for Shs. 35,000.00
- 08    : Sold old furniture whose book value was Shs. 20,000.00 for 25,000.00 on credit to Banderas Traders.

**Required:** Prepare the relevant book of original entry.

(4mks)

23. State **four** ways in which the balance of payment of a country may be improved.

- *Restriction of imports*
- *Diversification of exports*
- *Export promotion*
- *Devaluation of the country's economy*
- *Deflation/reduced money supply*
- *Value addition to increase the value of exports*
- *Encourage foreign investments*
- *Restriction of capital outflow.*

(1×4)=4mks

24. Customers to the offices of Fanisi Enterprises have been complaining of lack of etiquette from the secretaries. Highlight **four** measures that the secretaries can take to improve the office etiquette.

- *Show respect to both colleagues and visitors*
- *Observe courtesy in dealing with people*
- *Be organized at work at all times*
- *Be honest/truthful in performing duties*
- *Co-operative with other workers, visitors and management.*
- *Be punctual in offering services*
- *Be loyal to the organization*
- *Be diplomatic*
- *Make sound judgment*
- *Be accurate*
- *Have initiative*

(1×4)=4mks

25. Highlight **four** indicators of economic growth that may be observed as a country progresses.

- *Increased national income/GNP*
- *Increased national output/GDP*
- *Improved infrastructure*
- *Improvement in the provision of health facilities*
- *Increased education opportunities/improved literacy levels*
- *Increasing life expectancies*
- *Improved housing for the population*
- *Provision of more social amenities for leisure*
- *Improved standards of living for the citizens/reduction in poverty levels*
- *Increased per capita income*

- *Increased employment opportunities*
- *Reduced dependency ratio/self-reliance*
- *Reduced income disparities*
- *Good governance/democracy*
- *Reduction of negative cultural practices*
- *Improved technology*
- *Industrialization*
- *Increased entrepreneurial activities.*

(1×4)=4mks

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