
KENYA NATIONAL EXAMINATION COUNCIL

KCSE 2008

BUSINESS STUDIES PAPER 1

Marking Scheme

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Business Studies Paper 1

1.

- Development of individual skills.
- Increased output.
- Production of standardized goods.
- Maximum use of machinery.
- Development of new talents.
- Encourages invention/innovation.

- Saves time.
- Less use of mental and physical effort.
- High quality goods/services produced /offered.
- Increases employment opportunities.
- Reduces training time.
- Facilitates planning and management.

(Any 4x1=4

marks)

2.

- Must have at least one director.
- Shares not freely transferable.
- Public not allowed to subscribe for shares/shares not advertised/no prospectus needed.
- Has a minimum membership of two shareholders.
- Can start trading on receipt of a certificate of incorporation.
- Does not need to have the authorized minimum share capital before commencing operation.

(Any

4x1=4 marks)

3.

- Goods can be produced in advance to meet unexpected customer demand.
- Production done steadily without rush.
- Production can be continuous if need arises.
- Manufacturer can offer steady supply of seasonal goods.
- Goods are protected from physical damage.
- Manufacturers can store raw materials.
- Goods are protected from pilferage.
- Goods can be prepared for final sale by branding, grading, blending etc.
- Some goods mature/improve in quality while still in warehouse.

(Any 4x1= 4

Marks)

4.

$$\begin{aligned} \frac{PQ}{40} &= \frac{500 - 200}{40} \\ &= \frac{300}{40} \\ &= 7.50 \end{aligned}$$

(4 x 1 = 4 marks)

5.

- Relatively cheap.
- Relatively fast.
- Enhances confidentiality.
- Sender may get instant feedback.
- Easy to access other information (like advertising).
- Relatively easy to retrieve information.
- It is universal.

- Can advertise to others (wider market).
- Can send detailed information.
- Can be used for future reference/evidence.

(Any 4x1=4 marks)

6. (a) **Contra entry**:- This is a transaction affecting both sides of a two/three column cash book simultaneously. It is indicated by letter 'C'.
- (b) **Cash discount**:- This is a reduction/allowance given to a buyer by the setter for making prompt payment.

(4 marks)

7. (a) Sales invoice/outgoing invoice.
 (b) Debit note.
 (c) Credit note.
 (d) Purchases invoice.

(4 x 1 = 4 marks)

8. (i) Nominal.
 (ii) Nominal.
 (iii) Creditors/purchases ledger.
 (iv) Real/general ledger.

(4 x 1 = 4 marks)

9. (a) Working capital = CA - CL
 = 220000 - (98200 + 11800)
 = Shs110000

(4 x ½ = 2 marks)

(b) Return on capital = $\frac{\text{Net Profit} \times 100}{\text{Capital invested}}$
 = $\frac{85000 \times 100}{425000}$
 = 20%

(4 x ½ = 2 marks)

10. Expenses for the year

Expense A/c		
	Shs	Shs
Cash	85000	31 Dec 2005 Balance b/d 24000
Dec. 2006 Balance c/d	30000	Profit and Loss A/c 91000
	<u>115000</u>	<u>115000</u>

OR

	Shs
Accrued expenses 31/12/05	30000
Add cash paid	<u>85000</u>
	115000
Less: Accrued expenses 31/12/05	<u>24000</u>
	<u>91000</u>

(4 x 1 = 4 marks)

11. (a) **Complementary wants**:- where wants are simultaneous/when two or more items must be used together at the same time for example:- car and petrol. (2 marks)
- (b) **Wants become habitual**:- where one becomes addicted to a particular want/when

one develops a taste/liking for a commodity so that he needs it again and again. (2 marks)

- 12.
- Potential demand for goods/services.
 - Source of raw materials.
 - Security in the area.
 - Existing infrastructure.
 - Auxiliary services.
 - Legal requirements/government policy.
 - Source of labour.
 - Source of capital/technology.
 - Possible returns on investment/availability of market.
 - Chances of growth/expansion.
 - Effects on the environment.
 - Competition.
 - Social cultural environment.
 - Availability of space.
 - Political stability.
- (Any 4x1=4 marks)

- 13.
- Personal identification.
 - Initial deposit required.
 - A letter of introduction from an existing customer.
 - Physical contact address.
 - Be of majority age/above 18 years old.
 - Passport size photographs.
- (Any 4x1=4 marks)

- 14.
- Cost of the mode.
 - Distance from market.
 - Type/nature of goods.
 - Availability.
 - Reliability.
 - Security (free from theft, damage).
 - Value of the goods.
 - Speed and urgency.
 - Flexibility in terms of time and place.
 - Safety (free from accidents).
 - Quantity/amount of goods.
 - Terminal facilities.
 - Accessibility (ability to reach the required destination).
- (Any 4x1=4 marks)

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- 15.
- To encourage selling of quality goods.
 - To safeguard cultural practices.
 - To encourage disclosure of information about the product.
 - To ensure compliance with existing government legislation.
 - To curb environmental degradation.
 - To safeguard competitors in the market.
 - To safeguard consumers against misleading advertisements.
- (Any 4x1=4 marks)

- 16.
- Inequitable distribution of income.
 - Projects undertaken by the government could be of long-term nature.
 - The cost of living may have gone up thus eroding additional income earned.
 - Income earned could have been used in ways that do not benefit the people directly.
 - High population growth.
 - Economic growth may have been obtained through a strain on people's health.
 - Unequal regional development/expenditure pattern of the government.
- (Any 4x1=4 marks)

- 17.
- Rise in price of complementaries.
 - A fall in household income.
 - Fall in the price of substitutes.
 - Expected fall in the price of the product.
 - Negative tastes/preferences/fashion.
 - Decrease in population.
 - Unfavorable terms of payment.
 - Unfavourable government policy (for example:- a ban on commodity).
 - Unfavourable seasonal changes.
- (Any 4x1=4 marks)

18. Calculation of capital

Capital	=	Assets – liabilities
Assets	=	200000 + 100000 + 400000 + 160000 + 10000
	=	<u>Shs 870000</u>
Liabilities	=	10000 + 40000
	=	<u>140000</u>
Capital	=	Shs870000 – 140000
	=	<u>Shs730000</u>

(8 x ½ = 4

marks)

19.

- Check accuracy of posting transactions to the ledger.
- Check the arithmetical accuracy of ledger accounts.
- Provide account balances at year end.
- Check that debit and credit balances are in agreement.
- Summarizes the information in the ledger account.
- Facilitates the preparation of final accounts.

(Any 4x1=4

marks)

20. (a) *Assets*

- Resource owned and controlled by the business.
- Must have been acquired in the past.
- An item of value that can be measured reliably in monetary terms.
- Future benefits associated with the net expected to be received by business entity.
- They are fixed or current.

(Any 2x1=2

marks)

(b) *Liability*

- A present obligation for a business to settle as a result of past commitments.
- Settlement would reduce business assets.
- Amount involved can be measured reliably in monetary terms.
- Owed to outsiders.
- They are long term or current/short term.

(Any 2x1=2

marks)

21.

- Increase interest rate to discourage borrowings.
- Withdraw excess cash in circulation by issuing government bonds and treasury bills.
- Institute policies that make price of commodities steady (price control).
- Increase taxes on income to discourage extra income earned at expense of leisure.
- Raising liquidity ratio/cash ratio of commercial banks.
- Use of selective credit control measures.
- Increasing commercial banks special deposits with the central bank.
- Restriction of imports.
- Restricting wage increases.
- Raising margin requirements.
- Use of buffer stocks.
- Stimulation of production of goods and services.

- Appropriate regulations of printing national currency.
- Moral persuasion by government for people to buy only what is necessary.

(Any 4x1=4
marks)

$$\begin{aligned}
 22. \quad \text{Loss made} &= \frac{20}{100} \times 1,000,000 \\
 &= 200,000
 \end{aligned}$$

Contribution made by:

$$\begin{aligned}
 (i) \quad \text{Zebra} &= \frac{600,000}{1,000,000} \times 200,000 \\
 &= \text{Shs } 120,000
 \end{aligned}$$

$$\begin{aligned}
 (ii) \quad \text{Simba} &= \frac{400,000}{1,000,000} \times 200,000 \\
 &= \text{Shs } 80,000
 \end{aligned}$$

(8 x ½ = 4

marks)

23.

- Speedy customer service.
- Confidentiality of business records.
- Records can easily be retrieved.
- Time saving.
- Clean and tidy records produced.
- Minimum storage space required/ a large amount of information can be stored.
- Accuracy is enhanced.
- Cost of maintenance is lower.
- Records not easily damaged.
- Records not easily lost.
- Business image is enhanced.
- Less labour required/saves labour cost.

(Any 4x1=4

marks)

24.

- 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-operate with other workers, visitors and management.
- Be punctual in offering service.
- Be loyal to the organization.
- Be diplomatic.

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- Make sound judgment.
 - Be accurate.
 - Have initiative.
- marks)*

(Any 4x1=4

25.

- The standards for operating business are low/unhealthy operations.
 - Generalized exploitation of consumers on weights and measures.
 - There is need for the government to enforce existing laws, for example:- trading licence.
 - Hoarding is taking place.
 - Unsafe buildings.
 - Substandard goods.
 - Unfair prices.
 - False advertising.
 - Breach of contract.
- marks)*

(Any 4x1=4