
KENYA NATIONAL EXAMINATION COUNCIL

KCSE 2012

BUSINESS STUDIES PAPER 1

Marking Scheme

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Business Studies Paper 1

1. Circumstances under which cash with order may be used include:
 - (a) When the business is being conducted through post/mail order business.
 - (b) When the buyer is new to the seller.
 - (c) When the buyer's credit worthiness is in doubt.
 - (d) When it is the seller's policy not to advance credit.
 - (e) When the seller wants to avoid the high cost of debt collection.
 - (f) When the seller needs working capital.

(Any 4 x 1 = 4 marks)
2. Benefits that a farmer may derive from being a member of a producer co-operative society include:
 - (a) May receive inputs e.g. fertilizer at fair prices.
 - (b) The society may get better prices for the member's produce.
 - (c) May get transport facilities for produce to the market.
 - (d) May get better storage facilities for the produce.
 - (e) The society may grade, package and process the produce for the member.
 - (f) May receive input on credit from the society.
 - (g) Can acquire skills on better methods of production.
 - (h) May get dividends earned on shares held.

(Any 4 x 1 = 4 marks)
3. Benefits of globalization to a business enterprise include:
 - (a) Facilitates application of better technology for improved products.
 - (b) Encourages collaboration among businesses from different countries.
 - (c) Makes it possible to share new production techniques among the countries of the world.
 - (d) The business accesses a wider market.
 - (e) Facilitates the sharing of research findings by business globally.
 - (f) Enables business enterprises to take advantage of resources found in other parts of the world without relocating there.

(Any 3 x 1 = 3 marks)
4. Ways in which consumers may protect themselves against exploitation include:
 - (a) Inspecting goods before buying.
 - (b) Enlightening themselves about their rights as consumers.
 - (c) Familiarizing themselves with the obligations of traders.
 - (d) Forming consumer associations.
 - (e) Reporting cases of exploitation by traders to relevant authorities.
 - (f) Avoiding traders identified as exploiters.
 - (g) Demonstrate peacefully against the exploiter.
 - (h) Complain through the media.

(Any 4 x 1 = 4 marks)

5. Circumstances under which the following communication services may be used are:

- (i) Paging - when there is need to call a person to attend to an emergency in a specific location.
- (ii) Facsimile (fax) - where there is need to send a copy of a printed document urgently.
- (iii) Radio call - when there is need to give co-ordinated information through a central point.

(3 x 1 = 3 marks)

6.

Marigi Traders			
Trading Account			
for the year ended 30 th June 2009			
	Shs		Shs
Opening Stock	165,000	Sales	980,600
Add: Purchases	<u>720,000</u>		
Cost of goods available for sale	885,000		
Less: Closing stock	<u>100,520</u>		
Cost of goods sold	784,480		
Gross profit ($\frac{20}{100} \times 980,600$)	196,120		
	<u>980,600</u>		<u>980,600</u>

(10 x $\frac{1}{2}$ = 5 marks)

7. Tools of monetary policy that may be used by a government to reduce excess money in circulation include:

- (a) Open market operations - to sell government securities through the Central Bank.
- (b) Bank rate - raising interest rate on loans to banks.
- (c) Cash/Liquidity ratio can be raised for commercial banks.
- (d) Directives - can be given to commercial banks to charge higher interest rates on credit.
- (e) Raising margin requirement - raise the value of assets required as security for loans.
- (f) Selective credit control - freeze lending to some sectors of the economy.
- (g) Increase compulsory deposits made by banks to the central bank.
- (h) Use moral persuasion to reduce the supply of money.

(Any 4 x 1 = 4 marks)

8. Circumstances under which each of the following types of inflation may occur include:

(i) Creeping inflation

- (a) When the general price levels rise gradually over a period of time usually at single digit.
- (b) Where the value of money tends to be stable over time and the effects on the economy is not severe.

(Any 1 x 2 = 2 marks)

(ii) Hyper inflation

- (a) Where the general price levels rise at high rate usually more than two digits.
- (b) Where there is drastic loss in the value of money and the effect on the economy is very severe.

(Any 1 x 2 = 2 marks)

9. Forms of economic integration include:

- (a) Common Markets - to have a common currency to increase free trade and full mobility of factors of production.
- (b) Free Trade Areas - where barriers such as tariffs and quotas are removed.
- (c) Customs Unions - member countries charge common external tariffs.
- (d) Economic Union - where common economic institutions like banks are set to deal with monetary policy.

(4 x 1 = 4 marks)

10. Problems of development planning that a country may experience include:

- (a) Inadequate data on economic performance.
- (b) Unreliable data which may not be useful in planning.
- (c) Less qualified personnel to cope with the tasks of development planning.
- (d) Private sector activities are not easily coordinated.
- (e) Political rigidity.
- (f) Inappropriate use of technology.
- (g) Unplanned population.
- (h) Over-reliance on donor funding.

(Any 4 x 1 = 4 marks)

11. Benefits that a farming community would get from Nyaboke's shop include:

- (a) They can buy farm inputs from the shop.
- (b) They can buy consumer goods from the shop.
- (c) They can get goods on credit.
- (d) They can sell some of the farm produce to Nyaboke.
- (e) The shop can be used as a communication centre.
- (f) The shop can offer employment opportunities.
- (g) The shop ensures steady supply of goods to them.

(Any 4 x 1 = 4 marks)

12. Features of indirect production include:

- (a) Goods are produced for sale.
- (b) Goods are produced in large quantities.
- (c) There is specialization in production.
- (d) High quality goods are produced.
- (e) Modern technology is extensively used.
- (f) Promotes interdependence.

(Any 4 x 1 = 4 marks)

13. Factors that may lead to the success of a business include:

- (a) Availability of capital.

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- (b) Developed infrastructure.
 - (c) Availability of skilled labour.
 - (d) Government support.
 - (e) Access to markets.
 - (f) Aggressive marketing.
 - (g) Proper management of the business.
 - (h) Availability of security.
 - (i) Political stability.

(Any 4 x 1 = 4 marks)

14. Ways in which a good filing system facilitates the operations in an office include:

- (a) Easy retrieval of information.
- (b) Office is kept tidy.
- (c) Information is preserved for future reference
- (d) Security of documents is ensured.
- (e) Facilitates quicker decision making.
- (f) Ensures confidentiality of information by controlling access by unauthorized people.
- (g) Saves on office space.

(Any 4 x 1 = 4 marks)

15. Benefits that a country gets by encouraging trade among her citizens include:

- (a) Facilitates exchange of goods between people from different regions.
- (b) Creates employment opportunities.
- (c) Earns tax revenue from businesses.
- (d) Enhances relationships between communities.
- (e) Opens up remote areas.
- (f) Encourages specialization.
- (g) Improves the standards of living for citizens.
- (h) The country is able to dispose off her surplus produce.

(Any 4 x 1 = 4 marks)

16. Challenges that may be encountered in measuring national income using the output approach include:

- (a) Deciding on what goods and services to include in measuring national income.
- (b) Inadequate output data.
- (c) Some activities earning income are considered illegal and not included in the measurement of national income.
- (d) Determining the value of national output.
- (e) How to value output in the subsistence sector.
- (f) Deciding on the price to use for the goods that have been kept as stock.
- (g) Problem of valuing government input as they are not factored at market rates.

(Any 4 x 1 = 4 marks)

17. Measures that a government may take to reduce the mortality rate in a country include:

- (a) Availability of modern medicine.
- (b) Improved standards of living.

- (c) Minimizing internal conflicts and wars..
- (d) Improving environmental sanitation.
- (e) Sensitization on public and personal hygiene.
- (f) Disaster preparedness e.g. on floods, fires.
- (g) Effect traffic laws to curb road accidents.
- (h) Control abuse of alcohol and drugs.

(Any 4 x 1 = 4 marks)

18.

Highlife General Stores
Balance Sheet
as at 31st December 2008

	Shs	Shs		Shs	Shs
<u>Fixed Assets</u>			<u>Capital</u>		870,000
Land and building	650,000				
Motor Van	<u>150,000</u>	800,000	<u>Long Term Liabilities</u>		
			10 year bank loan		500,000
<u>Current Assets</u>			<u>Current Liabilities</u>		
Stock	470,000		Creditors	220,000	
Debtors	350,000		Bank overdraft	<u>80,000</u>	<u>300,000</u>
Cash	<u>50,000</u>	<u>870,000</u>			<u>1,670,000</u>
		<u>1,670,000</u>			

(10 x $\frac{1}{2}$ = 5 marks)

19. Entries to be made:

- (i) Credit entry.
- (ii) Credit entry.
- (iii) Debit entry.
- (iv) Debit entry.

(4 x 1 = 4 marks)

20. Documents to issue:

- (i) Invoice.
- (ii) Debit Note.
- (iii) Receipt.
- (iv) Credit Note.

(4 x 1 = 4 marks)

21. Conditions under which a warehouse may be considered to be operating efficiently include:

- (a) The warehouse should be conveniently located.
- (b) The warehouse should be managed by qualified personnel.
- (c) Operational procedures and guidelines should be in place.
- (d) Security systems should be in place.
- (e) Should have specialized buildings and equipment.
- (f) Should have good communication network.
- (g) Should ensure proper record keeping.

(Any 4 x 1 = 4 marks)

22. Advantages of promoting sales through the internet include:

- (a) A firm can advertise goods universally.
- (b) Access to world markets for increased sales.
- (c) Instant receipt of orders from all over the world.
- (d) Payment received through electronic fund transfer (EFT).
- (e) Reduced paperwork on customer records.
- (f) Reduced cost of sales promotion.

(Any 4 x 1 = 4 marks)

23. Methods of determining prices other than the forces of demand and supply include:

- (a) Bargaining/Haggling.
- (b) Abiding by government policy.
- (c) Tendering - offers are invited to quote for a price. Goods are sold to buyers with the quotation that best meets Zawadi's expectations.
- (d) Bidders make offers for goods and the bidder with the highest offer takes the goods (sale by auction).
- (e) Retail price maintenance - sell goods according to the dictates of the producer.
- (g) Can make use of written, audio, visual and motion facilities.
- (h) Offers faster delivery of adverts.
- (f) Price discrimination.

(Any 4 x 1 = 4 marks)

24. Factors that a firm may consider when deciding on the goods to produce include:

- (a) Expected demand - where demand is low, a firm will only produce a few goods or not produce at all.
- (b) Availability of capital resources - this would help decide on the level of production.
- (c) Time period - the firm must consider whether short or long term production is required.
- (d) Availability of labour - labour supply of the relevant skills would be required.
- (e) Cost of raw materials - the firm must consider availability and cost of buying and transporting raw materials.
- (f) Government policy - the firm must abide by the rules and regulations of the country.

(Any 4 x 1 = 4 marks)

25. Features of a perfectly competitive market include:

- (a) Large number of buyers and sellers.
- (b) The buyers and sellers have perfect knowledge of the market conditions.
- (c) No government interference in the market.
- (d) No transport costs are incurred.
- (e) Free entry and exit of firms.
- (f) There is perfect mobility of factors of production
- (g) Both buyers and sellers are price takers.
- (h) There is perfect mobility of factors of production.

(Any 4 x 1 = 4 marks)