
**KENYA NATIONAL EXAMINATION COUNCIL
REVISION MOCK EXAMS 2016
TOP NATIONAL SCHOOLS**

**ALLIANCE BOYS HIGH SCHOOL
BUSINESS STUDIES
THEORY
Paper 1
MARKING SCHEME**

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ALLIANCE BOYS HIGH SCHOOL KCSE TRIAL AND PRACTICE EXAM 2016

BUSINESS STUDIES PAPER 1

MARKING SCHEME

1. Characteristics of Services

- They are intangible
- They are inseparable from those providing them
- Services are highly perishable
- Quality of services cannot be standardized.
- Price paid for services is for experience but not for ownership.

2. Reasons why most Developing Countries still rely on extractive level of production.

- Storage of capital
- Lack of skilled manpower
- Lack of modern technology
- Heavy reliance in subsistence production
- Good climate hence engage in Agricultural production.
- Natural resources available hence engage in primary production.

3. Benefits of a business that uses e-mail.

- It is fast in sending and receiving information
- It is relatively cheap
- It makes it possible to communicate with persons far away in other continents.
- Information obtained can be kept as hard as soft copy for future reference.

4. Factors that influence entrepreneurship

- Infrastructure
- Presence of credit facilities
- Information available about markets
- Government policy of business ownership
- Level of taxation
- Legal controls
- Political stability
- Security available.
- Level of Technology.

5. Environmental factors

- (a) Internal
- (b) Internal
- (c) External
- (d) External

6. Factors that might have caused the shift.

- A decrease in the people's income
- A decrease in the price of the substitute
- An increase in the price of a complementary product.
- Deterioration in terms of sale e.g. Lower Discount.
- Where there is expectation that true price of the product will fall in the near future.
- The introduction of a new but cheaper substitute

7. Circumstances under which producers may prefer to sell their produce directly to the consumers.

- Where the consumers are localized.
- Where the product is of technical nature
- Where the product is of very high value.
- Where the produce is perishable
- Where the producer has his own retail outlet.

- Where the producer is producing goods as per the customers specification.
- Where true producer requires immediate feedback from consumers.
- Where the level of competition in the market is very high.
- Where the level of production is very low
- Where the consumers prefer buying directly from the producers.
- Where the producer does not want to share the profits with middlemen.
- Where that is a government policy.

8. Types of unemployment

- (a) Disguised hidden
- (b) Seasonal
- (c) Structural
- (d) Frictional

9. Books of original entry

- (a) Purchases Journal
- (b) Cash payment journal
- (c) Returns journal
- (d) Sales journal

10. Abbreviations in full

- (i) Gross Domestic Product
- (ii) Net National Product
- (iii) Gross National Product
- (iv) Disposable personal income.

11. Circumstances for issuing a credit note

- If Mueni had been overcharged
- If mueni had returned some goods due to damage.
- If Mueni was charged for goods not supplied.
- If Mueni returned empty containers whose cost was included in the voice.
- If Mueni had merited some discounts which was not deducted from the invoice.

12. LOLIONDO Enterprises

TRIAL BALANCE AS AT 6TH JANUARY 2009.

	DR	CR
Land	150,000	
Prepaid Insurance	85,500	
Purchases	18,000	
Return In	20,000	
Disc. Received		5,500
Sales		5,000
Capital		311,000
Return Out		6,000
Creditors		1,500
	<u>329,000</u>	<u>329,000</u>

13. NEGATIVE EFFECTS OF DEVELOPMENT

- It may lead to rural – urban migration
- It may lead to high levels of environmental degradation.
- It leads to emergence of social evils in the urban centres such as prostitution and crimes.
- It leads to the loss peoples traditional moral values

- It leads to stretching of social amenities in urban centres such as housing medical facilities and education facilities.

$$\begin{aligned}
 \text{14. (i) Current Ratio.} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\
 &= \frac{650,000}{650,000} = 1:1
 \end{aligned}$$

$$\begin{aligned}
 \text{(ii) Gross profit mark-up} &= \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100\%
 \end{aligned}$$

$$\text{(a) Gross Profit} = \text{Margin} \times \text{sales}$$

$$= \frac{20}{100} \times 2,00,000 = \underline{\underline{400,000}}$$

$$\begin{aligned}
 \text{(b) Cost of sales} &= \text{Sales} - \text{Gross Profit} \\
 &= 2,000,000 - 400,000 \\
 &= 1,600,000 \\
 &= 25\% \text{ or } \frac{1}{4}
 \end{aligned}$$

ALTERNATIVE I

Convert margin to mark-up

$$\frac{20}{100 \times 20} \times 100 = \frac{20}{80} \times 100 = 25\%$$

ALTERNATIVE II

Convert Margin to mark – up

$$\frac{1}{5} - 1 = \frac{1}{4} \text{ or } 25\%$$

3. Rate of Stock Turn Over

$$= \frac{\text{Cost of sales}}{\text{Average Stock}} = \frac{100,000 + 200,000}{2} = 150,000$$

$$\begin{aligned}
 \text{Stock turn over} &= \frac{1,600,000}{150,000} \\
 &= 10.67 \text{ times}
 \end{aligned}$$

4. Capital Employed

$$= \text{Fixed Assets} + \text{Current Asset}$$

$$= 5,000,000 + 650,000$$

$$= 5,650,000$$

Or

$$= \text{Capital} + \text{Net profit} + \text{Current Liabilities}$$

$$= (4,700,000 + 300,000) + 650,000$$

$$= 5,650,000$$

15. Differences between Savings and Current Account

Savings A/C	Current A/C
1. Funds are not withdrawn by use of a cheque	1. A cheque is usually used to withdraw money from the Account.
2. A minimum Balance must be	2. No minimum balance is required

<p>maintained in the A/C for it to remain operational</p> <p>3. Frequency of withdrawal may be regulated by the bank policy.</p> <p>4. Overdraft are not usually allowed</p> <p>5. Ascertain minimum deposit maintained on the Account may qualify to earn interest.</p> <p>6. A notice is required in case one wishes to withdraw beyond a certain maximum.</p>	<p>when making withdrawals from the A/C.</p> <p>3. Any amount of money can be withdrawn at any time as there is no restriction on the maximum to be withdrawns.</p> <p>4. May allow overdraft to customers.</p> <p>5. Money on this Account does not earn interest.</p> <p>6. There is no restrictions on the frequency of withdrawal from the Account.</p>
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16. Positive outcome of Inflation.

- (i) Debtors may benefit
- (ii) Businessmen may benefit
- (iii) Workers may be encouraged to work hard.
- (iv) Borrowers profits generated by businessmen.
- (v) Increases profits generated by businessmen.
- (vi) Increases production
- (vii) Better use of available resources.

17. Forms of consumer exploitation.

- (i) Very high prices for products
- (ii) Inferior quality good
- (iii) Misleading information about a product misleading advertisements.
- (iv) Harmful products
- (v) Hoarding of products
- (vi) Breach of contracts

18.

- (i) Account / Finance
- (ii) Purchasing
- (iii) Personnel /Human resources
- (iv) Administration

19. Circumstances under which a sole proprietor business may be dissolved.

- If the owner decides to transfer the business to another person.
- If a court of law orders that the business be dissolved.
- Where the continued existence of the business is in breach of the law.
- Where time objective for the establishment of the business has been achieved.
- If the owner of the business is declared bankrupt
- If the owner of the business dies.
- If the owner decides to close down the business.
- If the owner becomes incapacitated or insane.
- If the business makes continous heavy losses.

20.

Closing Capital = Opening Capital + Additional Investment + Profit – Drawings

$$\begin{aligned}
 19,500 &= 60,000 + 50,000 + 60,000 - D \\
 &= 170,000 - 19,500 \\
 &= \underline{150,500}
 \end{aligned}$$

21. Factors that may be considered by insurance company before determining premium to be charged for life Assurance policy.

- Age of the insured
- Occupation of the assured
- Health status of the Assured
- Amount / sum assured
- Length of contract

22. USE OF SIGNS IN COMMUNICATION

- Where there is language barrier
- When given direction e.g. road signs.
- When one or both parties are deaf.
- When silence is required e.g. hospital

23. Limitation of Human portorage

- Limited carrying capacity
- Very slow speed.
- Unsuitable for long distance since people get tired quickly
- Limited protection against damage by extreme weather conditions.

24. Factors to consider before Incurring public expenditure

- Whether the expenditure is sanctioned or approved by the relevant authority generally the parliament.
- The social benefit occurring to the society in order to provide maximum benefit.
- Whether there is proper financial management, proper record keeping of Accounts
- How flexible the expenditure is to allow alternations depending on the circumstances prevailing in the market.
- How economical the expenditure is to avoid wastage of scarce resources.
- How easily is it for the expenditure to be expanded or reduced.

25. Current trends in product promotion.

- (i) Internet
- (ii) Intensification of personal selling
- (iii) Promotion convoy
- (iv) Mobile phones.