

**BUSINESS STUDIES**

**MARKING SCHEME**

**PAPER 1**

1. Importance of studying business studies.

- Acquire knowledge and skills to start a business.
- Provide knowledge for further studies.
- Appreciate the role of business in society.
- Acquire positive attitude towards work.
- Enhance cooperation and understanding.
- Understand the role of market forces in price determination.
- Any other relevant point.

4 x 1 =

4mks

2. Advantages of partnership over sole proprietorship

- Large capital is raised.
- Better decision done to consultation.
- Share losses /risks.
- Share responsibilities.
- Variety of talents.

(4x1 = 4mks)

3. Identifying factors.

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

4 x 1 =

4mks

4. Characteristics of economic resources

- Scarcity
- Monetary value
- Uneven distribution.
- Combinability / complementarity.
- Have utility / usefulness.
- Transferability
- Mobility
- Alternative uses.
- Exhaustibility /renewability.

4 x 1 = 4mks

5. Role of warehousing in trade promotion.

- Ensure security of goods against theft.

- Ensure steady supply.
- Ensure continuity in production.
- Encourage production in large quantities.
- Provide services such as packaging / sorting/ blending/ grading/ trading.
- Protect goods against damage. 4 x 1 = 4mks

6. Circumstances that cause termination of insurance contract.

- When insured fails to act in utmost good faith.
- On maturity of the contract.
- If insured decides to discontinue the contract.
- If insured ceases to have insurable interest in the property.
- If insured fails to renew the contract.
- If court of law orders termination.
- When risk insured occurs and duly compensated. 4 x 1 = 4mks

7. Reasons for privatization.

- To raise revenue for the government.
- To encourage competition in the economy.
- Improve efficiency in management.
- To reduce government expenditure non performing/ loss making enterprises.
- To reduce excessive government control.
- To encourage foreign investors.
- To increase investment/ promote economic development in the economy.
- To confirm to IMF/ world board donor wishes. 4 x 1 = 4mks

8. Books of original entry

- a) General journal
- b) Cash receipt journal
- c) Sales journal
- d) Purchases returns/ returns outward journal. 4 x 1 = 4mks

9. Advantages of using M-pesa account

- Cheap to operate /less charges.
- Easy access/ readily available to customers.
- Money can be withdrawn easily.
- Money can be deposited easily.
- Utility bills can be paid.
- Transfer money from bank account to mpesa or vice versa
- It is safer to carry money in m-pesa account.
- Can buy airtime easily.
- Goods/ services can be paid.
- Make savings.
- Obtain soft loans.

4 x 1 = 4mks

10. Steps involved in personal selling.

- Identifying prospective customers.
- Preparing presentation.
- Establishing customer contract.
- Acquiring interest in the product.
- Dealing with objections.
- Choosing sales.
- After sale services.

4 x 1 = 4mks

11. Challenges of long channel in distributing farm produce.

- Some farm produce may perish before reaching consumers.
- May be expensive to consumers.
- May delay in reaching the market.
- May suffer contamination due to poor handling.
- Theft cases may occur.

4 x 1 = 4mks

12. Identify documents.

- Advice note
- Proforma invoice.
- Debit note.
- Statement of account.

4 x 1 =

4mks

13. Circumstances when a firm chooses to operate on small scale basis.

- Where the market is small.
- Where services are personalized.
- Fear of emergence of e.g economies of scale.
- Government policies.
- Used to retain control.

4 x 1 = 4mks

14.  $\text{Margin} = \frac{\text{G.p}}{\text{Net sales}} \times 100$

Net sales

$$\begin{aligned} \text{G.P} &= \text{sales} - \text{cost of goods} \\ &= 21000 - (8000 + 4500 - 9000) \\ &= 21000 - 3500 \\ &= 17500 \end{aligned}$$

$$\text{Margin} = \frac{17500}{21000} \times 100 = \underline{\underline{83.3\%}}$$

$$\text{Rate of stock turnover} = \frac{\text{cost of goods sold}}{\text{Average stock}}$$

Average stock

$$\begin{aligned} &= \underline{\underline{35000}} \\ \frac{(8000 + 9000)}{2} &= \underline{\underline{35000}} \\ &= \underline{\underline{0.41}} \end{aligned}$$

15. Causes of demand pull inflation.

- Increased government expenditure.
- Increase in wages / incomes.
- Favourable credit by commercial banks.
- Shortage of goods and services.
- Decrease in income taxes.
- Increased personal expenditure instead of saving.

4 x 1 =

4mks

16.

Rapu merchants  
Trial balance  
As at 31<sup>st</sup> dec 2006

	Dr	Cr
Land	110,000	
Debtors	64,000	
Capital		166100
Sales		95,000
Purchases	58,000	
Stock	35,000	
Creditors		47,700
General expenses	41,800	
	<u>308,800</u>	<u>308,800</u>

17. Negative implications of rapidly growing population in a country.

- Strain on available resources.
- Poor standard of living.
- High dependency rates.
- Strain on available public utilities.
- Increased crime rates.
- Shortage of food.
- Increase in unemployment levels.
- Inflation due to excess demand and limited supply. 4 x 1 =

4mks

18. Circumstances for transporting goods by train.

- When goods are bulky.
- When covering a long distance.
- When transporting goods which are not urgently required.
- When producer wants assurance of goods safety.
- When time schedule is fixed and goods required at specific time / date.
- When intended to cut on cost.

- When loading and off- loading facilities are required.
  - When intended to avoid risk of accidents.
- 4mks

19. Features of oligopoly.

- Firms are interdependent in decision making.
  - Products are close substitutes /similar.
  - Firms may engage in price wars.
  - Uncertainty of behavior of the firms.
  - Market made up of few firms.
  - Exists limiting factors to entry.
  - May lead to price rigidity / linked demand.
  - May be price leadership.
  - Firms may engage in non - price competition.
- 4mks

20.

	Assets	Liabilities	Capital
(a)	Increase	Increase	No effect
(b)	Decrease	Decrease	No effect
(c)	Decrease	No effect	Decrease
(d)	increase	No effect	Increase

21. Reasons for offering after sale services.

- To show customers how to handle sophisticated products.
  - To keep track of the performance of the products.
  - To improve corporate image.
  - To generate extra income by sale of spare parts.
  - To attract more customers.
  - To retain existing customers.
- 4 x 1 = 4mks

22. Features of capital as a factor of production.

- It is man-made.
- It is a basic of production.
- It is subject to depreciation.

- Can be improved through technology.

- Its reward is interest.

4 x 1 =

4mks

23. Characteristics of direct production.

- Goods / services are of low quality.

- Small-scale production.

- There is little or no specialization.

- Mechanization is minimal.

- Production for own use.

4 x 1 = 4mks

24. Identifying office machines.

- Franking machine.

- Cash register.

- Paper shredder.

- Stapler.

4 x 1 =

4mks

25. Circumstances when to use signal in communication.

- When place is much noisy.

- When both parties understand sign language / symbols.

- When one/ both are deaf.

- When people are of different languages.

- Where there is need to maintain silence.

- When giving direction.

- When there is need to warn of danger.

4 x 1 =

4mks