**565/1**

**BUSINESS STUDIES**

**FORM THREE**

## MARKING SCHEME

**1. Identify four factors that influence the level of capital of a business enterprise.(4 marks)**

1. Net profit /ploughed back profits/dividends✓
2. Additional investment/new investment ✓
3. Loss made✓
4. Drawings✓

***4x@ 1 mark=4 marks***

**2. Give four features of economic resources (4 marks)**

1. They are scarce/limited in supply✓
2. They have monetary value✓
3. They have alternative uses/occupational mobility✓
4. They are unevenly distributed fro one region to another✓
5. They have utility/usefulness✓
6. They are transferable from one party to another/geographical mobility✓
7. They can be combined to produce goods/services✓

***4x@ 1 mark=4 marks***

**3. Indicate with a tick(✓) in the appropriate column the business environment associated with each of the factors mentioned below. (4 marks)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FACTOR** | **INTERNAL** | **EXTERNAL** |
| i) | Government policy |  | ✓ |
| ii) | Technological environment |  | ✓ |
| iii) | Financial resources | ✓ |  |
| iv) | Firm structure | ✓ |  |

***4x@ 1 mark=4 marks***

**4. State four reasons why people engage in business activities. (4 marks)**

1. Creation of employment(for self/others)✓
2. Provision of goods/services(to others)✓
3. For profit generation/maximization✓
4. For prestige/enhance own image in society✓
5. To acquire what they lack✓

***4x@ 1 mark=4 marks***

**5. Outline four tools used by the government to influence the quantity of a product supplied in a market. (4 marks)**

1. Imposing taxes✓
2. Offer of subsidies to producers✓
3. Use of quotas✓
4. Use of price controls✓

***4x@ 1 mark=4 marks***

**6. Highlight four factors that may be used to determine the size of a firm. (4 marks)**

1. Volume of output✓
2. Floor area covered/size of land occupied✓
3. Quantity of capital invested✓
4. Number of employees engaged✓
5. Production methods/techniques/technology✓
6. Market size served✓
7. Volume of sales✓

***4x@ 1 mark=4 marks***

**7. Indicate by writing the word “TRUE” or “FALSE” against the statement describing characteristics for goods and services. (3 marks)**

|  |  |  |
| --- | --- | --- |
|  | **STATEMENT** | **TRUE or FALSE** |
| a) | Goods are inseparable from their producers | FALSE✓ |
| b) | Services can be standardized in form of size, appearance or quality | FALSE✓ |
| c) | Services are experienced not owned | TRUE✓ |
| d) | Goods are not always perishable | TRUE✓ |
| e) | Services are highly perishable | TRUE✓ |
| f) | Goods can change in value overtime | TRUE✓ |

***6x ½ mark=3 marks***

**8. The central bank is a banker to the government. Outline four banking services it provides to the Kenya government. (4 marks)**

1. Giving financial advice to the government✓
2. Receiving payment on behalf of the government from foreign donors/income tax depts./custom etc✓
3. Giving credit/loan to the government✓
4. Making various payments on behalf of the government✓
5. Getting credit/loan from other sources on behalf of the government✓
6. Collecting credits/loans from other sources on government behalf✓

***4x@ 1 mark=4 marks***

**9. The following are types of advertising: Product advertising, competitive advertising, informative advertising and institutional advertising. In the table below, match each type with its appropriate description. (4 marks)**

|  |  |  |
| --- | --- | --- |
|  | **TYPE OF ADVERTISING** | **DESCRIPTION** |
| a) | INSTITUTIONAL✓ | Promotes the name of the manufacturer |
| b) | COMPETITIVE✓ | Persuades the consumers to buy a product |
| c) | INFORMATIVE✓ | Creates awareness about a product |
| d) | PRODUCT✓ | Promotes a particular brand of a product |

***4x@ 1 mark=4 marks***

**10. Outline four barriers to written communication. (4 marks)**

1. Standard/level of language✓
2. Poor handwriting/Illegibility/Inability to be read/not clear✓
3. Unfamiliar terms/language/jargon/foreign language/technical/long✓
4. Hostile tone/too persuasive to create misconception✓
5. Unfamiliar subject/topic✓
6. Blindness/visual impairment✓

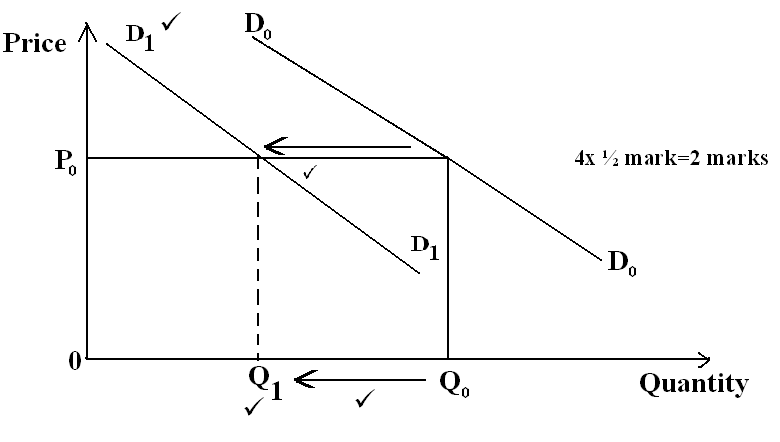
***4x@ 1 mark=4 marks***

**11. For each of the following cases, name the motive for holding money. (4 marks)**

|  |  |  |
| --- | --- | --- |
|  | **CASE** | **MOTIVE** |
| **a)** | To meet daily bus fare expenses | TRANSACTIONARY✓ |
| **b)** | To meet unexpected medical emergencies | PRECAUTIONARY✓ |
| **c)** | To stock maize when prices fall | SPECULATIVE✓ |
| **d)** | To meet daily food requirements | TRANSACTIONARY✓ |

***4x@ 1 mark=4 marks***

**12. The diagram below shows the current demands for petrol.**

****

1. **What is the effect of an increase in the price of cars on demand for petrol.**

**(2 marks)**

Few/less cars✓ would be demanded and this would decrease/reduce✓ the demand for petrol at the same price

**2*x@ 1 mark=2 marks***

1. **Draw a new demand curve on the diagram above to show the effect of an increase in price of cars. (2 marks)**

Check the diagram: *4x@ ½ mark=2 marks*

**13. State four reasons why few Kenyans take out life assurance policies. (4 marks)**

1. Ignorance of the importance of these policies✓
2. Widespread poverty/low incomes✓
3. Fear of losing their money because of past experience of collapse of companies✓
4. Lack of enough knowledge to interprets the clauses in the policy✓
5. Corruption and embezzlement of funds by insurance company officials, resulting in delays of compensation✓
6. The elaborate and time consuming procedures of claiming compensation✓

***4x@ 1 mark=4 marks***

**14. For each of the following transactions given below, indicate in the appropriate columns, the source documents and the book of original entry in which the transaction should be recorded. (4 marks)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Transaction** | **Book of original entry** | **Source document** |
| a) | Sale of tables on credit | GENERAL JOURNAL✓ | INVOICE ISSUED✓ |
| b) | Purchase of stock on credit | PURCHASE JOURNAL✓ | INVOICE RECEIVED✓ |
| c) | Goods returned by a customer | SALES RETURNSJOURNAL✓ | CREDIT NOTE RECEIVED✓ |
| d) | Payment to a creditor | CASHBOOK/CASH PAYMENT JOURNAL✓ | RECEIPT/CASH SALE SLIPS✓ |

***4x@ 1 mark=4 marks***

**15. Outline four sources of a business idea. (4 marks)**

1. Newspapers/Magazines✓
2. Shows and exhibitions✓
3. Hobbies✓
4. Vocational training and experience✓
5. survey✓
6. market gaps/shortages
7. events/games/activities

***4x@ 1 mark=4 marks***

**16 Write down the international trade document that relate to each of the following statements**

|  |  |  |
| --- | --- | --- |
|  | **STATEMENT** | **DOCUMENT** |
| a) | Indicate the country of origin of the imported goods | Certificate of origin✓ |
| b) | A document of title to the goods traded in international trade | Bill of lading✓ |
| c) | Used to demand for payment before delivery of goods | Proforma invoice✓ |
| d) | Facilitates an importer to obtain credit | Letter of credit✓ |

***4x@ 1 mark=4 marks***

**17. The financial period of Buteba Traders ends on 31st December every year. On 31st December 2011 the business had the following assets and capital.**

**Item Sh.**

**Capital 24,000**

**Stock of goods 1,500**

**Debtors 2,000**

**Machinery 20,000**

**Cash 4,000**

**Required:**

**Calculate the total liabilities and prepare a balance sheet as at 31st December 2011. (4 marks)**

BUTEBA TRADERS

BALANCE SHEET

AS AT 31ST DECEMBER 2011

|  |  |
| --- | --- |
| Sh.  Machinery 20,000✓  Debtors 2,000✓  Stock 1,500✓  Cash 4,000✓  27,500 ✓ | Sh.  Capital 24,000✓  Liabilities 3,500✓✓  \_\_\_\_\_\_  27,500 |

***8x@ ½ mark=4 marks***

**18. Highlight four circumstances under which a country may be classified as underdeveloped**

**(4 marks)**

1. When the rate of unemployment is high✓
2. When there is high population growth/mortality rates✓
3. When the standard of living of citizens is low✓
4. When productivity in a country is low✓
5. When the country has a high dependency ratio✓
6. When there is inefficient /traditional technology✓
7. When the country has a large subsistence/direct economy✓

***4x@ 1 mark=4 marks***

**19. Record the following transactions in the cash book of Jerussa Enterprises for the month of January 2011 and balance it.**

**2011**

**Jan. 1: Cash in hand sh. 10,000, cash at bank sh. 20,000**

**Jan. 10:Paid Luke h. 8,800 and Joan sh. 11,000 after deducting 12% cash discount in each case by cheque**

**Jan. 30:Banked all the cash leaving sh. 1,200 in the cash box. (5 marks)**

**JERUSSA ENTERPRISES**

**CASHBOOK FOR JANUARY 2011**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Disc. Allow.** | **Cash** | **Bank** | **Date** | **Details** | **Disc. Rec.** | **Cash** | **bank** |
| 2011  1.1.11  30.1.11  30.1.11 | Bal. b/d  Cash(c)  Bal. b/d | \_\_\_\_\_ | 10,000✓  \_\_\_\_\_\_  10,000  1,200 | 20,000✓  8,800✓  \_\_\_\_\_\_  28,800  9,000 | 2011  10.1.11  10.1.11  30.1.11  30.1.11 | Luke  Joan  Bank(c)  Bal. c/d | 1,200✓  1,500✓  \_\_\_\_\_\_  2,700 | 8,800✓  1,200✓  10,000 | 8,800✓  11,000✓  9,000✓  28,800 |

***10x @ ½ mark=5 marks***

**20. State four benefits that consumers get from small scale retailers. (4 marks)**

1. Free advice on product use/comparison/availability etc✓
2. Personal attention✓
3. Stable prices✓
4. Steady supply of goods
5. Credit facilities✓
6. Place utility i.e goods are bought nearer✓
7. Small quantities( break bulk)✓

***4x@ 1 mark=4 marks***

**21. The following information was obtained from the books of Okame Traders on 30th June 2011.**

**Opening stock 8,000**

**Purchases 53,000**

**Sales 62,900**

**Returns outwards 2,700**

**Closing stock 12,700**

**Prepare Okame TradersTrading Accounts for the year ended 30th June 2011. (4 marks)**

OKAME TRADERS

TRADING ACCOUNT

DR. FOR THE YEAR ENDED 30-6-2011 CR.

|  |  |
| --- | --- |
| Sh.  Opening stock 8,000✓  Add purchases 53,000✓  Less returns outwards 2,700✓  COGAFS 58,300  Less closing stock 12,700✓  Cost of goods sold(COGS) 45,600  Gross profit 17,300✓✓  62,900 | Sh.  Sales 62,900✓  \_\_\_\_\_\_  62,900 |

**8*x@ ½ mark=4 marks***

22. **The following balances were extracted from the books of Mwambo Wholesalers for the year ended 31st December, 2011..**

Sales 500,000

Purchases 320,000

Opening stock(1.1.2011) 80,000

Closing stock(31.1.2011 40,000

Debtors 140,000

Creditors 90,000

Calculate

1. Margin
2. Current ratio
3. Rate of stock turn over

a) Margin

Gross profit=Sales-(opening stock+ purchases-closing stock)

=500,000-(80,000+320,000-40,000)

=140,000

Margin✓✓

=28% or 0.28 or ✓✓

b) Current ratio= 

**=**=

=🗸✓

c) 

= 6 times✓ ***8 x @ ½ mark=4 marks***

23. **The following statistics refer to a hypothetical economy. Use it to calculate the per capita income using the income approach. (4 marks)**

**(Ksh in millions)**

**Total profits by entrepreneurs 80,0000**

**Total rent received by landlords 130,000**

**Total interests earned by financial institutions 40,000**

**Total salaries paid by employees -50,000**

**Total population 40**

Gross National Product

=(80,000+130,000+40,000+50,000-50,000) Millions ✓

=250,000 millions✓

Per capita income=✓

=Ksh. 6,250✓

***4x@ 1 mark=4 marks***

**24. Give four features that differentiate a public corporation from a public limited company.**

**(4 marks)**

|  |  |
| --- | --- |
| Public corporation | Public limited company |
| 1. Formed under Act of Parliament 2. Fully owned by the government 3. Initial capital is by the government 4. Management/ board appointed by government/president 5. Set up to offer essential services 6. Profits are earned by the government 7. Financial statements presented to parliament | 1. Formed under Company’s Act 2. Owned by private people with shares 3. Initial capital through share issue/dobent 4. Management/Board elected by shareholders 5. Set up to make profit 6. Profits shared by share holders as dividends 7. Financial statements presented in press |

***4x@ 1 mark=4 marks***

**25. Highlight four undesirable effects of inflation to the Kenyan economy (4 marks)**

i) Has adverse effects on contractual agreement for provision and supply of goods and services✓

ii) Weakens the value of the local currency✓

iii) Leads to decline in the standards of living for people earning fixed income✓

iv) Lenders loose to borrowers✓

v) Increases the cost in implementation of development projects/plans✓

vi) Leads to balance of payment deficits✓

Vii) Leads to fall in investment and increase level of unemployment ✓

viii) High inflation rates lead to general industrial unrest✓

***4x@ 1 mark=4 marks***