

**MARKING SCHEME**

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565/1

**BUSINESS STUDIES**

**PAPER 1**

**JUNE 2022**

**TIME: 2 HOURS**

**SUKELLEMO PREMOCK EXAM**

Instructions to Candidates

- (a) Write your name in the spaces provided above.
- (b) Sign and write the date of the examination in the spaces provided above
- (c) Answer all the questions
- (d) All answers must be written in the spaces provided in this booklet
- (e) This paper consists of 9 printed pages
- (f) Candidates should check the question paper to ascertain that all pages are printed as indicated and no questions are missing.

**For Examiner's use only**

<b>Question</b>	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Marks</b>													

<b>Question</b>	14	15	16	17	18	19	20	21	22	23	24	25
<b>Marks</b>												

**TOTAL MARKS**

1. Outline 4 skills that an individual would develop when learning business studies.(4mks)

- ❖ **Skills to use in starting and running a business**
- ❖ **Skills in training in business related courses**
- ❖ **Skills in understanding subjects that are related to business studies**
- ❖ **Skills in hard work**
- ❖ **Skills in interacting with other members of the society**
- ❖ **Skills necessary for rational buying and selling**
- ❖ **Skills on critical thinking and rational judgement**

2. Kenya usually hosts international sporting events such as world cross country championship. Highlight 4 business opportunities that arise out of such events. (4mks)

- ❖ **showcasing Kenya as a tourist destination**
- ❖ **Accommodation in hotels**
- ❖ **Tour guiding**
- ❖ **Transport facilities for the guests**
- ❖ **Sale of sports equipment**
- ❖ **Sale of curios, drinks**

3. Outline 4 characteristics of public goods.(4mks)

- ❖ **They are provided by the government**
- ❖ **They are inclusive ,that is, anyone can use them**
- ❖ **They tend to be provided at no cost (for free ) or at a lower price to benefit as many people as possible**
- ❖ **Their production is financed by taxation or other government resources**
- ❖ **Their consumption may not reduce the amount available for others e.g government security**

4. Highlight 4 reasons why businesses should observe ethical practices. (4mks)

- ❖ **To ensure fair competition**
- ❖ **To protect consumers/customers**
- ❖ **To avoid discrimination in business**
- ❖ **To protect the rights of employees to promote social responsibility**
- ❖ **To maintain a positive image**
- ❖ **To abide by the country's laws**
- ❖ **To maintain suppliers**
- ❖ **To promote positive cultural practices**

5. Outline 4 circumstances that would make an office manager to replace an existing machine with modern one.(4mks)

- ❖ **When it has outlived its usefulness(obsolescence)**
- ❖ **Where a faster machine is required**
- ❖ **Where maintenance costs are higher than the cost of acquiring modern machine**
- ❖ **Where there is need for increased production**
- ❖ **Where training skills have changed**
- ❖ **Where high quality work is required/ accuracy**
- ❖ **Where he wants to save on labour**
- ❖ **Where there is need to improve image of company/prestige**
- ❖ **If the new one is capable of multiple uses**
- ❖ **If the machine is capable of reducing fraud**

6. Outline 4 measures that may be taken to conserve forests in Kenya.(4mks)

- ❖ **Prosecuting those who cut trees**
- ❖ **Practicing reforestation**
- ❖ **Practicing afforestation**
- ❖ **Banning charcoal burning**
- ❖ **Using alternative sources of energy e.g biogas, solar energy**
- ❖ **Practising agroforestry**
- ❖ **Conducting tree planting campaigns e.g cut one tree , plant two**

7. State 4 similarities between a bill of exchange and a promissory note.(4mks)

- ❖ **Both are negotiable**
- ❖ **Both are evidence of a debt**
- ❖ **Both may be discounted or endorsed before maturity**
- ❖ **Both allow adequate time within which to organize for the payment of the value of the bill or note**

8. John and Peter bought a Nissan matatu worth sh. 3,000,000. John paid sh. 2,000,000 and Peter sh. 1,000,000. They insured the matatu for a comprehensive cover for shs 2,500,000. Later the matatu was involved in an accident to a loss of sh 1,500,000. How much were they compensated and give a reason in support of your answer? (4 marks)

**Compensation =  $\frac{\text{Sum insured} \times \text{loss sustained}}{\text{Actual value of the property}}$**

$$\frac{2,500,000 \times 1,500,000}{3,000,000} = \text{shs} 1,250,000 \checkmark$$

$$\text{John} - \frac{2}{3} \times 1,250,000 = \text{shs} 833,333 \checkmark$$

$$\text{Peter} - \frac{1}{3} \times 1,250,000 = \text{shs } 416,667\checkmark$$

**Reason: They had under insured the Matatu**✓

9. Outline 4 benefits that accrue to the government as a result of privatization of public enterprises.(4mks)

- ❖ **Government obtains revenue from the proceeds/sale of shares**
- ❖ **Government can concentrate on other state responsibilities**
- ❖ **Offers opportunities for private citizens to participate in business**
- ❖ **To enhance efficiency in the management**
- ❖ **Reduce government expenditures**
- ❖ **Obtain revenue from taxes**
- ❖ **Attract foreign aid**
- ❖ **Attract foreign investments**

10. State 4 types of complaints that a consumer organization may receive from consumers.(4mks)

- ❖ **Poor quality goods and services**  
**/damaged goods**
- ❖ **Incorrect weight and measures**
- ❖ **unfair pricing**
- ❖ **Poor hygienic conditions**
- ❖ **Expired goods**
- ❖ **Non-compliance to building regulations**
- ❖ **Contra-band items/ prohibited goods**
- ❖ **Harmful goods**
- ❖ **Hoarding**
- ❖ **Misleading advertisements**

11. On 1<sup>st</sup> October 2021, Sambu bought goods on credit quoted at sh 240,000. Terms of sale were: 20% trade discount, and 10% cash discount if payment was made on 29<sup>th</sup> October 2021. Calculate the amount paid if payment was made on 26<sup>th</sup> October 2021. (4mks)

$$20\% \times 240,000 = 48,000\checkmark$$

$$\text{Price to be paid } 240,000 - 48,000 = 192,000\checkmark$$

$$\text{Cash discount } 10\% \times 192,000 = 19,200\checkmark$$

$$\text{Amount paid } 192,000 - 19,200 = 172,800\checkmark$$

### Alternative

$$80\% \times 240,000\sqrt{=} = 192,000\sqrt{}$$

$$90\% \times 192,000\sqrt{=} = 172,800\sqrt{}$$

4 X1 =4mks

12. Give 4 reasons why countries are opting for electric trains instead of diesel engine trains.(4mks)

- ❖ **Electric trains are faster than diesel trains**
- ❖ **Electric trains are more economical than diesel trains**
- ❖ **Electric trains are eco friendly**
- ❖ **Electric trains require less manpower than diesel trains**
- ❖ **Electric trains are safer than diesel trains**
- ❖ **Electric trains have lower costs of maintenance as compared to diesel trains**

13. Outline 4 benefits of using the internet for office communication.(4mks)

- ❖ **Reduced cost of communication**
- ❖ **Provides unlimited space for filing**
- ❖ **A fast means of communication**
- ❖ **Provides a source of information for research**
- ❖ **Facilitates quick decision making reduce paper work and the need for files**
- ❖ **Convenient while communicating**
- ❖ **Communication can take place at all times**
- ❖ **Information can be passed to many people at different places at the same time**

14. State 4 characteristics of assets. (4mks)

- ❖ **A 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**
- ❖ **They can be fixed or current**
- ❖ **Future economic benefit associated with the net expected to be received by business entity**

15. Outline 4 circumstances under which a firm would be located near the market.(4mks)

- ❖ **Where the final product is bulky**
- ❖ **Where the market is localized**
- ❖ **Where products are highly perishable**
- ❖ **Where products are fragile/delicate/breaking**
- ❖ **Where the firm aims at reducing transportation/ distribution costs**

- ❖ Where the firm is very small in size
- ❖ In case it is government policy
- ❖ Where the value of final product is low

16. State 4 causes of negative shift in demand curve.(4mks)

- ❖ Negative taste towards the product
- ❖ Decrease in price of substitutes
- ❖ Increase in the price of complementary goods
- ❖ Decrease in population
- ❖ Fall in consumers incomes
- ❖ Unfavourable seasonal changes
- ❖ Future expectations of price reductions

17. Mention 4 features of a market.(4mks)

- ❖ Availability of buyers / consumers
- ❖ Availability of goods / services ( products)
- ❖ A platform for conducting transactions(area/situation/ interaction)
- ❖ Availability of sellers/ producers
- ❖ Availability of medium of exchange

18. Using a (+) for increase, (-) for decrease and (0) for no effect, indicate the effects of the following transactions on Assets, Liabilities, Capital and the balance sheet total. (4 marks)

Description	Assets	Liabilities	Capital	Balance sheet totals
a) Bought goods worth sh 5000 on credit	+	+	0	+
b) Sold goods worth sh 7000 for sh 8000/= Cash	+	0	+	+
c) The Proprietor took goods worth sh 2000 for personal use	-	0	-	-
d) The Proprietor donated personal motor vehicle to the business	+	0	+	+

$$16 \times \frac{1}{4} = 4 \text{ marks}$$

19. State 4 reasons why most companies have adopted the use of roadshows to promote their products.(4mks)

- ❖ **The interaction between the sales people and consumers enable them to get immediate feedback**
- ❖ **It covers a wide geographical area**
- ❖ **It has a personal appeal accompanied by entertainment**
- ❖ **It is convenient because goods come to the consumer's doorstep**
- ❖ **Consumers can clarify issues about the product and company**
- ❖ **Demonstration is possible to explain various features of their products**

20. Give 4 reasons for the increased use of mobile phones in banking. (4mks)

- ❖ **They are safe than carrying cash**
- ❖ **Easy to transact (easy operation)**
- ❖ **Its convenient because transactions can be conducted anywhere/portability**
- ❖ **It saves on time since there is no travelling/queuing for the service**
- ❖ **The speed of transaction is fast/quick speed**
- ❖ **It reduces paperwork by eliminating the need for physical files and oher documentation**
- ❖ **The use of pin enhances security**
- ❖ **Reduced transaction costst ( travel and bank charges)**
- ❖ **Easy access to transaction records e.g mini statements, salaries in accounts**
- ❖ **Easy access to credit facilities e.g M-shwari**
- ❖ **It is a requirement by service providers e.g utility bills**

21. State 4 negative effects of long chain of distribution to the buyer. (4mks)

- ❖ **Results in increased commodity prices**
- ❖ **Delay in delivery of goods**
- ❖ **High risks of damage of goods during handling**
- ❖ **Perishable goods may be damaged**
- ❖ **Tampering with the quality of goods**

22. Given the statements in the table below, indicate the type of entry to be made in the relevant ledger accounts. (4mks)

	Statement	Type of entry
i)	An increase in revenue	<b>Credit (CR)</b>
ii)	A decrease in asset	<b>Credit (CR)</b>
iii)	An increase in an expense	<b>Debit (DR)</b>
iv)	A decrease in a liability	<b>Debit (DR)</b>

23. State 4 activities that take place in a warehouse.(4mks)

- ❖ **Receiving goods into the warehouse**
- ❖ **Storing the goods**
- ❖ **Protection of the goods from all types of risks e.g theft, breakage and deterioration from adverse weather condition**
- ❖ **Releasing of goods from the warehouse**

24. Highlight 4 challenges that cooperative societies in Kenya face.(4mks)

- ❖ **Interference from the government and politicians**
- ❖ **Inadequate resources which includes capital to fund their operations**
- ❖ **Poor management**
- ❖ **Corruption and misuse of funds by the members**
- ❖ **Withdrawal of members leading to cash flow problems**
- ❖ **There is lack of commitment to the cooperative by the members**
- ❖ **Most cooperatives fail to maintain their secrets**

25. The following information relates to Nyeri Enterprise for the period ended 31<sup>st</sup> December 2020

Sales	sh 1,000,000
Opening stock	sh 100,000
Closing stock	25% of cost of sales
Gross profit margin	20%

(4mks)

Calculate:



i) Gross profit

$$\text{Margin} = \text{GP} / \text{Net Sales} \times 100$$

$$20\% = \text{GP} / 1,000,000 \quad \checkmark$$

$$\text{GP} = 200,000 \checkmark$$

ii) Cost of sales

$$= \text{Sales} - \text{GP}$$

$$= 1,000,000 - 200,000 \checkmark$$

$$= 800,000 \checkmark$$

iii) Purchases

$$\text{Cost of sales} = \text{opening stock} + \text{purchases} - \text{closing stock}$$

$$\text{Purchases} = \text{Cost of sales} + \text{closing stock} - \text{opening stock}$$

$$= 800,000 + 200,000 - 100,000 \checkmark$$

$$= 900,000 \checkmark$$

iv) Rate of stock turnover

$$= \text{Cost of sales} / \text{average stock}$$

$$\text{Average stock} = (\text{opening stock} + \text{closing stock}) / 2$$

$$100,000 + 200,000 / 2 = 150,000$$

$$\text{ROSTO} = 800,000 / 150,000 \checkmark$$

$$= 5.33 \text{ times} \checkmark$$