



565/1 MS  
BUSINESS STUDIES  
Paper 1  
MARKING SCHEME  
DECEMBER 2022

THE KENYA NATIONAL EXAMINATIONS COUNCIL  
KENYA CERTIFICATE OF SECONDARY EDUCATION  
BUSINESS STUDIES  
Paper 1

MARKING SCHEME  
(CONFIDENTIAL)

THIS MARKING SCHEME IS THE PROPERTY OF THE KENYA NATIONAL EXAMINATIONS COUNCIL AND IT MUST BE RETURNED TO THE KENYA NATIONAL EXAMINATIONS COUNCIL AT THE END OF MARKING.

This marking scheme consists of 10 printed pages.

1.	<b>Areas in Business Studies described:</b> a) Accounting ✓ b) Commerce ✓ c) Economics ✓ d) Entrepreneurship ✓	(Any 4 x 1 = 4 marks)
2.	<b>Limitations of direct trade include:</b> a) Goods produced are of low quality/substandard b) Goods/services produces are of low quality/does not result into surplus c) Does not encourage trade/no revenue earned d) Consumers lack variety to choose from e) Does not encourage inventions and innovation f) It is tiring/producer may be overworked	(a) Higher cost of distribution & operation will be borne by the producer in order to serve all consumers. (b) It may be harder to reach potential customers with the network where they are widely scattered. (c) Its suitable for limited range of products may not be applicable in distribution of all products. (Any 4 x 1 = 4 marks)
3.	<b>Calculation of compensation:</b> a) Compensation = $\frac{\text{Sum Insured}}{\text{Real value}} \times \text{Loss}$ ✓ $= \frac{800,000}{1,000,000} \times 800,000$ ✓ $= \underline{\underline{\text{K}640,000}}$ ✓ b) The house was <u>underinsured</u> . ✓ 1 Under the principle of indemnity.	$6 \times \frac{1}{2} + 1 = 4 \text{ marks}$ Any 3x1 = 3 marks Any 1x1 = 1 mark (Any 4 x 1 = 4 marks)
4.	<b>Representation by letters (a), (b), (c) and (d):</b> a) Firms b) Households c) Payments for factor inputs / payment of factors of production / wages. d) Factors of production / payment for goods and services / Factors	(4 x 1 = 4 marks)



5.	<p><i>of books</i></p> <p><b>Types of original entries where the transactions are recorded:</b></p> <p>a) Purchases Journal ✓</p> <p>b) Sales Returns Journal ✓ / <i>Returns Journal</i></p> <p>c) Cash Receipt Journal/Cash Book ✓</p> <p>d) General Journal / <i>Journal proper</i></p>	(4 x 1 = 4 marks)
6.	<p><b>Circumstances under which C.W.O would be preferred include:</b></p> <p>a) <u>When the buyer is new to the seller</u></p> <p>b) <u>When the buyer's creditworthiness is questionable/in doubt</u> <i>(i) when the seller want to avoid bad debt.</i></p> <p>c) <u>Where the seller is operating a mail order business</u></p> <p>d) <u>Where cash with order is the policy of the business</u></p> <p>e) <u>When the seller requires cash urgently</u></p> <p>f) <u>When the seller requires ready/working capital</u></p> <p><i>g) when the seller want to minimize cost of debt collection</i></p> <p><i>h) when the seller want to avoid lot of record keeping</i></p>	(Any 3 x 1 = 3 marks)
7.	<p><b>Non-tax sources of Government:</b> <i>Revenue</i></p> <p>a) <u>Government borrowings</u> / <i>loans</i></p> <p>b) <u>Profits from Government Investments/Parastatals</u> / <i>Dividends / Surplus</i></p> <p>c) <u>Court fines/penalties</u></p> <p>d) <u>Interest on loans advance by Government Agencies like KIE/ICDC</u></p> <p>e) <u>Rent and Rates on Government properties</u></p> <p>f) <u>Assets reverting back to the government upon death of owners without being claimed</u> / <i>Escheats</i></p> <p>g) <u>Grants/Aid/donations</u> from donors and development partners</p> <p>h) <u>Licenses and fees</u></p> <p>i) <u>Proceeds from sale of government property</u> / <i>land / shares</i></p> <p><i>j) Fees e.g parking fees.</i></p>	(Any 4 x 1 = 4 marks)

8.	<p>Ways in which the Economic Environment may lead to business success include:</p> <ul style="list-style-type: none"> <li>a) <u>Low interest on loans</u> hence affordable capital</li> <li>b) <u>Low/moderate inflation</u> favouring costs of production</li> <li>c) <u>Price stability</u> leading to predictable income</li> <li>d) <u>Low taxes</u> boosting profit margins</li> <li>e) <u>Increased Government subsidies</u> lowering production cost</li> <li>f) <u>Increase in consumers level of disposable income</u> increasing demand</li> <li>g) <u>Low Exchange rate</u> leading to business success.</li> <li>h) <u>Equitable distribution of income</u></li> </ul>	(Any 4 x 1 = 4 marks)
9.	<p>Circumstances under which a firm may be located near the market of its products:</p> <ul style="list-style-type: none"> <li>a) <u>When there is need to reduce the cost of transporting its final products</u></li> <li>b) <u>When the finished/final products are heavy/bulky</u></li> <li>c) <u>When dealing in perishable goods</u> final products</li> <li>d) <u>When dealing in fragile final products</u></li> <li>e) <u>When the cost of transporting raw materials is cheaper than the cost of transporting finished final products</u></li> <li>f) <u>When the market is located/concentrated in one area.</u></li> <li>g) <u>When the level of competition is high/stiff</u> so as to deal directly with consumers</li> <li>h) <u>When the finished/final products are bulky.</u></li> </ul>	(Any 4 x 1 = 4 marks)



10.	<p><b>Meaning of the trends in business ownership are:</b></p> <p>a) <u>Holding companies</u> – One that acquires 51% or more shares from another company</p> <p>b) <u>Amalgamation/Mergers</u> – Where two/more business organizations combine to form one bigger business <i>Merge to</i></p> <p>c) <u>Absorption</u> – A business taking over another business by buying all the assets and the purchased one ceases to exist all together. <b>(4 x 1 = 4 marks)</b></p> <p>d) <u>Cartels</u> – A group of related companies that agree to work together in order to control output, prices and market of their goods/services</p>	
11.	<p><b>Conditions describing types of market structures:</b></p> <p>(a) Monopoly ✓</p> <p>(b) Perfect competition ✓</p> <p>(c) Oligopoly ✓</p> <p>(d) Monopolistic competition ✓</p>	<b>(Any 4 x 1 = 4 marks)</b>
12.	<p><b>Causes of Cost Push Inflation includes:</b></p> <p>(a) <u>Rise in salaries and wages</u></p> <p>(b) <u>Increase in taxes</u></p> <p>(c) <u>Reduction in subsidies</u></p> <p>(d) <u>Unforeseen calamities</u> such as drought/floods</p> <p>(e) <u>Increase in prices of raw materials</u> / <i>cost of production</i></p> <p>(f) <u>Increased cost of utilities</u> like electricity, water, insurance etc.</p> <p>(g) <u>Unfavourable government legislation</u> forcing use of expensive materials</p> <p><i>h) Increase in profit Margin</i></p>	<b>(Any 4 x 1 = 4 marks)</b>

13	<p><b>Reasons for ethical practices in Business include:</b></p> <p>(a) <u>To avoid consumer exploitation by the business</u></p> <p>(b) <u>To ensure the rights of employees are upheld</u></p> <p>(c) <u>To protect the environment from degradation/pollution</u></p> <p>(d) <u>To ensure fair competition</u></p> <p>(e) <u>To give back to the society by providing service (CSR)</u> - Corporate Social Responsibility</p> <p>(f) <u>Abide by government requirements e.g Pay tax</u></p> <p>(g) <u>Enhance the public image of the business</u></p> <p>(h) <u>Ensure no discrimination in business</u></p> <p>(i) <u>Eliminate use of unfair means of achieving business objectives</u> e.g. hoarding</p> <p>(j) <u>Safeguard social cultural values of a community</u></p>	(Any 4 x 1 = 4 marks)
14.	<p><b>Effects of transactions on Balance Sheet totals:</b></p> <p>a) No effect ✓</p> <p>b) Increase ✓</p> <p>c) Increase ✓</p> <p>d) Decrease ✓</p>	(Any 4 x 1 = 4 marks)
15.	<p><b>Benefits of product – promotion to the producer include:</b></p> <p>(a) <u>To counter competition</u></p> <p>(b) <u>To increase sales volume of a given product</u> - Expand Market</p> <p>(c) <u>To create awareness about a product</u></p> <p>(d) <u>To enhance customer loyalty</u></p> <p>(e) <u>To influence/persuade the consumer to try out a new product</u></p> <p>(f) <u>To remind consumers about the existence of a product</u></p> <p>(g) <u>To correct Misinformation about a product</u></p> <p>(h) <u>To improve the business image</u></p>	(Any 4 x 1 = 4 marks)
16.	<p><b>Types of unemployment:</b></p> <p>a) Seasonal unemployment ✓</p> <p>b) Cyclical unemployment ✓</p> <p>c) Disguised/hidden unemployment ✓</p> <p>d) Voluntary/Real wage unemployment ✓</p>	(Any 4 x 1 = 4 marks)



17. Differences between basic human wants and secondary wants include:

Basic wants <i>Primary wants</i>		Secondary wants	
a)	They are <u>felt needs</u>	a)	They are <u>desired needs</u> / <i>not felt</i>
b)	<u>Cannot be postponed</u>	b)	<u>Can be postponed</u>
c)	<u>One cannot do without/essential for survival</u>	c)	<u>Needed to improve quality of life/</u> <i>can do without/Not essential for survival</i>
d)	<u>Given priority in satisfaction</u>	d)	<u>Are not prioritized in satisfaction</u>
e)	<u>All are universal</u>	e)	<u>Only some are universal/vary from one person to another</u>
f)	<u>Does not determine one's socio-economic status</u>	f)	<u>May denote/determine one's socio-economic status</u>

(Any 4 x 1 = 4 marks)

18. Network = Asset - Liabilities ✓

Asset = 12,000 + 16,000 = 28,000 ✓  
 Liabilities = 24,000 + 18,000 = 42,000 ✓  
 Network = (128,000 - 42,000) ✓  
 = Sh. 86,000 ✓✓

*40,000 + 60,000 + 12,000 + 16,000 = 128,000*

Maji Masai Traders	
Bal sheet at 31st Dec 2021	
Assets	Liabilities
12 x 6 = 72,000	Net worth (Capital) 86,000
16,000	loan from bank 24,000
4,000	creditors 18,000
10,000	
10,000	
5,000	
5,000	
128,000	128,000

$12 \times \frac{1}{5} = 4 \text{ marks}$   
 (4 x 1 = 4 marks)

19. Reasons that may make the Government to protect consumers include:

- a) To ensure harmful goods are not sold to them
- b) To ensure that goods offered for sale are of right weight and measures
- c) To protect them from overpricing/overcharging
- d) To prevent hoarding
- e) To ensure that businesses are housed in safe premises/ensure that safety standards are met
- f) To protect them from misleading advertisement / *false advertisement*
- g) To ensure that they do not buy substandard/inferior goods / *poor quality*
- h) To protect consumers against breach of contract
- i) To ensure health standards are maintained
- j) To ensure rights of tenants are upheld.
- k) To ensure professional meets the set standards

(Any 4 x 1 = 4 marks)

20.	<b>Types of financial institution</b> a) Commercial banks b) Savings and Credit Cooperative Society (SACCOs) ✓ c) Housing Finance Companies d) Development Banks / <i>Development finance institution</i>	(4 x 1 = 4 marks)
21.	<b>Benefits of electronic finding system include:</b> a) <u>Require little space</u> b) <u>Easier and fast retrieval of information</u> <i>to operate</i> c) <u>Easily adaptable</u> to future requirements of a firm/can be updated with a lot of ease / <i>flexible</i> d) <u>Relatively cheap</u> / <i>Labour saving</i> e) <u>Enhances security</u> of stored document through passwords f) <u>Documents stored</u> can be accessed by people far away from site of location through internet <i>(J). Can store large volume of information</i> g) <u>Provides for back-up system</u> <i>(K). Easily portable</i> h) <u>Reduces paper work</u> i) <u>Enhances fitness</u> <i>weather in an office</i>	(Any 4 x 1 = 4 marks)
22.	<b>Benefits Kenya may get from being a member of East African Community include:</b> a) Enables Kenya to <u>dispose of surplus products</u> b) Enable Kenyan citizens get <u>wider variety</u> of goods to choose from c) Enables Kenya to <u>specialize in producing</u> what it has comparative advantage <u>in</u> d) Promotes <u>effective utilization</u> of locally available resources to meet the high market demands e) It enables the country to <u>expand the market for its good</u> / <i>services</i> f) <u>Enhance peace and understanding</u> among trading East African Countries g) Facilitate <u>transfer of technology</u> among the East African Countries h) <u>Enables free movement of factors of production</u> e.g. <i>labour</i> i) <u>Enables creation of employment</u> j) <u>Enables development of infrastructure</u> k) <u>Enables Kenya to have a common bargaining power</u> l) <u>Enables Kenya to acquire goods at lower prices</u>	(Any 4 x 1 = 4 marks)



23.	<p>a) Gross profit</p> $\text{Margin} = \frac{GP}{\text{Sales}} \times 100 \checkmark$ $\frac{40}{100} = \frac{GP}{270,000} \checkmark$ $GP = 40 \left( \frac{40}{100} \times 270,000 \right) \checkmark$ <p style="text-align: right;">4 ticks</p> $= \text{Ksh } 108,000 \checkmark$ <p style="text-align: right;">(Any 4 x <math>\frac{1}{2}</math> = 2 marks)</p>	
	<p>b) Cost of good sold</p> $GP = \text{Sales} - \text{COGs}$ $\text{COGs} = 270,000 - 108,000 \checkmark$ <p style="text-align: right;">2 ticks</p> $\text{COGs} = \text{Ksh } 162,000 \checkmark$ <p style="text-align: right;">(2 x <math>\frac{1}{2}</math> = 1 mark)</p>	(Any 10 x $\frac{1}{2}$ = 5 marks)
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">If everything is correct, award 5 marks.</p>	<p>c) Average stock =</p> $\text{ROST} = \frac{\text{COGs}}{\text{Average stock}} \checkmark$ $6 = \frac{162,000}{\text{Average stock}}$ <p style="text-align: right;">4 ticks</p> $\text{Average stock} = \frac{162,000}{6} \checkmark$ $= \text{Ksh } 27,000 \checkmark$ <p style="text-align: right;">Total = 10 ticks</p> <p style="text-align: right;">(Any 4 x <math>\frac{1}{2}</math> = 2 marks)</p>	10 x $\frac{1}{2}$ = 5 marks

24	<b>Reasons for locating bonded warehouses at border points:</b> a) To <u>control entry and exit</u> of illegal goods b) To <u>inspect type/nature</u> of the goods imported / <u>exported</u> c) To <u>control the quantity</u> of goods entering the country d) To <u>control the entry</u> of harmful goods/cross-border-smuggling-of-goods e) Helps in <u>verification of documents</u> of goods on transit f) <u>Ease of collection of duty</u> g) To <u>avoid dumping</u> by controlling the quality of goods entering the country	(Any 4 x 1 = 4 marks)
25	<b>Services that retailers offer to consumers include:</b> a) <u>Price stability</u> <u>steady supply of goods</u> leading to <u>stable prices</u> b) <u>Advice</u> to the consumers c) <u>Credit facilities</u> to trusted consumers d) <u>Breaking bulk</u> on behalf of the consumers e) <u>Preparing the goods for sales</u> (Blending, sorting, packaging, grading) f) <u>Avails variety of good</u> for consumers g) <u>Offers other sales services</u> (Transport) h) <u>Bring goods closer</u> to consumers.	(Any 4 x 1 = 4 marks)

(No. 2)

- d) Risks involved are borne by the producer, alone.  
 e) the producers bear the cost of packaging which could otherwise be borne by the intermediary  
 f) Logistical challenges as Managing buyers in various parts of the country  
 g) Consumers may access few varieties of goods and services.  
 h) producers may have challenges of storage to hold enough stock to supply the market.  
 i) Challenges of transport.  
 j) Challenges of breaking bulk.  
 k) Challenges of low quality goods.  
 l) Challenges on consumers buying goods on cash basis.