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**THE KENYA NATIONAL EXAMINATIONS COUNCIL  
KENYA CERTIFICATE OF SECONDARY EDUCATION  
BUSINESS STUDIES**

**Paper 1**

**MARKING SCHEME  
(CONFIDENTIAL)**

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**This marking scheme consists of 12 printed pages.**

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565/1**

**Turn over**

3) Labourers sell their labour but not themselves.  
4)

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1.	<p>Features of labour as a factor of production include:</p> <ul style="list-style-type: none"><li>(a) Labour is <u>perishable/cannot be stored</u>.</li><li>(b) It is <u>not separable from the labourer/provider</u>.</li><li>(c) <u>The quality of labour is variable.</u> <i>Cannot be standardized.</i></li><li>(d) It is <u>mobile/can move from one place to another.</u> <i>(geographically).</i></li><li>(e) It earns salary/wages/<i>commission</i>.</li><li>(f) It is a basic factor of production.</li><li>(g) <i>It is occupationally mobile.</i></li><li>(h) <i>The quality of labour can be improved through training.</i></li><li>(i) <i>Labour is a human resource/has ability to think &amp; get things done.</i></li></ul>	<p>(Any 4 x 1 = 4 marks)</p>
2.	<p>Ways in which peace within a country may encourage entrepreneurial development include:-</p> <ul style="list-style-type: none"><li>(a) Entrepreneurs are <u>assured of the safety of their investment</u> hence encouraged to invest. <i>(local investors)</i></li><li>(b) <u>Funds are availed for investment</u> instead of being spent on provision of security.</li><li>(c) There is <u>free movement of factors of production</u> which motivates trade.</li><li>(d) There is <u>free interaction between people</u> which encourage sharing of business ideas.</li><li>(e) <u>Reduced cost of insurance</u> due to lower risks.</li><li>(f) <u>Increased markets</u> since even foreigners feel free to trade with the locals.</li><li>(g) <u>Stable complementary institutions</u> like banks and warehouses which encourage business.</li><li>(h) <i>More foreign investors will be attracted into the country.</i></li></ul>	<p>(Any 4 x 1 = 4 marks)</p>

3.	<p><b>Duties of the office clerk include:</b></p> <ul style="list-style-type: none"><li>(a) <u>Handling mails.</u></li><li>(b) <u>Duplicating and operating various office machines.</u></li><li>(c) <u>Filing and indexing.</u></li><li>(d) <u>Record keeping / and simple book keeping / Petty cash</u></li><li>(e) <u>Helps in store-keeping.</u></li><li>(f) <u>Ordering / receiving / storing / and issuing of stationery.</u></li><li>g) <u>Reproduction of documents</u></li></ul>	<p>(Any 4 x 1 = 4 marks)</p>
4.	<p>(a) Credit note</p> <p>(b) <b>Circumstances under which the document is used include:</b></p> <ul style="list-style-type: none"><li>(i) <u>When correcting arithmetic error resulting into overcharge.</u></li><li>(ii) <u>Where the buyer has been charged higher prices than the recommended price.</u></li><li>(iii) <u>When items included in the invoice were not delivered.</u></li><li>(iv) <u>When a deserved discount is not given.</u></li><li>(v) <u>When the buyer has returned some goods.</u> <i>eg damaged goods, poor quality</i></li><li>(vi) <u>When empty crates / packaging (for which a deposit had been paid) are returned.</u></li></ul>	<p>(1 x 1 = 1 mark)</p> <p>(Any 3 x 1 = 3 marks)</p>

- k) Selective credit control measures
- l) Moral persuasion
- m) Reduce govt expenditure
- n) Reduce income tax
- o) Relaxing buffer stock to the market / products goods that are short in supply
- p) Issuing directives e.g. raising margin requirements

5.	<p><b>Measures that may be taken by the government to control inflation include:</b></p> <ul style="list-style-type: none"> <li>(a) <u>Setting minimum and maximum wage limits to control salaries.</u></li> <li>(b) <u>Restricting imports.</u></li> <li>(c) <u>Controlling of exports.</u></li> <li>(d) <u>Restricting terms of hire purchase and credit terms of sale.</u></li> <li>(e) <u>Price control.</u></li> <li>(f) <u>Offer of subsidies and other incentives to local producers.</u> <i>eg subsidies, tax relief</i></li> <li>(g) <u>Controlling the supply and circulation of money in the economy.</u> <ul style="list-style-type: none"> <li>1) <u>Increasing bank rates</u></li> <li>2) <u>Selling govt securities in o.m.o</u></li> <li>3) <u>Increasing liquidity / cash ratio</u></li> <li>4) <u>Increasing compulsory deposits</u></li> </ul> </li> </ul>	<p>(Any 4 x 1 = 4 marks)</p>
6.	<p><b>Measures that may be taken by the government to curb unemployment include:</b></p> <ul style="list-style-type: none"> <li>(a) <u>Diversification of economic activities.</u></li> <li>(b) <u>Control of population growth.</u></li> <li>(c) <u>Adoption of policies that encourage labour intensive methods of production / appropriate technology</u></li> <li>(d) <u>Partner with the private sector to create employment.</u></li> <li>(e) <u>Adopting relevant education system / training</u></li> <li>(f) <u>Encouraging direct foreign investment.</u></li> <li>(g) <u>Encouraging efficient exploitation and use of locally available resources.</u></li> <li>(h) <u>Availing investment funds through favourable credit like the Youth Fund and Uwezo Fund.</u> <ul style="list-style-type: none"> <li>1) <u>Increasing govt expenditure</u></li> <li>2) <u>Rural development / decentralization of industries</u></li> <li>3) <u>Exporting excess labour</u></li> <li>4) <u>Industrialization</u></li> </ul> </li> </ul>	<p>(Any 4 x 1 = 4 marks)</p>

<p>7.</p>	<p><b>Benefits of national income statistics to the government include:</b></p> <p>(a) <u>Provides information on the country's economic performance over a period of time.</u></p> <p>(b) <u>Provides information to be used for making economic policies/budgeting/planning.</u></p> <p>(c) <u>Provides information on the contribution of each sector of the economy to the national income.</u></p> <p>(d) <u>Provides a breakdown on consumer expenditure and government expenditure.</u></p> <p>(e) <u>Provides information on the distribution of income.</u></p> <p>(f) <u>Provide information on the types of factor incomes in the economy.</u></p> <p>(g) <u>Provide statistics for measuring the economic growth of the country.</u></p> <p>(h) <u>Provides information that is used to measure the standard of living in the country.</u></p> <p>(i) <u>Provide information used for comparing economic performance of the country across two or more years.</u></p> <p>)) Provides information used for economic performance of the country with other countries.</p>	<p>(Any 4 x 1 = 4 marks)</p>																				
<p>8.</p>	<table border="1"> <thead> <tr> <th>Business</th> <th>Assets</th> <th>Capital</th> <th>Liabilities</th> </tr> </thead> <tbody> <tr> <td>A</td> <td></td> <td>24,266 ✓</td> <td></td> </tr> <tr> <td>B</td> <td>219,800 ✓</td> <td></td> <td></td> </tr> <tr> <td>C</td> <td></td> <td></td> <td>11,990 ✓</td> </tr> <tr> <td>D</td> <td></td> <td>42,295 ✓</td> <td></td> </tr> </tbody> </table>	Business	Assets	Capital	Liabilities	A		24,266 ✓		B	219,800 ✓			C			11,990 ✓	D		42,295 ✓		<p>(4 x 1 = 4 marks)</p>
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9.	<p><b>Categories in which the various types of business partners may be classified include:</b></p> <p>(a) <u>By capital contribution.</u></p> <p>(b) <u>By extent of liability to be borne.</u></p> <p>(c) <u>By activity</u> (part played in the day-to-day running of the business)</p> <p>(d) <u>By age.</u></p>	(4 x 1 = 4 marks)
10.	<p><b>Ways in which the government creates an enabling environment for the conduct of business include:</b></p> <p>(a) <u>Provision of credit facilities at favourable rates.</u></p> <p>(b) <u>Ensuring political stability and good will.</u> <i>Peace</i></p> <p>(c) <u>Training and educating the population to create a pool of skilled manpower.</u></p> <p>(d) <u>Marketing of final products for producers.</u></p> <p>(e) <u>Provision of essential social amenities like water and sewerage, health and education.</u></p> <p>(f) <u>Favourable policies and easy procedures like licensing, subsidies and favourable taxation.</u> <i>(Good will)</i></p> <p>(g) <u>Provision of infrastructure.</u></p> <p><i>h) Provision of security</i></p> <p><i>i) Ensuring good governance and accountability</i> <i>(transparency)</i></p> <p><i>j) Loan guarantee.</i></p>	(Any 4x1=4) (4 marks)

<p>11.</p>	<p><b>Roles of transport in the facilitation of trade include:</b></p> <p>(a) <u>Facilitates the movement of factors of production and other inputs like raw materials.</u></p> <p>(b) <u>Enables goods to be moved to the market from their point of production.</u> / <u>Enables buyers to move to the market</u></p> <p>(c) <u>Adds value to goods and services by moving them to the point of consumption.</u> / <u>Place utility.</u></p> <p>(d) <u>Opens up new markets.</u></p> <p>(e) <u>Makes it possible for the exploitation of natural resources.</u></p> <p>(f) <u>Allows for specialization since it allows people to access goods produced elsewhere.</u></p> <p>(g) <u>Promotes mass production since goods can be moved to be stored and sold elsewhere.</u></p> <p>h) <u>Saves time and avoids wastage.</u></p>	<p>(Any 4 x 1 = 4 marks)</p>
<p>12.</p>	<p><b>Circumstances under which firms would form a cartel include:</b></p> <p>(a) <u>When there is need to control output by each firm.</u></p> <p>(b) <u>When there is need to be in control of market prices.</u> / <u>market</u></p> <p>(c) <u>When there is need to eliminate stiff competition among the firms.</u></p> <p>(d) <u>When there is need to restrict entry of new firms into the market.</u></p> <p>(e) <u>When there is need to increase the firms' bargaining power.</u></p> <p>(f) <u>When there is need to guarantee the income <sup>hence</sup> and financial strength of the firms.</u></p>	<p>(Any 3 x 1 = 3 marks)</p>

13	<p><b>Conditions under which a manufacturer would distribute his products through a wholesaler include:</b></p> <p>(a) <u>When it is the dictate of government policy.</u></p> <p>(b) <u>When the manufacturer needs time to concentrate on production.</u></p> <p>(c) <u>When he wants to avoid the high costs of distribution.</u></p> <p>(d) <u>Where it is too expensive to distribute using the manufacture's own outlet.</u></p> <p>(e) <u>Where wholesalers prefer to market the product under their own brand names.</u></p> <p>(f) <u>Where the manufacturer wants to avoid marketing risks like drop in prices.</u></p> <p>(g) <u>When the wholesaler provides ready cash while purchasing in bulk.</u></p> <p>(h) <u>Where the manufacturer needs to free storage space.</u></p>	(Any 4 x 1 = 4 marks)
14.	<p><b>Reasons for maintaining a cash book in a business enterprise include:</b></p> <p>(a) <u>To reduce the number of entries made into the general ledger.</u></p> <p>(b) <u>To easily avail cash balances/show cash balances at a glance.</u></p> <p>(c) <u>To enhance specialization in book keeping by allocating different ledgers to different workers.</u></p> <p>(d) <u>To easily monitor the cash inflow and outflow.</u></p> <p>(e) <u>To show the sources of funds into the business.</u></p> <p>(f) <u>To show the expenditure in the business.</u></p>	<p>(Receipts)</p> <p>(Payment)</p> <p>debtors</p> <p>(Any 4 x 1 = 4 marks)</p>

1) Where manufacturer requires whole sales to prepare goods for sale.

2) Where the manufacturer requires whole sales to undertake product promotion.

3) Where market is widely spread.

1) To easily monitor cash outflow (Receipts)

2) To show discount allowed to debtors

3) To show discount received from Creditors



15.	<p><sup>ways</sup> Other methods of determining the price of a product apart from the forces of demand and supply include:</p> <ul style="list-style-type: none"> <li>(a) <u>Auction</u></li> <li>(b) <u>Haggling</u> (Bargaining)</li> <li>(c) <u>Price legislation/price control</u> / <i>govt intervention</i></li> <li>(d) <u>Price discrimination</u></li> <li>(e) <u>Tendering</u></li> <li>(f) <u>Retail price maintenance</u></li> </ul>	(Any 4 x 1 = 4 marks)
16.	<p>Factors that would make two people taking the same type of life assurance policy with the same insurer to pay different premiums include:</p> <ul style="list-style-type: none"> <li>(a) Differences in <u>their ages</u>.</li> <li>(b) Difference in <u>their occupations</u> and the risks they are exposed to.</li> <li>(c) Difference in their <u>sum assured</u> / <i>ability to pay premiums</i></li> <li>(d) Difference in <u>their places of residence</u>.</li> <li>(e) Difference in <u>their health status</u>.</li> <li>(f) Deferring <u>maturity period</u> of their policies.</li> </ul>	(Any 4 x 1 = 4 marks)
17.	<p>The lines of communication are:</p> <ul style="list-style-type: none"> <li>(a) <u>Horizontal communication</u></li> <li>(b) <u>Upward vertical communication</u></li> <li>(c) <u>Downward diagonal communication</u></li> <li>(d) <u>Upward diagonal communication</u></li> </ul>	(4 x 1 = 4 marks)

18.	<p>Books of original entry that may be used to record transactions affecting stock are:</p> <p>(a) <u>Purchases journal</u> / bought journal.</p> <p>(b) <u>Sales journal</u>.</p> <p>(c) <u>Sales returns journal</u> / Returns inwards journal.</p> <p>(d) <u>Purchases returns</u> / Returns outwards journal.</p> <p>NB: Accept <u>Buy books</u>, subsidiary books of prime entry if used in the place</p>	<p>diary book of journal. (Any 4 x 1 = 4 marks)</p>
19.	<p>External economies of scale that a firm may get when operating on a large scale include:</p> <p>(a) <u>Ready market</u> from the surrounding industries.</p> <p>(b) <u>Access to skilled labour force</u>.</p> <p>(c) <u>Enjoy improved infrastructure</u>.</p> <p>(d) <u>Easy disposal of wastes</u>.</p> <p>(e) <u>Readily available complementary services</u> like banking, insurance and warehousing.</p> <p>(f) <u>Improved security</u>.</p> <p>(g) <u>Government support/favourable policies</u>.</p> <p>h) <u>Enjoy joint research</u>.</p>	<p>(Any 4 x 1 = 4 marks)</p>
20. (a)	<p>Capital owned = IC + NP - D = 90,000 + 15,000 - 5,000 Shs <u>100,000</u></p>	<p> <math>CA = TA - TL</math>  <math>TA = (80,000 + 20,000 + 20,000) - 20,000</math>  <math>120,000 - 20,000</math>  <u>Ksh 100,000</u>                  (4 x 1/2 = 2 marks)             </p>
(b)	<p>Acid Test Ratio = <math>\frac{CA - Stock}{CL}</math> = <math>\frac{20,000}{20,000}</math> = <u>1:1</u></p> <p>85% percentage or fraction.</p>	<p> <math>\frac{20,000 + 20,000 - 20,000}{20,000}</math>  <u>1:1</u>                  (4 x 1/2 = 2 marks)             </p>

21.	<p style="text-align: center;"><b>Watamu Enterprises</b> <b>Balance Sheet</b> ✓✓ (3 lines) <b>As at 2<sup>nd</sup> May, 2014</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 25%; text-align: center;">Shs</th> <th style="width: 25%;"></th> <th style="width: 25%; text-align: center;">Shs</th> </tr> </thead> <tbody> <tr> <td>Cash in hand</td> <td style="text-align: right;">900,000</td> <td>Capital</td> <td style="text-align: right;">1,300,000</td> </tr> <tr> <td>Cash at Bank</td> <td style="text-align: right;">150,000</td> <td>S.T.L.</td> <td style="text-align: right;">250,000</td> </tr> <tr> <td>Debtors</td> <td style="text-align: right;">100,000</td> <td>Creditors</td> <td style="text-align: right;">250,000</td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">400,000</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>1,550,000</u></td> <td></td> <td style="text-align: right;"><u>1,550,000</u></td> </tr> </tbody> </table> <p style="text-align: center;"><math>\frac{10}{2} = 5</math></p>		Shs		Shs	Cash in hand	900,000	Capital	1,300,000	Cash at Bank	150,000	S.T.L.	250,000	Debtors	100,000	Creditors	250,000	Stock	400,000				<u>1,550,000</u>		<u>1,550,000</u>	(10 x ½ = 5 marks)
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22.	<p><b>Merits of indirect taxes include:-</b></p> <ul style="list-style-type: none"> <li>(a) Tax payment is <u>voluntary</u>.</li> <li>(b) It's <u>not easily evaded</u>.</li> <li>(c) More revenue can be raised/covers a wide range of items. / <u>broad based</u></li> <li>(d) It is <u>convenient</u>/paid in bits.</li> <li>(e) It's <u>easy to collect</u> at the selling point.</li> <li>(f) It <u>promotes equality</u>/paid by everyone who purchases the goods.</li> <li>(g) It's <u>flexible</u>.</li> <li>(h) <u>Can be used selectively</u>.</li> <li>(i) <u>it stimulates effort</u></li> </ul>	(Any 4 x 1 = 4 marks)																								
23.	<p><b>Ways in which the technological environment may improve business performance include:</b></p> <ul style="list-style-type: none"> <li>(a) <u>Increased output/mass production</u>.</li> <li>(b) <u>Lower cost per unit of production</u> / <u>reduced cost of production</u></li> <li>(c) <u>Minimal incidences of fraud</u> / <u>theft</u>.</li> <li>(d) <u>High quality products</u>.</li> <li>(e) <u>Improved business image/reputation</u>.</li> <li>(f) <u>Increased sales</u>.</li> <li>(g) <u>Better communication</u>.</li> <li>(h) <u>Wider market/globalization</u>.</li> <li>(i) <u>Faster conduct of business transactions</u>.</li> </ul>	(Any 4 x 1 = 4 marks)																								

24.	<p><b>Types of ledgers into which the accounts would be found are:</b></p> <p>(a) <u>Debtors ledger/Sales ledger.</u></p> <p>(b) <u>Nominal ledger/General ledger.</u></p> <p>(c) <u>Creditors ledger/Purchases ledger</u> <u>Bought ledger.</u></p> <p>(d) <u>Cash book.</u></p>	(Any 4 x 1 = 4 marks)
25.	<p><b>Ways in which the introduction of money helped eliminate problems faced in the conduct of barter trade include:</b></p> <p>(a) <u>Money eliminates the need for double coincidence of wants since it is a medium of exchange.</u></p> <p>(b) <u>Stores the value of perishable goods by selling them and keeping the money for future use.</u></p> <p>(c) <u>Ensures that commodities exchanged are of comparable value, by offering a standard measure of value.</u></p> <p>(d) <u>Help in the exchange of indivisible commodities since it can be divided into smaller denominations without losing value..</u></p> <p>(e) <u>Money provides a unit of account by which goods and services are valued unlike in barter trade.</u></p> <p>(f) <u>Money is a standard for deferred payment whereas it was not possible to make payments in the future under the barter system.</u></p> <p>(g) <u>Money enables the exchange of fixed property like land.</u></p> <p>h) <u>money helps to solve the problems of transporting heavy and bulky goods because it is portable.</u></p>	(Any 4 x 1 = 4 marks)