



2021 KCSE
CORDINATED MARKING SCHEME
LESSON STUDY BUSINESS STUDIES
KCSE 2021

TOPICS TESTED

Question		TOPICS	FORM
1	(a)	CHAIN OF DISTRIBUTION	3
	(b)	INTERNATIONAL TRADE	4
2	(a)	ENTRENEURSHIP	1
	(b)	PUBLIC FINANCE	4
3	(a)	LEDGER	3
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4	(a)	SIZE AND LOCATION OF A FIRM	3
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1. (a) Explain five circumstances under which a producer may sell goods directly to the consumer (10marks)
 - i** When the size of the market served is small that the producer can access all the buyers / economically serve all the market.
 - ii** If the producer is (highly) perishable that can go bad (if the long channel is used)
 - iii** If the producer wants to get an immediate feedback about the performance of the product (accept relevant feedback information as expansion)
 - iv** If the product is technical (in nature) that require demonstration / installation / maintenance / after sales services
 - v** If the product is tailored to meet customer specifications / produced according to customer specification / made to order in order to satisfy individual need / taste/ specification
 - vi** When the producer wants to avoid (further) increase in price of the product / avoid high cost of distribution to make the product affordable / competitive
 - vii** If it's the policy of the business (requires that all goods must be sold directly to the consumer) that has to be adhered to for whatever reason
 - viii** If it's the government policy which directs (that goods should be distributed directly to consumers) the producer has to comply
 - ix** If the producer has (adequate) resources to set up retail / distribution outlets / buy distribution vehicles/ hire sales personnel
 - x** When goods are of high value / expensive and middlemen are unwilling / unable to stock them
 - xi** Where the consumer goes / order directly to buy from the producer by being able to meet sale conditions / being in proximity with the producer
 - xii** If competition is stiff/ high in order to get higher share of the market
 - xiii** If there is need to maximise the profit by avoiding high cost of middlemen
 - xiv** If there are no (appropriate) middlemen the producer has no choice
 - xv** If the market is concentrated in one place / near the producer it would be cheap to reach consumers / save on distribution cost
 - xvi** If the volume of output is small making it economical to involve men.
- (b) Explain each of the following as used in international trade. (10 marks)
 - i** Ex – works
The price quoted include only the cost of goods as they leave the place of manufacture / the warehouse of the exporter (other expenses are to be met by the buyer)
 - ii** Cost and Freight
The price quoted includes the cost of goods (loading cost and freight charges) up to the port of entry
 - iii** FOB
The price quoted includes the cost of goods (handling and loading charges) up to the ship (all other expenses are borne by the buyer)
 - iv** Landed
The price quoted include all expenses up to the port of destination (as well as offloading costs)
 - v** In Bond
The price quoted includes all expenses (of handling goods from the manufacturer's premises) until they are delivered in a bonded warehouse (in the receiving country)
2. (a) Explain five that may discourage entrepreneurship in Kenya (10marks)
 - i** Unfavourable government policy/ imposing high taxes which discourage production of certain commodities / increase cost of production

- ii Lack of (adequate) role models / poor entrepreneurial culture** to inspire / motivate the would be entrepreneurs
- iii Inadequate / lack of market** due to low purchasing power / high level of poverty / low incomes
- iv Poor transport (network) infrastructure / utilities** making it difficult / expensive to access raw material / market
- v Insecurity in (some areas)** that discourages entrepreneurs from investing / getting raw materials / accessing market in such areas
- vi Inadequate natural resources (endowment) / raw materials / land** leading to low production
- vii In availability / inaccessibility / inappropriate technology** that leads to production of poor quality / non-competitive goods
- viii Political instability** may create unconducive / harsh / unfavourable environment for entrepreneurs to invest.
- ix Unfair / unhealthy competition** which makes investment very expensive / uncompetitive / from cheap/ inferior imports
- x Limited access to capital / inadequate capital / credit / finance is costly /hard to access** which makes it difficult to start and run a business
- xi Corruption / poor governance** which increases the cost of doing business
- xii Poor education / training** leading to lack of skills to start / run a business
- xiii Unfavourable / negative cultural practices** leading to poor / negative consumption / practices / choices discouraging starting / running of business
- xiv Bureaucracy / red tape / legal controls** making it complex / expensive / difficult to start / run a business

(b) Explain five demerits of indirect taxes

(10marks)

- i Uneconomical / expensive in collection** as it is collected from various points / the government is forced to employ many inspectors (to enforce collection)
- ii (there is) uncertainty in revenue collection** revenue is only collected when goods / services are purchased
- iii May lead to reduction in demand** since it increases the prices of commodities / **fuels inflation** as it (directly increase the prices of goods / services) thereby erodes consumer purchasing power
- iv Lacks civics awareness** which makes tax payer not take active interest in government expenditure / since the tax amount is hidden in the price of the good
- v Encourages tax evasion / easy to evade** as traders falsify records to avoid payment of the tax / to declare less tax collected
- vi Low savings / investment** as consumers spends more of their income on consumption
- vii Less equitable / regressive / unfair** as the burden falls heavily on the poor (who spends a larger proportion of their income on consumption)
- viii May lead to misallocation of resources** people buy more of the goods that are not taxed
- ix Can be avoided** by people not buying the taxed goods / services

3. (a) Explain five errors that may not be detected in a trial balance

(10marks)

- i Errors of omission** occurs when a transaction took place but not recorded at all
- ii Error of original entry** occurs when both debit and credit entries are made using similar but erroneous figures recorded in the ledger
- iii Error of principle** entries are made correctly but in the wrong class of accounts
- iv Error of commission** occurs when entries are made in the wrong accounts of the same class with the correct accounts
- v Compensating errors** occurs where the errors in both the debit and credit balances are of equal magnitude so they cancel out
- vi Error of transposition** occur when the sequence of figures are interchanged
- vii Complete reversal of entries** occurs where the entries are entered on the wrong sides of the relevant account

- (b) Explain five documents prepared by the seller after receiving an order up to the point of delivery
- i Acknowledgement note** to inform the buyer that the order has been received (and appropriate action is being taken)
 - ii Packing note/ packaging sheet / packaging note / packing slip / dispatch note** the document shows the details of goods packed
 - iii Advice note** sent to inform the buyer when the goods are dispatched
 - iv Delivery note** details of goods delivered (for verification purposes)
 - v Consignment note** a document showing (details of goods) and terms of carriage / used when means of transport is hired
 - vi Proforma invoice** polite request for payment before goods are delivered

4. (a) Explain **five** reasons that may make a firm operate on a small scale. (10marks)

- i** The firm has a small amount of capital to operate with
- ii The government policy** that encourages existence of small enterprise (in order to create more employment)
- iii Need to retain control** as the management / owner is in charge of all the activities of the firm
- iv Flexibility** as small firms are responsive to changing market requirements (that large firms lack)
- v Type/nature of product / where the business offers personal services / requires personal touch** which can only be best provides by an individual / small firm
- vi Existence of special market / small market / niche market** served by offering specialized services / appropriately / bets handled by small firms
- vii Easy management** as small scale firms have few departments / workers / scale of operation / few crisis to manage
- viii Quick decision making** due to few levels of managerial / consultations
- ix Legal constraints** which may hinder the firm to expand / legal requirements which may be difficult to fulfill to enable the firm to expand
- x Decision of the owner** to operate on small scale out of his / her own choice

(b) The following information was extracted from the books of Ushirika Traders as at 31st December 2020.

Details	Ksh
Gross profit	94,000
Commission received	32,000
Carriage outwards	8,000
General expenses	15,000
Discount received	29,000
Total Fixed Assets	1,,110,000
Insurance	17,000
Capital	490,000
Drawings	37,000
Long Term Liabilities	610,000
Discount allowed	12,000
Current liabilities	162,000
Current assets	192,000
Salaries	22,000

i Prepare a Profit and Loss Account

(6 marks)

USHIRIKA TRADERS			
Profit and Loss Account			
For the period ended 31 st December 2020			
Carriage outwards	8,000	Gross profit	94,000
Commission allowed	4000	commission Received	32000
Discount allowed	12,000	Discount Received	29,000
Insurance	17,000		
Salaries	22,000		
General expenses	15,000		
Net profit c/d	77,000		
	<u>155,000</u>		<u>155,000</u>

ii Determine:

I. Working capital

(1 mark)

= current assets – current liabilities
 = 192,000 – 162,000
 = 30,000

II. Return on Capital Employed

(3 marks)

Capital employed = total assets – current liabilities
 1,302,000 – 162,000
 = **1,140,000**

$$R.O.C.E = \frac{NET\ PROFIT}{CAPITAL\ EMPLOYED} \times 100\%$$

$$= \frac{77,000}{1,140,000} \times 100\%$$

$$= 6.754\%$$

5. (a) Explain five reasons that make it necessary for the Government to train business people. (10marks)

- i To improve their skills** by exposing them to basic management techniques
- ii To expose / educate them on modern / current trend of business operations** like effective methods of advertising / keeping books of accounts / stock-taking
- iii To expose business people to possible solution / possible problems affecting them** like raising capital / identify investment opportunities
- iv To impart (proper) business ethics** so as to avoid consumer exploitation / ensure unfair competition
- v To educate them on (efficient) use of the available resources** so as to minimize cost/ maximize profit
- vi To inform them on various available (profitable) business opportunities / market gaps** to be exploited
- vii To sensitize business people on government initiatives** that are beneficial to them / like SME loans
- viii To educate them about government policies** regarding business activities

(b) Explain five problems that the Kenyan Government may experience when implementing the vision 2030. (10 marks)

- i Inadequate / limited skilled personnel / human resource** to interpret / translate plans to reality / effectively
- ii (over) reliance on foreign aid / donor funding** whose remittance is uncertain (thus the plan may fail to take off / be completed)
- iii Failure by the local people to support the plan** because they were not involved during the formulation
- iv Outbreak of natural calamities** may lead to diversion of funds meant to finance the plan
- v (some) unrealistic (aspects of the) plan / overambitious plan** that re difficult to implement
- vi No observance of sequence / timelines of implementing the plan/ the logical order is not followed** leading to incomplete / stalling of projects/ white elephants
- vii Imported models / plans** that are inappropriate for local situations / needs
- viii Corruption / poor governance** that leads to loss / misuse of funds
- ix Insecurity** that may hinder / delay / derail implementation of plans
- x Poor / lack of coordination / cooperation** among implementing parties / agencies
- xi Inadequate / limited finance / capital** to pay for the plan
- xii Political instability** that derails / delays implementation / destroy projects
- xiii Lack / inaccessibility of appropriate technology** to implement / actualise projects
- xiv Inaccurate / inadequate data** leading to inaccurate plans
- xv Existence of large private sector** whose goals / objectives may be in conflict with those of the government
- xvi Lack of political goodwill / if there is no political commitment** to start / complete projects it remains on paper

6 (a) Explain five advantages of written communication (10marks)

- i It's a permanent record** that can be used for future reference
- ii Suitable for official communication / formal communication** where information has to be passed through prescribed channels / procedures
- iii (secure) confidentiality (of communication)** as it is accessed by the intended receiver / can be used to pass secret information only
- iv Its more authentic / accurate / it retains its original content** since it is not easily distorted / misreported
- v Allows for (inclusion of) detailed / complex** as different forms can be used to reinforce / illustrate facts such as charts/photographs
- vi It may be economical (since forms of written communication are) / relatively cheap** when used for mass communication
- vii Can be addressed to many people / the original document can be reproduced into many copies**
- viii Can be used as evidence** to settle disputes / in the court of law / to support facts/ solve differences
- ix Suitable for the hearing / visually impaired persons** to send / receive messages / information.

(b) Use the transactions given below to prepare Patel Traders Two column cash book for the month of February 2020:

1 st Feb	Had Sh 1,200 cash and a bank overdraft of Sh 1,000
2 nd Feb	Used cash to pay for water bill Sh 200 , electricity Sh 100 and wages Sh 400
3 rd Feb	Received a cheque of Sh 14,000 from Daisy
5 th Feb	Sold goods worth Sh 7,000 in cash

- 7th Feb Paid for goods bought for resale worth Sh 5,000 by cheque
- 9th Feb Received a cheque of Sh 10,000 from co-operatives society as earnings from dividends.
- 10th Feb Withdrew Sh 2,000 from the bank for family use.
- 13th Feb Received a cheque of Sh 10,000 from Petro
- 15th Feb Deposited Sh 1,000 from the office into the business bank account.
- 17th Feb Paid Manu by cheque Sh 1,000
- 27th Feb Used all the money in the bank to purchase furniture leaving only a balance of Sh 2,000

Required:

Prepare a duly balanced three column cash book.

(10marks)

PATEL TRADERS
TWO COLUMN CASH BOOK

DATE	DETAILS	F	CASH	BANK	DATE	DETAILS	F	CASH	BANK
Feb 1 st	Balance b/d		1,200		Feb 1 st	Balance b/d			1,000
Feb 3 rd	Daisy			14,000	Feb 2 nd	Water		200	
Feb 5 th	Sales		7,000		Feb 2 nd	Electricity		100	
Feb 9 th	Dividend / coop society			10,000	Feb 2 nd	Wages		400	
Feb 13 th	Petro			10,000	Feb 7 th	Purchases			5,000
Feb 15 th	Cash	C		1,000	Feb 10 th	Drawings			2,000
					Feb 15 th	Bank	c	1,000	
					Feb 17 th	Manu			1,000
					Feb 27 th	Furniture			24,000
					Feb 29 th	Bal c/d		6,500	2,000
			<u>8,200</u>	<u>35,000</u>				<u>8,200</u>	<u>35,000</u>
Feb 29 th	Bal b/d		6,500	2,000					