
KENYA NATIONAL EXAMINATION COUNCIL

KCSE 2008

BUSINESS STUDIES PAPER 2

Marking Scheme

SCHOOLS NET KENYA

Osiligi House, Opposite KCB, Ground Floor
Off Magadi Road, Ongata Rongai | Tel: 0711 88 22 27
E-mail: infosnkenya@gmail.com | Website: www.schoolsnetkenya.com

Business Studies Paper 2

1. (a)

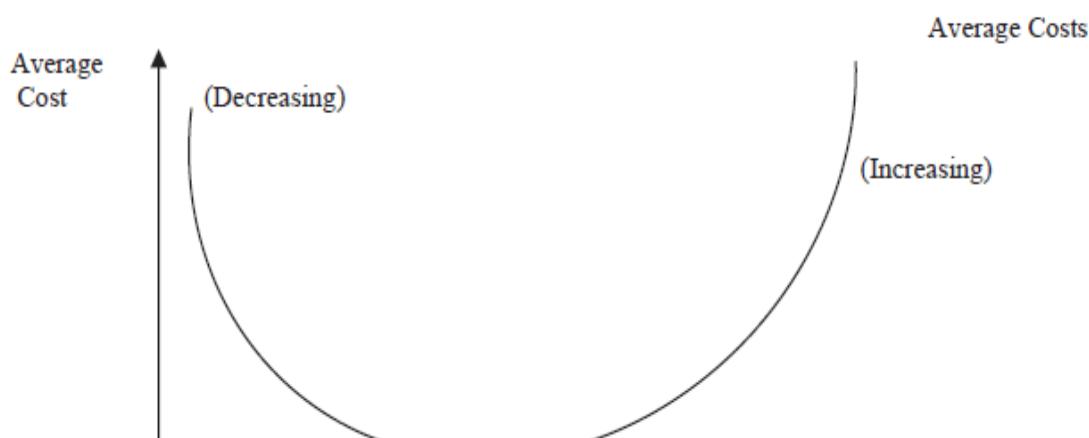
<i>Public Limited Company</i>	<i>Partnership</i>
(i) Membership is a minimum of seven Shareholders (ii) Shares can be transferred freely without consent of others members (iii) Members have limited liability (iv) Managed by people appointed by the board of directors (v) Regulated by Articles/memorandum of Association/Company Act (vi) Pay corporation tax (vii) Has legal entity/can sue or be sued under its name	(i) Membership is a minimum of two partners (ii) shares/capital contribution can only be transferred with consent of other partners (iii) No limited liability for partners (At least one partner has unlimited liability incase of limited partnership) (iv) Managed by partners themselves (Active partners) (v) Regulated by partnership deed/ Partnership agreement/articles of partnership/partnership Act (vi) Does not pay corporation tax (vii) Has no legal entity/individual Partners can be sued <i>(Any 5 x 2 = (10 marks))</i>

1. (a)

<i>Public Limited Company</i>	<i>Partnership</i>
(i) Membership is a minimum of seven Shareholders (ii) Shares can be transferred freely without consent of others members (iii) Members have limited liability (iv) Managed by people appointed by the board of directors (v) Regulated by Articles/memorandum of Association/Company Act (vi) Pay corporation tax (vii) Has legal entity/can sue or be sued under its name	(i) Membership is a minimum of two partners (ii) shares/capital contribution can only be transferred with consent of other partners (iii) No limited liability for partners (At least one partner has unlimited liability incase of limited partnership) (iv) Managed by partners themselves (Active partners) (v) Regulated by partnership deed/ Partnership agreement/articles of partnership/partnership Act (vi) Does not pay corporation tax (vii) Has no legal entity/individual Partners can be sued

(Any 5 x 2 = (10 marks))

(b)



(Optimum output)

Output/Quantity

For a firm with fixed production capacity, the average costs are high in the beginning as they are divided among few production units. As production increases, the average costs fall, since the costs are divided among more production units (the firm experiences economies of scale). The average costs will then fall to a minimum level then start to rise again as more costs are incurred over time (the firm experiences diseconomies of scale).

(10 marks)

2

(a)

- High rate of unemployment as demand for jobs outstrips the available job opportunities.
- Rate of crime/social evils may rise. As the youth remain idle, they are likely to resort to crime and other social evils as they look for means of survival.
- Constraints on goods/services associated with young people as demand outstrips supply.
- Dependency ratio will rise as economically active population will shoulder a bigger burden.
- Reduced savings/investments. Investments will decline as a result of high rate of consumption by young people. This may lead to low development.
- Low per capita income. Since the National Income will be spread over a large non-contributing population which may lead to a low standard of living.
- Problem of raising government revenue which may force the government to divert resources meant for other sectors to cater for the young.
- Low labour supply as many young people may not have attained the working age nor acquired the required skills and experience.

(10 marks)

(b)

Date	Particulars	Dis	Cash	Bank	Date	Particulars	Disc Rec'd	Cash	Bank
		Shs	Shs	Shs			Shs	Shs	Shs
Sept. 1	Balance b/d		55,000	250,000	Sept.3	Ribbons		4,500	
Sept 2	Sales			35,260	Sept.8	Wangila	6,000		94,000
Sept 12	Wetu	1,200		58,800	Sept.15	Salaries		34,000	
Sept. 25	Bank(c)		50,000		Sept.25	Cash(c)			50,000
Sept. 28	Anyango	7,500		67,500	Sept.30	Bank(c)		52,800	
Sept.30	Cash (c)			52,800	Sept.30	Bal.c/d		13,700	320,360

Date	Particulars	Dis	Cash	Bank	Date	Particulars	Disc Rec'd	Cash	Bank
		Shs	Shs	Shs			Shs	Shs	Shs
		<u>8.700</u>	<u>105.000</u>	<u>464.360</u>			<u>6.000</u>	<u>105.000</u>	<u>464.360</u>
Oct. 1	Bal. b/d		13,700	320,360					

(20 x ½ = 10

marks)

3 (a)

- Proper planning is put in place so that good results can be anticipated and also accommodate future changes.
- Relevant strategies may be established so as to achieve desired results.
- Setting clear goals and objectives so as to achieve the intended results.
- Providing and using organizational resources efficiently and effectively. This involves budgeting to avoid wastage and misuse.
- Proper time management to ensure set activities (tasks) are accomplished within the required time.
- Good supplier/customer/employee relations to attract and retain them (suppliers, employees and customers).
- Corporate social responsibility is fostered. This builds on the image and reputation of the company.
- Compliance with legal requirements in order to operate smoothly and avoid conflict with law enforcement authorities.
- Motivation of employees to increase productivity.
- Proper organization to avoid overlap/duplication of duties.
- Proper direction to ensure activities are geared towards achieving the set goals.
- Identifying the required skills/training relevant staff for smooth running of the organization
- Monitoring/evaluating/checking that planned activities take place in order to achieve desired results.
- Proper co-ordination to reduce conflicts.

(Any 5x2=10 marks)

(b)

- Tidiness is maintained in the office as documents are arranged neatly.
- Quick access to information since documents are coded/serialized.
- Safety of information from damage by bad weather, fire etc is minimized.
- Saves on storage space since documents are kept in a compact manner.
- Encourages prompt decision making as information is readily available.
- Encourages transparency and accountability since the movement of documents can be monitored.
- Security of information/documents against loss from theft and misplacement.
- Safeguards secret and confidential information as documents are kept away from unauthorized access.
- Facilitates storage/safekeeping of information/documents for future reference.

(Any 5x2=10 marks)

- 4 (a)
- Where the producer lacks adequate storage. The wholesaler may relieve the producer of the storage costs.
 - Where goods require bulk breaking. The wholesaler may re-package the goods in smaller quantities as required by customers.
 - Where there is need to prepare goods for final sale. The wholesaler may pack, brand, blend, grade sort and weigh goods to the relief of the producer.
 - Where the market is wide and the goods have to be distributed far. The wholesaler will reach the consumer more easily.
 - Where the producer would want feedback on the market status. The wholesaler may reach consumers through the retailers and get feedback regarding the product more easily.
 - Where the producer would want to engage wholesaler to assist with advertising so as to save on costs.
 - Where the producer wants to sell in bulk since the wholesalers can afford to buy in large quantities.
 - Where the producer lacks transport, the wholesaler would relieve him of the cost.
 - Where it is the government policy to distribute through wholesalers then the producer would have no choice.
 - Where the marketing risks are high since the wholesalers can bear some of the risks.
 - Where the producer wants to concentrate/specialize in production, then the distribution can be handled by wholesalers.
 - Where the producer needs to maintain fewer records by dealing with wholesalers who are few.

(Any 5x2=10 marks)

4 (b) (i) Sales = Cash Sales - Drawings
 = 420,200 – 25,000
 = Sh.395,200

(ii) Purchases = Cash Purchases
 = Shs. 260,000

(iii) Commission receivable A/c

	Shs.		Shs.
Balance b/d	8,400	Cash	36,400
Profit and Loss	<u>38,200</u>	Balance c/d	<u>10,200</u>
	<u>46,600</u>		<u>46,500</u>

(N.B. Accept vertical format)

(iv) Insurance expenses A/c

	Shs		Shs
Balance b/d	16,200	Profit and Loss A/c	27,000
Cash	<u>14,800</u>	Balance c/d	<u>4,000</u>
	<u>31,000</u>		<u>31,000</u>

(10 marks)

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5. (a)
- Compulsory deposits/special deposits/increase minimum reserve requirements. The Central bank may require that commercial banks deposit a certain amount of their cash with the central bank.
 - Selective credit control/credit rationing. The government through the central bank may require that certain sectors of the economy be assisted financially.
 - Open market operations. The government may instruct the central bank to sell government securities/stocks/bonds in the open market/stock exchange.
 - Raise interest rates - High interest rates may be offered for savings to encourage more deposits.
 - Raise cash/liquidity ratio thereby leaving commercial banks with less money to lend.
 - Raising the bank rate leading to credit/loans becoming more expensive.
 - Raising margin requirement to discourage borrowing.
 - Moral suasion by government appealing to commercial banks to reduce lending to the public.
 - Reducing government expenditure by suspending some projects.
 - Raising taxes to reduce disposable income hence lower purchasing power.
 - Surplus budgeting by spending less than the income raised. *(Any 4x2=8 marks)*

- (b)
- Where there is need to protect local/infant industries which may not withstand competition from established foreign industries.
 - Where there is need to control dumping to prevent adverse effects on the economy.
 - Where balance of trade/payment continues to deteriorate to reduce payment on imports.
 - Where goods are hazardous/harmful for consumption in order to protect the health of consumers.
 - Where goods involved are a security risk to the country to ensure peace and stability.
 - Where it is necessary to counter the actions of trading partners as a retaliatory measure.
 - Where there is need to avoid imported inflation arising from overpriced imports.
 - Where it is politically expedient to do so in order to promote good governance in another country.
 - Where there is need to safeguard local employment which may be lost through entry of cheap imports.
 - Where there is need to avoid overdependence on imports which may lead to political blackmail.
 - Where there is need to avoid overexploitation of resources which may cause their depletion.
 - Where there is need to build reserves of strategic commodities to avoid shortages in meeting local demands. *(Any 6x2=12 marks)*

- 6 (a)
- Where goods sold are of technical nature and may need advice/demonstration on use.
 - Where expertise is required in installation and the trader has technical knowledge/ability/

backup.

- Where the product is new in the market and the trader requires feedback on the product's performance.
 - Where competition is stiff and the trader uses after sales services as a product promotional tool to win more customers and increase sales.
 - Where expertise is required in maintenance/service/repairs and the trader is able to provide the service.
 - Where it is the policy of the business as a way of improving customer relations and improve business image.
 - Where it is the government policy, the trader will have no option.
 - Where the nature of the product is such that it requires specialized transport and the trader can provide it.
- (Any 4x2=8 marks)

(b)

Simba traders					
Profit and Loss Account					
For the year ended 31 st December 2006					
	Shs	Shs		Shs.	Shs
Salaries		322,600	Gross profit b/d	210,000	
Rent	14,800		Discount received	14,500	
Add. owing	<u>2,400</u>	17,200	Net loss c/d	354,850	
Interest on loan		36,000			
<u>Depreciation</u>					
Motor vehicle	187,500				
Furniture	<u>16,050</u>	<u>203,550</u>			
		<u>579,350</u>			<u>579,350</u>

Simba Traders

Balance Sheet
As at 31st December 2006

<u>Fixed Assets</u>	Shs.	Shs.		Shs.	Shs.
Motor Vehicle	750,000		Capital	800,000	
Less: Depreciation	<u>187,500</u>	562,500	Less: net Less	354,850	
Furniture	160,500		Less: Drawings	<u>60,800</u>	384,350
Less: Depreciation	<u>16,050</u>	144,450			
<u>Current Assets</u>			<u>L.T Liabilities</u>		
Stock	45,600		Bank Loan		200,000
Debtors	<u>130,200</u>	175,800	<u>S.T. Liabilities</u>		
			Creditors	260,000	
			Rent unpaid	2,400	
			Interest Due	<u>36,000</u>	<u>298,400</u>
		<u>882,750</u>			<u>882,750</u>

(24 x ½ = 12 marks)