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# **KENYA NATIONAL EXAMINATION COUNCIL KCSE 2012**

## **BUSINESS STUDIES PAPER 2 Marking Scheme**

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## Business Studies Paper 2

1 (a) Benefits of division of labour to an organization include:

- (i) Less time is spent in completing a job - there is less movement by workers while changing from doing one work to another.
- (ii) Increased production- people become more adept at their jobs as they do it repeatedly hence increasing productivity.
- (iii) Standardized goods - goods produced are of uniform quality which enhances customer satisfaction and the firm's image.
- (iv) Increased use of machines - work can be automated leading to lower costs of production.
- (v) Enhanced management - this facilitates control, co-ordination and accountability.
- (vi) High quality goods produced - people concentrate in doing jobs for which they are best suited which improves quality of output.
- (vii) Increased creativity and innovation - the organization may tap workers talents and skills which may help to modify existing products, develop new products, initiate new methods of production or discover new markets.
- (viii) Improved efficiency due to better use of resources.

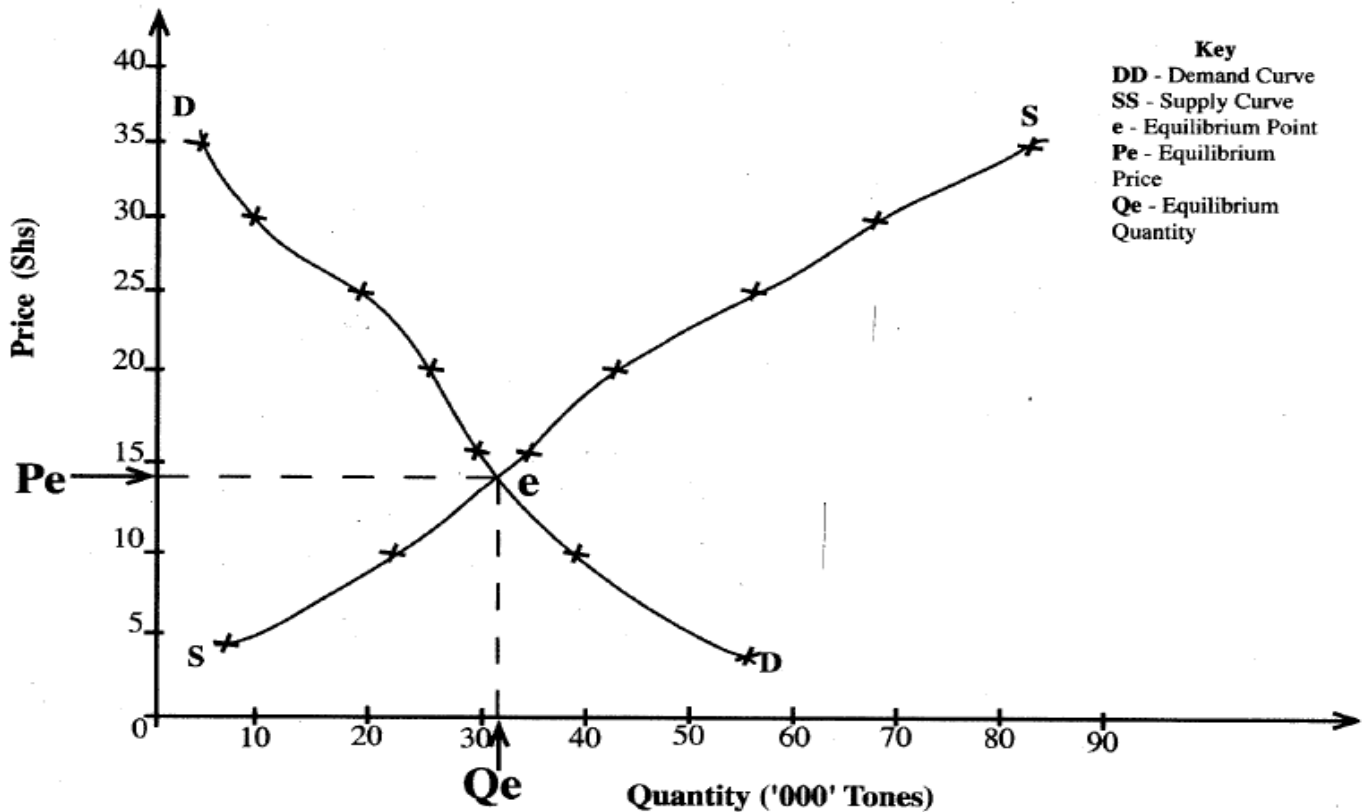
Any 5 x 2 = 10 marks

(b) Ways in which a computer may be used in an office include:

- (i) Data processing - data can be keyed into the computer which then sorts, organizes, analyzes and gives meaningful output.
- (ii) Storage of information - a computer has various storage devices where information can be kept for future reference.
- (iii) A tool for communication - A computer can be linked to the internet and other work stations to enhance sharing of information.
- (iv) Production of documents - can be used as a word processor to produce both soft and hard copies.
- (v) Assist in research - a computer provides a link with various sites where information can be sourced for research purposes.
- (vi) Assist in decision making - it has special programmes and models which may facilitate the decision making process for managers.
- (vii) Can be used for training and staff development - it is a tool for training during staff orientation and presentation.
- (viii) Entertainment - the computer has accessories for games, music and movies which can be used for relaxation while working.
- (ix) A tool of supervision can be used to monitor employee activities on-line.

Any 5 x 2 = 10 marks

- 2 (a) The demand and supply curves for product X showing its market equilibrium.



(20 x □ = 10 marks)

- (b) Merits of direct taxes to the government include:

- (i) Economical to collect - it provides higher revenue at lower costs of administration since collection is executed at the source e.g. PAYE.
- (ii) Certainty - the government knows the amount of tax, the manner and time of payment, hence budget and plan for it. It is also difficult to evade.
- (iii) Convenience - it is collected from the source at regular intervals making it easy and very convenient.
- (iv) Price stability - it is a useful tool for maintaining stable prices by affecting disposable income and consequently influencing aggregate demand.
- (v) Equity - the progressive nature of direct taxes distributes tax burden equitably, thus the government is able to redistribute wealth by heavily taxing those who earn more as opposed to those earning little.
- (vi) Simple to determine - Every wage level falls into predictable tax brackets.
- (vii) Easy to administer - It is very difficult to evade hence very easy to administer as the collection points are also fewer as opposed to collecting tax directly from individuals.
- (viii) It is elastic - it expands with increased income and population.

Any 5 x 2 = 10 marks

- 3** (a) Disadvantages that a country would suffer if she restricted trade with other countries include:
- (i) Development of monopolies - Monopolies may emerge due to lack of competition from possible rivals exposing consumers to exploitation.
  - (ii) Reduced consumer choice - trade restrictions reduces the variety of goods and services available to consumers leading to lower standards of living.
  - (iii) Trading conflicts - trading partners are likely to retaliate, leading to conflicts between the countries involved.
  - (iv) Poor quality goods - protected domestic industries may produce poor quality goods and services due to lack of competition from established industries.
  - (v) Lack of growth of infant industries - overprotected infant industries may not grow from infancy always seeking for continued protection.
  - (vi) Reduced production capacity - this results from the reduced market as a result of the trade restrictions hence under-exploitation of available resources.
  - (vii) Misallocation of resources - it may force a country to use her resources in areas where she has no comparative advantage.
  - (viii) Costly to the government - this may happen if measures like subsidies are used to enhance restrictions by encouraging import substitution.
  - (x) Encourages smuggling which leads to entry of counterfeit goods and loss of government revenue.

Any 5 x 2 = 10 marks

- (b) Factors that may promote entrepreneurship in Kenya include:
- (i) Government support - favourable government policies on funding and regulation of business activities may encourage the emergence and expansion of business ventures.
  - (ii) Training in entrepreneurship - trainees are equipped with skills and knowledge to undertake entrepreneurial activities.
  - (iii) Cultural practices - some cultural practices encourage entrepreneurship through early exposure to business activities.
  - (iv) Role models - interaction with successful business people may inspire entrepreneurship.
  - (v) Availability of capital - capital for starting and expanding a business may facilitate entrepreneurship.
  - (vi) Peer group influence - people may be encouraged to venture into business if they associate with friends who encourage them to do so.
  - (vii) Availability of market - people venture into business to satisfy customers where there is a gap in their needs.
  - (viii) Good infrastructure - This facilitates access to markets.
  - (ix) Political stability. This encourages investment and fosters security.

Any 5 x 2 = 10 marks

- 4** (a) Characteristics of property insurance include:
- (i) The value of premium charged is dependent on the degree of risk. Higher premium will be paid for risks of high degree and vice versa.
  - (ii) It is a contract of indemnity - the owner of the insured property is compensated for the loss of the property upon occurrence of the risk.
  - (iii) It is a short term contract - the insurance contract ends after a specific period of

time usually one year and must be renewed for the policy to continue being in force.

- (iv) The owner of the property insured is the only one to be compensated - it cannot be assigned to a next of kin or to another individual.
- (v) It has no surrender value - should the insured stop payment of premium before expiry of the contract, he/she is not entitled to any refund from the insurer.
- (vi) There must be an insurable interest in the property to be insured. The insured must be in a position to suffer financial loss in the event of the risk covered happening in order to claim compensation.
- (vii) There is a maximum limit to the amount of compensation - This can be upto the value of the insured property in case of over insurance and the sum insured in case of under insurance.
- (ix) The risk insured is uncertain - it may or may not occur.

Any 5 x 2 = 10 marks

(b) Elements of effective communication include:

- (i) Sender - This is the source of the message.
- (ii) Message - This is the information to be communicated.
- (iii) Channel - This is the medium to be used in conveying the information/message.
- (iv) Encoding - This is the process of forming / generating the message.
- (v) Decoding - This is the process of interpreting the message so received.
- (vi) Receiver - This is the party (person) to whom the message is sent.
- (vii) Feedback - This is the receivers reaction or response to the message.

Any 5 x 2 = 10 marks

5 (a) (i)

**Laketi Traders'**  
**Profit and Loss Account**  
**For the year ended 31st December 2009**

Expenses	Shs		Shs
Commission allowed	12,400	Gross profit b/d	1,960,200
Insurance	7,500	Discount received	66,100
Lighting	4,600		
Salaries	78,00		
General expenses	117,800		
Net profit c/d	<u>1,806,000</u>		
	<u><u>2,026,300</u></u>		<u><u>2,026,300</u></u>

(10 x □ = 5 marks)



(ii)

**Laketi Traders'**  
**Balance Sheet**  
**As at 31st December 2009**

<b>Fixed Assets</b>	<b>Shs</b>	<b>Shs</b>		<b>Shs</b>	<b>Shs</b>
Premises	850,000		Capital	1,000,000	
Motor vehicle	800,000		Add: Net profit	<u>1,806,000</u>	2,806,000
Equipment	550,500		<b>Current Liabilities</b>		
Furniture	<u>350,000</u>	2,550,500	Creditors		820,000
<b>Current Assets</b>					
Stock	75,000				
Debtors	650,500				
Bank	200,000				
Cash in hand	<u>150,000</u>	<u>1,075,500</u>			
		<u>3,626,000</u>			<u>3,626,000</u>

(14 x □ = 7 marks)

(b) Characteristics of services include:

- (i) Varying quality over time - it is very difficult to standardize the service offered hence the quality cannot be uniform from time to time.
- (ii) Service cannot be stored for future use - service is only consumed at the time it is being offered and any unused service capacity cannot be stored.
- (iii) Service cannot be touched - it is intangible and can only be felt or experienced.
- (iv) Service cannot be separated from the service provider - the provider must directly offer the service to the user.
- (v) Service is perishable - service can only be offered at the time the provider is available.
- (vi) Services cannot be owned by the buyer - ownership cannot be transferred from the provider to the buyer. The buyer only pays for the experience.
- (vii) Services are mobile since they can be provided at different locations.

Any 4 x 2 = 8 marks

6 (a) Types of small scale retail shops that a school leaver may start include:

- (i) Single/unit shops - where the person can sell a wide range of goods in a small fixed shop.
- (ii) Kiosk - the person can put up a simple semi-permanent structure and sell fast moving goods.
- (iii) Tied shop - the person can operate from a permanent building but sell products of a particular manufacturer.
- (iv) Market stall - the person can hire a permanent bench/stall from the county council/municipal market from where to sell goods.
- (v) Canteen - the person can rent a room from an institution and stock goods from different manufacturers.

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- (vi) Mobile shop - the person can acquire or hire a vehicle from where to sell goods by moving from one place to another.
  - (vii) Automatic vending machines - can hire or buy coin-operated machines for selling goods.

Any 5 x 2 = 10 marks

(b) Circumstances in which a firm may acquire monopoly power include:

- (i) If the firm has the sole right to a production technique. This denies other firms the use of the technique.
- (ii) If the firm has control over strategic inputs. This makes the firm to have sole access to inputs used in the production of the commodity.
- (iii) If the firm is the only one with large capital required for the venture. Other firms may not be able to raise the capital leaving the field to one firm.
- (iv) If the firm enjoys economies of scale. This enables the firm to produce at a lower cost than the other firms.
- (v) If the firm is set up as a parastatal and given exclusive rights of production of a particular product by the government.
- (vi) If firms merge. When firms join together to form one large firm, this gives them advantage due to size.
- (vii) If it is the first firm in a small market that is served by one firm more economically. New firms entering the market may make losses due to low sales hence the original firm remains dominant.
- (viii) If the firm has patent rights/copyright which bars other firms from producing/selling the products.

Any 5 x 2 = 10 marks