BUSSINESS STUDIES

565/2

MARKING SCHEME

1. a) Types of wholesalers found in Kenya.

General merchandise

- These wholesalers stock variety of goods such as foodstuffs, clothes and hardware in one shop.

General line wholesalers

- These deal in many products of goods of one line eg. Food stuffs

Specialized wholesalers

These wholesalers specialize in selling only one type of a product in a particular line

Regional wholesalers

They supply goods to traders in a given region only eg. County

National wholesalers

These are wholesalers who supply their goods to all parts of the economy

Mobile wholesalers

They use vehicles to move from place to place selling their wares

Cash and carry

They sell goods on a self-service basis

Drop shippers

They operate from an office where they make orders for goods from the manufacturer

Rack jobbers

They deal in special category of goods which they sell to other wholesalers

Appointed distributors

These are wholesalers who are appointed by manufactures to distribute their products eg cocacola.

b) Criteria for determining the size of a firm.

Number of employees. Usually large scale firm have large numbers of employees but small scale firms have few number of employees

Volume of output: the larger the volume of output, the larger is the scale of the firm and small scale firm have little volume of output.

Floor area covered by premises. This is proportional to the size of a firm where large firms occupy large areas and small firms have smaller premises.

Capital invested: this is proportional to the size of the firm usually, large firms have huge capital investments as compared to small firms

Production methods: large firm have the tendency to be highly mechanized in production unlike small firms that rely on labour intensive and poor technology

Market served: This is proportional to the size of a firm. Large firm have wider markets (geographically and numerically) as opposed to small firms which serve limited areas and clientele.

Sales volume: This is proportional to the size of the firm. Large firms usually have large sales volumes while small firms have little sales volumes.

2. a) Five ways in which central bank of Kenya control the supply of money in the economy.

Open market operation: The central bank sells security to reduce money supply and buy security to increase money supply.

Compulsory deposit requirement : by increasing the compulsory deposit percentage to reduce money supply or reduce compulsory deposit percentage to increase money supply.

Setting of liquidity ratios : By increasing the liquidity ratio to reduce money supply or reducing the ratio to increase money supply.

Selective credit control : The central banks give instruction to commercial banks on the sector they should give credit.

Regulation of bank rates: By either increasing or decreasing their interest rate on loans to commercial banks it induces a similar reaction on lending by commercial banks to either encourage or discourage credit creation.

Moral Persuation: The central bank appeals to commercial bank to either expand a contract credit activities

b) Limitations of radio as means of advertising.

i) Expensive to hire: Radio adverts are expensive as compared to poster.
ii) Poor timing may cause the message not to reach the target group.

iii) Commercial breaks during certain programmes are annuisance to listeners who may switch over to another station in protest, hence not getting the intended message.
iv) Radio broadcast may be interrupted by poor or adverse weather conditions.
v) The message cannot be kept for future reference as rarely to listeners record radio adverts where possible.
vi) Some listeners are only passive listeners hence not able to get the advert message. radio messages are not easily understandable since they lack the visualization essence unlike a T.V.

3. a) Types of unemployment

i) Frictional unemployment: This unemployment which occur when people lose job and go looking for new ones
ii) Seasonal unemployment: This is caused by seasonal variation ie. Peak (high labour demand) off peak (decline in labour demand)
iii) Structural unemployment: This occur when demand for labour decline due to change in production method/decrease in supply of good and services.
iv) Disguised/hidden unemployment : This occurs when the number of people employed exceeds those that are required.
v) Involuntary/open unemployment: This occurs when people are actively looking for jobs at the existing rate but cannot get them.
vi) (casual unemployment : This is unemployment that affects certain occupations where the demand for labour is on causal basis eg. Construction industries.
vii) Cyclical unemployment: This occurs repeatedly at similar times ie. Cycles of economical activities alternatively from boom to recession.
viii) Real wage/voluntary unemployment: This occurs when business are not ready to employ people at the prevailing rates and workers are not willing to take a lower wage rates.
ix) Residue unemployment – This is unemployment that affect people who are physically or mentally challenged.

b)

Scales journal				
Date	Details	Invoice No.	L.F	Amount
2016				
April 2	Mary			1800 √
3	Njau			45000 √
6	Magi			75000 √

Purchases journal				
Date	Details	Invoice No.	L.f	Amount
2016				
April 5	Kima			7,600 √
10	Ciku			2,400 √
15	Meja			180,000 √

General Journal				
Date	Details	l.f	Debit	Credit
2016 April 8	Heri		20,000 √	
8	Machinery (To record sale of machinery on credit to Heri)			20,000 √
20	Van		250,000 √	
	Gari motors (to record purchase of van on credit form gali motors			250,000 √

10x1-10mks)

4. a) Difference between public limited company and partnership.

	Public limited company	Partnership
i)	Minimum number of members 7 and no maximum.	Minimum is two and a maximum 20 and 50 for professional partnership.
ii)	Liability is limited to number of shares of a share-holder	For limited partnership liability to ones contribution, general partner have no limited liability.
iii)	Raise capital through selling of share	Raise capital through contribution by members
iv)	Managed by the elected	Managed by partners themselves
v)	Enjoy continuous life/not affected by death of a member.	Death/bankruptcy /insanity of a member lead to dissolution.
vi)	Has legal entity separate from members	Partnership and members are seen as one.

b) Terms of sale that may be quoted

- Loco/ex-works/ex-factory/ex-warehouse

The price of goods quoted includes the cost of the goods as they are at the sellers premises/factory/warehouse.

Free on rail

Price quoted includes the expenses of moving the goods up to the exporters nearest railway station.

Delivered dock

Price quoted includes the expenses of taking the goods to the nearest docks at the port of embankment.

Free alongside ship

Price quoted includes all expenses up to when the goods are loaded to the ship

Cost insurance and freight (C.I.F)

Price include all expenses of transporting the goods up to the importers port plus insurance for goods up to the importers port plus insurance for goods up to the importers port of entry.

Landed

Price quoted includes all the costs up to when the goods are off loaded from the ship at the importers port of entry.

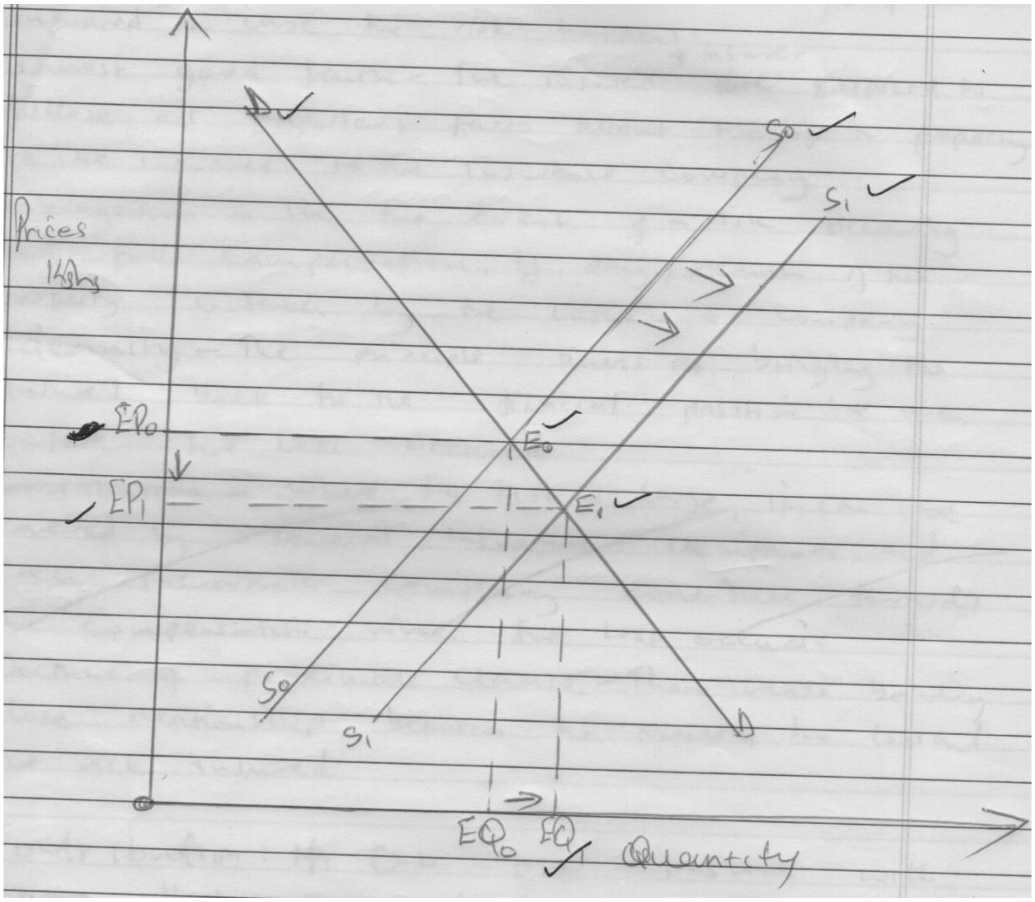
In bond

Price quoted includes all expenses incurred by the exporter up to the bonded warehouse

Franco

Price quoted includes all expenses of taking the goods up to the importers premises.

5. a)



Increase in supply of vehicles causes supply curve to shift to the right from S_oS_o to S_1S_1 .

New equilibrium point E_1 from E_o will be realized thus a new equilibrium price EP_1 from EP_o (decrease in price)

New equilibrium quantity will be realized from EQ_o to EQ_1 (increase is quantity supplied)

(10x1)

b) Principles of insurance

Insurable interest – A person can only insure life or property which would result to financial loss of the insured in case the risk happens.

Utmost good faith – the insured is supposed to disclose all important facts about the life or property to be insured to the insurance company.

Subrogation – in the event of a risk occurring and full compensation is done, if there is any remain of the property is taken by the insurance company.

Indemnity – the principle aims at bringing the insured back to the financial position he was before the loss occurred.

Doctrine of proximate clause – there must be very close relationship between the cause of the loss and the risk insured.

Contribution: - in case one insure with more than one insurance companies the companies will share proportionately when it comes to compensating the insured for the loss arising from occurrence of the risk. This does not happen to life assurance.

6. a) Measures to put in place so that office machines remain in good working condition.

Machines should be covered at all times while not in use to prevent accumulation of dust.

Machine should be wiped regularly to remove any dust.

Power to the machines should be switched off whenever the machines are not in used

Machines should be regularly serviced.

Machines should be repaired by a qualified personnel.

There should be minimal movements of machines from one place to another.

Machines should be assigned to a particular person to be in charge.

b) i) Net sales = sales - returns inwards

1,155,000 – 30,000 √

= sh.1,125,000 √

ii) Rate of stock turn over = $\frac{cost\ of\ sales}{average\ stock}$

$$= \frac{O.stock + purchases + carriage\ in\ returns\ out - c.stock}{\frac{1}{2}(o.stock + c.stock)}$$

$$\frac{430{,}000+930{,}000+10000-20{,}000-470{,}000}{\frac{1}{2}(430{,}000+470{,}000)} \quad √$$

$$= \frac{880{,}000}{450{,}000}$$

= 1.955 times √

2 (times) accept

i) Gross profit = sales – cost of sales

1,125,000 – 880,000 √

= Ksh.245,000 √

ii) Mark-up $\frac{G.profit}{cost\ of\ sales}$ $= \frac{245,000 \times 100\% \surd}{880,000}$

$= \frac{49}{176}$ or 27.84% = 28% √

iii) Margin $= \frac{g.profit}{Sales} = \frac{245,000 \times 100\% \surd}{1,125,000}$

$\frac{49}{225}$ or 21.77 or 22% √

iv) Net profit = g.profit – all expenses

245,000 – (100,000 + 25,000+25,000) √

245,000-150,000 = 95,000 √