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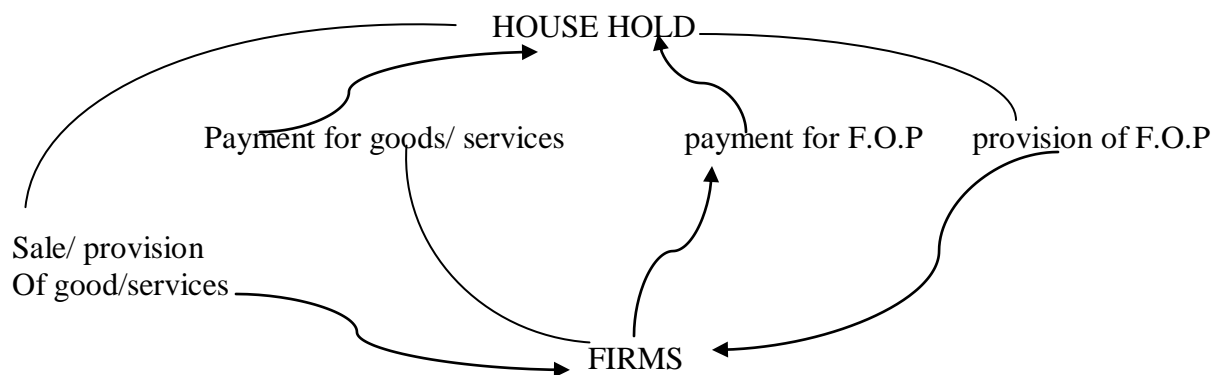
**FORM 4 BUSINESS STUDIES
MARKING SCHEME PAPER 2**

1.

a) Principles of a good tax system.

- (i) Equity – Should be fair/ just/ people should be taxed according to income.
- (ii) Economical – cheap/ easy to administer/ cost effective/ the cost of collection should be relatively lower than tax revenue.
- (iii) Convenient – method of payment/ collection should be convenient to taxpayer/ collector.
- (iv) Certainty–tax collector/ payer should know what/ when/ how to pay/ collect.
- (v) Flexibility – it should be adaptable to all situations/ circumstances/ conditions/ subject to revision.
- (vi) Simplicity – should be easy to understand/ administer.
- (vii) Elasticity – proceeds from taxation should be capable of expanding/ contracting with changes in income/ population.
- (viii) Diversity/ wide based there should be a range/ varieties of taxes/ should net many tax payers.
- (ix) Difficult to evade – should not create loopholes for people to escape/ dodge.
- (x) Should regulate the economy by encouraging production/ proper allocation of resources.
- (xi) Should have benefit to tax payer through provision of quality of good/ services to encourage them to pay.

b) Circular flow of income in a two sectors economy.



2.

a) Measures that the government may put in place to reduce the amount of money in circulation.

- (i) Raising the bank/ lending rate – making credit/ loan expensive.
- (ii) Raising taxes to reduce disposable income.
- (iii) Reducing government expenditure by suspending some projects.
- (iv) Open market operation by instructing the central bank to sell government securities/ stocks.

- (v) Selective credit control/ credit rationing by deciding only to provide finances to specific sectors.
- (vi) Compulsory deposits where central bank may require that commercial bank to deposit a certain amount of their cash with it.
- (vii) Raise the interest rates which encourages savings.
- (viii) Raise cash/ liquidity ratio leaving commercial bank with little money to lend.
- (ix) Raising margin requirement to discourage borrowing.
- (x) Directives by instructing commercial banks to reduce lending.
- (xi) Moral persuasion by convincing/ persuading the commercial banks to reduce their lending to the public.
- (xii) Surplus budgeting – by spending less than the income raised/ collected.

b) Ways through which govt may create an enabling environment

- (i) Provision of subsidies by the government paying part of production cost/ lower cost of production.
- (ii) Provision of cheap finance/ credit facilities/ capital to start/ run business.
- (iii) Provision of skilled labour/ manpower for effective production/ increase productivity.
- (iv) Incentive to encourage investments/ provision of tax holidays.
- (v) Protection of local infant industries from unfair/ unhealthy competition.
- (vi) Loan guarantee from lending agencies.
- (vii) Provision of cheap land lowering cost of production/ encourages investments.
- (viii) Improvement of infrastructure to facilitate movement of raw materials/ F.O.P/ access to markets.
- (ix) Development of social amenities to improve social welfare of the investors.
- (x) Favourable govt policies/ laws that encourage production/ consumption.
- (xi) Good governance/ political stability create a conducive environment for business/ ensure accountability/ transparency/ reduces the cost of doing business.
- (xii) Ensure law and order to allow for smooth running of business.

3.

a) Benefit of joining a SACCO

- (i) Encourage member to save by making regular contribution.
- (ii) Provision loan/ credit facilities to member based on their contribution.
- (iii) Receive dividends based on their contributions.
- (iv) Education/ advice on their rights/ co-operatives activities.
- (v) Provide front office services/ banking facilities to deposit/ withdraw cash.
- (vi) Interest to members on contribution to the co-operatives.
- (vii) Insure members' contributions/ loans and hence members' savings are safe.
- (viii) Low interest rates on loans making them relatively cheap as compared to banks.
- (ix) Loans are written off in case of death of, a member relieving the beneficiary the burden of clearing the credit.
- (x) Members' shares/ savings are doubled and paid to beneficiaries in case of death of members.

b) Reasons why businessmen observe ethical practices

- (i) To ensure fair competition/ fair play hence firms are able to withstand/ cope with it/ to ensure continuity.
- (ii) To protect consumers from exploitation/ poor quality/ unhygienic products/ false advertisements etc.
- (iii) To protect the environment from degradation/ pollution/ to ensure sustainability.
- (iv) To promote social responsibility by assisting/ giving back to the society.
- (v) To maintain positive image hence maintain customer loyalty/ attract customers.
- (vi) To abide by the country's law hence avoid conflict/ friction with law enforcing agents/ avoid law suits.
- (vii) To maintains suppliers hence reliable/ continuous provision of raw materials.
- (viii) To promote positive cultural practices through production of goods/ services that is in line with consumers cultural values.
- (ix) Avoid discrimination in business by ensuring fair/ equal opportunities to all in employment/ promotion/ tendering e.t.c.

4.

a) Factors to consider in choosing a product promotion method.

- (i) Cost of the method – should be affordable/ cheap/ cost effective.
- (ii) Geographical coverage/ distance to be covered – should reach the customers in their locations.
- (iii) Type of customer/ target group/ Nature of market should appeal to the target group/ consumers.
- (iv) Nature of the product/ type of product should be appropriate/ suitable for the product/ technical require personal selling.
- (v) Nature of the message – should effectively/ best present various aspects of the product.
- (vi) Urgency of the message/ speed of medium should reach the customer within the desired time frame.
- (vii) Intended impression one which can best achieve the desired impression/ impact.
- (viii) Number of customer/ size of the market should effectively service the available customers.

b) MBOGO TRADERS THREE COLUMN CASH BOOK

Dr					Cr				
Date	Details	Discount allowed	Cash	Bank	Date	Details	Discount received	Cash	bank
2018 Jan 1	Bal b/d		40,000		2018 Jan 1	Bal b/d			16,200
4	Tembo	750		14,250	3	Purchases		17,500	
8	Mando	500		16,500	10	Drawings			7,200
14	Sales		22,450		18	Simba	1,500	28,500	
20	Bank(c)		4,000		20	Cash(c)			4,000
22	Kunguru	600		39,400	26	Wages		12,000	
					31	Bal c/d		8,450	42,750
		1850	66450	70150			1,500	66,450	70,150

5.

a) Factors that would lead to increase in supply of apple

- (i) Modern/ improved technology leads to high quality/ quantity.
- (ii) Increase in price of apple farmers/ supplier can afford them.
- (iii) Favorable government policies encouraging growth/ production of apples.
- (iv) Favorable climatic factors/ seasons increase production/ leads to bumper harvest.
- (v) Increase in skill/ training of apple farmers lead to high output.
- (vi) Reduced cost of production makes them affordable for farmers.
- (vii) Expected future decrease in price – want to dispose.

b) Demerits of free trade.

- (i) Dumping of inferior/ cheap/ substandard products.
- (ii) Unemployment/ loss of jobs due to collapse/ closure of firms due to unfair/ unhealthy competition.
- (iii) Erosion of values/belief/ morals due to copy of negative foreign habits/ cultures.
- (iv) Entry of harmful good/ services e.g. drug s which may affect people's health negatively.
- (v) Slow economic development due to influx of foreign goods. Services.
- (vi) Over exploitation of resources leading to depletion/ exhaustion,
- (vii) Contribute to unfavorable/ worsening B.O.P due to country valued exports/ expensive imports
- (viii) Imported inflation due to importation of overpriced goods/ services.
- (ix) Encourage over dependence/ over reliance on imports/ foreign countries which may lead to political blackmail/ vulnerability.
- (x) Entry of contra band goods/ services which may negatively affect security/ health/ economy stability.
- (xi) Brain drain – loss of skilled personnel to developed countries that provide better pay/amenities/ working conditions.

6.

a) Benefit of electronic filing system.

- (i) Easy access of files – as they are serialized/ coded.
- (ii) Less storage facilities as they can be stored in compact manner / in flash disc.
- (iii) Easy update as information is stored in flexible applications.
- (iv) Less paper work – thus reduces environmental pollution.
- (v) Use of net work increases connectivity and sharing of information.
- (vi) Safety of information due to use of passwords.
- (vii) Highly portable and hence can be transferred from different location accessed from different location.
- (viii) Presentable outlook of information from computers.

b)

KIPRUTO ENTREPRISES
BALANCE SHEET
AS AT 31/12/2017

Fixed Assets	<u>Shs.</u>			<u>Shs.</u>
Motor vehicle	146,500		Capital	200,000
Office equipment's	120,000		+ Net profit	82,000
	266,500			282,000
			Less drawings	12,000
				270,000
Current Assets			Long term liabilities	
Stock	68,000		Bank loan (4 yrs)	80,000
Debtors	86,000		Current liabilities	
Cash hand	6,000	<u>160,000</u>	Creditor	30,000
		426,500	Bank overdraft	26,500
				<u>76,500</u>
				426,500

ii)

a) Working capital

CA – CL

$$160,000 - 76,500 = 83,500$$

b) Borrowed capital

$$\text{Loan} = 80,000$$

c) Current ratio

$$160,000 : 76,500 = 320 : 153$$

$$\text{Or} = 2.091 : 1 \text{ or } 2:1$$