

**565/2 BUSINESS STUDIES (2018)**  
**MARKING SCHEME**

- 1. a) Explain five macro factors that a businessman must respond to, to ensure the survival of his business. (10mks)**
- i) Competitor: - must use information about competitors to gain advantage
  - ii) Legal political: - must adhere to government laws to ensure that it is not deregistered out of business.
  - iii) Demographic trends: - matters of population determine the demand for goods, thus influencing how much a business will produce.
  - iv) Economic factors: - business must respond to economic factors such as prize changes, customer's buying habit to establish what to produce and what price to set for the goods
  - v) Technological factors: - technology influences the quality of goods produced as well as the cost of production. Business must respond to changes in technology if it was to survive.

- 1. b) Explain five drawbacks of unemployment (10mks)**
- i) Rise in social vices e.g. crime, prostitution due to lack of engagement in gainful economic activities.
  - ii) Retardation in economic development due to lack of investment funds
  - iii) Increase in dependency leading to a fall in savings and eventually lack of investments
  - iv) Fall in government revenue due to a low revenue collection base
  - v) Increase in government expenditure in an effort to provide social welfare schemes for the unemployed
  - vi) Rise in the levels of poverty

- 2. a) Record the following transactions belonging to Flipside traders in the appropriate ledger accounts balance the accounts and extract a trial balance as at 11<sup>th</sup> July 2013. (10mks)**

1<sup>st</sup> July 2013 Started business by borrowing Kshs 100,000 which was deposited in the business bank account  
 3<sup>rd</sup> July Bought goods worth Kshs 20,000 from Bulls eye traders on credit  
 6<sup>th</sup> July Sold goods worth Kshs 15,000 on credit to truthmeter traders  
 8<sup>th</sup> July Truthmeter traders returned goods worth Kshs 5,000  
 10<sup>th</sup> July Received a credit note of Kshs 3,000 from Bulls eye traders in relation to some returns made

Dr	Bank a/c	Cr	Dr	Bank a/c
	Cr			
1/7/13 Bank loan 100,000		10/7/13 Bal c/d 100,000	11/7/13 Bal c/d 100,000	1/7/13 Bank 100,000
Dr	Purchases a/c	Cr	Dr	Bullseye a/c
	Cr			
3/7/13 Bullseye 20,000		3/7/13 Bal c/d 20,000	10/7/13 P/returns 3,000	
3/7/13 Purchases 20,000				
			11/7/13 Bal c/d	17,000
				<u>20,000</u>
<u>20,000</u>				

Dr	Sales a/c	Cr	Dr	Bank a/c	
	<b>Cr</b>				
11/7/13 Bal b/d	15,000	6/7/13 T/m traders	15,000	6/7/13 Sales	15,000
S>Returns 5,000					8/7/13
					11/7/13 Bal c/d
<u>10,000</u>					
		<u>15,000</u>		<u>15,000</u>	

Dr	Sales returns	Cr	Dr	Returns outwards	
	<b>Cr</b>				
8/7/13 Truthmeter	<u>5,000</u>	11/7/13 Bal c/d	<u>5,000</u>	11/7/13 Bal c/d	<u>3,000</u>
Bullseye	<u>3,000</u>				10/7/13

**FLIPSIDE TRADERS  
TRIAL BALANCE  
AS AT 11/7/2013**

Particulars	Dr	Cr
Bank	100,000	
Bank loan		100,000
Purchases	20,000	
Bullseye traders		17,000
Sales		15,000
Truthmeter traders	10,000	
Sales Return	5,000	
Return outwards		<u>3,000</u>
	<u>135,000</u>	<u>135,000</u>

**2. b) Explain the role played by warehousing as an aid to trade among others (10mks)**

- i) Preserves surplus, stabilizes prices and helps to save huge quantities of good which would otherwise be wasted.
- ii) Goods can be prepared for sale while in the warehouse in terms of sorting, weighing, packing etc
- iii) Provide temporary accommodation of goods for producers with no sufficient room for storage.
- iv) Acts as a reservoir enabling trade to continue throughout the year
- v) Deferred payment on highly taxed goods enables the importer to look for a market for the good
- vi) Enables the government to get revenue through duty paid

**3. a) The information relates to African Retail Traders for the year ended 31<sup>st</sup> Dec 1999 (12mks)**

**a) calculate**

- i) Cost of goods sold    Mark-up percentage    Debtors ratio    Current ratio

**i) Cost of goods sold**

$$\begin{aligned}
 &= \text{opening stock} + \text{purchases} - \text{closing stock} \\
 &= 285,000 + 1,830,000 - 315,000 \\
 &= 1,800,000
 \end{aligned}$$

**ii) Mark-up percentage**

$$\begin{aligned}
 &= \frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \\
 &= \frac{600,000 \times 100}{1,800,000} \\
 &= 33 \frac{1}{3} \%
 \end{aligned}$$

**iii) Debtors ratio**

$$\begin{aligned}
 &= \frac{\text{Debtors} \times 365}{\text{Sales}} \\
 &= \frac{900,000 \times 365}{2,400,000} \\
 &= 136.9 \\
 &= 137 \text{ days}
 \end{aligned}$$

**iv) Current ratio**

$$\begin{aligned}
 &= \frac{\text{Current Assets}}{\text{Current liabilities}} \\
 &= \frac{\text{stock} + \text{Debtors} + \text{Cash at bank}}{\text{Current liabilities}} \\
 &= \frac{315,000 + 900,000 + 35,000}{438,000} \\
 &= \frac{1,250,000}{438,000} = 3.08: 1 + 3.1: 1
 \end{aligned}$$

**3. b) explain five ways in which a well-developed transport industry can be of benefit to the economy of a country. (10mks)**

- i) Producers able to deliver their produce to the market
- ii) Raw materials can be delivered to the production units thus enabling continuous production
- iii) Facilitates movement of workers and traders
- iv) Facilitates up of new areas to exploit natural resources
- v) Help avoid wastage since surplus can be taken to the market
- vi) Perishable items can easily reach market
- vii) Consumers able to get a variety of products
- viii) Urgent services such as medical services can be provided in the shortest time possible
- ix) Facilitates mass production
- x) Encourage specialization
- xi) Promote development of industries

**4. a) briefly explain the following means of written communication (10mks)**

<b>Reports</b>	i) Detailed presentation of findings, conclusions and recommendations ii) It aids decision making
<b>Circulars</b>	i) Are many copies of a single letter addressed to very many-making ii) Used when some message needs to be passed to very many people
<b>Agenda</b>	i) It is an outline of the items to be discussed in a meeting
<b>Minutes</b>	i) Are records of proceedings of a meeting ii) Are usually brief since they are written when the meeting is in progress
<b>Memorandum</b>	i) A means used to pass information between departments in an organization ii) It is strictly used for internal communication

**4.b) explain five types of indirect taxes (10mks)**

- i) Sales tax – A tax based on sale of products made by businessmen within the country
- ii) Value added tax – a tax levied on the value that a business adds to its final products
- iii) Export duty – a tax levied on goods exported to other countries, either to discourage export of essential goods or simply to earn revenue
- iv) Import duty – a tax levied on goods imported from other countries
- v) Excise duty – a tax imposed on goods produced and consumed within the country

**5. a) Explain five reasons why ethical issues are necessary to a business (10mks)**

- i) To ensure that there is no discrimination in such areas as recruitment, promotion, training etc
- ii) To create fairness in competition such that a business does not destroy or discredit other businesses products
- iii) To ensure protection of the environment by avoiding water, air and noise pollution
- iv) To avoid environment degradation through deforestation
- v) To ensure rights of employees are upheld e.g. protection of their health as they work
- vi) To avoid consumer exploitation e.g. through selling harmful product

**5. b) Outline five advantages of using a credit card to a buyer (10mks)**

- i) It is safer to carry the card than cash
- ii) The cardholder is able to get cash when in need at designated cash points
- iii) The card is convenient to carry
- iv) Some cards are acceptable internationally; hence the holder will not need to seek for foreign currency when travelling to other countries
- v) The holder is able to keep track of his expenditure since he gets a statement of all his expenditure at the end of the month from the credit card company
- vi) The credit card increases the credit rating of the holder
- Vii) Credit cards enhance the social status of the holder. Members of the public consider credit cards a reserve of the high and mighty

**6. a) Explain five ways through which the central bank may promote credit creation among commercial banks (10mks)**

- i) Reduction in the bank rate to reduce the cost of borrowing
- ii) Lowering the cash reserve ratio – this enables the commercial banks to have more reserves with which to advance to their customers
- iii) Reduction in the value of compulsory deposits – this also allows commercial banks to retain more money which they eventually lend out
- iv) Use of open market operations – in this case the central bank buys back the securities it may have sold to the public through the commercial banks thus enabling them to lend more
- v) Reduction in the value of the margin. This enables borrowers to give securities of much lower value compared to loans borrowed. This encourages individuals to borrow more
- vi) Relaxation of directives and persuasions – enabling the commercial banks to have freedom to lend to any sector in need of finance

**6.b ) Outline differences between a joint stock company and a co-operative (10mks)**

<b>Joint stock</b>	<b>Co-operative</b>
i) Registered under companies Act	i) Registered under the co-operatives Act
ii) Managed by a board of directors	ii) Ran by a management committee
iii) No. of shares determines one's voting power	iii) Ran on the basis of one man one vote
iv) Formed by a minimum of 7 shareholders	iv) Formed by a minimum of 10 members
v) Operations guided by the memorandum and articles of association	v) operations guided by a set of laid down co-op principles