**565/2**

**BUSINESS STUDIES**

**PAPER 2**

**MARKING SCHEME.**

**1. a) Role played by warehousing in developing Kenya’s economy.**

i) **Stabilization of prices**- By storing surplus stocks in times of mass production

and releasing them during times of low production, warehousing helps stabilize prices.

1. **Provision of employment opportunities –**Many Kenyans have been employed because warehousing paves way for mass production which advocates for employment as personnel in the warehouses
2. **Ensuring steady supply of goods-** Goods are stored until their need arises e.g. maize , wheat , sugar and rice are stored to cater for demand during times of shortages.
3. **Security –** Goods are protected against vagaries of weather e.g. rain ,frost, sunshine and theft.This ensures country’s self- sufficiency in the goods thereby reducing dependency on other countries.
4. **Government revenue-** Through taxation which may be distributed equitably to all classes of people in society as the revenue is invested in public utilities
5. **Control of smuggling-** Enables the government to check on goods imported / Exported to ensure dangerous / harmful goods are not in the market.
6. **Checking on evasion of duty payment –**Bonded warehouses ensure duty is not evaded when goods are released from a bonded warehouse. This widens base of government revenue collection .
7. **Boosting / promoting / improving trade-** Facilitates trade which is crucial to the development of Kenya’s economy (***5 x 2*** )
8. **Limitations of using per capital as a measure of standard of living.**
   1. **Statistical problems** – Collection of data of national income may be inaccurate resulting inaccurate national income figures hence the per capital income figure may be wrong.
   2. **Change in the value of money**- As the per capita income might appear to be high due to the high rate of inflation in the country.
   3. **Inappropriate application of national income**- The per capital income might appear to be high but most of the income must have been used in a way that did not benefit the general public
   4. **Inequalities in income distribution** – As most of the income might be in the hands of the few people.
   5. **People’s hard work and sacrifice**- A high per capita income may be achieved because of people’s hard work and sacrifice .Increased national income may imply that people have no time enjoy what they produce and their welfare may be low despite rise in national income
   6. **Change in population** – Changes in per national income should take into into account changes in population.
   7. **Effects on the environment** – The per capital income measure does not take into consideration the effects of production activities on the environment e.g. environmental degradation and pollution.
   8. **Differences in tastes, needs and cultures** – Difference in needs, tastes and cultures result in different preferences for commodities and ways of having leisure. (***5 x 2*** ) = 10mks

**2. a) Circumstances that may make a country join a common market.**

**i) Incase a country needs to expand its market**- A Wider market for a country’s goods and services is created.

This allows the countries involved to produce more in order to cater for the expanded market.

1. **Where a country needs to create employment –** Large industries will be created to cater for the increased demand for goods, with the expansion of production capacity, more job opportunities are created thus increasing standard of living of the people of that country.
2. **Where there is increased competition –** An enlarged mkt encourages the production of high quality goods and services in order to complete favourably
3. **Incase a country needs higher bargaining power.**

When countries come together they lend to have a higher bargaining power in the world market helping them to get better prices for their goods and services.

1. **Where a country aspires for international understanding –** Helping countries to foster peaceful relationships and enabling them to co-exist together hence promoting national and regional development.
2. **Where a country needs flow resources members enjoy a free flow of technical human resources from those countries that have more.**
3. **When a country wants to encourage specialization –** A country concentrates on production of goods and services it can product cheaply resulting in effective utilization of resources.
4. **Incase a country needs free flowing of information.**

As people / other countries exchange of ideas during trading activities.

1. **Where a country needs to develop more.**

Specialized industries – As large industries are established to cater for increased demand

( 6 x 2 )=12mks

1. **Criteria for determining size of a firm:**
   1. **Number of employees-** Large firms have large number of employees whereas smaller ones have few employees to carry its functions.
   2. **Volume of output:**- As bigger firms produce more than smaller ones.
   3. **Operational premises / Floor area covered by premises-** Bigger firms operate in large premises than small firms.
   4. **Capital investment –** Bigger firms invest more capital in terms of assets than small or medium firms.
   5. **Size of the market served –** Large firms will produce a large volume of goods thus will have large markets / A firm with several branches all over the country is said to be large.
   6. **Level of technology / production methods-** Bigger firms easily access more operational capital and can thus buy larger and more modern machines and utilize latest technologies.
   7. **Sales volume-** A firm with bigger sales within a short time can be termed as big / large.

**4 x 2 = 8mks**

**3. a) Measure the government may undertake to reduce unemployment**

**i) Control of population growth rate –** By reducing high population growth rate

using methods such as family planning to control population growth.

1. **Reforming education system –** By introducing relevant education system in which practical skills applicable in the fields e.g agriculture commerce .Industry are provided to equip the school leavers appropriately.
2. **Use of appropriate production techniques –** Through encouraging use of labour intensive methods of production where more labour is needed as opposed to capital
3. **Curbing rural –urban migration –**Through giving incentives such as tax reduction, improved infrastructure to potential investors to set up industries in rural areas.
4. **Improvement of the informal sector-** By offering credit, training and marketing of the products from the sector to encourage self employment
5. **Maximum utilization of resources –** Optimum utilization of natural resources e.g. land through mechanization will result into labour fully employed in rural areas.
6. **Increasing government expenditure –** By increasing its expenditure projects that would create more jobs such as construction of roads and dams.
7. **Encouraging direct foreign investment –** Through reduction in taxes, guaranteeing security and allowing them to repatriate part of their profits. A conducive political environment will also increase foreign investment hence creating more jobs

**(ix) Diversification of economic activities –** mostly in areas suffering from seasonal unemployment to ensure that people are employed throughout the year e.g. through irrigation to combat seasonal unemployment in agriculture.

(5 x 2 )10mks

b) i) **Sales journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Invoice No. | Ledger Folio | Amount |
| 2000  Nov 1  1  1  3  7  7  7  11  11  14  14  14  19  19  19 | Mbele  Kioko  Muthusi  Kitheka  Muthusi  Waithaka  Mbele  Ndingi  Mburi  Kioko  Mbele  Kanini  Muthusi  Waithaka  Mbele |  |  | 6000  1000  2500  2150  1500  1500  2100  2500  3140  1000  2500  5000  3000  3000  1000 |
| 19 | Total posted to the sales A/C |  |  | 37890 |

1. **Sales returns Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Credit Note No.** | **ledger Folio** | **Amount** |
| Nov 2  8  12  15  15 | Muthusi  Mbele  Mbuvi  Kanini  Mbele |  |  | 250  200  3140  500  250 |
|  | **Total posted to sales returns a/c** |  |  | **4350** |

20 x ½ = 10mks

4. a) Reason for government involvement in business activities.

i) **To provide essential goods and services –** That may be either too expensive for public sector to afford or private sector may fail to produce for lack of profitability e.g public health, education, relief supplies etc.

ii) **To provide goods and services that may be unattractive to private investors-** As a result of high capital investment required compared to returns / declining profits in the provision of such goods / services e.g. construction of airports , railways ridges etc.

iii) **To protect public from exploitation**- In provision of essential goods and services e.g. transport petroleum products, salt ,sugar etc.

iv) **To avoid misuse of monopoly power. –** By investing in the provision environment for fair competition.

1. **To create employment opportunities –** By investing in the production and provision of goods / services to create job opportunities e.g. establishment of Nyayo Tea Zones.
2. **To manage the economy –** To ensure that control of the economy does not pass on to foreign investors.
3. **To stimulate economic development –** Through setting up organizations, establishing public corporations, promoting establishment of business organizations etc.
4. **To enhance efficiency operations-** Where certain services can be operated most efficiently and cheaply under one single business organization e.g. distribution and provision of electricity to consumers.
5. **To ensure national security –** Through provision of goods and services that may be sensitive and of security implications to the welfare of citizens e.g manufacturing and distribution of firearms and bullets
6. **Political ideology and policy :** of the government in power.
7. **Provision of social services :** For public interest e.g public force, military services street lighting etc. ( 5 x 2 = 10mks)

b) **Mwala’s**

**Three column Cash Book for the Month f Jan 2000**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | D.A | Cash | Bank |  | Date | Details | D.R | Cash | Bank |
| 2001  1/7  2/7  3/7  12/7  13/7  29/7  30/7 | Balances  Sales  Lee  Sales  Bank  Otieno  Cash | 500 | 3250  42500  36000 | 136500  42630  14100  9500  51950 |  | 2001  8/7  14/7  15/7  16/7  18/7  20/7  28/7  30/7  31/7 | Purchases  Nduku  Wages  Cash  Stationery  Lee  Salaries  Bank  Balances c/d | 1250 | 24000  750  51950  5000 | 26240  23750  36,000  14100  48600  105990 |
|  |  | 500 | 81700 | 254680 |  |  |  | 1250 | 81700 | 254680 |
| 1/8 | Balances b/d |  | 5000 | 105990 |  |  |  |  |  |  |

20 x ½ = 10mks

**5. a) Role of development Banks**

i) Support investments in areas which would otherwise not be financed by other financial institutions.

ii) Creates employment opportunities to individual citizens thereby improving the standards of living by alleviating poverty of citizens.

iii) Generates revenues to the government by paying taxes to the government

iv) Mobilizes savings and investment of individuals citizens.

1. Provides advisory services and educates willing investors on how to set- up and run their investment projects more successfully.
2. Undertake to carry our feasibility studies for potential investors to ensure investment in profitable ventures.
3. Provides investment capital to the existing new business.
4. Supports investments to individuals who would wish to start their own investment schemes. 5 x 2 = 10mks

b) i) Movement in supply curve

- Occurs when amount supplied for sale change in relation to the price in market at a

given period of time. 1

price

½  

S 1

P1 B 



P0 A



P2 C



Q2 Q0 Q1 ½ Quantity supplied

- Increase in price of a commodity from Po to P1 causes supply to move from Qo to

Q1 causing a movement along a supply curve from point A to B.

- A decrease in price from Po to P2 cause amount supplied of a commodity to

decrease from Qo to Q2 causing a movement from point A to C1. ***5mks***

1. **Shift in supply curve**

* It is caused by a change in supply which is a result of factors which influence supply others than price / A change in supply results in a shift in supply curve . 1

S2 S S1





 ½  ½ NB



po Shift to the right 

Shift to the left (award ½ each)

S2

S S1



Q2 Q0  Q1 Quantity  ½

* A shift to the left from SS to S2S2 represent a decrease in supply from Qo to Q21
* A shift to right from SS to S1S1, represent an increase in supply from Qo to Q21 5mks

6. a) **Principles of insurance and their significance**

**i) Utmost good faith / uberrima Fides-** At the time fo signing the contract, the insured is supposed to disclose the required materials facts concerning the property or life to be insured.

**Significance –** is to test the insured trustworthy / honesty

1. **Insurable interest –** The insured must stand to lose financially incase of any risk happening (where he/she has no insurable interest).

**Significance-** Insure your own property not neighbours’s

1. **Subrogation** – After the insured has been compensated for the actual loss suffered restoring the insured to the same financial position he was before the risk occurred.

**Significance** – The insured is paid the actual loss.

1. **Proximate cause-** For the insured to be compensated there must be a close relationship between the loss suffered and the risk insured.

**Significance –**The actual risk insured must occur to be compensated

1. **Contribution-** Occurs where one insurers the same matter with two or more insures against the same risk. In the event of loss the insures will contribute appropriately so that compensation is equal to amount of loss suffered or sum insured, whichever is less.

**Significance-** The actual risk insured is compensated regardless of the magnititude of the risk ( 5 x 2 = 10mks)

**b)i)**

**Muhamuzi Traders.**

**Trading , profit and loss account for the year ended 31/12/2001**

|  |  |
| --- | --- |
| Opening stock 12,500  **Add**: Purchases 70,000  82500  **Less**: Returns Out 2400  Goods available for sale 80100  **Less**: Closing Stock 6500  **COST OF SALES** 73600  Gross Profit c/d 19900  93350  General Expenses 5200  Carriage Outwards 4000  Salaries 1400  **Less**: Outstanding 2800 16800  **26000** | Sales 95000  **Less**: Returns in 1500  Net sales 93500    93350  Gross profit b/d 19900  Net loss c/d ( 6100)  **26000** |

**Muhamuzi Traders.**

**Balance Sheet as at 31st Dec . 2001**

|  |  |
| --- | --- |
| Shs.  Fixed Assets 82000  **Current Assets**  Debtors 10500  Cash in hand 2500  Stock 6500    **101500** | Capital 88800  Less : Net loss ( 6100)  Current Liabilities  Creditors 8500  Salary outstanding 2800  Bank overdraft 7500  **101500** |

20 x ½ = 10mks