

MOKASA II JOINT EXAMINATION

565/2

BUSINESS STUDIES

Paper 2

July, 2019 - 2½ hours

Name: Adm No.: Class
.....

Candidate's Signature: Date:
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MARKING SCHEME

Instructions to Students

- (a) This paper consists of **six** questions.
- (b) Answer any **five** questions.
- (c) Answers should be written in the spaces provided after question **six**.
- (d) All questions carry equal marks.
- (e) **This paper consists of 15 printed pages.**
- (f) **Students should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.**
- (g) **Students should answer the questions in English.**

For Teacher's Use Only

Question	Maximum Score	Candidate's Score
	20	
	20	
	20	
	20	
	20	
Total		

Score	
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1. a) Explain **five** ways in which the demographic environment may positively influence business activities.

(10 marks)

- *Age of the population may influence the type of business to be established e.g. a population comprised of the youth tend to like high tech products like video games, smart phones*
- *Education/literacy levels of the population may influence the type of business e.g. more bookshops for increased number of academic institutions*
- *The Gender of the population- increased business for those whose products are valued by certain gender e.g. male/female wear*
- *The size of the population- increased number of people leading to increased demand*
- *The distribution of the population i.e. the densely populated areas as businesses are attracted to areas of high population density.*
- *The high birth rates/ low death rates- increases demand for products*
- *The Migration rate-immigration and emigration rate*

b) Explain **five** advantages that accrue to a firm due to increased production. (10 marks)

- **Marketing economies (Buying and selling economies);** these are the benefits which a firm derives from large purchases of inputs or factors of production due to the discounts offered in the process e.g. trade and quantity discounts.
- **Financial economies;** as a firm grows, its assets also increase. These assets can be used as security to borrow money/loan from financial institutions at low interest rates. Large firms can also raise more funds through selling and buying of shares and debentures.
- **Risk bearing economies;** Large firms can reduce risks involved in the market failure through diversification of products or markets. Diversification of markets or products can be done so that;
- **Managerial economies/staff economies:** Large firms are able to hire/employ specialized staff and management. This increases the firms efficiency and productivity i.e.
- **Technical economies;** these are benefits that accrue to a firm from the use of specialized labour and machinery.
- **Research economies;** Large firms can afford to carry out research into better methods of production and marketing. (Research is necessary because of the increased competition in the business world today) This improves the quality of the products and increases the sales and profits made by the firm.

- **Staff welfare economies;** Large firms can easily provide social amenities to their employees including recreations, housing, education, canteens and wide range of allowances.

2. a) Explain **five** reasons for the popularity of using social media in product promotion.

(10 marks)

- Cost effective as they are cheaper to the trader compared to use of television.
- Wide coverage, hence can reach customers in their various locations.
- Demonstration is possible for technical products through use of animations
- Feedback is immediate e.g. you tube, face book, Instagram
- Non-discriminative i.e. small and large enterprises can use without any discrimination.
- The message can last long hence customer can still refer if need be.
- Readily available – to many business since it can be accessed everywhere by those with the mobile phones.
- Target group – It is appealing to the target group.
- Speed – It can reach the customers within the desired time frame.

b) Explain **five** measures that a country may take to correct a balance of payment deficit.

- Decreasing the volume of imports through measures such as increasing import duty, imposing quotas on imports, foreign exchange control, administrative bottlenecks
- Increasing volume of exports through measures such as export compensation schemes, diversifying foreign markets, offering customs drawbacks and lobbying for removal of trade restrictions
- By encouraging foreign investments into the country by giving investors incentives such as tax holidays
- By devaluing local currency since it has the effect of promoting exports and restricting imports
- By restricting capital outflows through reducing the percentage of profit that foreign investors repatriate and reducing the number of government delegations going abroad.

(10 marks)

3. a) Explain **five** differences between a cooperative society and a private limited company.

(10 marks)

	Cooperative Society	Private Limited Company
a)	Formed under the cooperative act	Formed under the company act
b)	A minimum of 10 members (adult) and no set maximum	A minimum of 2 to 50 shareholders
c)	Managed by a committee	Managed by 1 or 2 or Board of directors
d)	Main objective is the interest of members	Main objective is to make profits
e)	Main source of capital is members contribution	Main source of capital is through sale of shares

f)	Managed through by laws	Managed through memorandum and articles of association
g)	Membership is open and voluntary	Membership requires consent of other shareholders

b) Outline **five** benefits that a country may derive by preparing a development plan.

(10 marks)

- **Appropriate resource allocation** – In the most productive way.
- **Stimulation of effort** – the plan may help people to work towards fulfillment of the planned objective.
- **Support foreign aid bargain** – Used to convince the donors, because they can prepare the plans country intends to pursue and the objectives upon which the policies are based.
- **Project evaluation** – It is possible to evaluate projects in various stages of implementation to assess whether they are in line with the expected outcomes where there are deviations, corrective measures are taken.
- **To avoid duplication** of in industries to ensure that different industries are set at different parts.
- **To promote balanced regional development** – by distributing industries in different parts of the country which experiences low development
- **To develop long term decision making** – It provides a long term view of making decision in various sectors of the economy
- **Helps in accountability** in the implementation of the development plans

4. a) The table below shows the Gross Domestic Product (GDP) of a country X in the year 014 to 2018.

Year	2014	2015	2016	2017	2018
GDP (Sh in millions)	19,201	27,304	33,092	41,067	54,689

Explain **five** factors that may have caused the above trend.
(10 marks)

- Increase in the size of the population that is in gainful employment and the labour supply in the country /increased quality of labour
- Improved political stability in the country which in turn attracts both local and foreign investors to engage in business activities
- Increased exploitation of the available natural resources such as mineral deposits, forests, water, beaches and climate
- Improved levels of technology used in the production of goods and services which leads to increased output and improved quality

- *Increased entrepreneurial ability of the citizens which enable them to organize other factors of production in appropriate proportions leading to creation of more employment opportunities*
- *Increase in the amount and quality of capital from simple tools to very advanced equipment used in the production.*
- *Positive change of attitude of the citizens towards work*
- *Increased foreign direct investments leading to increased production.*

b) Explain **five** causes of demand pull inflation. (10marks)

- *General shortage of goods and services*
- *Increase in money incomes*
- *Increase in consumer's expenditure*
- *Increase in Government expenditure*
- *Effects of credit creation by the financial institutions*

5. a) Kenya is endowed with some economic resources yet it has failed to exploit them.

Outline **five** reasons that account to this. (10 marks)

- **Poor governance** leading to misappropriation and embezzlement of funds that would have been.
- **In adequate capital/finance** - leading to low levels of investment.
- **Negative social cultural practices** - which may hinder production.
- **Use of inappropriate/low level technology** - For exploitation and production of large quantities of goods.
- **Poor infrastructure** - which hinders movement of factors of production from one place to another.
- **Inadequate labour/skills** - resulting into inefficiency in production.
- **High dependency ratio** - leading to low saving and investments/ high population growth rate.
- **Political instability** - which discourages production/investment.
- **Over-reliance on foreign aid** - Which may lead to political blackmail.
- **Poor political will/support** due to vested interests of the leaders.
- **Limited market** - which discourages production activities.
- **Trade dependency** - where people more on buying than producing

b) On 1st May 2018, Sosit traders had Sh.25,000 Cash in hand and Bank overdraft of sh

15,000. During the month the following transactions took place.

2018

May 3: Kipkurui ,a debtor settled his account of sh 12000 by cheque of sh 10,000

May 5: Paid rent by cash sh. 5000

May 6: Deposited sh. 2000 into the business bank account from the cash till.

May 8: Received sh 6000 Cash from Kamau, a debtor

May 10: Wanjiku a debtor settled her account of 15,000 by cheque, having been allowed 20% discount.

May 15: Purchased Furniture worth sh 3,000 paying by cheque

May 18: Deposited sh 7,000 into the bank from private sources.

May 23: Received the following amounts in cash from debtors having deducted

cash discount of 5%. Kertich sh 7600, Brian sh 4750

May 25: Banked all the available Cash except sh 1000

Required:

Prepare a dully balanced three column cash book.

(10 marks)

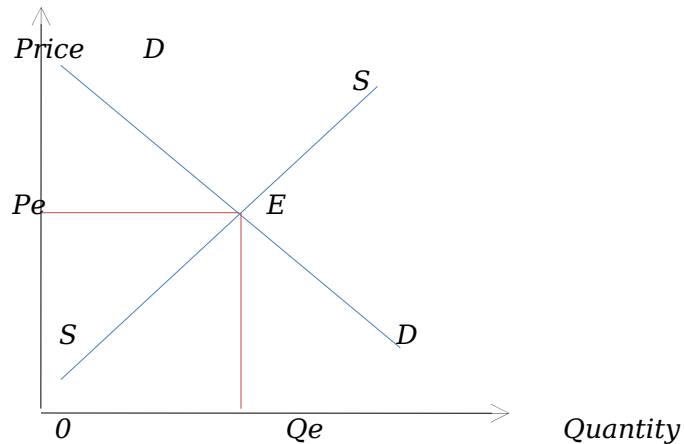
*Sosiot Traders
Three Column cash book*

<i>Date</i>	<i>Details</i>	<i>L F</i>	<i>Disc Alw d</i>	<i>Cash</i>	<i>Bank</i>	<i>Date</i>	<i>Details</i>	<i>L F</i>	<i>Disc Rcv' d</i>	<i>Cash</i>	<i>Bank</i>
2018						2018					
May 1	Bal b/d Kipkurui		200 0	25,00 0	10,00 0	May 1	Bal b/d				15,00 0
May 3	Cash C1 Kamau		0		2000	May 5	Rent			5000	0
May 6	Wanjiku			6000		May 6	Bank C1			2000	
May 6	Investme		300 0		1200 0	May 15	Furnitur e			3535 0	
May 8	Kertich			7600	7000	May 25	Bank C2				3000
May 10	Brian		400	4750							
May 10	Cash C2		250				Bal cd			1000	15700
May 18				4335	3535 0	May 31				4335 0	3100 0
May 23	Bal b/d		565 0	0	3100 0						
May 25				1000							
June 1											

Marking 20√*1½ = 10 Marks

6. a) By aid of a diagram, show how price of a commodity is determined by the forces of demand and supply.

(10 marks)



1. Buyers and sellers are satisfied with the price
2. Setting price and Quantity other than the equilibrium results to market instability
3. If the factors determining supply and demand do not change then equilibrium price will prevail in the market.

Marking Diagram 8 marks and any two of the above explanations 2marks

- b) The following trial balance was extracted from the books of Rafiki traders as at 31st December 2018.

Rafiki traders Trial Balance As at 31 st December 2018		
	Dr. (Sh.)	Cr. (Sh.)
Purchases	420,000	
Sales		855,000
Returns	12,000	20,000
Creditors		100,000
Debtors	63,000	
Bank overdraft		65,000
Motor- vehicle	480,000	
Cash in hand	65,000	
Furniture	190,000	
Carriage inwards	14,000	
Stock on 1 st Dec 2018	280,000	
Capital		626,250
Drawings	88,000	

Telephone	6,400	
Insurance	8,200	
Postage	3,850	
Rent	19,600	
Discounts	7,300	4,000
Advertising	<u>12,900</u>	
	<u>1,670,250</u>	<u>1,670,250</u>

Additional information;

Stock as at 31st December 2018 amounted to shs.60,000.

Required:(i) Prepare Rafiki traders trading profit and loss account.(6 marks)

(ii) A balance sheet as at 31st December 2018.
(4 marks)

*Rafiki Traders
Trading, Profit and loss account
For the Period ended 31st Dec 2018✓*

Shs	Shs
Opening Stock	Sales
280,000✓	855,000✓
add purchases	Less returns in
420,000✓	<u>12,000✓</u>
Add carriage in	Net sales
14,000✓	843,000✓
Less returns outwards	
<u>20,000✓</u>	
694,000✓	
Less closing stock	
<u>60,000✓</u>	
cogs	
634,000✓	<u>843,000</u>
Gross profit c/d	
209,000✓	
<u>843,000</u>	
Telephone	
6,400✓	
Insurance	
8,200✓	<u>213,000</u>
Postage	Net profit b/d
3,850✓	154,750
Rent	
19,600✓	
Advertising	
12,900✓	
Discount allowed	
7,300✓	
Net profit c/d	
<u>154,750✓</u>	

213,000

Marking $18\sqrt{*1/3} = 6\text{marks}$

*Rafiki Traders
Balance sheet
As at 31st Dec 2018✓*

Shs	<u>Fixed assets</u>		Shs
	<i>Furniture</i>		<i>Capital</i>
	<i>190,000✓</i>		<i>626,250✓</i>
	<i>Motor vehicle</i>		<i>Add net profit</i>
	<i>480,000✓</i>		<i><u>154,750✓</u></i>
		<i>781,000</i>	
	<u>Current assets</u>		<i>Less drawings</i>
	<i>Stock</i>		<i><u>88,000✓</u></i>
	<i>60,000✓</i>		<i>693,000✓</i>
	<i>Debtors</i>		
	<i>63,000✓</i>	<u>STL</u>	
	<i>Cash</i>		<i>Creditors</i>
	<i>65,000✓</i>		<i>100,000✓</i>
			<i>Bank overdraft</i>
			<i>65,000✓</i>
	<u>858,000</u>		<u>858,000</u>

Marking $12\sqrt{*1/3} = 4\text{ marks}$