

TERM TWO EXAMINATIONS
565/1- Business Studies - Paper – 2
FORM FOUR

MARKING SCHEME

- 1. (a) Benefits of transporting petroleum by pipeline transport to our country.**
- (i) Road accidents have reduced due to reduced congestion of tankers on the road.
 - (ii) Environmental pollution has reduced as smoke from tankers has reduced/pipes do not emit smoke Polluters.
 - (iii) Road damage has reduced due to reduced heavy tankers on roads.
 - (iv) Reduced cost of handling oil due to few workers/employed /pipeline use machine mainly.
 - (v) Pilferage of oil has reduced as it's difficult to steal oil from the hard pipes that are underground.
 - (vi) Large volumes of oil will be transported within a short time.
 - (vii) Travelling to various parts of the country takes less time due to reduced congestion on roads.
 - (viii) Ensure regular supply of oil hence reducing oil shortages.
 - (ix) Not easily affected by poor weather as pipes can be underground/permanently fixed.
- (b) Describe Five factors that lead to a higher level of national income in a country.**
- (i) Natural resources endowment in terms of quality of the 'gifts of nature' such as fertile soils. Gifted countries tend to have a higher income.
 - (ii) Availability of capital or man-made resources. National income may be higher where capital is available.
 - (iii) Human resources in terms of quality and quantity of labour force. It may be higher where labour is in large quantity and quality.
 - (iv) Socio-cultural attitudes. National income may be higher where socio-cultural attitudes encourage the development of entrepreneurs.
 - (v) Technology in terms of production methods. The more modern the production techniques a country has, the more the chances of having a higher national income.
 - (vi) Type of governance/political will. National income may be higher where it is supported by political will.
 - (vii) Foreign investment. National income may be higher where there is more foreign investment.
- 2. (a) Negative effects of inflation.**
- Reduction in profits – A rise in prices may lead to reduced sales hence low profits for firms.
 - Wastage of time – individuals/firms take time shopping around for reasonable prices. Likewise firms waste time adjusting prices to reflect the new ones.
 - Increase in wages & salaries – employees/trade unions pressurize the firms to raise wages/salaries to cope,
 - Decline in standards of living – due to a decline in consumer purchasing power.

- Loss to creditors – due to lending when the value of money is high and paid when value is eroded by inflation.
- Retardation of economic growth as business people are not willing to take risks/invest in new ventures.
- Adverse effects on the balance of payment – as exports become expensive leading to a fall in their demand while imports become cheap increasing their demand.
- Loss of confidence in the local currency by the citizens resulting in either barter trade or the use of outside countries' currencies.

Mention 1 mk otherwise 2 marks

b) Factors that may have accounted for the decline of Terms of Trade.

- Higher prices of imports compared to exports of a country.
- Fall in exchange rates which makes imports expensive.
- Competition from similar products from other countries which lowers demand hence lower export prices
- Increased demand for imports which leads to higher import prices.
- Devaluation of local currency which makes imports expensive and exports cheap.
- Prices of exports remain constant while those of imports increased.
- Prices of imports remain constant while those of exports decline

(10 marks)

2 marks each for any five well expl. Points.

3. (a) Factors influencing the amount held for transactionary motive
- The level of household/individual income - The higher the amount of income the higher the amount of money that an individual would hold for transactions purpose.
 - The price level/cost of living - The higher the cost of living the higher the amount of money an individual would hold.
 - The number of dependants an individual has/family size – Individuals with large families will keep large amounts of money for transactions purpose.
 - The possibility of getting credit –The more difficult it is, the higher the amount an individual would hold for transactions purpose.
 - Lifestyle of an individual – psychosocial environment. An individual with an expensive lifestyle or high-income neighbourhood will hold more money for transactions purpose.
 - Pattern of payment/interval between payments- weekly wage earner will need to hold less than a person who receives his salary monthly.

Mention 1mk otherwise 2 marks

b) HAPPY TRADERS THREE COLUMN CASH BOOK

DATE	DETAILS	DISC. ALLWD.	CASH	BANK	DATE	DETAILS	DISC. RECD	CASH	BANK
2008		Shs.	Shs.	Shs.	2008		Shs.	Shs.	Shs.
June 1	Bal b/d		5,000	7,500	June 2	Purchases		750	
5	Kamau	10		490	4	Salaries		3,750	
5	Jane	20		980	8	Otieno	75		1,425
25	Sales		1,000			Wanjiku	30		570
26	Cash			500	12	Machinery			2,500
29	Wanjohi		1,500		20	Drawings		500	
					26	Bank		500	
					30	Bal c/d		500	4,975
		<u>1,530</u>	<u>6,000</u>	<u>9,470</u>			<u>105</u>	<u>6,000</u>	<u>9,470</u>

20 x ½ = 10 marks

4. (a) Channels for distributing fish from Lake Victoria.

- Fisherman (Producer) → Consumer
- Producer → Retailer → Consumer
- Producer → Wholesaler → Consumer
- Producer → Wholesaler → Retailer → Consumer
- Producer → Marketing Agency → Retailer → Consumer
- Producer → Marketing Agency → Wholesaler → Consumer

(b) Benefits of selling in cash.

- Reduces cases of bad debts
 - Seller has the cash to buy more stock
 - Cash to finance daily expenses
 - Saves time
 - Profits not tied to debts
 - Sellers easily prepare their financial statements.
- Any five well explained. 5 x 2 = 10 mks.

5. (a) Reasons why Mobile banking services are becoming increasingly popular in Kenya.

- i. Account information. Mobile banking provides mini-statement and checking account balances, access to loan statements card statements, status on cheques, ordering checkbooks, stop payment on cheques, and blocking of lost or stolen cards.
- ii. Money transfer. Customers transfer money through SMS or mobile banking. This reduces costs for customers and is more secure
- iii. Deposits agents. Customers deposit money through agents which is reflected in their accounts. Mobile phones thus act as a bank account.
- iv. Withdrawals at agents. Mobile phone users (customers) withdraw money through agents using their mobile phones. Payments of bills.

- v. Payment of utility bills such as electricity, and water, transport , such as air, road, and repayment of loans.
- vi. Mobile recharging. It allows customers to top up their airtime
- vii. Investment services. Mobile banking allows customers to receive online updates on share prices, personalized alerts and perform share trading while traveling
- viii. Content services. It provides general information such as weather updates, news, loyalty-related offers, and location-based services
- ix. Support. It offers the status of requests for credit, including mortgage approval and insurance cover a cheque book, card request, exchange of data messages, and E-mail, including complaint submission and tracking ATM location

Any 5 @ 2 = 10mks

b) Circumstances for termination of insurance policy

- When the policy expires since it becomes invalid after the expiry
- Failure to pay premiums as agreed because it will be a breach of contract
- When the risk insured has occurred and the property has fully been compensated as it will be a new property
- When the insurance company discovered that the insurer does not have an insurance interest
- When the insured voluntarily decides to terminate the contract or surrender value in the endowment and whole life policy
- When it is discovered that the insured did not give accurate information while taking the policy since he will have violated the insurance policy

6. (a) Differences between public limited co and public corporation

Public Limited Co.	Public Corporation
i. Fully owned by private people who own shares	i. Fully owned by the government
ii. Formed under the companies act	ii. Formed by an act of parliament
iii. Formed to make profit	iii. Formed to offer essential goods/services
iv. Profit realised goes to the shareholders	iv. The profit realised belong to the government
v. Financed by shareholders	v. Financed by the government
vi. Perform various functions	vi. Perform specific function

Any 5 well matched points 5 x 2 = 10

Marks

b)

Milka Traders
Trading, Profit & Loss A/c
For the year ended 31 December 2020

	Shs	Shs		Shs	cts
Opening stock		25,000	Sales	600,000	
Add purchase	360,000		Less Returns in	40,000	560,000
+ Carriage inwards	2,000				
Less returns out	20,000	342,000			
COGAS		367,000			
Less Closing stock		22,000			
COGS		345,000			
Gross profit c/d		215,000			
		<u>560,000</u>			<u>560,000</u>
General expenses		88,000	Gross profit b/d		215,000
Carriage out		3,000	Add disc. Received		5,000
Rent		1,000			
Sales Commission		80,000			
Net profit c/d		48,000			
		<u>220,000</u>			<u>220,000</u>
			Net profit		48,000