

565/2 BUSINESS STUDIES PAPER TWO

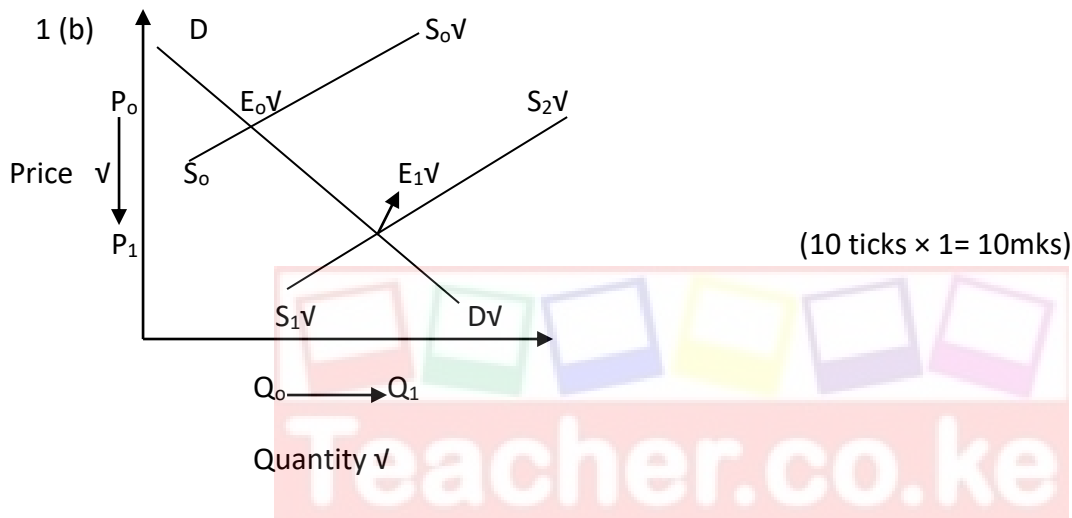
JUNE 2022

MARKING SCHEME (CONFIDENTIAL)

1(a) Benefits accruing to a trader using a liner to transport goods.

- i). Liners have fixed schedule/ time table which enables a trader to plan the transportation
- ii). Liners have fixed rates / fares which allows for budgeting.
- iii). Liners are more reliable than tramps because they don't change routes making the trader to be more confident
- iv). Can carry bulky / heavy / more goods at a time.
- v). Cover longer distances than tramps
- vii). May provide discounts to its regular users.

(Any 5×2=10mks)



-An increase in equilibrium quantity from  $Q_0$  to  $Q_1$ .

-A decrease in equilibrium price from  $P_0$  to  $P_1$ .

2a). Measures that may be taken by the government to promote export trade.

- i). Providing export subsidy thus making it cheaper for exporter
- ii). Looking for more markets abroad through KETA enabling more to be exported
- iii). Organizing fairs and exhibitions in foreign countries to create awareness.
- iv). Encouraging production of high quality goods to increase their competitiveness.
- v). Easy export licensing for exporters to facilitate export licensing
- vi). By using commercial attaches to promote country's goods in foreign countries to create awareness.
- vii). Diversifying her export commodities for market security / cushion slump in demand
- viii). Lowering duties on imported raw materials meant for export to encourage re-exportation
- ix). By establishing export processing zones, EPZs which enhance more exports
- x). By entering into bilateral trade agreement with other trading partners to improve their terms of trade.

2b) Kisumu Auto Spares  
Trading, profit and loss account  
For the year ended 31<sup>st</sup> Oct 2011

	Shs.		Shs.
Opening stock	61,500v	Sales	319,400v
Add purchases	<u>300,000v</u>		
COGAS	361,500v		
Less closing stock	<u>80,200</u>		
COGS	281,300v		
Gross profit c/d	<u>38,100v</u>		
	<u>319,400</u>		<u>319,400</u>
Carriage on sale	14,400v	Gross profit b/d	<u>38,100v</u>
Advertising	22,200v	Discount received	26,400v
Rates	9,400v	Rent income	12,600v
Salaries	12,400v		
Net profit dd	<u>18,700v</u>		
	<u>77,100</u>		<u>77,100</u>

14 × ½ = 7mks

Kisumu Auto Spares  
Balance sheet  
As at 31<sup>st</sup> Oct 2012

Fixed Assets	Shs.		Shs.
Motor vehicles	603,000v	Capital	653,560v
Equipment	200,600v	Add. Net profit	<u>18,700v</u>
Furniture	<u>94,400v</u>		672,260
	898,000	<u>Current liabilities</u>	
<u>Current Assets</u>		Creditors	74,300v
Stock	80,200v	Bank	<u>412,600v</u>
Debtors	75,900v		486,900
Cash	<u>105,060v</u>		
	<u>261,060</u>		
	<u>1,159,060</u>	672,260+672,260+486,900	<u>1,159,060</u>

10 × ½ = 5mks

3a. Circumstances under which a manufacturer would use wholesalers to distribute his products

- Where the market is spread out thus making it uneconomical and expensive for the producer to sell directly.
- Where the producer does not have adequate capital to set up his own distribution network
- If there is a government policy which separates the functions of producing, wholesaling and retailing.
- Where the nature of goods requires the wholesaler to carry out certain services eg breaking of bulk, blending, sorting etc.
- Where the producer lacks transport facilities which can be provided by the wholesaler

vi).Where there are small scale retailers who are likely to buy from wholesalers and not directly from the manufacturer.

vii).Where the manufacturer has no ability to manage distribution outlets.

(Any 5×2=10mks)

**3b). Functions of the central bank of Kenya in the economy.**

i).**Currency issue**- CBK issues currency notes and coins. It regulates the supply of money in the economy.

ii).**Banker to the government** – CBK accepts deposits from the government for safe keeping. It also manages national debt and advises the government on economic and financial matters.

iii).**Banker to commercial banks** - CBK provides banking services to commercial banks.

iv).**Controller of commercial banks** – CBK directs and advises commercial banks on their operations.

v). **Lender of last resort** – CBK lends money to the government and commercial banks in times of crisis.

vi).**Credit control** – CBK regulates the amount of money in circulation thus limiting the lending capacity of commercial banks and stabilizes the economy.

vii).**Custodian of foreign currency reserves** – CBK regulates the inflow and outflow of foreign exchange in the economy.

viii).**Clearing house** – CBK facilitates clearance of interbank indebtedness arising from cheques drawn on each other.

(Any 5×2=10mks)

**4a) Differences between shares and debentures**

Shares	Debentures
i) Unit of capital in a company	i)Unit of a loan advanced to a public limited company
ii) Shareholders are owners of company	ii)Debenture holders are creditor to the company
iii) Shares earn dividends from profits made.	iii)Debentures earn interest which is an expense to the company
iv) Dividends are only paid when profits are made	iv)Interest on debentures must be paid with or without profit
v) Capital investment that does not require security	v)May or may not require security
vi) Holders have voting rights	vi)Have no voting rights
vii) At dissolution they are paid last	vii) Have first priority payments during dissolution.

(Any 5×2=10mks)

**4b).Circumstances under which a firm would be located near the market for its products.**

- i) When the products are perishable thus require fast delivery
- ii) When the products are bulky / heavier than the raw materials
- iii) When the products are fragile to avoid loses through breakage
- iv) When its cheaper to transport raw materials than the final product
- v) When the raw materials are in the same location as the market for the product
- vi) When it is the government policy that firms locate near their markets
- vii) When the unit value of the products is high/ may pose security threat during transportation

(Any 5×2=10mks)

5a).i. Margin =Gross profit/sales ×100V

$$=600,000/V 2,400,000 \times 100=25\%V \quad (5 \times \frac{1}{2}=2 \frac{1}{2}mks)$$

ii). Rate of stock turnover =  $\frac{\text{cost of sales}}{\text{average stock}}$   
 $= \frac{1,800,000}{300,000} = 6 \text{ times}$  (5 × ½ = 2 ½ mks)

iii). ROCE =  $\frac{\text{Net profit}}{\text{Capital employed}} \times 100$   
 $= \frac{240,000}{1,212,000} \times 100 = 19.8\%$   
 (5 × ½ = 2 ½ mks)

iv). Current ratio =  $\frac{\text{Current Assets}}{\text{Current liabilities}}$   
 $= \frac{1,250,000}{438,000} = 2.85:1$  (5 × ½ = 2 ½ mks)

**5b). Ways in which an entrepreneur contributes to the production of goods.**

- i). Identifies viable business opportunities
- ii). Provides guidelines on how production should be organized
- iii). Provides the capital necessary to carry on production
- iv). Hires / provides all other factors of production
- v). Bears all the risks
- vi). Decides how/ where/ when / what to invest in the business
- vii). Rewards all the factors of production.

(Any 5 × 2 = 10 mks)

**6a). Means of payment a trader uses to settle his debts**

- i). **Cash** - where a trader accepts or uses currency notes and coins for payment
- ii). **Bills of exchange** - where a trader discounts or uses an acceptance bill of exchange to pay.
- iii). **Debit cards** that allows traders to make payment without carrying money
- iv). **Money order** - means of payment provided by the postal corporation on request.
- v). **Cheque** - order to the bank to pay the person named the amount indicated in the cheque
- vi). **Postal order** - means of payment sold by the postal corporation in fixed denominations.
- vii). **Credit transfer** - means of paying a large group of people using a single cheque
- viii). **Standing order** - An order by an account holder to his bank to pay a fixed sum of money to a named person / institution until the order is revoked.
- ix). **Credit cards** that allow traders to make payments without carrying money (Any 5 × 2 = 10 mks)

**6b). Indicators of underdevelopment in Kenya**

- i). **High poverty level** where majority live below the dollar rate per day
- ii). **Low income earnings** where majority of the labour force are unskilled
- iii). **High level of malnutrition** since majority can not afford the basic foodstuff for sustenance
- iv). **Poor infrastructure / inadequate infrastructure** due to misuse / misallocation of funds
- v). **High level of illiteracy** as majority can not afford to educate their children due to high cost of education
- vi). **High unemployment level** due to inappropriate education/ skills/training / few job opportunities / vacancies
- vii). **Disparity in income levels** due to corruption / embezzlement of funds

(Any 5 × 2 = 10 mks)