

KANGEMA / MATHIOYA SUB-COUNTIES JOINT EVALUATION 2016**BUSINESS STUDIES****PAPER 2****Marking scheme**

1. a) Explain five principles that guide the operations of an insurance company. 10mks
- Insurable interest- insured can only insure /be compensated for a property which causes him financial loss
 - Utmost good faith/Uberrimafedei- insured /insurer should disclose relevant materials facts honestly (relating to the contract)
 - Proximate cause – the cause of the loss should have a fairly close /direct connection /relation with the actual /real risk insured
 - indemnity-compensation of risk should restore the insured to his /her previous financial position before the occurrence of risk insured
 - Subrogation –once insured in fully compensated the right /claim in the destroyed property belongs to the insurer
 - Contribution- in case of double insurance the concerned insurers share proportionately towards the loss. 5x2=10mks
- b) Explain five features that differentiate a private limited company from a public limited company. 10mks
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|--|---|
| PRIVATE LTD CO. | PUBLIC LTD CO. |
| - formed by a min. of two to 50 shareholders | -formed by min. of 7 and no upper limit |
| - Restricts the transfer of shares | - there is free transfer of shares |
| - does not advertise its shares to public | -invites public to subscribe for its shares |
| - it starts operating after receiving cert. of incorporation | -has to wait for license of trading to start business |
| - managed by at least one director who | -managed by at least 2 directors and max. not stated by law |
| - may be principal owner or elected among shareholders | 5x2=10mks |
2. a) Outline five differences between monopolistic competition and monopoly types of markets. 10mks

monopoly	monopolistic competition
- markets made up, of one supplier /seller	-market made up of many suppliers
- Firms may earn supernormal profits in the longrun	- firms earn normal profits in the long run
- products are heterogeneous /not close substitutes	-products are homogenous /close substitutes
- single firms may have control over factors of prod.	-No single firm has control over the factors of
- firm is usually large in size	-involved firms usually small in size
- entry into the market is restricted	- entry to the market is free
- price discrimination is possible	-price discrimination not possible esp. in long run
	5x2=10mks

b)

Mathioya –kangema traders

Balance sheet

As at 31st Dec 2015

Fixed assets			
Building	300,000	capital	870,000
Machinery	100,000	short term liabilities	
	400,000		
Current assets		creditors	200,000
Stock	30,000		
Debtors	160,000		
Bank	430,000		
Cash	50,000		
	670,000		
	1,070,000		1,070,000

3. a) Explain five advantages of division of labour and specialization in the production process 10mks
- individual skills are developed in a particular area
 - output per worker is greatly increased
 - production of standardized goods /uniformity
 - maximize use of machinery in production which makes production fast and efficient
 - development of new talents
 - saves time- since there is less time spent money from one activity to another

- less use of mental and physical efforts as workers become used to routine job they expend less mental and physical efforts
- production of high quality goods
- reduces training time
- facilitates planning and management. 5x2=10mks
- b) Outline five characteristics of an economic union form of integration. 10mks
- free trade in all goods and services
- freedom of migration
- single currency in use
- joint economic institution eg central bank
- development of common infrastructure
- free flow of capital
- common environmental regulations
- No national differences in taxation 5x2=10mks
- 4. a) Explain five limitations of using per capita income in measuring people standard of living. 10mks
- At the problem of handling illegal activities that generate income to the receipt
- lack of accurate data of population
- lack of accurate data of national population
- time spent on production versus recreation.
- does not take into consideration the effects of production activities on the environment e.g environment degradation and pollution
- economic growth does not necessarily measure development
- Does not show the distribution of gross national output among the citizen of a country.
- b) Explain five problems that a country could face in development planning. 10mks
- reliance on donor funding which if it is not released then it becomes difficult for projects to take off
- inadequate domestic resources such as killed personal finance capital
- failure by local to support the implementation especially if they were not involved during plan formulation
- some plans are overambitious and are meant to please donors and are thus difficult to implement
- Lack of cooperation among the executing parties makes it hard to implement development plans
- lack of political will to implement plans makes the plans papers just on the shelves
- existence of large substitute sector makes planning unrealistic
- transfer of inappropriate development plans may assume that development plans that have worked in more developed countries are likely to work in less developed countries but may end up failing. 5x2=10mks
- 5. a)
- increase in price of the commodity making it unaffordable
- increase in price of complimentary goods
- decrease in consumer income reducing their purchasing power
- negative changes in taste /fashion/ preferences
- decrease in population reducing number of consumers
- unfavourable government policy discouraging use of the commodity
- expectations of future decrease in price hence postponing purchases.
- b) The Kenyan government has been imposing taxes on various commodities. Give five reasons for this taxation. 10mks
- increase government revenue through taxation
- discourages consumption of harmful products-increase in tax increase their price making the unaffordable
- discourages imports hence protects local infant industries /social values
- reduce inequality in income distribution through progressive taxation
- control inflation –income tax reduce disposable income 5x2=10mks
- 6. a) Wholesalers can be classified based on their method of operation. Describe four types of whole salers under this classification. 8mks
- Cash and carry wholesalers-sell goods to retail on self services basis and do not provide transport
- mobile /truck wholesaler- use vehicles to sell goods from one place to another /combine buying , selling and delivery in one operation.
- rack jobbers- specialized in sealing particular products to other specialized wholesalers
- Drop shippers –do not have stores of their own. 4x2=8mks

b)

Mazendelero Traders
Trading profit and loss account
For the period ended 31st Dec 2015

Dr			Cr
Opening stock	45,000	sales	680,000
Add: purchases	301,000	less: R inwards	<u>35,000</u>
Add: C. inwards	55,000	net sales	645,000
Less: R. outwards	<u>24,000</u> 332,000		
Cost of goods available for sale	377,000		
Less: closing stock	30,000		
Cost of sales	347,000		
Gross profit c/d	298,000		
	<u>645,000</u>		<u>645,000</u>
Discount allowed	3,500		
Insurance	8,000	Revenue	298,000
Office expenses	85,000	discount received	4,000
Carriage outwards	8,500	Rent received	50,000
Salaries and wages	180,000		
Net profit	67,000		
	<u>352,000</u>		<u>352,000</u>