

SACHO HIGH SCHOOL
BUSINESS STUDIES PAPER TWO (565/2)
MID- YEAR EXAMINATIONS 2017
MARKING SCHEME

1. (A) Benefits to a business that operates with a business plan

i) Identifying strengths and weaknesses

Any weaknesses detected, corrective measures are put in place early enough. For example if the workers lack necessary skills, then the business will need to train them or employ new ones.

ii) Is a requirement by financiers

Financial institutions such as banks may require the business plan before accepting to finance or give loan to the business.

iii) Determination of the finances required.

It aids in the calculation of the finances that is required to fund the various activities of the business.

iv) Allocation of resources

It is a guide for proper distribution of available resources. This will ensure that resources are neither underutilized nor used for the wrong purposes.

v) A motivating factor

It communicates the objectives of the business to all employees. Such knowledge enables them to work hard with the intention of achieving the set objectives.

vi) Adaptability

A good business plan provides room to accommodate any unforeseen changes that might occur in future.

vii) A tool for control.

Planning involves setting standards against which performance can be assessed. Where there are any deviations, corrective measures can be taken.

(B) Types of advertising techniques used in product promotion.

- i) Product advertising;** is meant to promote a particular brand of a product. Emphasizes on brand name
- ii) Institutional advertising;** is meant to popularize the company or firm which manufactures a product
- iii) Primary demand advertising;** emphasizes on a whole range of a product and not a particular brand
- iv) Celebrity advertising;** uses famous person to encourage people to buy product.
- v) Informative advertising;** aims at giving general information to a customer about availability, quality and price of a particular product.
- vi) Competitive advertising;** tries to convince the consumers that the product being advertised the best.

2. (A) Advantages of trade liberalization.

- i) Consumers** get better quality goods and services at fair price due to increased competition.
- ii) Increased consumers' choice** due to access to a variety of goods from many parts of the world.
- iii) Producers** get the best prices for their products when they are free to sell their products anywhere in the world.
- iv) Reduces incidences of corruption** which comes with unnecessary government interventions to trade.
- v) Reduces incidences of shortage** when countries can import goods from any other trading partner.
- vi) There is efficient allocation of resources** due to the unrestricted mobility of factors.

(B) Internal diseconomies of scale to a firm as a result of expansion.

- i) Managerial; as firms expand, the contact between the top management and the staff becomes minimal. This may result in lack of proper supervision and guidance of workers leading to inefficiency
- ii) Overproduction; increased output results in lower prices. This may result in lower profit earnings
- iii) Scarcity of factors of production; when a firm expands it requires more factors of production. The firm will compete with other firms for the available factors by for instance offering higher wage which is a disadvantage to the firm.
- iv) Technical; if a firm is not operating at full capacity some of resources and equipment will not be fully employed. This increases the cost per unit of output.
- v) Production interruptions; Due to greater division of labor and specialization, the stages in the production process become very interdependent. This means a problem in one stage leads to the stoppage of the whole process.

3. **(A) Benefits of an enclosed office plan.**

- i) Privacy and confidentiality is enhanced.
- ii) There are minimal disruptions from noise and movements within the office.
- iii) Creates a conducive working environment for the occupants- concentration in work is easy e.g in accounts.
- iv) Security of files and other equipment is enhanced.
- v) An enclosed office is prestigious to the occupant and the entire organization.
- vi) Spread of airborne diseases and other infections is limited.
- vii) The occupant would control air conditioning, lighting and heating to a level comfortable to him/her.

(B)

**EKALALE TRADERS
THREE COLUMN CASH BOOK✓**

Date	Particulars	Disc allowd	Cash	Bank	Date	Particulars	Dis Rcvd.	Cash	Bank
2016		Shs	Shs	Shs	2016		Shs	Shs	Shs
July 1	Bal b/d ✓		85,000✓		July 1	Bal b/d✓			40,000✓
July 2	Sales✓			42,630✓	July 9	Purchases✓		26,240✓	
July 5	Ruth✓			14,100✓	July 15	Ndoigo✓	1250✓	23,750✓	
July 12	Sales✓			42,950✓	July 17	Wages✓		24,000✓	
July 18	Bank (c ₁) ✓		16,000✓		July 18	Cash (c ₁) ✓			16,000✓
July 28	Kemamo✓	500✓		9,500✓	July 20	Stationery✓		850✓	
July 31	Cash (c ₂) ✓			16,360✓	July 22	Ruth✓			14,100✓
					July 31	Bank (c ₂) ✓		16,360✓	
					July 31	Bal c/d✓		10,000✓	55,440✓
		500✓	101,200	125,540			1250✓	101,200	125,540
August 1	Bal b/d✓		10,000	55,440✓					

40 ticks x ¼ = 10 marks

4. (A) With the aid of a suitable diagram, explain the effects of a decrease in supply on the equilibrium price and quantity.

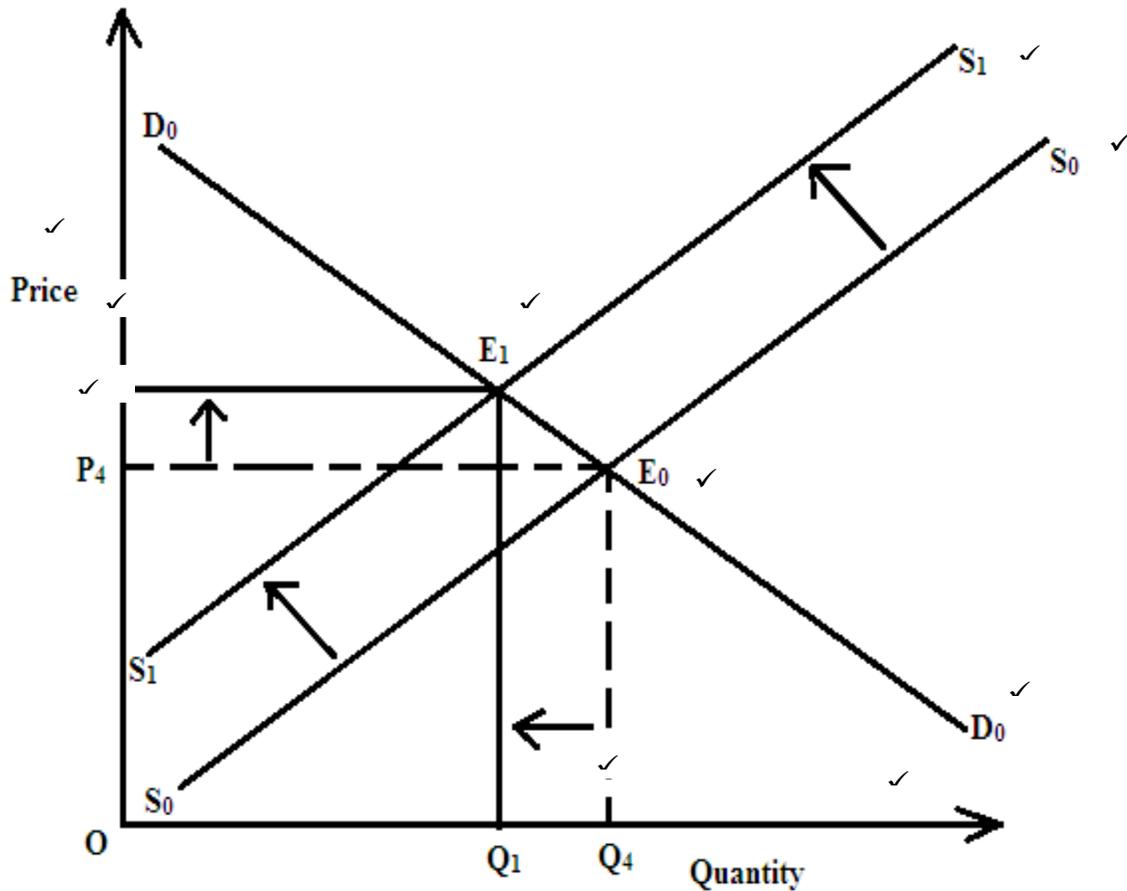


Diagram 8 marks then explanation 2 marks= 10 marks

(B) Government initiated methods of consumer protection

- i) **Kenya Bureau standards act**
It ensures that producers meet the required quality standards when they are producing goods and services. They test the products before allowing them to be sold to consumers
- ii) **The Licensing Act**
It ensures all the goods and business are legalized
- iii) **Weights and Measures Act**
They ensure goods are of correct weight and measures. They check and ensure correct weighing scales and measurement are used by traders. They confiscate goods of low weights from traders
- iv) **Food and drugs Act**
It checks and ensures poisonous and dangerous substances are not included in the goods being sold
- v) **Public health Act**
They check and ensure goods produced and places where they are sold are clean
- vi) **Sale of goods Act**
It ensures that false advertisements and descriptions of goods are not aired to customers.
- vii) **Rent Control Act**
Prohibits landlords from overcharging their tenants where rent is concerned.
- viii) **Government produce and sales goods at fair prices**

- ix) **Government establishes courts and tribunals to listen to complaints of consumers**
 - x) **Government educates consumers on how to protect themselves.**
5. **(A) Differences between a partnership form of business organisation and a public limited company.**

PARTNERSHIP	PUBLIC LIMITED COMPANY
- Established by the Partnership Act.	- Formed under the Company's Act
- Some partners have unlimited liabilities	- All shareholders have limited liabilities
- Minimum of 2 and maximum of 20 partners	- Minimum of 7 and no maximum number of shareholders
- Does not participate in the stock exchange market	- Participates in the stock exchange market
- Capital is contributed by the partners	- Capital is from sale of shares
- Death, insanity, bankruptcy and even exit of a partner can lead to dissolution	- Death, insanity, bankruptcy and even exit of a partner cannot cause its dissolution
- Managed by the active partners(real, major and limited)	- Managed by a board of directors elected by the shareholders
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(B) Causes of cost push inflation

- i) **Increase in wages and salaries;** an increase in the wages and salaries may increase the cost of labour. The increased cost of labour may be reflected in the increased prices of commodities.
 - ii) **Increase in cost of raw materials and other inputs;** this increases the cost of production thus increased prices.
 - iii) **Increase in indirect taxes;** this increases the cost of production and this causes firms to raise the prices of their product.
 - iv) **Increase in profit margin;** if the business decides to raise its profit, it leads to an increase in the price of the commodities.
 - v) **Reduction in subsidies;** removal of a subsidy implies that the producer would produce at a higher cost that was being met by the subsidy. This increase cost is finally reflected in increased prices.
6. **(A) Demerits of direct taxation.**
- i) Encourage avoidance and evasion; it can be easily evaded by tax payers by either falsifying information about their incomes or just ignoring payments.
 - ii) Deterrent to savings as it reduces peoples' ability to save due to less disposable incomes left with them.
 - iii) Deterrent to work; e.g. progressive tax on personal incomes would make an individual opt for leisure time instead of working overtime to get extra income. This is because the more they earn the more tax they pay.
 - iv) Deterrent to investment; heavy taxation on profits may deter entrepreneurs from investing in highly risky but profitable areas. This is because an entrepreneur can only invest in risky areas if there is a possibility of making huge profits.

- v) May inconvenience the tax payer especially where he/she has to comply with complicated formalities relating to sources of income as well as expenses incurred while generating it. This may make the tax payers to involve experts which is an extra cost.
- vi) Not imposed on all citizens as low income earners who do not fall within the tax brackets are exempted hence not contributing anything to the state in form of tax.

(B) Masaku Investments books of original entry

SALES JOURNAL

DATE	DETAILS	INVOICE NO.	AMOUNT
2016 May 3	Kyalo		Shs. 60,000✓
22	Musyoki		150,000✓
	Total Posted to Sales a/c (Cr)		<u>210,000</u>

PURCHASES JOURNAL

DATE	DETAILS	INVOICE NO.	AMOUNT
2016 May 8	Musau		Shs. 120,000✓
16	Musau		160,000✓
	Total Posted to Purchases A/C (Dr)		<u>210,000</u>

PURCHASES RETURNS JOURNAL

DATE	DETAILS	INVOICE NO.	AMOUNT
2016 May 12	Musau		Shs. 6,000✓
	Total posted to purchases returns A/c (cr)		<u>6,000</u>

SALES RETURNS JOURNAL

DATE	DETAILS	INVOICE NO.	AMOUNT
2016 May 24	Kyalo		Shs. 10,000✓
	Total Posted to Sales Returns A/C (Dr)		<u>10,000</u>

GENERAL JOURNAL

DATE	DETAILS	DR.	CR.
2016 May 23	Motor Van A/c. Mashiriki Motors A/c. (Being purchase of Motor Vehicle on credit)	3,200,000✓	3,200,000✓
2016 May 29	Chap Chap Ltd A/c. Equipment (Being sale of Equipment on credit)	840,000✓	840,000✓

10 ticks x 1 = 10 marks

NB: For the general journal, the candidate must indent the account to credit to earn the mark