

**565/2 BUSINESS STUDIES (2017)**  
**PAPER 2**

**MARKING SCHEME**

**1. (a) Explain five challenges faced in the satisfaction of human wants. (10mks)**

- (i) Human wants are too many and varied to satisfy fully. New wants keep on coming up.
- (ii) Resources are never enough – permanent state of independency.
- (iii) Resources are scarce – choice always necessary.
- (iv) People must continually look for fresh, resources to satisfy the recurring wants.
- (v) Human wants change with time, age and gender. People have to continually look for more resources and to satisfy new and different wants.

**(b) Explain five reasons why it is easy to start a sole proprietor business organization. (10mks)**

- (i) Requires little capital to start.
- (ii) Easy formation – a license only.
- (iii) Easy management, fast decision making.
- (iv) Flexibility – easy to change from one form to another.
- (v) Being one's boss. – creating independence
- (vi) Ability to keep business secrets. – thus able to grow.
- (vii) Profits not shared. – thus motivates the

**2. (a) Explain any five factors that may influence the supply of mangoes in the economy. (10mks)**

- (i) Price of mangoes – if high , high supply and if price is low, low supply.
- (ii) Cost of production – low cost leads to high supply while high cost leads to low supply.
- (iii) Price of related products i.e fruits. If prices of other fruits increase, supply of oranges decrease while if prices of other fruits decrease, supply of oranges increase.
- (iv) Production technology – improved technique increases supply.
- (v) Entry of new firms – If more firms enter the industry supply of oranges increases while some withdraw supply decreases.
- (vi) Time – supply will be more during the season when they are usually ripe.
- (vii) Future expectations of changes in prices – if supply les ad vice versa.
- (viii) Government policy through taxes, subsidies, quotas and price control.  
 High taxation – less supply, low taxation high supply high subsidies – high supply, low subsidies low supply.  
 Setting quotas limits supply to the amount the government derives.

**(b) Explain five roles played by intermediaries in the chain of distribution. (10mks)**

- (i) Reducing transactions between producers and consumers. Search and communicate with consumers for producers.
- (ii) Breaking bulk of the goods they buy in large quantities from producers.
- (iii) Accumulating bulk. Buy products from different producers in small quantities and assemble the products to sell in whole sale.
- (iv) Risk taking – intermediaries assume all risks such as those related with storage, insurance, promotion e.t.c.
- (v) Providing finance – finance producers by buying goods on cash basis.
- (vi) Product promotion – pass the necessary information to consumers concerning the products they distribute.
- (vii) Involved in physical distribution by storing and transporting the goods.

**3. (a) Describe any five accounting documents used in home trade. (10mks)**

- (i) Invoice – shows details of goods supplied on credit. Demands for payment.
- (ii) Debit note – Used to correct an undercharge.
- (iii) Credit note – Used to correct an overcharge.
- (iv) Receipt – It acknowledges payment.
- (v) Statement of account – Shows details of transactions for the month as well as the running balance.
- (vi) Consignment note – shows carriage charges.

**(b) Explain five roles played by commercial banks in the development of a country's economy. (10mks)**

- (i) Provision of loans – used to start and run and maintain the business.
- (ii) Account deposits – enabling people to save and safely keep their money for business activities.
- (iii) Transfer of money – through services such as standing order, credit cards, credit transfers which facilitate business transactions.
- (iv) Investment advice – enabling people invest in profitable ventures that lead to economic development.
- (v) Custodian of valuable items – such as shares, jewels etc that may be used as securities for loan.
- (vi) Provide employment – which enable people to get money to invest in economic activities.

**4. (a) Explain any five principles of a good tax system. (10mks)**

- (i) Principle of equity – appropriate to all levels of income
- (ii) Principle of diversity – captures different sources.
- (iii) Principle of convenience -
- (iv) Principle of economy – Prudent in use and low cost of collection
- (v) Principle of flexibility / elasticity – ability to change in different situations
- (vi) Principle of certainty – being aware of what to pay / collect
- (vii) Principle of social benefit – useful and beneficial to the community
- (viii) Principle of simplicity – easy to understand

**(b) Owino Traders had the following balances as at 31<sup>st</sup> December 2010**

Rent	48,000
Lighting	7,200
Water	9,220
Salaries	72,500
Commission received	9,870
Discount allowed	4,600
Discount received	8,500
Gross profit	320,000
General expenses	98,000
Stock	25,250
Motor vehicle	2,300,000
Furniture and Equipment	650,000
Debtors	270,000
Creditors	396,400
Bank	200,000
Cash	50,000
Capital	3,000,000

Required

- (i) Prepare Profit and loss account for the year ended 31<sup>st</sup> December 2010. (5 ½)  
 (ii) Balance sheet as at 31<sup>st</sup> December 2010

**OWINO TRADERS  
 TRADING PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2015**

	Expenses		
Rent	48,000	Gross profit b/f	320,000
Lighting	7,200	Commission received	9,870
Water	9,220	Discount received	8,500
Salaries	72,500		
Discount allowed	4,600		
General expenses	98,000		
Net profit c/d	98,850		
	338,370		
	338,370	Net profit b/d	98,850

**OWINO TRADERS  
 BALANCE SHEET  
 AS AT 31<sup>ST</sup> JUNE 2015**

Stock	25,250	Capital	3,000,000
Motor vehicle	2,300,000	Add N.P	98,850
Furniture & Equipment	650,000	Net Capital	3,098,850
Debtors	270,000	Creditors	396,400
Bank	200,000		
Cash	50,000		
	3,495,250		
	3,495,250		3,495,250

- 5. (a) Primary level of production is the major contributor of gross national product in developing countries as compared to other levels of production. Explain five reasons for this. (10mks)**
- (i) Most developing countries are endowed with good climate hence most emphasis is on agricultural production.
  - (ii) Shortage of modern technology resulting in more primary production since it required basic technology.
  - (iii) Shortage of skills which force people in developing countries engage in primary level of production that requires skills.
  - (iv) Most developing countries are highly endowed with natural resources, hence most emphasis is given to the primary level of production.
  - (v) Shortage of capital, which forces people to engage in primary level of production which does not require large capital investment.
  - (vi) Heavy reliance on subsistence production hence little is produced in the secondary and tertiary levels of production.

**(b) Explain five problems that the insurance industry is facing in Kenya today. (10mks)**

- (i) High levels of competition due to presence of many insurance companies in the country.
- (ii) Low income levels among the citizens, hence many people do not take insurance policies.
- (iii) Lack of information by potential clients on the insurance industry.
- (iv) High levels of motor vehicle accidents have made some insurance companies to close down as a result of large number of claims.
- (v) Poor management due to lack of managerial skills have made a number of locally owned insurance companies to collapse.
- (vi) High awards given by the courts as compensation for loss of life in the motor industry has led to collapse of many insurance firms.
- (vii) Insurance companies are at times made to pay large amounts on bogus claims arising from motor accidents.

**6. (a) Explain five challenges that may be experienced by new entrepreneur intending to start a business in Kenya.**

- (i) Small capital – There are limited sources of raising capital.
- (ii) Lack of managerial skills – have limited skills in regard to business management, thus they may not be able to differentiate between capital and profits.
- (iii) Lack of continuity – the business is not a going concern in the sense that it ceases to exist as soon as the owner dies.
- (iv) Poor choice of business enterprises – the owner lacks the skills to choose a viable project / investment.
- (v) Lack of division of labour – the size and the mode of business ownership denies the benefit of division of labour and specialization.

**(b) Discuss five effects of inflation in the Kenyan economy. (10mks)**

- (i) Wastage of time- *as people move around seeking cheap products*
- (ii) Increase in wages and salaries- *leading to an increase in costs of production*
- (iii) Reduction in profits- *thus discouraging investments*
- (iv) Decline in standards of living- *due to increased cost of goods*
- (v) Loss to creditors.-*thus discouraging credit creation*
- (vi) Retardation in economic growth.-*due to reduced investment activities*
- (vii) Adverse effects on balance of payments.-*thus affecting the growth of a country economically*
- (viii) Loss of confidence in the monetary system.- *leading to reduced economic activities*