

565/2 MS

BUSINESS STUDIES

PAPER 2

NOV 2019

MARKING SCHEME

THE KENYA EXAMINATION COUNCIL

The Kenya Certificate of Sec. Education

Business Studies

Paper 2:

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580

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Ia) Services that may be offered by wholesalers to the retailers

- i) (Assembling) a variety of goods from different producers / relieving the retailers of the burden of visiting the producers' premises / Meeting their different needs / choice
- ii) They break bulk into quantities desired by retailers / The retailers are able to purchase only in the quantities they can afford
- iii) They offer storage / Warehousing Services - this relieves the retailer from the risks of damage / cost of storage of goods / services
- iv) They provide credit / trade credit / financing to relieve deserving retailers / which act as a source of capital to them / to be paid at a later date / as agreed
- v) They advertise goods / product promotion to the benefit of retailers to obtain (a ready) Market / relieving them of the cost of advertising / accept any correct benefit of advertisement to the retailers as expansion
- vi) They offer transport to the retailers relieving them of transportation costs / the hustle of looking for means of transport
- vii) They inform / advice / educate retailers on available offers for certain commodities / This may help retailers improve on their profit margin / accept ego of advice as explanation
- viii) Blending the goods - Mixing of different grades of goods / to get a desired / better quality
- ix) Packing / packaging the goods - putting the goods in suitable container / sizes / fixing labels / wrapping

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- x) Sorting of goods - arranging / grouping goods in ^{categories} size / in classes
- xi) Branding - giving a name / feature to a product for easy identification
- xii) Steady Supply of goods to the retailer whenever he/she needs them
- xiii) Act as a link between producer and the retailers / by buying goods from the producer & selling them to the retailers / bringing goods closer to the retailer
- xiv) Grading goods - arranging / grouping goods according to quality

N/B if a candidate gives preparation of goods for sale as a point; give 2 marks if qualified by way of example; give 1 mark if not qualified

N/B i) preparatⁿ of gds for sale without explanⁿ - 1 mark

ii) preparatⁿ of gds for sale with explanⁿ of preparatⁿ, candidate earns 2 marks

iii) Where a candidate has earned 2 marks for preparatⁿ of goods for sale & then but goes ahead to come up with the way of preparatⁿ of gds for sale fully explained, award 2 marks but return 1 mark for the other response

iv) Where you are not sure, consult

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1b) Differences between sole proprietorship & public ltd Co

<u>Sole proprietorship</u>	<u>Public ltd Company</u>
i) Formed by one person	- Formed by minimum of 7 promoters/persons
ii) Has Unlimited liability	- Have limited liability
iii) Existence depends on the life of sole trader/lack perpetual life/succession	- Has perpetual life irrespective of life/death of shareholders
iv) Main source of capital is personal savings	- Main source of capital is sale of shares
v) Managed by the sole trader/owner	- Managed by a board of directors
vi) Few legal formalities required in formation/simple to form	- Formation procedure is long requiring many legal formalities/complicated to form
vii) Require little capital to start	- Require a huge amount of capital to start
viii) Quick/fast decision making	- slow decision making process
ix) Lack separate legal entity	- Has separate legal entity
x) (Usually) small in size	- (Usually) large in size
xi) Are (highly) flexible	- Are inflexible/rigid
xii) Exposed to few risks	- Exposed to many risks
xiii) Owned by the sole proprietor	- Owned by shareholders
xiv) Maximum of one person	- No maximum ownership
xv) profits/losses are not shared	- profits/losses are shared (among shareholders)

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2a) Negative implications of a young population

- i) There is high dependency ratio since the working population is small
- ii) It leads to high Unemployment since existing job opportunities do not match with the demand
- iii) Leads to low labour supply since they may not have attained the working age / the required skills / leading to low productivity
- iv) It diverts / increased / strain on government resources to cater for consumption of goods / services for the youth hence hindering / slowing implementation of (other) development projects / economic growth
NB (interchangeable)
- v) It creates pressure on social amenities / schools / hospitals / recreation centres leading to poor quality services
- vi) Increased rural-urban migration leading to the development of slums / accept any -ve effects of any rural-urban migration as explanation
- vii) (possible) political / social / ~~unrest~~ instability / unrest due to inability to control / maintain the growing population
- viii) There is low saving due to high expenditure on consumption / high dependence
- ix) There is low investment due to low savings / leading to low production of goods / services
- x) Increased social problems / evils due to high idleness / as the young people transit into the working age / unemployed / as the young try to survive / accept egs of social evils as a mention
- xi) Low per capita income due to low productivity / ^{high} dependence / high unemployment

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2b) i)

RAKWARO ENTERPRISES

TRADING, PROFIT & LOSS ACCOUNT ✓

FOR THE PERIOD ENDING 31/12/2015

	SHTS	SHTS		SHTS	SHTS
Opening stock		160,000 ✓	Sales	1,440,000 ✓	
Purchases	960,000 ✓		Less Return In	16,000 ✓	
Add Cartage In	6,800 ✓	966,800 ✓	Net Sales		1,424,000 ✓
Cost of goods for sale		1,126,800 ✓			
Less closing stock		280,400 ✓			
Cost of goods sold		846,400 ✓			
Gross profit c/d		577,600 ✓			
		1,424,000 ✓			1,424,000 ✓
Discount Allowed	40,400 ✓		Gross profit b/d		577,600 ✓
Salaries & Wages	200,000 ✓				
Net profit c/d	337,200 ✓				
	577,600 ✓				577,600 ✓

$$15 \times \frac{1}{2} = 7 \frac{1}{2}$$

$$\begin{aligned}
 \text{ii) Initial Capital} &= \text{Final Capital} - \text{NP} + \text{D} \\
 &= 720,000 - 337,200 + 28,000 \\
 &= \text{shc } 410,800 \checkmark
 \end{aligned}$$

$$5 \times \frac{1}{2} = 2 \frac{1}{2}$$

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3a) Demerits of pipeline as a means of transport

i) Require heavy (initial) capital / it is expensive / difficult to lay pipes / Construct which many countries cant afford

ii) Has limited alternative uses Can only be used to transport fluids / gases

iii) It is prone to sabotage during war / acts of terrorism / it can easily be interfered with by malicious people / leading to losses / suffering

iv) Leakage / vandalism (in remote areas) may remain undetected for long / this may lead to (enormous) loss / (serious) environmental pollution

v) It is not flexible - once laid, it cannot be (easily) changed / Can also not deliver goods to the door steps of the customer

vi) Different (oil) products cannot be transported at a go / It can only transport one product at a time since it can cause contamination / loss of quality

vii) Expensive / difficult to monitor since it covers long distances / passes thro' remote places / requires expensive equipment

viii) Unsuitable to transport small volume of products since it will be uneconomical

ix) Inability to create / guarantee (many) jobs since it is capital intensive / requires less labour to operate

x) prone to pilferage / theft since it is difficult to patrol (at all times) / passes through solitary / remote areas

xi) Hinders development of other projects along its pathway / since (some) products are highly inflammable / dangerous

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36) Measures that can be taken to increase the Volume of exports

i) Thro' export compensation scheme where exporters are allowed to claim a (certain) percentage of the value of their exports / to enable exporters sell at lower price

ii) Diversifying foreign Markets ~~to export products~~ to expand the market for exports / this increases the selling opportunity (for local products in other countries)

iii) Devaluation of a country's currency which makes its exports cheaper / more attractive to foreign buyers

iv) Encourage (foreign) investments in the country that is geared towards production of goods for exports

v) Lobbying for removal of trade restrictions / barriers imposed by trading partners on the country's exports / this makes it easy to sell local goods in foreign markets
NB accept egs of trade restrictions as a mention

vi) Reduction of bureaucracy / red tape / long procedures / simplification in acquisition of export licenses / this makes it easy / attractive to engage in foreign trade

vii) Subsidizing (export-oriented businesses) - this increases the profit margin for exporters / making the trade more attractive / reduces the cost for production

viii) Use of commercial attaches / govt agencies to promote the country's product abroad

ix) (Aggressive) promotion / advertising (of the country's exports) / by traders leads to increased sales in foreign countries / thro' trade fairs / exhibition / accept egs of other forms of product promotion as expansion

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- x) Creation of EPZs where the producer/exporters enjoy a variety of incentives/reduced cost of products
- xi) Customs drawback where part of (import) duty paid on imported raw materials/inputs is refunded if used to produce goods for exports
- xii) Lowering tax/duty (on exports) by enabling them to be sold at a lower price/encourage more production for exports/make them more attractive
- xiii) Improve (local) Infrastructure to enhance faster movement of goods for exports/accept egs of infrastructure as mention
- xiv) provision of loans (to exporters) to finance export trade/at favourable terms
- xv) Entering into bi-lateral/Multilateral agreements / economic integration (with other countries) to reduce barrier/restriction on exports/to make it easy/cheap to export goods
- xvi) Export credit guarantee scheme / insurance scheme / fund to compensate exporters for losses incurred in export trade
- xvii) providing information / advice useful to exporters
- xviii) Improving (local) technology to improve quality/quantity of export goods
- xix) Ensuring political stability / good governance / security to create suitable / conducive environment for production of export goods
- xx) Manufacturing Under bond to encourage local manufacturer to produce exclusively for exports
- xxi) Improve on quality / standardization / packaging of exported goods to make exports more attractive / conform with (International) stds
- xxii) Diversification of products / (exports) to increase the selling opportunities / foreign markets

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$$\begin{aligned} \text{4a) Gross profit} &= \text{Sales} - \text{Cost of sales} \\ &= 50\,000 - 40\,000 \\ &= \text{Kshs } 10,000 \end{aligned}$$

$$\begin{aligned} \text{i) Markup} &= \frac{\text{GP}}{\text{Cost}} \times 100\% \\ &= \frac{10,000}{40,000} \times 100\% \\ &= \underline{\underline{25\%}} \quad // \quad (4 \times \frac{1}{2} = 2 \text{ MKS}) \end{aligned}$$

$$\begin{aligned} \text{ii) Margin} &= \frac{\text{GP}}{\text{net sales}} \times 100\% = \frac{10,000}{50,000} \times 100\% \\ &= \underline{\underline{20\%}} // \quad (4 \times \frac{1}{2} = 2 \text{ MKS}) \end{aligned}$$

$$\begin{aligned} \text{iii) Total Expenses} &= \frac{5}{100} \text{ of } 50,000 \\ &= \text{Kshs } \underline{\underline{2,500}} // \quad (4 \times \frac{1}{2} = 2 \text{ MKS}) \end{aligned}$$

$$\begin{aligned} \text{iv) Net profit} &= \text{GP} - \text{expenses} \\ &= 10,000 - 2,500 \\ &= \text{Kshs } \underline{\underline{7,500}} // \quad (4 \times \frac{1}{2} = 2 \text{ MKS}) \end{aligned}$$

$$\begin{aligned} \text{v) Rate of stock turn over} &= \frac{\text{COS}}{\text{average stock}} \\ &= \frac{40,000}{20,000} \\ &= \underline{\underline{2 \text{ (times)}}} // \quad (4 \times \frac{1}{2} = 2 \text{ MKS}) \end{aligned}$$

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4b) Benefits of a business to the society

- i) provides goods/services required for the satisfaction of the needs of members of the society
- ii) Exploits (available) resources in the society which would otherwise remain idle / increase productivity
- iii) Creates employment which enable people to earn income / this enable members of the society to afford their day-to-day needs
- iv) Avails variety of commodities/services which enables people to have high / improved living stds / wider choice
- v) It leads to improvement in infrastructure/roads which is required to facilitate trading activities / production / movement / NB accept egs of infrastructure as Naming
- vi) It attracts other auxiliary / support firms / banks / insurance colleges that are of service to the society / accept relevant egs of services to the society of auxiliary firms as expansion
- vii) Leads to development of (better) technology / new ideas / skills for quality / quantity / efficient production
- viii) Encourages development / expansion / improvement of social facilities / amenities which improves welfare of the society NB accept egs of social amenities facilities as a mention
- ix) provides market for (surplus) raw materials / products (from the society) which generates / earns them income / revenue / improves stds of living / to avoid wastage
- x) Earns the govt revenue thro' taxes / which is used to provide public goods (to the society)

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- x) Generates foreign exchange by producing goods/sent for exports
- xii) Helps the govt save on foreign exchange thro (local) production of goods previously imported
- xiii) Promotes peace/understanding due to interaction/interdependence (during business activities)
- xiv) Promotes entrepreneurial culture that leads to increased production / accept benefits of entrepreneurship as expansion
- xv) Generates income (for the owners) from trading activities
- xvi) Enhances division of labour/specialization leading to quality goods/service / accept advantages of div of labour / specialize as expansion

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59) Advantages of locating firms in different parts of the Country:

i) Curbs rural - Urban Migration - this eases pressure on social amenities which tend to be found in areas with a concentration of many firms / Urban areas / retain productive popn in rural areas

ii) Creates employment/Job to rural dwellers / enabling them to earn an income / Employment opportunities become available (in various parts of the country) / leading to a fair distribution of incomes (across different regions)

iii) It avails a variety of goods which enhance consumer choice / living standards / satisfy various human wants

iv) Promotes (even distribution of) infrastructural development (across the country) - this is required to facilitate the operations of the firms / which open up various areas for development / facilitate production / Movement of goods / services / factors of production

v) Leads to transfer of (new) technology / skills for better utilization of resources across the country / facilitate production of better quality goods / services

vi) Leads to development of social amenities / schools / hospitals / security that improve welfare of people NB accept benefits of social amenities as expansion

vii) Attracts auxiliary services / banks / insurance that are of benefit to the society NB accept benefits of auxiliary services as expansion

viii) Provides Market for raw materials / goods / services this broadens the income source for locals / to avoid wastage / which would otherwise remain idle

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- ii) Utilization of (local) resources to increase productivity / generate income / avoid wastage
- x) Balanced / even / equitable (regional) development that opens up marginalized areas / leading to fair distribution of resources
- ~~xi) Reduced / Minimal effect / impact / losses of terrorism / Catastrophes / Calamities / Wars such that~~
- xi) Reduced / Minimal effect of pollution in a particular / certain areas
- xii) Reduced / Minimum effect / impact / losses of terrorism / Catastrophes / calamities / Wars such that the economy can still function / which would paralyse the economy
- xiii) Reduce / income inequality / disparity / even distribution of income since many people (all over the country) will be engaged in production activities / creation of income
- xiv) Reduce social problems due to discouragement of Congestion in particular areas N/B accept egs of social problems as a mention
- xv) promote growth of towns / urbanization that encourages market / commercial economy

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5b) Government initiated Methods of consumer protection

i) Setting standards / KEBS to ensure that goods / services are of the required quality / specifications

ii) Weights & Measures Act / Department - this ensures that the commodities sold are of the correct weight and measurement / ensures that equipment used for weighing / measuring are accurate / correct

iii) Foods & Drugs and Chemical substances Act - this ensures that manufacturers do not include any harmful substances in food stuffs / drugs / required labels on food stuff / drugs show content / ingredient / time of expiry / manufacture

iv) Public health Act - this ensures that public business premises / buildings / equipment / products / personnel are hygienic / adhere to safety standards

v) Rent Restriction / Tribunal Act - This protects tenants against land lords who may charge high rents / those who increase rent without justification / those who evict tenants without due / prior notice / unlawful eviction

vi) Licensing of firms / Trade licensing Act to control the number of firms so as to eliminate unhealthy competition / ensure they sell legal goods / ensure professionals meet qualification.

vii) Trade description Act - This ensures producers indicate genuine contents of the product / avoid misleading buyers

viii) Higher purchase Act to safeguard consumers against unfair re-possession of goods

ix) Sale of goods Act to protect consumers against breach of contract

x) Essential Commodities Act / price control to ensure availability for fair pricing for goods / services

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- xi) Consumer Protection Act to protect consumers against unfair trade practices in consumer transactions
- xii) Anti-counterfeit Act that protects consumers against being sold goods that are not genuine / fake / imitations
- xiii) Transport Licensing Act / NTLA to protect consumers / travellers from being ferried in unroadworthy /
~~unsafe~~ unsafe vehicles / incompetent personnel
- xiv) Consumer education to sensitize them on their rights
- xv) To produce / provide goods / services at fair prices / free
- xvi) Environmental Management & Co-ordination Act (NEMA) to protect consumers against pollution / hazard / degradation

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- i) Procedure for obtaining an insurance policy
filling a proposal form (The potential insured disclose all relevant material facts concerning the property or life to be covered)
 - ii) Determination of premium - (the proposer calculates the monthly premiums taking into account the material facts disclosed in the proposal form)
 - iii) Payment of first premium - (upon acceptance of the insurer to cover the risks, the desired insured is asked to pay the first premium)
 - iv) ~~Insurance~~ Issuance of cover note / binder - (it serves as evidence that the insured is covered)
 - v) Issuance of the policy - (it is issued within 30 days and contains all the terms and conditions of the cover)

NOTE: i) Shopping for insurance company / making inquiries is introduction

ii) Wrong step 1 → everything is wrong

iii) skipping any step → the rest is not relevant

iv) Use of wrong term in a step → NO MARK but proceed marking the other steps

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NO SPLITTING

- 6b) Assumptions associated with the circular flow of national income in a two sector - economy
- i) There are (only) two sectors / players (in the economy) that is households and firms
 - ii) Households spend all their income on goods/services without making any savings
 - iii) Firms spend all their revenues on factors of production there is no reserving any profits (for expansion)
 - iv) There is no government interference / intervention / taxation / licensing / accept any other govt relevant interference / intervention
 - v) The economy is closed / no international trade / no import / exports
 - vi) All output produced by firms is purchased by households there is no surplus
 - vii) There is no injection of income / additional investment / savings / no financial sector / there is fixed amount of income / Money in circulation in the economy

NB If diagram is used Max of 6 mks
for firms & household 2 mks

- bids & saves / payment for goods & serv 2 mks

- factors of production / payment for factors of prod 2 mks
(factors of prod)

The diagram has to be correct