

## KCSE PAPER 2 2018 MARKING SCHEME

### 4.29.2 Business Studies (565/2)

<p>1. (a)</p>	<p><b>Circumstances that may lead to the existence of a business opportunity to be exploited by the entrepreneur include:</b></p> <ul style="list-style-type: none"> <li>(i) <b>Lack of some products/services.</b> Customers may need some products/services which are not easily found in their area.</li> <li>(ii) <b>Higher prices of goods/services.</b> Existing market prices may be unnecessarily high hence offering them at relatively lower prices would create an opportunity.</li> <li>(iii) <b>Excess demand.</b> When the quantities of goods available in the market are not sufficient, an opportunity to supply more exist.</li> <li>(iv) <b>Low quality products.</b> When customers expect better quality products then, this presents an opportunity to offer them.</li> <li>(v) <b>Sub-standard services.</b> An opportunity will exist where better services are offered in the distribution of goods.</li> <li>(vi) <b>Un-met sociocultural needs/conditions.</b> Goods and services should target the society's existing attitudes, practices and beliefs which existing products may not be addressing.</li> <li>(vii) <b>Innovation.</b> Discovery of new technology which may lead to reduced costs of production and general efficiency presents an opportunity.</li> </ul> <p style="text-align: right;"><b>(Any 5 x 2 = 10 marks)</b></p>	
<p>(b)</p>	<p><b>Factors that Chuma steel manufacturers may consider when choosing a channel for distributing their products include:</b></p> <ul style="list-style-type: none"> <li>(i) <b>The geographical spread of customers.</b> If the customers are spread over a wide area, then a longer channel would be preferable.</li> <li>(ii) <b>Durability of the steel products.</b> Since steel products are not easily spoilt, long channels can be used in their distribution.</li> <li>(iii) <b>Level of competition.</b> Shorter channels should be used if competition is so stiff.</li> <li>(iv) <b>Resources and size of the firm.</b> If the firm has limited resources and only serves a small market, then a shorter channel is ideal.</li> <li>(v) <b>Government policy.</b> Chuma steel manufacturers must adhere to government regulation on the distribution of steel products.</li> <li>(vi) <b>Marketing risks.</b> Where marketing risks are higher, more middlemen should be involved to spread such risks.</li> </ul>	

	<p>(vii) <b>Availability of intermediaries.</b> Chuma Steel Manufacturers can only use channels where intermediaries are available.</p> <p>(viii) <b>Pricing of the steel products.</b> Shorter channels will be preferred where the prices are to be kept low by avoiding the intermediaries.</p> <p style="text-align: right;">(Any 5 x 2 =10 marks)</p>	
2. (a)	<p><b>Clauses that must be specified in the Memorandum of Association of a public limited company include:</b></p> <p>(i) <b>The Name Clause.</b> This clause states the name of the company and ends with the word “limited”. This name must be unique to the company and not shared with any other.</p> <p>(ii) <b>The Objects Clause.</b> This clause states the objectives of the company and specifies what the company has powers to do.</p> <p>(iii) <b>The Situation Clause.</b> This clause states the physical location of the company’s registered office.</p> <p>(iv) <b>The Liability Clause.</b> This clause states the extent to which members are liable to the debts of the company. Shareholders and members have “limited liability”.</p> <p>(v) <b>The Capital Clause.</b> This clause states the amount of capital that the company is authorized to raise, the capital structure, the composition and the values of the shares.</p> <p>(vi) <b>Association and Subscriptions Clause.</b> This clause contains a declaration by the original members who registered the company about their desire to form a company, their objectives, the number of shares they will own and their personal details.</p> <p style="text-align: right;">(Any 5 x 2 =10 marks)</p>	

(b) (i)	<b>Kisababu Traders</b> <b>Trading Account</b> <b>For the period ending 31/12/2014</b>				
		Shs	Shs		
	Opening stock		15,700	Sales	84,000
	Add: Purchases	58,800		Less: Returns in	<u>9,000</u>
	Less: Returns out	<u>1,500</u>	<u>57,300</u>	Net Sales	75,000
	COGAFS		73,000		
	Less: Closing stock		<u>13,000</u>		
	COGS		60,000		
	Gross Profit c/d		<u>15,000</u>		
			<u>75,000</u>		<u>75,000</u>
					(10 x ½ = 5 marks)
(ii)	$\text{Mark up} = \frac{\text{GP}}{\text{COGS}} \times 100$ $= \frac{15,000}{60,000} \times 100$ $= \underline{25\%}$				
					(4 x ½ = 2 marks)
(iii)	$\text{Rate of Stock Turnover} = \frac{\text{C.O.G.S.}}{\text{Average Stock}}$ $= \frac{60,000}{\frac{(\text{O.P. Stock} + \text{C.L. Stock})}{2}}$ $= \frac{60,000}{\frac{15,700 + 13,000}{2}}$ $= \frac{60,000}{14,350}$ $\approx \underline{4 \text{ times}}$				
					(6 x ½ = 3 marks)

<p>3. (a)</p>	<p><b>Demerits of using carts as a means of transport in towns include:</b></p> <ul style="list-style-type: none"> <li>(i) Carts are prone to delays occasioned by their slow speed.</li> <li>(ii) Movement of carts is affected by extreme weather conditions like rainfall.</li> <li>(iii) They are unsuitable for transporting goods over long distances as people and animals get tired when pulling them.</li> <li>(iv) Carts offer little protection to goods against damage by elements of weather such as rain.</li> <li>(v) Goods transported by carts are susceptible to theft making it an unsuitable means of transporting valuable goods.</li> <li>(vi) Carts cannot carry very heavy and bulky goods since their carrying capacity is limited.</li> <li>(vii) Carts inconvenience motor vehicles and other road users since they are slower.</li> <li>(viii) Carts may be a cause of accidents since those pulling them usually disregard traffic rules.</li> </ul> <p style="text-align: right;">(Any 5 x 2 =10 marks)</p>	
<p>(b)</p>	<p><b>Types of direct taxes that the government may use to collect revenue from individuals and companies include:</b></p> <ul style="list-style-type: none"> <li>(i) <b>Personal Income Tax (P.A.Y.E.).</b> This is tax charged on an individual's income which may be from salaries, wages and profits made from businesses. This tax is usually progressive in nature.</li> <li>(ii) <b>Corporation Tax.</b> This tax is usually charged on the profits made by companies and other incorporated business. It is a fixed percentage of the profits.</li> <li>(iii) <b>Capital Transfer Tax.</b> This tax is charged when there is change of ownership of capital investment from one person to another.</li> <li>(iv) <b>Stamp duty.</b> This tax is charged on the transfer of land or securities from one person to another.</li> <li>(v) <b>Capital gains tax.</b> This tax is charged when an asset is sold at a price that is higher than its book value.</li> <li>(vi) <b>Estate (death) duty.</b> This tax is levied when property is transferred to an inheritor/ heir after the death of the original owner.</li> <li>(vii) <b>Wealth tax.</b> This tax is levied on personal wealth that goes beyond a certain limit. This wealth may include realizable assets like land, houses, accumulated profits and even savings.</li> <li>(viii) <b>Withholding tax.</b> This tax is levied on savings like pension dividends and any moneys held by individuals.</li> </ul> <p style="text-align: right;">(Any 5 x 2 =10 marks)</p>	

4. (a)	<p><b>Factors that may have contributed to increased demand for soft drinks include:</b></p> <ul style="list-style-type: none"> <li>(i) <b>Favourable pricing.</b> The soft drinks are priced at a value that consumers can easily afford.</li> <li>(ii) <b>Increasing consumer incomes.</b> People are able to buy more of the products due to increased earnings.</li> <li>(iii) <b>High prices of substitutes.</b> Most of the products in the market that can serve as substitutes are highly priced hence not preferred by buyers.</li> <li>(iv) <b>Favourable tastes and preferences.</b> More consumers now like soft drinks as compared to other drinks.</li> <li>(v) <b>Favourable government policies</b> which keep the prices of soft drinks down/stable hence encouraging their consumption.</li> <li>(vi) <b>General increase in population.</b> With more people, more of the products are consumed.</li> <li>(vii) <b>Aggressive marketing/sales promotion.</b> More consumers are attracted to soft drinks due to intense advertising and other promotional strategies.</li> <li>(viii) <b>Equitable distribution of income among consumers.</b> Since many people have access to earning, they are able to buy more of the products.</li> </ul> <p style="text-align: right;"><b>(Any 5 x 2 = 10 marks)</b></p>	
(b)	<p><b>Forms of economic integration that countries may join to promote international trade include:</b></p> <ul style="list-style-type: none"> <li>(i) <b>Preferential Trade Area.</b> In this form of integration, trade barriers are reduced among the member nations while the barriers are applied at normal rates for trading activities with non-member nations.</li> <li>(ii) <b>Free trade area.</b> This is economic integration where all trade barriers are removed between the member countries while each country retains its own barriers towards non-members.</li> <li>(iii) <b>Customs union.</b> In this form of integration, tariffs and other trade barriers are removed between member countries while their trade policies are harmonized with regard to treatment of trade with the rest of the world.</li> <li>(iv) <b>Common market.</b> This integration goes beyond harmonizing trade policies and removal of trade barriers but also allows for free movement of labour and capital among member nations.</li> <li>(v) <b>Economic union.</b> In this form of integration, member countries set up common institutions like central banks, adopt use of common currency (monetary system) and have common public services like railways network.</li> <li>(vi) <b>Duty-free zones.</b> Member countries allow importation of raw materials without charging duty. Exports from these zones to member countries also attract no excise duty.</li> </ul>	

(vii) **Political union.**  
 In this form of integration, several states form a central government through which, share a central bank, the defense and core ministries that run their affairs.  
 (Any 5 x 2 =10 marks)

5. (a) **Differences between an open office and an enclosed office include:**

Open Office	Enclosed Office
(a) All staff work in one large room.	(a) Each staff is allocated a room from where they work.
(b) There is no confidentiality in consultations and discussions.	(b) Discussions and consultations are done in confidence.
(c) Senior staff sit together with the juniors hence no status conferred.	(c) Confers status on top level staff as they are allocated own offices.
(d) Office equipment and machines are easily shared and cannot be misused.	(d) Office equipment and machines like telephones are easily misused since they are located in particular offices.
(e) Disruptions and noise from colleagues is high due to overcrowding.	(e) Little noise and disruption from colleagues since each staff work from own offices.
(f) Has fewer partitions hence cheap to construct.	(f) Has more partitions hence costly to construct.
(g) It is easy to supervise the staff since they are all in one room	(g) It is difficult to supervise the staff since they are in different rooms.

(Any 5 x 2 =10 marks)

(b)

**Mageta Traders  
 Balance Sheet  
 As at 31<sup>st</sup> July, 2016**

	Shs	Shs		Shs
FA			Capital	82,500
Furniture		61,500	<u>L.T.L.</u>	
Land		<u>82,000</u>	10 year bank loan	165,000
Total FA		143,500	<u>S.T.L.</u>	
CA			Creditors	34,100
Stock	18,600			
Debtors	17,700			
Bank	91,000			
Cash	<u>10,800</u>			
Total C.A.		<u>138,100</u>		
		<u>281,600</u>		<u>281,600</u>

(10 x 1 = 10 marks)

6. (a)	<p><b>Problems of using national income statistics to compare the living standards of citizens of Kenya and Tanzania include:</b></p> <ul style="list-style-type: none"> <li>(i) The two countries may have used different currency values to calculate their national income hence different standards of measure.</li> <li>(ii) One country could be having a large subsistence sector whose income may not have been included in the measure of their income.</li> <li>(iii) The levels of income distribution in one country may be too skewed compared to the other which may have a fair income distribution.</li> <li>(iv) The two countries may have different references and economic priorities.</li> <li>(v) The two countries could be different in terms of resource endowment hence different abilities to generate income.</li> <li>(vi) The climatic conditions in the two countries may be different leading to difference in demand and production.</li> <li>(vii) Production activities may affect the health of citizens in the two countries differently.</li> <li>(viii) The political realities in the two countries could be different affecting their stability and the security of citizens.</li> <li>(ix) The degree of accuracy of the national income statistics are also different in both countries.</li> </ul> <p style="text-align: right;">(Any 5x2=10 marks)</p>																																																																																																																									
b)	<p style="text-align: center;"><b>Jawabu Traders</b> <b>Two Column Cash Book</b> <b>For the Month of February 2015</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Date</th> <th>Details</th> <th>Folio</th> <th>Cash (shs)</th> <th>Bank</th> <th>Date</th> <th>Details</th> <th>Folio</th> <th>Cash (shs)</th> <th>Bank</th> </tr> </thead> <tbody> <tr> <td>Feb 1</td> <td>Bal c/f</td> <td></td> <td>12,500</td> <td></td> <td>Feb 1</td> <td>Bal c/f</td> <td></td> <td></td> <td>5000</td> </tr> <tr> <td>Feb 3</td> <td>Debtors</td> <td></td> <td></td> <td>18,900</td> <td>Feb 2</td> <td>Water bill</td> <td></td> <td>800</td> <td></td> </tr> <tr> <td>Feb 5</td> <td>Sales</td> <td></td> <td>7,150</td> <td></td> <td>"</td> <td>Electricity</td> <td></td> <td>1,100</td> <td></td> </tr> <tr> <td>Feb 9</td> <td>Co-op Society</td> <td></td> <td></td> <td>13,000</td> <td>"</td> <td>Wages</td> <td></td> <td>4,700</td> <td></td> </tr> <tr> <td>Feb 13</td> <td>Debtor</td> <td></td> <td>15,900</td> <td></td> <td>Feb 7</td> <td>Purchases</td> <td></td> <td></td> <td>6,400</td> </tr> <tr> <td>Feb 15</td> <td>Cash</td> <td></td> <td></td> <td>9,500</td> <td>Feb 10</td> <td>Drawings</td> <td></td> <td></td> <td>2,500</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Feb 15</td> <td>Bank</td> <td></td> <td>9,500</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Feb 17</td> <td>Creditor</td> <td></td> <td></td> <td>4,390</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Feb 27</td> <td>Furniture</td> <td></td> <td></td> <td>21,100</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Feb 28</td> <td>Bal c/f</td> <td></td> <td>19,450</td> <td>2,010</td> </tr> <tr> <td></td> <td></td> <td></td> <td><b>35,550</b></td> <td><b>41,400</b></td> <td></td> <td></td> <td></td> <td><b>35,550</b></td> <td><b>41,400</b></td> </tr> </tbody> </table> <p style="text-align: right;">(20x½= 10 marks)</p>	Date	Details	Folio	Cash (shs)	Bank	Date	Details	Folio	Cash (shs)	Bank	Feb 1	Bal c/f		12,500		Feb 1	Bal c/f			5000	Feb 3	Debtors			18,900	Feb 2	Water bill		800		Feb 5	Sales		7,150		"	Electricity		1,100		Feb 9	Co-op Society			13,000	"	Wages		4,700		Feb 13	Debtor		15,900		Feb 7	Purchases			6,400	Feb 15	Cash			9,500	Feb 10	Drawings			2,500						Feb 15	Bank		9,500							Feb 17	Creditor			4,390						Feb 27	Furniture			21,100						Feb 28	Bal c/f		19,450	2,010				<b>35,550</b>	<b>41,400</b>				<b>35,550</b>	<b>41,400</b>	10 marks
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