

565/2 MS
BUSINESS STUDIES
PAPER 2
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MARKING SCHEME

THE KENYA EXAMINATION COUNCIL

The Kenya Certificate of Sec. Education

Business Studies
Paper 2:

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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 2Mk if qualified by way of example; give 1Mk if not qualified

N/B i) preparation of goods for sale without example - 1Mk

ii) Preparation of goods for sale with example of preparation, candidate earns 2Mk

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

iv) Where you are not sure, consult

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1b) Differences between sole proprietorship & Public Ltd Co

Sole proprietorship	Public Ltd Company
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)

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 ego of social evils as a matter

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

	SHT	SHT		SHTS	SHT
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

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

ii) Initial Capital = final Capital - NP + D ✓

$$= 720,000 - 337,200 + 28,000$$

$$= \text{che } 410,800 ✓$$

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

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

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

i) Thru' 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 / ~~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 / thru' trade fairs / exhibition / accept egs of other forms of product promotion as expansion

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

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

$$\begin{aligned}
 \text{ii) Margin} &= \frac{\text{GP}}{\text{net sales}} \times 100\% = \frac{10,000}{50,000} \times 100\% \\
 &= \underline{\underline{20\%}}
 \end{aligned}$$

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

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

$$\text{v) Rate of stocks turn over} = \frac{\text{COGS}}{\text{average stock}}$$

$$= \frac{40,000}{20,000}$$

$$= \underline{\underline{2 \text{ (times)}}}$$

$$(4 \times \frac{1}{2} = 2 \text{ Mkrs})$$

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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) Provides variety of commodities/services which enable 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 Naminy
- vi) It attracts other auxiliary / support firms / banks / insurance colleges that are of use 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/service 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/specialization 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~~
- xii) Reduced / Minimal effect of pollution in a particular / certain areas
- xiii) Reduced / Minimum effect / impact / losses of terrorism / Catastrophes / Calamities / Wars such that the economy can still function / which would paralyse the economy
- xiv) Reduce / income inequality / disparity / even distribution of income since many people (all over the country) will be engaged in production activities / creation of income
- xv) Reduce social problems due to discouragement of Congestion in particular areas N/B accept egs of social problems as a mention
- xvi) 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 measuring / measuring are accurate / correct
- iii) Food & Drugs and Chemical substances Act - this ensures that manufacturers do not include any harmful substance 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 qualifications
- 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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- xii) Consumer Protection Act to protect consumers against unfair trade practices in consumer transactions
- xiii) Anti-Counterfeit Act that protects consumers against being sold goods that are not genuine / fake / imitation
- xiii) Transport Licensing Act / NTLA to protect consumers / travellers from being ferried in unroad worthy /
#) 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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60) Procedure for obtaining an insurance policy
 i) filling a proposal form (The potential insured discloses 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) ~~Immediate~~ 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~~ 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 / except any other govt relevant interference / intervention
 - v) The economy is closed / no international trade / no imports / 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 internal money in circulation in the economy

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

- bids & services / payment for goods & services 2 mks

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

The diagram has to be correct