**BSJE 2021**

**BUSINESS STUDIES**

**PAPER 2**

**565/2**

**MARKING SCHEME**

1. **(a) Services of wholesalers to the retailers**
2. They provide finance/credit, which act as a source of capital / enables retailers to expand their business
3. They offer storage / warehousing facilities, which reduces the cost of storage incurred by retailers / relieves retailers risk of damage
4. They break bulk, hence retailers are able to buy quantities they can afford
5. Avail variety of goods hence retailers are relieved the burden of visiting producers’ premises
6. They offer transport which relieves retailers the cost of transportation
7. They advice retailers on available offer for some commodities / ways of improving profit margins
8. They conduct product promotion / advertise goods which enables retailers obtain ready market / relieving them the cost of advertising
9. Ensure steady supply of goods hence retailers do not experience shortage
10. Act as a link between producers and retailers hence bring goods closer to the retailers
11. They prepare goods for sale through blending / packing / sorting / grading e.t.c

**(b) Benefits of pooling of risks to insurance company**

i) It enables the insurance company to create a common pool of funds, from regular premiums received from customers

ii) It enables the insurance company to compensate those who suffer loss hence ensures continuity of business

iii) It enables the insurance company to spread risks over a large number of insured people hence reducing the burden of compensation

iv) It enables the insurance company to invest surplus (excess) funds, by giving out loans / buying shares

v) It enables the insurance company to meet its operating costs e.g. payment of salaries hence smooth operation of the business

vi) It enables the insurance company to calculate premiums to be paid by each customer hence able to project the amount to be received

vii) It enables the insurance company to reinsure itself with another insurance company hence spread the risks

1. **(a) Five differences between sole proprietorship and a public limited company**

|  |  |
| --- | --- |
| **Sole proprietorship** | **Public Ltd Company** |
| Formed by one person (sole trader) | Formed by a minimum of 7 persons / shareholders |
| Unlimited liabilities | Limited liabilities |
| Lacks perpetual life / continuity | Has perpetual life |
| Main source of capital is personal saving | Main source of capital is sale shares |
| Managed by sole trader | Managed by board of directors |
| Few legal formalities required to form | Requires many legal formalities to form |
| Requires small amount of capital to start | Requires a large amount of capital to start |
| Small size | Large size |
| It is flexible | Inflexible / rigid |
| Owned by sole trader | Owned by shareholders |
| Enjoys profits alone | Profits shared among shareholders |
| Fast/quick decision making | Slow decision making |
| It lacks separate legal entity | Has separate legal entity |

**(b) Monetary policies to control inflation**

i) Increasing bank rates which makes the loans from financial institutions expensive

ii) Selling government securities to the public which reduces the deposit balances hence amount available for spending

iii) Increasing cash / liquidity ratio of commercial banks which reduces the amount of money available for lending

iv) Increasing compulsory deposit requirement which reduces the amount of money available for lending

v) Freezing / restricting lending to some sectors which reduces the number of people who go in for loans

vi) Giving directives to commercial banks to increase the interest rates making the loans to appear expensive

vii) Requesting commercial banks to increase interest rates making loans unaffordable

1. (a) Capital 600,000 – 10,000 = 590,000

Creditors 180,000 + 30,000 = 210,000

M/Van 200,000

Furniture 200,000 – 60,000 = 140,000

Stock 60,000 + 100,000 = 160,000

Debtors 80,000

Cash 240,000 – 70,000 – 10,000 + 40,000 = 200,000

Furniture debtors 20,000

**Malaba traders**

**Balance Sheet**

**As at 30th June 2020**

|  |  |
| --- | --- |
| **ASSETS**  **FIXED ASSETS**  Motor Van 200,000  Furniture 140,000  340,000  **CURRENT ASSETS**  Stock 160,000  Debtors 80,000  Furniture debtors 20,000  Cash 200,000  460,000  \_\_\_\_\_\_\_  **800,000** | **CAPITAL & LIABILITIES**  Capital 590,000  **SHORT TERM LIABILITIES**  Creditors 210,000  \_\_\_\_\_\_  **800,000** |

**(b) Factors may promote entrepreneurship**

i) Availability of finances which supports the growth / expansion / operation of the business

ii) Availability of security that ensures safety of business property

iii) Availability of market / demand where people can sell goods/services to satisfy their needs

iv) Good infrastructure / roads that facilitate movement of goods to the market

v) Political stability that creates a conducive environment for starting / running a business

vi) Healthy / fair competition that the owner of the business can cope with / withstand

vii) Favourable government policies / government support that may encourage starting / expansion of business venture

viii) Presence of role models / successful business people that inspires the youths to go into business

ix) Development of positive entrepreneurial culture through early exposure to business activities / that values individuals who are successful entrepreneurs

x) Relevant education / training in the curriculum which prepares the youths to become entrepreneurs

xi) Good governance that ensures accountability / transparency in conduct of business activities

xii) Availability of appropriate technology that can lead to production of desired quality /quantity of goods

xiii) Need for independence / self reliance through earning of income / livelihood

1. **(a) Benefits of division of labour / specialization**
2. Output per worker is greatly increased thus reducing cost per unit
3. Workers engage in the trade they are best talented leading to increased productivity / quality production
4. Encourage invention & innovation which leads to improved productivity / increased turnover / improved productivity
5. Enhances use of modern machines making production faster / more efficient
6. Enables a worker to acquire skills in a particular field thus improving efficiency / productivity
7. Less metal / physical effort is spent since one gets used to a particular job

**(b) Benefits of being a member of COMESA**

i) Wider market is created for goods/services hence increased productivity / national income

ii) Promotion of peace/understanding with other countries due to interaction

iii) Higher quality goods/services due to interaction

iv) Creation of employment which provides income improves standards of living

v) Wider variety of goods/services leading to improved standards of living / wider choice

vi) Improvement of infrastructure e.g. good roads which facilitate movement of goods / due to increased economic activities

vii) Increased bargaining power hence savings on imports

viii) Increased production of goods due to increased market

ix) Reduced prices of good/services due to competition / hence affordable to many

x) Encourages specialization in production hence increased volume of out put

NB – Accept any advantage of specialization as value addition

1. **(a) Reasons for observing ethical practices**
2. To avoid misleading consumers by not making false claims about the product
3. To ensure that customers not offended by not making use of appeals that goes against their cultural values
4. To avoid exploitation of certain vulnerable groups such as children since they lack knowledge to understand the appeal.
5. To avoid negative influence on the consumers lifestyle that may lead to immorality
6. To create positive image of the business in order to capture the market / attract customers maintain customer loyalty
7. To avoid environmental degradation by using environment friendly promotional materials
8. To abide by the laws of a country to avoid conflict with law enforcing agencies
9. To avoid portraying rival businesses negatively in an attempt to capture the market

(b)

**Majengo traders**

**Trading profit and loss account**

**For the period ending 31/12/2017**

|  |  |
| --- | --- |
| **Dr** | **Cr** |
| Opening stock 30,000  Add purchases 275,000  Add carr. Inward 16,000  291,000  Less return outward 6,000  Net purchases 285,000  Cost of goods available for sale 315,000  Less closing stock 50,000  Cost of sales 265,000  Gross profit c/d 115,000  380,000  Bad debts 3,000  Discount allowed 5,000  Wages 20,000  Rates 12,000  Insurance 19,000  Carr. Outward 8,000  Total expenses 67,000  Net profit 91,000    158,000 | Sales 390,000  Less return inward 10,000  Net sales 380,000  380,000  Gross profit b/d 115,000  Comm. Received 36,000  Discount received 7,000  Total revenues 158,000  158,000 |

**Majengo traders**

**Balance Sheet**

**As at 31/12/2017**

|  |  |
| --- | --- |
| **ASSETS**  **FIXED ASSETS**  Building 450,000  Furniture 180,000  630,000  **CURRENT ASSETS**  Stock 50,000  Debtors 47,000  Bank 250,000  Cash 40,000  387,000  1,017,000 | **CAPITAL & LIABILITIES**  Capital 689,000  Add net profit 91,000  780,000  Less drawing 25,000  Net capital 755,000  **SHORT TERM LIABILITIES**  Bank overdraft 210,000  Creditors 52,000  262,000  1,017,000 |

1. **(a) Factors that may increase level of national income**
2. Adequate / highly qualified labour which would produce more /higher quality goods
3. Availability of adequate capital which leads to efficient production
4. Increased entrepreneurial activities which leads to increased production
5. Adequate / large size of natural resources / land which provides enough raw materials for production
6. Modern / advanced / improved technology which ;leads to production of high quality goods and services
7. Increased level of foreign investment which increases capital inflow / productivity
8. Political stability which creates confidence in investors hence encourage them set up businesses
9. Positive attitude of citizens towards work which encourages them to be more productive
10. Small size of subsistence sector which reduces chances of underestimating output

**(b) Factors that lead to increase in supply**

i) Reduced cost of production which encourages new producers to venture into business

ii) Availability of adequate factors of production which enables producers to produce more

iii) Use of improved / advanced / modern technology which increases the volume of output / production

iv) Future expectation of a decrease in price which makes producers to supply more to the market to avoid selling it at reduced price

v) Entry of new producers (firms) into the industry which increases the quantity of maize produced

vi) Favourable natural factors / good weather conditions that provides conducive environment for maize farming

1. Favourable government policies which reduces the cost of producing maize