**Term 1- 2023 OPENER EXAM**

**BUSINESS STUDIES (565/2)**

**FORM FOUR (4)**

**Time:**

**MARKING SCHEME**

1. **(a) Advantages that may be associated with operating a tied shop.**

* Similar appearance of the tied shops makes them easily identifiable by the customers.
* The product promotion is done by the manufacturer; hence the operator will not incur cost of production.
* The operator is able to compete adequately since he is assured of quality goods from the manufacturer.
* The operator will not experience any shortages of stocks as he is assured of continued supply of stocks from manufacturer.
* The operator can receive credit supply of goods from the manufacturer.

**(b) Challenges of young population.**

* High dependence ratio on the working population.
* High rate of unemployment because of many young people entering the labour market while the job opportunities are not available.
* Increased social evils/crimes brought about by large numbers of youths who are idle.
* Low labour supply – as many of the youths may not have attained the working age.
* Pressure on goods and services required by the youth.
* Reduced savings and investment – high dependency ratio leads to low savings which in turn leads to low investment.
* Diversion of government expenditure from other needy sectors to cater for the welfare of the youths.

1. (a) **Factors that may have led to the increasing use of *boda boda* as a means of passenger transport in Kenya**

* Flexibility – one uses them as per need not as per schedule
* Cheap – charges are affordable to the passengers
* Quick – over short distances
* Minimal capital requirement – relatively cheap to acquire for the operators
* Offer door to door services – since they can access areas other motorized means may not
* Readily available – in all parts of the country and at any time

(b) **Effects of increase in supply on the equilibrium**

Price d0 S0

S1

Pe0 E0

Pe1 E1

S0

S1 d0

Qe1 Qe1

Quantity demanded and supplied

1. There will be excess supply in the market
2. Suppliers will lower their prices to avoid losses

**(Diagram 8mks, explanation 2mks)**

1. (a) **Benefits of entrepreneurship to the Kenyan economy (10 Marks)**

* Creation of employment – directly to the employees and indirectly to the suppliers
* Exploitation of the resources – resources which would have been left idle are used as raw materials
* Economic development – by promoting production of goods and provision of services
* Raising standards of living – mainly through earnings from employment created
* Reducing rural urban migration – by setting up businesses and developing the rural areas
* Improving the infrastructure – govt finds it necessary to improve infrastructure e.g roads to cater for businesses / entrepreneurs may sometimes pool resources to improve infrastructure in their area of operation
* Promotion of technology – through creativity and innovation
* Formation of capital – profits earned are used to expand businesses / salaries earned are used to create businesses
* Reducing foreign dominance – local entrepreneurs produce goods that would have been made by foreign businesses in Kenya
* Saving on imports – local entrepreneurs produce goods and services which substitute imports

(b) Faulu Traders Cashbook

**Faulu Traders**

**Three column cash book**

**For the month ended 31st March 2022**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **LF** | **Discount**  **Allowed** | **Cash**  **Sh.** | **Bank**  **Sh.** | **Date** | **Details** | **LF** | **Disc rec** | **Cash**  **Sh.** | **Bank**  **Sh.** |
| **2022** |  |  |  |  |  | **2022** |  |  |  |  |  |
| **March 1** | **Bal** | **b/d** |  | **18,000** |  | **March 1** | **Bal** | **b/d** |  |  | **6,700** |
| **2** | **Sales** |  |  | **14,500** |  | **4** | **Salaries** |  |  | **5,000** |  |
| **3** | **Kimani** |  | **2,250** |  | **42750** | **8** | **Rehema** |  | **180** |  | **5,820** |
| **18** | **Achieng** |  | **940** |  | **8460** | **22** | **Cash** | **C** |  |  | **9,500** |
| **22** | **Bank** | **C** |  | **9,500** |  | **28** | **Drawings** |  |  |  | **2,500** |
| **24** | **Sales** |  |  |  | **3,400** | **31** | **Bank** | **C** |  | **33,400** |  |
| **31** | **Cash** | **C** |  |  | **33,400** | 31 | **Bal** | **c/d** |  | **3,600** | **63,490** |
|  |  |  | **3,190** | **42,000** | **88,010** |  |  |  | **180** | **42,000** | **88,010** |
|  | **Bal** | **c/d** |  | **3,600** | **63,490** |  |  |  |  |  |  |

**NB: (20× marks= 10marks)**

* *If discounts columns are balanced, no tick for totals*
* *If no dates on either sides at all, deduct a maximum of 2 marks*
* *Details must be correct to award*
* *Balances must be specified i.e. bal c/d or bal. b/d*
* *Foreign entries eg. For date 6, deduct one tick*
* *Accept DA for discount allowed and DR for discount received*

1. (a) **Reasons that may make an insurance company refuse to compensate the insured in the event of risk occurrence**

* If the loss was not as a result of the insured risk/ if there was no close connection between the loss and risk insured
* If the cause of the loss is caused deliberately by the insured
* If the cause of the loss is as a result of a natural catastrophe
* If by the time of the loss the insured had no insurable interest
* If the insurer discovers that the principle of utmost good faith at the time of effecting the policy was not adhered to
* If the risk insured violated the laws of the country
* If the insured had not paid the first premium / stopped paying Premiums

(b**) Circumstances under which a manufacturer would sell his goods directly to the consumer**

* If goods are perishable.
* Incase of sensitive items such arms.
* If the sale is by tender.
* Incase he wants to provide after – sale services.
* If he is dealing with items of small quantities.
* If he wants to maximize profit.
* To ensure consumers are not exploited in price.

1. **(a) Five external factors that would influence the business negatively.**

* Unfavourable Social/cultural beliefs of the people - if the culture is against the consumption of the product being traded/if product being traded is against the values of the people.
* Political instability - Political instability may make business fail/high taxation/un conducive legal systems are not conducive for business.
* Poor Technological - Failure to adopt high levels of technology may result to poor quality / low quantities.
* Stiff Competition - Cutthroat competition may impact negatively to the business/closing down.
* Lack of required suppliers – Business may experience shortages/irregular supplies.
* Unfavourable Economic environment – purchasing power/ inflation/High interest on loans/tariffs by trading partners boast/lower demand for the products.
* Unfavourable Legal factors – changes in laws/regulation may require new ways of conducting business/adjustments for business to continue/operation.
* Lack of intermediaries - to distribute goods to consumers/may not reach consumers/leading to loss of market.

(b) **Differences between a private limited company and a public corporation**

|  |  |
| --- | --- |
| **Private limited Company** | **Public corporation** |
| Owned by a minimum of 2 and a maximum of 50 shareholders | Owned by government which control over 50% |
| Do not allow public to subscribe to its shares | May allow public to subscribe to its shares |
| Formed through companies Act | Formed through act of parliament |
| Managed by at least 2 directors | Managed by a board of directors appointed by the president or cabinet secretary |
| Source of capital is majorly from the members contribution | Initial source of capital is from the government |
| Do not allow members of public to scrutinise | Allow members of public to scrutinise its books of accounts books of accounts |

1. (a) **Advantages of written communication**

* Can be kept as evidence for future reference
* It is a legal foundation for formal agreements
* Useful when sending complex messages
* Copies of the same information can be sent to many people at the same time
* Accurate since the message cannot be easily distorted
* May offer confidentiality if well handled

(b) **Effect of each transaction on the items of the balance** **sheet**

* **Transcation (i)**

Furniture reduce by 60,000

Cash reduce by 40,000

Debtors increase by 20,000

* **Transaction (ii)**

Cash increase by 35,000

Capital increase by 35,000

* **Transaction (iii)**

Stock increase by 200,000

Cash decrease by 40,000

Creditors increase by 160,000

* **Transaction (iv)**

Drawings increase by 10,000

Cash reduce by 10,000