**CATHOLIC DIOCESE OF KAKAMEGA EVALUATION TEST.**

**AUG/SEPT EXAM 2022.**

**565/2 BUSINESS STUDIES PP2 MARKING SCHEME**

1(a) Explain five differences between a public corporation and a public

limited company. (10 mks)

|  |  |  |
| --- | --- | --- |
|  | Public Corporation | Public Limited Company |
| (i) | Formed under the act of parliament. | Formed under the company’s act |
| (ii) | Partially owned by the government. | Owned by Private persons who own shares. |
| (iii) | Initial capital provided by the state. | Capital obtained from issue of shares and loans. |
| (iv) | Management appointed by the government. | Directors elected by the shareholders. |
| (v) | Set up to offer essential service, to the public. | Formed to make profit. |
| (vi) | Political interference due to nomination of directors by the government | No political interference. |
| (vii) | Auditing done by government auditors. | Auditing done by private auditors. |

(b) Explain five factors that would lead to increase in the level of National

income. (10 mks)

1. Entrepreneurship culture

* A country with many hardworking businessmen will invest more hence increasing the level of national income.

1. Political stability

* A country that is politically stable will encourage more production activities hence increasing national income.

1. Availability of capital

* Adequate capital leads to generation of move income.

1. Availability of labour

* A country with a large about force which is skilled will utilise it to increase the level of national income.

1. Availability of natural resources

* A country endowed with more natural resources like minerals will exploit then hence high national income.

1. Improved technology.

* A country that uses modern technology in production will increase its output and level of national income.

2(a) Explain five factors that hinder entrepreneurial activities in a country.

(10 mks)

* Unfavourable government policies tend to discourage smooth running of business.
* Poor Infrastructure – Insecurity, poor transport and communication network discourage.
* Lack of adequate knowledge and skills to start and run businesses.
* Lack of market.
* Stiff competition.
* Political Instability.

(b) Makhisa traders started a business on 1st January 2022 with cash in

hand sh. 50,000 and cash at bank sh. 19,000. His transactions during

the month of January, 2022 were as follows:

Jan 1 : Bought furniture worth sh. 10,000 by cash.

Jan 2 : Deposited sh. 5,000 cash in the business bank

account from the cash till.

Jan 5 : Sold goods to Michael worth sh. 7,900 on credit.

Jan 12 : Makhisa disposed off a van at sh. 70,000 receiving

Payment of sh. 27,000 by cheque and a balance in

cash.

Jan 15 : Paid rent sh. 1,700 cash.

Jan 16 : Paid salaries sh. 2,200 by cheque.

Jan 20 : Received donations sh. 15,000 by cheque.

Jan 22 : Withdrew cash sh. 10,000 for personal use.

Jan 28 : Transferred all cash into the bank except sh. 1,000.

Required:

Prepare a two column cash book for Makhisa traders for the month of January, 2022. (10 mks)

Makhisa Traders

Two Column Cash book

For the month of January 2022

Dr Cr

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | l.f | Cash | Bank | Date | Details | l.f | Cash | Bank |
| 2022  Jan 1  Jan 2  Jan 12  Jan 20 Jan 28  28    28 | Capital  Cash  Van  Donations  Cash  Bal | C  C  b/d | 50,000  33,000  83,000  1,000 | 19,000  5,000  27,000  15,000  55,300  121,300  119,100 | 2022  Jan 1  Jan 2  Jan 15  Jan 16 Jan 22  28  28 | Furniture  Bank  Rent  Salaries  Drawings  Bank  Bal | C  c/d | 10,000  5,000  1,700  10,000  55,300  1,000  83,000 | 2,200  119,100  121,300 |

Penalise for no title.

3(a) Explain five roles of middlemen in the chain of distribution. (10 mks)

* Link producers to consumer.
* Breaking the bulk.
* Prepares goods for sale.
* Accumulate the bulk.
* Offer transport and storage facilities for producers.
* Offer Advice to consumers and producers.
* Provide finance to producers.

(b) Explain five principles of insurance. (10 mks)

1. Principle of indemnity.

* States that one can only be compensated for the actual loss suffered.

1. Principle of utmost good faith.

* The insured is expected to disclose all the relevant material facts relating to the property.

1. Principle of insurable interest.

A person can only insure the property that if a loss occurs that he suffers a direct loss.

iv). Principle of subrogation.

All remains after compensation become the property of the insurer.

(v).Principle of contribution.

All the insurers share in compensating the insured in case of a loss.

1. Principle of proximate cause.

There must be closs relationship between the loss suffered and the risk insured against

4(a) Explain five benefits of mobile banking to customers. (10 mks)

* It enable a customer to access funds in his/her account any time.
* Enables the customers to pay utility bills without travelling hence saving transport cost.
* Facilitates transfer of money cheaply and faster.
* Enables one to top up mobile airtime automatically.
* One can request for mini-statements.

(b) The following trial balance was extracted from the books of Atiti traders

for the year ended 31st December 2021.

Atiti Traders

Trial Balance

As at 31/2/2021

|  |  |  |
| --- | --- | --- |
| Details  Capital  Drawings  Stock (1/1/2021)  Purchases  Sales  Returns  Carriage outwards  Carriage inwards  Discounts  Motor vehicle  Furniture  Creditors  Premises  Debtors  Bad debts | Dr (Shs)  33,000  47,000  300,000    4,000  10,000  28,000  4,000  130,000  25,000    100,000  50,000  15,000  746,000 | Cr (Shs)  250,000  420,000  7,000  14,000  55,000    746,000 |

Additional information.

Stock at 31st December 2021 was valued sh. 55,000.

Required

Prepare

1. Trading, profit and loss account for the year ended 31st December 2021.
2. Balance sheet as at 31/12/2021.

Atiti Tradere

Trading, profit and loss account

For the year ended 31/12/2021

|  |  |
| --- | --- |
| Opening stock 47,000  Add: Purchase 300,000  Add : Carriage inwards 28,000  Less: Returns outwards ( 7,000)  Goods available for sale 368,000  Less: closing stock 55,000  Cost of goods sold 313,000  Gross profit c/d 103,000  **Expenses** 416,000  Carriage outwards 10,000  Discount allowed 4,000  Bad debts 15,000  Net profit c/d 88,000  117,000 | Sales 420,000  Less: returns inwards 4,000  Net sales 416,000  416,000 Gross profit b/d 103,000  Discount received 14,000  117,000  Net profit b/d 88,000 |

Atiti Traders

Balance sheet

As at 31/12/2021

|  |  |
| --- | --- |
| Fixed Assets  Premises 100,000  Furniture 25,000  Motor vehicle 130,000  Current Assets  Debtors 50,000  Stock 55,000  360,000 | Capital 250,000  Add:Net profit 88,000  Less Drawings ( 33,000)  Short term Liabilities  Creditors 55,000    360,000 |

5(a) Explain five ways in which inflation can be controlled by the

government. (10 mks)

* Reducing spending in order to reduce demand for goods.
* Controlling foreign exchange.
* Controlling the level of exports
* Sale of treasury bonds/government securities
* Institute price control on specific industries.
* Control consumptions of imports.

(b) Explain five barriers to effective communication. (10 mks)

* Language barrier
* Poor listening
* Noise
* Negative attitude
* Prejudgment

6(a) Explain five disadvantages of using direct taxes to raise government

revenue. (10 mks)

* Possible tax evasion
* Discourages savings
* Discourages work
* Discourages Investment
* Not imposed on all citizens.
* May inconvenience the tax payer.

(b) Explain five circumstances in which a firm may acquire monopoly

Power. (10 mks)

* When there is a government policy restricting formation of only a single firm.
* When the size of the market is small.
* Incase a firm controls an important input in production.
* When a firm owns the production rights
* Where a group of firms combine to act as one.
* Where the initial capital is very high.
* When there is additional costs by other firms.