**BUSINESS STUDIES PAPER 2 MARKING SCHEME**

**DECEMBER EXAM 2021**

**FORM FOUR**

1. (a) Explain five services offered by wholesalers to retailers. (10mks)

* Breaking bulk so that retailers can buy convenient qualities.
* Provision of credit facilities.
* Transport goods to retailers premises.
* Preparing goods for sale-branding, bleeding, parking.
* Offering advice to retailers.
* Ensure steady supply of goods by storing and releasing when need arises.
* Provision of variety of goods.
* Availing goods at convenient places to the retailers.

(b) Explain five differences between a public limited company and a partnership. (10mks)

|  |  |  |
| --- | --- | --- |
| **No.** | **Public company** | **Partnership** |
| 1 | Members have limited liability. | Members have unlimited liability. |
| 2 | The business has perpetual existence. | Business does not have perpetual existence. |
| 3 | The business is a separate legal entity from its owners. | The business is not legally separable from its owners. |
| 4 | Minimum membership of 7 and not set maximum. | Minimum membership of 2 and maximum of 20 |
| 5 | There are a lot of legal procedures when being formed. | Few formalities required while being formed |
| 6 | Required by law to publish accounts annually | Not required to publish accounts. |
| 7 | Can only deal with business activities provided for in the memorandum | There is no restriction on the kind of business it may engage in |
| 8 | Management is done by elected board of directors. | Management is done by partners themselves |

1. (a) Explain five ways through which the government of Kenya may reduce the level of unemployment. (10mks)

* Adopting a relevant education system.
* Adopting appropriate methods of production – labour intensive method.
* Improvement of rural areas to reduce rural urban migration.
* Increasing government expenditure through building roads, constructing dams, soil conservation.
* Diversification of production – engaging in numerous sectors of production.
* Controlling of the population – through ways such as family planning.
* Improving infrastructure in order to stimulate economic activities.
* Effective use of natural resources to increase production activities.

(b) On 1st August 2020, Shisia stores had cash in hand sh. 7800 and cash at bank sh. 370200. During the month, the following transactions took place;

Aug 3: Cash sales sh. 50,000 paid direct into bank.

Aug 5: Received a cheque of sh. 17500 from Rono in full settlement of his account of sh. 18000.

Aug 8: Bought goods sh. 20500 and paid by cheque.

Aug 13: Paid rent sh. 4,000 in cash.

Aug 16: Paid Shikuku by cheque sh. 66,500 in full settlement of his account less 5% cash discount.

Aug 19: Withdrew sh.25,000 from bank for office use.

Aug 23: Cheque received from Rono was dishonoured.

Aug 26: Cash sales sh. 55000

Aug 28: Ndimuli settled his account of sh. 80,000 by cheque after deducting 4% cash discount.

Aug 29: Withdrew sh. 10,000 from bank private use.

Aug 30: Deposited all cash into bank except sh. 5000.

**Shisia stores**

**Three column cash book**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2020 | Retail | F | Disc rec | Cash | Bank | Date  2020 | Retails | F | Disc all | Cash | Bank |
| Aug 1  3  5  19  26  28  30  30 | Bal  Sales  Rono  Bank  Sales  Ndimuli  Cash  Bal | b/d  c  c  b/d | 500  3200  **3700** | 7800  25000  **32800**  5000 | 370200  50,000  17500  55000  76800  21300  **590800**  266800 | Aug 8  13  16  19  23  25  29  30  30 | Purchases  Rent  Shikuku  Cash  Stationery  Rono  Drawing  Bank  Bal | C  C  c/d | 3500  **3500** | 4000  2500  21300  5000  **32,800** | 20500  66500  25000  17500  10000  266800  **590,800** |

1. (a) Explain five limitations of using output approach to measure national income. (10mks)

* Valuation of incomes arising from illegal activities such as money laundering, sale of narcotic drugs is a problem since they are not open to public scrutiny.
* Valuation of subsistence output since such goods and services are not valued.
* Fluctuating exchange rates making it difficult to value experts and imports.
* Problem of rating government output as many of its services are not sold in the market.
* Inaccurate data of output in the private sector.
* Problem of deciding the type of goods or services to be included in the calculation.

(b) Explain five reasons why Kenya may decide to restrict trade with other countries.

* To correct a balance of payment which is unfavourable – reducing imports.
* To protect infant domestic industries from foreign competition.
* To conserve foreign currency.
* For the protection and conservation of cultural values – some imported products may have negative effect in the local culture.
* To safeguard against dumping.
* To stimulate consumption of locally produced goods so as to create employment.
* To protect strategic and key industries e.g. agricultural industry.
* To ensure that harmful products are not imported.
* To avoid import inflation.

1. (a) The following trial balance was extracted from the books of Simba traders on 1st December 2016.

SIMBA TRADERS

TRIAL BALANCE

AS AT 31ST DEC 2016

|  |  |  |
| --- | --- | --- |
| Details | Dr(sh) | Cr(sh) |
| Sales  Purchases  Returns  Carriage inwards  Carriage outwards  Advertising  Commission received  Cash  Discounts  Salaries and wages  General expenses  Machinery  Stock (1/1/2016)  Debtors  Capital  Creditors  Bank overdraft | 290,000  15,000  6,000  4200  12000  50800  4900  22500  8300  405000  27500  56200  902,400 | 370,400  10,000  23,000  16100  391,000  73000  18,900  902,400 |

Additional information

Stock on 31st Dec 2016 was sh. 35,000.

Required

1. Prepare trading, profit and loss account for the period ended 31/12/2016 (8mks)
2. Balance sheet as at 31/12/2016. (4mks)

**SIMBA TRADERS**

**TRADING, PROFIT AND LOSS ACCOUNT**

**FOR THE PERIOD ENDED 31/12/2016**

|  |  |
| --- | --- |
| Sh sh | Sh sh |
| Opening stock 27500  Add purchases 290000  Add carriage inwards 6000  Less return inwards 10,000 286,000  Goods available for sale 313,500  Less closing stock 35,000  Cost of goods sold 278500  Gross profit c/d 76900  **355,400**  Expenses  Carriage outwards 4200  Advertising 12000  Discount allowed 4900  Salaries wages 22500  General expenses 8300  Net profit 64100  **116,000** | Sales 370,400  Less return inwards 15,000  Net sales 355,400  **355,400**  Gross profit b/d 76,900  Add revenues  Commission received 23000  Discount received 16100  **116,000** |
|  |  |

**SIMBA TRADERS**

**BALANCE SHEET**

**AS AT 31/12/2016**

|  |  |
| --- | --- |
| ASSETS sh sh | CAPITAL + LIABILITY sh sh |
| Fixed assets  Machinery 405,000  Current assets  Stock 3 5,000  Debtors 56,200  Cash 50,800 142,000  **547,000** | capital 391,000  add Net profit 64,100  455,100  Current liability  Creditors 73,000  Bank overdraft 18,900  **547,000** |

(b) The rising star company is opting to replace the old machines with new ones. Explain four factors that will influence the choice of an office machine. (8mks)

* Affordability – machine chosen should be affordable (cheap to acquire)
* Durability of the machine – machine should be able to last long.
* Safety/security of the machine
* Availability of spare parts – spare parts should be readily available.
* Effect of the machine on staff morale – machines should boost the working morale of employees.
* Availability of manpower.
* Capability and efficiency of the machine.
* Adaptability of the machine to the future needs of the firm

1. (a)(i) Explain the procedures for making insurance claim. (6mks)

* Notifying the insurer/insurance company.
* Filling a claim form.
* Investigation of the claim.
* Preparation of the assessment report.
* Payment of claim.

(ii) Suchi acquired a house valued at kshs. 2000,000 which he insured against fire for sh. 1500000. The building way gutted down by accidental fire causing a loss of 1,000,000. Calculate the amount of compensation. (4mks)

Compensation =

(b) Explain five functions of the central bank of Kenya. (10mks)

* Issuing of currency.
* Acting as a banker to the government.
* Acting as a banker to commercial banks.
* Regulating operations of the commercial banks.
* Acting as a lender of last resort.
* Controlling the level of money supply in the country.
* Managing of public debts.

1. (a) Explain five reasons for consumer protection. (10mks)

* To ensure that harmful goods are not sold to them.
* To ensure that consumers are offered with goods of right quantities.
* To ensure that consumers are not overcharged when they buy goods.
* To ensure that goods sold are of good quality.
* To protect them from false advertisement.
* To ensure consumers health is not compromised.
* To ensure steady supply of goods.

(b) Explain five factors of economic resources. (10mks)

* Unevenly distributed.
* Can change ownership.
* Have utility.
* Have alternative use.
* Can be combined.
* Can be complementary.