**BUSINESS STUDIES**

**TRIAL EXAM**

**PAPER 2**

**565/2**

**DECEMBER, 2021**

**MARKING SCHEME**

1. Reasons for the popularity of using internet in product promotion.

* Cost effective since it is cheaper to the trader.
* Wide coverage, hence can reach customers in their various locations.
* Demonstration is possible for technical products through use of animations and videos.
* Feedback is immediate on you-tube, instagram, facebook.
* Non discriminative i.e small and large enterprises can use without discrimination.
* The message can last long hence the customer can refer if need be.
* Readily available to many businesses since it can be accessed everywhere by those with mobile phones.
* Target group – it is appealing to the target group.
* Speed – it can reach the customers within the desired time frame.

**5@2 =10mks**

1. Services of Central Bank to Commercial Banks.

* Providing information to commercial banks on financial /banking /economic matters
* It is a banker to commercial banks
* It supervises/monitors the operations of commercial banks
* To provide credit /loans to commercial banks as a lender of last resort
* Providing clearing house facility to commercial banks.
* Buying and selling of foreign exchange from and to commercial banks.
* Mediation /arbitration on disputes that may occur between commercial banks
* To register /licensing commercial banks
* Replacing worn out notes and coins to commercial banks.
* Repatriation of excess foreign currency/ profits on behalf of commercial banks.
* To appoint statutory manager during financial crisis/receivership

**5@2 =10mks**

1. (a) Trends in business ownership
2. Globalization

* Process through which business units in different economic systems work together for a common good e.g by sharing information on how they run their activities.

1. Franchising: a business unit will grant production rights to another unit to produce similar goods the name of the parent company.
2. Privatization: being the transfer of a business ownership to private ownership.
3. Amalgamation / merges/formation of trust – Firms combine with other firms to become the business unit completely or partly.
4. Cartels: Where businesses agree to sell their products under a common selling organ to operate as a monopoly eg. Organization of Petroleum Exporting Countries (OPEC)
5. Formation of Holding Companies: Companies holding more than 50% shares of another company known as a subsidiary company.
6. Absorption / Take overs: Where a company buys all the shares of another company making the acquired one to cease to exist.

**5@2 =10mks**

(b) Kifaru Traders

Three Column Cash Book for the month of April 2020√

Dr Cr

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | F | Discount  Allowed | Cash | Bank | Date | Details | F | Discount  Received | Cash | Bank |
|  |  |  | Sh | sh | Sh |  |  |  | sh | sh | Sh |
| 2020 |  |  |  |  |  | 2020 |  |  |  |  |  |
| April 1 | Bal. b/d√ |  |  | 2500√0 |  | April 1 | Bal. b/d√ |  |  |  | 15000√ |
|  |  |  |  |  |  | April 3 | Wages√ |  |  | 15000√ |  |
| April 6 | Rioki√ |  | 20√ |  | 980√ | April 5 | Purchases√ |  |  | 750√ |  |
|  | Kombo√ |  | 40√ |  | 1960√ | April 11 | Machinery√ |  |  |  | 5000√ |
| April 8 | Chebe√ |  |  |  | 1000√ | April 15 | Drawings√ |  |  | 1000√ |  |
| April 13 | Sales√ |  |  |  | 4000√ | April 21 | Bank√ | C1 |  | 1000√ |  |
| April 20 | Sales√ |  |  | 20000√ |  | April 24 | Chebe √ |  |  |  | 1000√ |
| April 21 | Cash√ | C1 |  | 1000√ |  | April 30 | Bank√ | C2 |  | 27250√ |  |
| April 27 | Kiko√ |  |  |  | 3000√ |  |  |  |  |  |  |
| April 30 | Cash√ | C2 |  |  | 27250√ | April 30 | Bal. c/d√ |  |  | 1000√ | 17190√ |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | 60 | 46000 | 38190 |  |  |  |  | 46000 | 38190 |
| May 1st | Bal. b/d |  |  | 1000 | 17190 |  |  |  |  |  |  |

40 x ¼ = 10 mks

1. (a) Monetary Policies that the Kenyan Government may use to control inflation
2. Open market operations (OMO) whereby the government sells Treasury bills to the public
3. Imposing high interest rates on lending to commercial banks / bank rate
4. Raising liquidity ratio and cash ratio of commercial banks.
5. Use of selective controls where commercial banks are required to lend only to certain sectors of the economy.
6. Increasing commercial banks special deposits with the central bank.
7. Increasing margin requirements
8. Requests by Central Bank to commercial (moral suasion). The central bank may appeal to commercial banks to willingly exercise control on their lending with a view of controlling inflation.
9. Directives to commercial banks: The central bank may direct the commercial banks on interest rates to charge on lending. High interest rate would discourage many borrowers.

**5@2 =10mks**

(b) Factors considered in office layout:

1. Work flow – the layout should enhance smooth flow within the office.
2. Staff mobility – one should consider a layout that allows easy movement of workers into and out of the office
3. Supervision – an open office layout provides easy way to supervise compared to partitioned.
4. Working Space – Depending on the nature of work, a good layout should provide enough working space.
5. Accessibility to equipment – where most of the operations require use of machines and equipment there should be enough space to access them.
6. Communication – Layout should enhance communication between employees
7. Legal requirement – should observe government requirement to avoid conflicts with the law.
8. Confidentiality – where private consultations are required enclosed layout is most convenient
9. Office appearance – to enhance office set up and decorations to reflect status of the business
10. Cost – to minimize on expenses of construction to consider the cheapest option.
11. Staff to be accommodated – many staff can be accommodated in an open office layout compared to partitioned office layout.

**5@2 =10mks**

1. (a) Factors that limit entrepreneurial development in a country:
2. Lack of support from the government eg lack of tax incentives or subsidies and failure to provide training facilities for businessmen.
3. Insecurity which may make businessmen fear to invest for loses that may result.
4. Poor economic resources endowment in the country which limits the possible areas of investments.
5. High levels of corruption which makes products made in the country expensive thereby making them uncompetitive in the world market.
6. Low purchasing power of the people in the country which limits the size of the market thus discourages would – be entrepreneurs.
7. High cost of energy in the country which makes products in the country very expensive thereby making them uncompetitive in the world market.
8. Low income levels as such many people lack the capital necessary to enable them to venture into business.
9. Limited or no business acumen among the population which hinders people from venturing into business.
10. High levels of taxation making products in the country very expensive thereby making them uncompetitive in the world market.
11. Political instability which poses a risk to investments hence few people will be willing to establish businesses for fear of losing their investments.
12. Lack of role models in the community as a result, young people have no one to emulate.
13. Poor infrastructure in the country eg. poor road network, poorly maintained roads, poor rail network and poor means of communication making it difficult to operate smoothly.
14. High cost of capital due to the high rates of interest charged by banks making many potential businessmen to shy away from borrowing money from banks.

**5@2 =10mks**

(b) Negative effects of unemployment:

1. Loss of income to individuals.
2. Loss of revenue to the governments in form of income taxes since this is the tax paid by those in employment in form of PAYE.
3. Increased in crime rate – when people have no other incomes, they may resort to crime to earn a living.
4. Low consumption index (low demand) form goods and services since people’s buying power is determined by their incomes.
5. Low standards of living due to reduced/ low income
6. Low rate of wealth creation /low investment since there is no income there will be low savings thus low investment.
7. High dependency ratio – if there are few working people and many unemployed.
8. Stiff pressure on resources such as land.
9. Increase in social evils such as prostitution as people look for income to sustain them.

**5@2 =10mks**

1. (a) Chains of distribution for exports

|  |
| --- |
| Local Producer |

Local Local

Wholesaler Agent

Local agent

Local

Retailer Foreign

Retailer

Local

Wholesaler Foreign Foreign

Wholesaler Agent

Foreign

Wholesaler

Foreign

Retailer

|  |
| --- |
| Foreign consumer |

N.B. Local producer can be Kenyan producer and foreign consumer can be South African consumer

Arrows direction must be shown.

**Any 4 @ 2 = 8mks**

(b) (i) Nerea Traders

Trading Profit & Loss a/c

for the period ended 31st December 2015.√

Sh. Sh. sh. sh

Opening Stock 100000√ Sales 900000√

Add Purchases 600000√ less returns 80000√

Add carriage in 40000√ Net sales 820000

Less returns out 20000√

Net purchases 620000√

Cost of goods avail. 720000√

Less C/stock 100000√

Cost of sales 620000√

G.P c/d 200000√

820000 820000

Expenses

Carriage out 3000√ G.P b/d 200,000√

Rent 60000√

Interest on loan 18000√

General expenses 7000√

Net profit 112000√

200000 200000

18 x 1/3 = 6 mks

(b) (ii) Return on Capital employed

1. = N.Profit x 100

Capital employed

C. employed = F.A + W.C

= 240000 + 50000√

= 290000√

W. Capital = CA – CL

= 120000 + 100000 – 170000

= 50000√

ROCE = 112000√ x 100 = 38.62%√

290000

1. Current ratio = C.A

C.L

= 220000√: 170000√

= 1.29: 1√

1. ROSTO = Cogs

A.S

A.S O.S + C.S = 100000 + 100000 √ = 100000

2 2

= 620,000√

100000

= 6.2 times√

12 x ½ = 6 mks

1. (a) Circumstances under which a country may restrict international trade.
2. Where there is need to protect local infant industries which may not withstand competition from established foreign industries.
3. Where there is need to control dumping to prevent adverse effects on the economy.
4. Where balance of payment continues to deteriorate to reduce payment on imports.
5. Where goods are harmful for consumption in order to protect the health of consumers.
6. Where goods involved are a security risk to the country to ensure peace and stability.
7. Where it is necessary to counter the actions of trading partners as a retaliatory measure.
8. Where there is need to avoid imported inflation rising from overpriced imports.
9. Where it is politically expedient to do so in order to promote good governance in another country.
10. Where there is need to safeguard local employment which may be lost through entry of cheap imports.
11. Where there is need to avoid overdependence on imports which may lead to political black mail.
12. Where there is need to avoid overexploitation of resources which may cause their depletion.
13. Where there is need to build reserves of strategic commodities to avoid shortage in meeting local demands.

**N.B. Circumstance must come out clearly.**

**5@2 =10mks**

(b) Types of Direct Taxes

1. Personal Income Tax – Tax that is imposed on income earned by individuals eg. PAYE
2. Corporation Tax – levied on profits of companies
3. Stamp duty – tax paid in areas such as conveyance of land or securities from one person to another.
4. Estate / Death duty – imposed on property transferred after the owner’s death.
5. Wealth tax – levied on personal wealth that goes beyo0nd a certain limit eg. value of land, houses
6. Capital gains tax – imposed on the gains realized on sale of real assets eg. land
7. Capital transfer tax – imposed on transferring ownership of capital.

**5@2 =10mks**