**MARKING SCHEME**

**WISDOM PRE-MOCK EXAMINATION 2021**

***Kenya Certificate of Secondary Education (K.C.S.E)***

**565/2**

**BUSINESS STUDIES**

**PAPER 2**

**TIME: 2 ½ HOURS**

1. (a) Explain **five** factors that may lead to the success of a business enterprise. (10 marks)

* **Ability to manage people that involves activities such as hiring of new employees to fill in vacant positions, assigning duties to staff according to their qualifications.**
* **Proper location – The business should be located at a place convenient for its operations.**
* **Availability of raw materials/stock of goods. This would enable the business to continue operating to meet customer needs.**
* **Adequate finance – Business with adequate capital is likely to do well since it will be able to finance all its operations.**
* **Good public relations – This is necessary for attraction and retention of customers. little or fair competition in order to operate well.**
* **Commitment to the business – A business where the entrepreneur is committed in its management is bound to do well.**

(b) Spain and France are developed countries in Europe. Discuss **five** problems of using

national income statistics to compare the living standards of their citizens. (10 marks)

* **Different currencies – The countries have got different currencies hence have different standards of measure.**
* **One country could be having a large subsistence sector whose income may not have been included in measure of N. 1.**
* **The two countries could be different in terms of resources endowment hence different abilities to generate income.**
* **Production activities may affect the health of citizens in the two countries differently.**
* **The two countries may have different levels of inflation which distort the true value of goods.**
* **The levels of income distribution in one country may** **be skewed compared to the other which may have a fair income distribution.**
* **The degree of accuracy of the national income statistics are different in countries due to inaccurate data.**

2. (a) Explain **five** principles that would lead to effective operation of Jubilee insurance company. (10 marks)

* **Indemnity – States that the aim of insurance is to restore the person back to the financial position he was in before the loss.**
* **Contribution – States that where a person has insured the same subject matter with more than one insurance company, upon the occurrence of the event of loss, the insurance companies that have insured that subject matter will contribute towards the compensation of the insured person.**
* **Principle of Utmost good faith – States that a person taking an insurance policy is expected to give all material and relevant information about the subject matter in which he has insurable interest.**
* **Principle of subrogation – It states that the insured must surrender the remains of an insured subject matter upon event of a loss once he is fully compensated.**
* **Principle of proximate cause – States that there must be a very close relationship between the risk insured and the actual cause of the loss for insurance company indemnify. (Any 5 well explained 5 x 2)**

(b) Explain **five** attributes of a good money material. (10 marks)

* **Acceptability**
* **Divisibility**
* **Portability**
* **Durability**
* **Stability in value**
* **Homogeneity**
* **Cognisibility**
* **Scarcity**
* **Malleability**
* **Not easy to forge**

**Any 5 2 x 5 = 10 marks**

3. (a) Explain **five** differences of a public Limited company and a partnership. (10 marks)

|  |  |
| --- | --- |
| **Public Limited** | **Partnership** |
| **Have Limited liability** | **Have unlimited liability except (Limited partners** |
| **Infinite membership** | **Limited to 20 except professionals who are 50 in** |
| **Have perpetual existence** | **No perpetual existence** |
| **Shares are freely transferable** | **Shares are not transferable** |
| **Minimum membership is 7** | **Minimum membership is 2** |
| **Can sue or be sued into name** | **Only partners can be sued** |
| **Managed by board of directors** | **Managed by an elected committee** |
| **Shares quoted in a security exchange** | **Shares not quoted since are not transferable.** |

**Any 5 5 x 2 = 10marks**

(b) **Explain five characteristics of economic resources. (10 marks)**

* **Monetary value – One can attach monetary value as they command a price.**
* **Have utility – useful.**
* **Transferable – Can change possession**
* **Unevenly distributed – Some areas are well endowed with resources than others.**
* **Alternative uses – e.g a pieces of land can be used for farming or for sports.**
* **Scarce in supply – Limited in supply which means one cannot have all economic resources they require.**
* **Can be continued – Different raw materials can be put together to produce a new product**

4. (a) Describe **five** documents required to register a public limited company. (10 marks)

* **Memorandum of association – Governs the relationship between the company and outsiders.**
* **Articles of Association – Governs internal operations of the company.**
* **List of directors – Shows details of their names, addresses, occupations, shares subscribed and statement of agreement to serve as directors.**
* **Declaration – signed by the secretary to show that registrations requirements have been met as laid down by law.**
* **Statement signed by the directors. It states that they have agreed to act as directors.**

(b) On 1st June 2018, the following balances were in the books of Semenya Traders.

Cash sh 15,000 Bank CR 40,000

The following transactions occurred during the month.

Date 4 Omenga a debtor settled his account of sh 10,000 by a cheque of sh 8,000.

7 Deposited sh 4,000 into the business Bank account from the cash till

8 Paid rent by cash sh 4,000

14 Cash sales sh 14,000

17 Purchased furniture worth sh 3,000 paying by cheque

18 Settled Maina’s account of sh 10,000 after being allowed a discount of 5% by cash

20 Received sh 6,000 cash from Nyori a debtor.

22 Kemboi a debtor settled his account of sh 4,000 by cheque having been allowed a discount of 2%.

25 Deposited sh 17,000 into the bank from private sources.

30 Banked all the cash.

**Required**

Prepare a three column cash book duly balanced.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Discount**  **Allowed** | **Cash** | **Bank** | **Date** | **Details** | **Discount Received** | **Cash** | **Bank** |
| **1/6/18** | **Bal b/d** |  | **15,000** |  | **1/6/18** | **Bal b/d** |  |  | **40,000** |
| **4/6/18** | **Omenga** | **2,000** |  | **8,000** | **7/6/18** | **Bank** |  | **4,000** |  |
| **7/6/18** | **Cash** |  |  | **4,000** | **8/6/18** | **Rent** |  | **4,000** |  |
| **14/6/18** | **Sales** |  | **14,000** |  | **17/6/18** | **Furniture** |  |  | **3,000** |
| **20/6/18** | **Nyori** |  | **6,000** |  | **18/6/18** | **Maina** | **500** | **9500** |  |
| **22/6/18** | **Kemboi** | **80** |  | **3920** | **30/6/18** | **Bank** |  | **17,500** |  |
| **25/6/18** | **Capital** |  |  | **17,000** | **30/6/18** | **Bal cld** |  | **-** | **7420** |
|  |  | **2080** | **35,000** | **50,420** |  |  | **500** | **35,000** | **50,420** |

**40 x ¼ = 10 marks**

5. (a) Kenya Power is a monopoly in Power distribution in Kenya. Explain five sources from which it could have received its power. (10 marks)

* **Control of an important input in production e.g. affirm may have sole control of a certain raw material e.g. Magadi Soda company that owns trona in Lake Magadi.**
* **Ownership of production rights e.g. patent rights, copyrights and royalties.**
* **Size of the market. A market size may be such that it is best served by one person or firm.**
* **Additional costs by other firms other firms which try to enter the market may incur additional costs which raise their prices thus become unattractive.**
* **Cartel formation – some firms may work together for the sole purpose of controlling the market of a product e.g. OPEC.**
* **Financial factors – The initial costs may be high making it difficult for a new firm to enter the market.**
* **Government policy – Where the government has imposed projective measures in one firm against any competition.**

(b) Explain **five** features of a good filing system. (10 marks)

* **Economical – should not be expensive to start and to maintain.**
* **Accessibility – information should be easily retrieved without disturbing others.**
* **Electricity – should be flexible to cater for future changes or expansion.**
* **Safety – Provide protection to documents against loss, destruction.**
* **Simplicity – should be simple to understand and operate.**
* **Compactness – not occupying too much space.**
* **Suitability – Should be appropriate to the needs of the business concerned.**

6. (a) Advertising in the Newspapers is one way of promoting sales of goods. Highlight five limitations of advertising goods in Newspapers. (10 marks)

* **The newspapers may not be read/reach an all places.**
* **Not all potential customers are literate.**
* **The newspapers may be written in a language not familiar to many customers.**
* **Newspapers are expensive to buy space for advertising thus it becomes expensive to advertise.**
* **Not many people can afford to buy newspapers.**
* **It’s difficult to reach the target groups using newspapers.**
* **Newspapers have got short life span since they are easily discarded after use.**
* **Frequent publishing of newspapers i.e. daily issue make them not exciting to readers.**
* **With the advent of social media in mobile phones, newspapers have become unpopular**.

(b) The following trial balance relates to Kangogo traders as at 30th June 2018

Particular Dr Cr

Stock 1st July 2017 450,000

Purchases 800,000

Sales 1,200,000

Carriage Outwards 10,000

Carriage Inwards 5,000

Returns 30,000 20,000

Sundry Expenses 100,000

Transport 20,000

Stock 30th June 2018 550,000

Capital 745,000

\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_

1,965,000 1,965,000

**Required:**

**Calculate;**

(i) Rate of stock turnover (3 marks)

**Turnover = Sales – Sales Returns = 1,170,000**

**(ii) Rate of return on capital (2 marks)**

**Cost of goods sold = 705,000 = 1.41**

**Average stock 500,000**

**(iii) Markup (2 marks)**

**GP X 100 GP = Sales – COGs**

**COGS 1,170,000 – 705,000**

**= 465,000 = 65.957%**

**705,000**

**(iv) Margin (1 mark)**

**GP x 100 = 45,000 = 39.74%**

**Sales 1,170,000**

**(v) Net Profit = GP – Expenses (2 marks)**

**= 465,000 – (100,000 +20,000) = 345,000**

**(vi) Rate of return on Capital = Net profit = 345,000 x 100**

**Capital invested 745,000**

**= 46.3%**