**MID TERM SERIES-TERM 1-2023**

**Kenya Certificate of Secondary Education**

FORM FOUR BUSINESS STUDIES **Paper 2**

**MARKING SCHEME**

1. a) **Ways in which the economic environment may positively influence the activities of a business**

* 1. The prices of commodities are low leading to increased demand
  2. Increase in consumers incomes hence high demand
  3. If the taxes levied on goods are low as it will make prices of commodities to fall
  4. If banks charge low interest rates on loans, it encourages people to borrow loans and buy more goods
  5. If there is low levels of inflation increasing or maintaining higher ability to buy

**SHUJAA TRADERS**

**THREE COLUMN CASH BOOK**

**FOR THE MONTH OF JULY 2021**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Disc. Allowed** | **Cash** | **Bank** | **Date** | **Details** | **Disc. Received** | **Cash** | **Bank** |
| **2021** |  | **Sh.** | **Sh.** | **Sh.** | **2021** |  | **Sh.** | **Sh.** | **Sh.** |
| July 1 | Balance b/d |  | 250 | 36,500 | July 14 | Mwema | 1,250 |  | 23,750 |
| 2 | Sales |  |  | 42,630 | 15 | Wages |  | 24,000 |  |
| 3 | Mkora |  |  | 14,100 | 16 | Cash |  |  | 36,000 |
| 12 | Sales |  | 42,450 |  | 17 | Mali Mali | 3,280 | 22,960 |  |
| 16 | Bank |  | 36,000 |  | 20 | Mkora |  |  | 14,100 |
| 18 | Otonglo | 1,240 | 14,260 |  | 28 | Salaries |  |  | 48,600 |
| 30 | Cash |  |  | 51,950 | 30 | Bank |  | 41,000 |  |
|  |  |  |  |  | 31 | Balance c/d |  | 5,000 | 11,780 |
|  |  | **1,240** | **92,960** | **134,230** |  |  | **4,530** | **92,960** | **134230** |
| Aug 1 | Balance b/d |  | 5,000 | 11,780 |  |  |  |  |  |

**()**

**2. (a) Factors you would consider when choosing an appropriate media for promoting the bookshop.                                                                                                (10 marks)**

i. The intended target group:

**i) Television is expensive** but can be targeted at regions or specific groups according to their level of education, age or lifestyle. In our case, the target group is composed of young and older people.

**ii) Geographical spread of the market.**

Since the bookshop is to be used by all students countrywide, I would choose any of the nationwide circulating media such as newspaper, radio and television.

**iii) Cost of advertising.**

I would choose a medium which the company can afford. It should also be reasonable compared to the sales it will generate.

**iv) Urgency of the advertisement.**

The use of the bookshop is urgent; thus, I would choose to use radio, newspaper or television as it is capable of transmitting the message very fast.

**v) Nature of the product.**

The bookshop is meant for general use; thus I would choose a medium that has a wide reach such as radio.

b) **Five accounting documents that are used in home trade.**

(i). Invoices - provide information on goods bought or sold on credit.

(ii). Debit notes

(iii) Cash Sale Slips - provide information on cash sales or cash purchase.

(iv). Receipts - serves as an evidence that cash has been received or paid out.

(v). Credit note - provide information on sale of returns or purchase return /correct overcharge ins the invoice.

(vi). Payment vouchers - provide information on payments of petty cash.

(viii). Remittance advice notes: provide information on payments made by cheque.

(ix). Statement of account: give summary of all transactions that have been carried out between the buyer and the seller over a period of time usually one month.

(5 x 2 = 10mks)

**3. a) Factors that influence entrepreneurial practices in Kenya.**

1. **Government policy-**Some government policies may be favourable to the operations while others are unfavourable. Favourable government policies e.g. decrease in taxes may encourage entrepreneurial practices while unfavourable government policies discourage entrepreneurial activities. The government may also influence the location of businesses and even the type of goods to be produced.
2. **Level of infrastructure-**Infrastructure refers to the basic systems and services that are necessary for efficient operation of businesses. Infrastructure may include transport network, water systems, electricity, communication etc. Availability of good infrastructure in an area encourages entrepreneurial practices while poor infrastructure discourages entrepreneurial practices.
3. **Levels of education and skills-**Relevant knowledge and skills are essential for business success. Knowledge and skills on business can be acquired through education, training and experience. An entrepreneur who has appropriate knowledge and skills is likely to succeed in business than the one without appropriate skills and knowledge.
4. **Availability of markets-**Availability of market determines the profitability of the business. Availability market encourages entrepreneurial activities whereas Unavailability of market discourages entrepreneurship.
5. **Availability of resources-**For a business to start and run efficiently, resources are required. These resources may include; capital, labour, technology, finances etc. Availability of adequate resources enables the business produce high quality goods and services that will encourage more customers. Availability of adequate resources will therefore encourage entrepreneurial practices while lack of adequate resources discourages entrepreneurial practices.
6. **Culture-**Culture refers to the norms, values and beliefs of a given community. Culture influences the kind of goods and services that people consume thereby determining the type of businesses to be established in a given area. E.g. Muslims don’t eat pork, therefore a business selling pork will not be suitable in an area with many Muslims.
7. **Level of competition-**Competition is an attempt by businesses to out-do each other in their efforts to attract and retain available customers. A business will therefore do well where there is minimal competition hence lack of competition encourages entrepreneurship than presence of competition
8. **Political stability-**Political stability gives a conducive environment for businesses to operate hence encouraging entrepreneurial activities. On the other hand, political instability increases the level of insecurity in a given area hence discouraging entrepreneurial activities.
9. **Natural factors-**Natural factors such as rainfall, temperatures, earthquakes, pests, wind, drought etc. may influence the type of businesses that are carried out in a certain area. E.g. finishing is only possible in places with water bodies.

b) **Effect of increased supply on equilibrium price and quantity.**

P1

P0

q1

q0

e1

e0

S1

S1

S0

S0

D0

D0

0

Price

Quantity

**Alternatively**

1. Equilibrium price reduces from P0 to P1.
2. Equilibrium quantity increase from q0 to q1. 20 × ½ = 10marks

**4. a) Advantages of bonded warehouse to an importer.**

1. Enables him to look for market while goods are still being held in the bonded warehouse.
2. He can prepare the assorted goods for sale while still in bond.
3. Duty on imported goods would be passed onto the buyer if they are sold while still in the bonded warehouse.
4. Goods are accorded security by the government as long as they are in bond.
5. It allows the importer to have some time to arrange to pay the duty if he does not have enough money.
6. Some goods may improve in quality after sometime e.g. wine, hence will be better/have more value.
7. Some goods may lose weight while in the warehouse thereby lowering the duties payable.

(5 × 2 = 10 marks)

b)

**MSAFI TRADERS**

**TRADING, PROFIT AND LOSS ACCOUNT**

**FOR THE PERIOD ENDING 31/12/2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Dr.** |  |  |  | **Cr.** |
| Opening stock |  | 12,000 | Sales | 280,000 |
| Purchases | 120,000 |  | Less: returns inwards | 1,200 |
| Add: carriage inwards | 2,000 |  |  | 278,800 |
| Less: returns outwards | 1,000 | 121,000 |  |  |
| Goods available for sale |  | 133,000 |  |  |
| Less: closing stock |  | 8,000 |  |  |
| Cost of sales |  | 125,000 |  |  |
| Gross profit c/d |  | 153,800 |  |  |
|  |  | **278,800** |  | **278,800** |
|  |  |  |  |  |
| Carriage outwards |  | 4,000 | Gross profit b/d | 153,800 |
| Discount allowed |  | 3,000 | Discount received | 4,000 |
| Salaries |  | 2,000 | Rent received | 21,500 |
| Insurance |  | 10,000 |  |  |
| Electricity |  | 17,000 |  |  |
| Net profit |  | 143,300 |  |  |
|  |  | **179,300** |  | **179,300** |

20 × ½ = 10marks

5. a) B – Optimum Population

C – Over Population

**(ii) Challenges of country C**

1. High rate of unemployment
2. Environmental degradation
3. Low standards of living
4. Low quality services e.g. education
5. Increase in crime rates

(State 1 mark explanation 1mk)

**b) Reasons for terminating Insurance Contract**

(i) When the insured has not acted in utmost good faith

(ii) When the compensation takes place

(iii) When the insured ceases to have insurable interest in the property

(iv) If the court of law orders termination of the contract

(v) When the insured decides to terminate the contract

(iv) Due to failure to renew the contract

**6. a) Activities that may be carried out in the process of distributing goods.**

1. **Transport** – movement of goods from one place to another.
2. **Warehousing/storing** – keeping goods until the time they would be required.
3. **Insurance** – ensuring security of goods as they are stored or being transported by taking an insurance cover.
4. **Preparation of goods for sale** – involves activities such as blending, sorting, branding, packing etc.
5. **Communication** – Passing messages/information from one person to another
6. **Trading** – passing ownership from one person to another through buying and selling.

**b) Internal diseconomies of scale experienced by large firms.**

1. Managerial diseconomies – large firms are complex in nature and hence are difficult to run.
2. Slow decision making – large are less adaptable to changes in the economy due to the long time it takes to make and implement decisions in such firms.
3. Factor diseconomies – large firms require greater quantities of factors of production which may not always be available.
4. Technical diseconomies – large firms may not be able to operate at their full capacity leading to underutilization of resources at their disposal.
5. Marketing diseconomies – large firms produce large output which may be difficult to sell.