**BUSINESS STUDIES PAPER 2**

 **TERM 2 2021 MOCK MARKING SCHEME.**

1(a) **Ways in which the government of Kenya encourage entrepreneurship in the country.**

* Favourable policies/low taxation/increase in subsidies encourage growth/expansion of businesses
* Provision of infrastructure facilitate movement of goods/services/F.O.P/access to market
* Provision of appropriate education to equip youth with necessary skills for running business
* Political stability by creating conducive environment for doing business
* Availing credit/loans/finances/capital to start/run business
* Provision of adequate security for smooth running of business
* Provision markets for goods/services produced

(b) **Merits of direct taxes.**

* Economical /cheap to collect since it provide higher revenue at lower cost/it is collected from the source/involve less personnel.
* Certainty as the government knows the amount of tax/ manner/time of payment /budget/ plan for it/it is difficult to evade.
* Convenient as it is deducted at source making it easy/ convenient to collect
* Simple to understand/calculate as every wage level falls into predictable tax bracket
* Easy to administer as the collection points are few as opposed to collecting tax directly from individuals/ less documentation.
* Flexibility as it can easily be changed to suit government needs/economic situations.
* Price stability as it affects the disposable income and hence influencing the aggregate demand
* Equity/progressive in nature hence able to redistribute wealth by taxing high income earners as opposed to those earning less.
* It is elastic as it can expand with increased income/population/with change in income/population/contracts with decreased income/population.

2(a).**Circumstances under which a public limited company may be dissolved.**

* A resolution by shareholders to dissolve the company /decision by shareholders-to dissolve the company during the annual general meeting.
* Change in the country’s law rendering the activities of the company illegal/unlawful/bars certain activities that a company may have been involved in.
* Inability to repay finance/debts/creditors may go to court/if the debt are not paid.
* Acquisition /absorption/take over/amalgamation/mergers hence redirection of its activities/loss of identity/change of status.
* Realisation of sustained /continuous losses to the extent of not being able to meet it recurrent expenditure.
* Court order on infringing law /granted to a complaint raised by stakeholder/acting ultra-vire.
* Completion/fulfilment of task/activity/objectives which it was formed hence making it continued existence unnecessary /unreliable.
* If the company does not commence business a year since its incorporation.

 (b)**Method through which central bank of Kenya may take to reduce the amount in circulation.**

* Increase compulsory/special deposit the reduces the amount of money available for lending in commercial banks
* Raising bank/ lending interest making bank loans /credit unattractive /expensive to borrowers
* Selling securities in open market operations (OMO) thereby reducing the amount of money with members of public
* Raising the cash ratio which leaves commercial bank with less to lend
* Selective credit control by only giving loans to only selected sector of the economy thus limiting the sectors/how much it’s to lend
* Moral persuasion to commercial banks to reduce amount they lend
* Directives to commercial banks to reduce credit creation
* Reducing government expenditure by suspending some projects

3(a) **Factors to consider when selecting a mean of communication to use.**

* Confidentiality of/ secrecy of the message it should safeguard the content of the message from being accessed by unauthorised hands
* Precision /accuracy of the means should be able to deliver the message in its original form/without distortion
* Need for feedback should allow for response/action where necessary
* Urgency/speed of the message/means should be fast enough to ensure timely delivery of the message
* Cost/affordability of the means the sender must be able to meet the cost of the means so chosen
* Nature of the message an appropriate means should be chosen
* Need for future reference/record must provide evidence if future reference will be required
* Capacity of the means it should allow the required volume of information to be passed/at an agreeable speed
* Availability of the means it should be readily available
* Intended/desired impression it should be able to create the desired effect /impact/ image
* Government policy and hence must be adhered to/ has no option
* Business policy if the has a prescribed way of communicating the it has to followed
* Type/nature of audience /recipients should be suitable/ appropriate for the need of the audience
* Size of the audience /number of the recipients the means chosen should be capable of reaching all the recipients/audiences
* Security of audience/number of recipients the means should guard against loss/theft of information
* Safety of message the means should guard against damage of information
* Reliability/ certainty of the means the means should be able to deliver the information to the receiver as intended

3(b)

Dr Capital a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 31/1/2019 |  Bal c/d | 120,000 √ | 1/1/2019  | Cash  | 120,000 √ |
|  |  |  |  |  |  |

Dr Cash a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 1/1/2019 | Capital  | 120,000 √ | 8/1/2019  | Bank  | 10,000 √ |
|  |  |  | 16/1/2019 | Water bill | 10,000 √ |
|  |  |  | 24/1/2019 | Drawings | 5,000 √ |
|  |  |  | 31/1/2019 | Bal c/d | 5,000 √ |
|  |  | 120,000 |  |  | 120,000 |

Dr Purchases a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 6/1/2019 | Shah traders | 10,000 √ | 31/1/2019 | Bal c/d | 10,000 √ |
|  |  |  |  |  |  |

Dr Shah traders Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 31/1/2019 | Bal c/d | 10,000 √ | 6/1/2019 | Purchases  | 10,000 √ |
|  |  |  |  |  |  |

Dr Bank a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 8/1/2019 | Cash  | 100,000 √ | 10/1/2019 | Furniture  | 80,000 √ |
|  |  |  | 31/1/2019 | Bal c/d | 20,000 √ |
|  |  | 100,000 |  |  | 100,000 |

Dr Furniture a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 10/1/2019 | Bank  | 80,000 √ | 31/1/2019  | Bal c/d | 80,000 √ |

Dr Water bill a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details  | Amount  |
| 16/1/2019 | Cash  | 10,000 √ | 31/1/2019 | Bal c/d | 10,000 √ |

Dr Drawings a/c Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Details  | Amount  | Date  | Details | Amount  |
| 24/1/2019 | Cash  | 5,000 √ | 31/1/2019 | Bal c/d | 5,000 √ |

4(a) **External factors that influence success of a business**.

* High population- provide customer for goods/services
* Stable good economic environment- which increases the purchasing abilities/power of the consumer
* Favourable political factors/political stability- create a conducive environment for smooth running of business
* Positive socio-cultural factors which influence consumption/production of goods
* Favourable government policies/legal factors/laws encourage expansion /growth of business
* Reliable suppliers ensure timely production of quality goods/services
* Loyal customers guarantees market for goods/services
* Availability of intermediaries/ middlemen ensure goods reach the market
* Adequate/ appropriate /good advanced technology lead to high quality/quantity goods/service
* Fair competition which business can cope with/survival

 (b). **Circumstance under which a producer may use direct channel to distribute his goods.**

* If the producer deal with perishable goods which are likely to get bad easily if the follow long channel.
* If the market is localised/concentration in one area hence not economical to involve intermediaries.
* If the producer has adequate finance/fund to have their own distribution outlet/facilities.
* When the volume of goods produced is small and the producer can afford to distribute them to consumers directly.
* Where goods are technical in nature and hence require after sales services/spare parts/installation.
* When the competition in the market is high hence wants to keep a direct link with the customer.
* Where goods are produced on customers specification hence unnecessary to involve intermediaries.
* Where the size of the market is small/has a few consumers hence no need to engage intermediaries.
* Where there are no intermediaries has no other option/alternative
* Where it is a government policy and hence has to adhere/ follow it

5(a) **Factors to consider before buying office equipment.**

* Workflow should ensure continuous flow of documents
* Minimal/ease movement to save time/reduce distraction
* Supervision of staff should ensure easy/ quick access of staff
* Working space to allow ease movement of staff
* Proximity to equipment to avoid unnecessary movement/wastage of time
* Office appearance should be attractive to boost the morale of workers
* Communication should allow the flow of information to help in decision making
* Legal requirement/compliance should adhere to law of the land

(b)**Disadvantages that developing country may by liberalising trade**

* May lead to dumping of inferior/substandard/cheap products into the country.
* May cause overexploitation of natural resources leading to their depletion/degradation /shortage /exhaustion.
* May lead to loss of job/ unemployment due to closure of firms/due to unfair competition.
* Contribute to worsening B.O.P as developing countries have fewer/lowly valued exports/due to expensive imports.
* Cultural values/beliefs/morals may be eroded due to copying/aping negative/bad foreign habits/lifestyles /culture.
* Entry of harmful goods/services e.g. beauty creams/drugs may find their way into the country which may affect people health.
* Slow economic development/the country may stagnate due to influx of foreign goods/services/ declining demand for local goods/services.
* Brain drain/loss of skilled personnel to developed countries that provide better pay/social amenities/ working condition.
* Entry of contra band goods/services which may negatively affect security /health/ economy/ stability.
* May encourage over dependence/over reliance on imports/foreign countries which may lead to political blackmail/vulnerability
* May lead to imported inflation due to importation of overpriced goods/services.

6(a) **Benefits of a large population to a country.**

* Increased labour supply that increase productivity/ production
* Increase market for goods/services
* Diverse talents from the large population increase production
* Technological advancement which lead to high quality/quantity of goods/ services
* Proper/efficient use of local resources without wastage due to optimal use
* Increased government revenue due to increased trading activities/taxes
* Increased investments due to increased demand of goods/services

(b)

(i) Margin = $\frac{25√}{25+100 √}$ x 100% = 20% √√

(ii)Gross profit = 20% √ x 400,000 √

 = sh 80,000 √ √

(iii)COGS = Sales- Gross profit

 = 400,000√ - 80,000√ = sh 320,000 √ √

(iv)Net profit = Gross profit – Expenses

 = 80,000 √- 36,000 √ = sh 44,000 √ √

(v) (Opening stock+closing stock)/2=320,000/5=64,000

Opening stock = 64,000x2√ - 60,000 √ = sh 68,000 √ √