**565/2 BUSINESS STUDIES Paper 2**

**March/April - 2023.**

**MARKING SCHEME**

1. (a) Benefits of division of labour.

* Output per worker is greatly increased – Each worker becomes more productive because they concentrate on the work they are assigned.
* Saves time – There is no time wasted because there is no movement from one activity to another.
* Increase in creativity/ invention/innovation – A worker who concentrates in one activity will come up with new and effective ways of doing it.
* High quality goods are produced – Mechanization is possible leading to production of quality goods.
* Mass production of goods is possible – Due to mechanization, use of machines, the rate of production increases.
* A worker acquire skills on one stage of production – As a worker repeats the same activity/task over and over again, they acquire skills in that area.

(b) Problems faces when valuing national income using output approach.

* The problem of valuation – Lack of/ non availability of/ inaccuracy of output figures especially in private sector.
* The problem of deciding which goods and services to include – It is difficult to decide for example whether services of a house wife should be included or not.
* The problem of changing prices – Prices of goods and services always change/fluctuate hence difficult to decide which prices are fair.
* The problem in differentiating between primary and intermediate goods – some goods are yet to undergo some processes and it is difficult to tell which are primary and which are intermediate.
* The problem of valuing government output – government goods and services e.g Medicare are not sold at market price and hence it is difficult to get their correct value.
* It is difficult to value illegal activities – They are not sold in the open and therefore difficult to value them yet they generate income to the country.
* The problem of valuing output in the subsistence sector – Goods that are not market makes it difficult to value them.

1. (a) Measures that a business may take to safeguard and protect its property.

* Keeping records of all the business property – All properties acquired should be registered and records kept under lock and key.
* Tracking movement of each property – Records of movement should be kept so that they do not get lost.
* Physical stock taking of each property – Regular stock taking/ counting of each property should be done.
* Insuring property – Insurance covers should be obtained for those properties that are exposed to risks such as fire and theft.
* Proper repairs /services and maintenance – This reduces their chances of breaking /malfunctioning.
* Installing CCTV cameras – Areas of important installations should be monitored through cameras.
* Installing security lights in the compound – Chances of theft are reduced where all areas are well lit at night.
* Erecting electric /theft-proof fence around the compound – Ensures thieves do not gain entry into the compound unnoticed.

(b) Factors to be considered by a manufacturer when choosing a distribution channel.

* Nature of the product – Some products are perishable and hence require a short distribution channel.
* Nature of the market – Consumers who are spread over a wide area require a longer channel in order to reach them.
* Resources and size of a firm – A big firm with more financial resources can produce a large quantity of goods which require a long channel to reach consumers spread over a large area.
* Channels used by competitors – In order to compete well with other firms, a firm should use the channels used by the competitors.
* Government policy – The government may come up with policies on distribution of specific products and a firm has to comply with the same.
* Marketing risks – A firm which want to avoid marketing risks may decide to involve middlemen as a way of spreading the risks.

1. (a) Circumstances under which a bank may dishonor a cheque.

* If the cheque is post-dated i.e. it is presented to the bank before the maturity date.
* In case of insufficient funds in the account of the drawer.
* When the amount in words differs from the amount in figures hence decision on which figures to pay arise.
* If the cheque is defaced/torn/dirty, making its contents illegible/doubtful.
* If there is alteration /changes on the cheque which are not countersigned.
* If the signature on the cheque differs from the specimen held by the bank thus its authenticity is in doubt.
* If the account holder is dead and the bank is aware of the fact/notified.

(b)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars | Ledger  Folio | Discount  Allowed | Cash Shs | Bank Shs | Date | Particulars | Ledger Folio | Discount Received | Cash Shs | Bank Shs |
| **2012**  Jan 1  2  5  14  21  23  27  30 | Balance  Maritim  Cash  Sales  Kolongei  Tangus  Capital  Cash | b/d  C1  C2 | 2000√  800√ | 15,000√  14000√  6000√ | 40,000  8000  4000  3200  17000  15500 | 2012  Jan 5  9  17  18  30  31 | Bank  Wages  Equipment  Korir  Bank  Balance | C1  C2  c/d | 500  500 | 4,000  5,000  9500  15500  1000  35000 | 3000  84700  87700 |
| 2800 | 35000√ | 87700 |
| *20 X ½ = 10* | | |

1. (a) Reasons why a wholesaler may decide to construct its own warehouse instead of hiring storage space

* Save on cost of hiring space – The wholesaler saves money that would have been spent on hiring storage space in a public warehouse.
* Suitable design – The wholesaler is in a position to design the warehouse to suit their specifications.
* Enables special handling and storage of goods – The wholesaler will ensure that special facilities for handling and storage of goods are available.
* Exercise full control – The wholesaler would have full control of the operations of the warehouse and may make major decisions without consulting anyone.
* The owner is not tied down by procedures of receiving and issuing goods unlike in a public warehouse.

(b) Features of human wants.

* Insatiable – they cannot be fully satisfied because they are endless.
* Vary in intensity and urgency – amount of goods and services required varies from one person to another and from time to time.
* Competitive – They compete for attention to the extent that each one of them yearns to be satisfied first.
* Recurrent /repetitive – Human wants does not last forever. It needs to be satisfied over and over again.
* Habitual – Some wants tend to create a habit among human beings to desire every now and then.
* Required resources – All human wants require resources to be satisfied e.g teachers books.
* Complementary – Some wants are not used in isolation, they have to be combined with others.

1. (a) Small scale businesses in Kenya has been struggling over the years, explain **five** reasons behind this.

* Small capital – there are limited sources of raising capital.
* Lack of managerial skills – they have limited skills in regard to business management thus they may not be able to differentiate between capital and profits.
* Lack of continuity – the business is not a going concern in the sense that it ceases to exist as soon as the owner dies.
* Poor choice of business enterprise – the owner lacks the skills to choose a viable project/investment.
* Lack of division of labour – the size and the mode of the business ownership denies the benefit of division of labour and specialization.

(b) Factors to consider when choosing a method of product promotion.

* Cost – methods of product promotion are priced differently. Holding other factors constant, a product promoter would choose the cheapest method.
* Nature of the product – different products may have different suitable methods of promotion owing to their nature. Some products require demonstration and therefore best promoted through personal selling.
* Target group – some products are used by specific segment of the population. Such products are best promoted using methods that reach the target group.
* Methods used by competing firms – In a competitive market, a firm will opt to use a method of product promotion that give them an edge /advantage over the others.
* The law – Product promoters must use methods that are in accordance to the laws.
* Objectives of the promoting firm – Product promotion may have different objectives e.g. public relations method is used to correct a dented image.

1. (a) Steps to be followed when obtaining an insurance policy.

* Filling of proposal form – A prospective obtains a proposal form from an insurance company. They fill it and return to the company.
* Determination of premium – On receipt of the duly filled form, the insurance company makes a decision on whether to cover the risk or not. If they decide to cover the risk, they then calculate the premium payable.
* Payment of the first premium – After determination of the premium to be paid, the prospective issued is expected to pay the first premium.
* Issuing of cover note (binder) – On payment of the first premium, the insurer is issued with a cover note which serves as evidence that they will be compensated in case of loss as a result of the occurrence of the insured risk.
* Issuing of the policy – The policy is the actual contract document between the insurer and the insured. It is issued within thirty days of after issuance of the cover note and it contains the terms and conditions of the insurance cover. It replaces the binder.

(b) (i)

**JAMBO ENTERPRISES**

**TRADING, PROFIT AND LOSS A/C**

**FOR THE PERIOD ENDED 31ST DEC 2018**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Opening stock  Purchases  Add carriage  Less closing stock  Gross profit c/d  Expenses  Carriage on sales  Discount allowed  Lighting & heating  Water  Rent and rates  Repairs  Salaries  General expenses  Commissions  Net profit c/d | | Sh  1,500,000√  50,000√ | Sh  75,000√  1,550,000√  1,625,000√  105,000√  1,520,000√  1,480,000  3,000,000  15,000√  10,000√  15,000√  5,000√  30,000√  50,000√  100,000√  70,000√  30,000√  1,180,000√  1,505,000 | Sales  Gross profit b/d  Discount received  Net profit b/d | | Sh  3,000,000√    3,000,000  1,480,000√  25,000√  1,505,000  1,180,000 |
|  | | | |

***(21 X 1/3 = 7 marks)***

6 (b) (ii)

**JAMBO ENTERPRISES**

**BALANCE SHEET**

**AS AT 31ST DECEMBER 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Furniture  Motor vehicles  Current Assets  Stock  Debtors  Cash at Bank  Cash in hand | Sh      105,000  400,000  450,000  90,000 | Sh  2,000,000  4,000,000  6,000,000  1,045,000  7,045,000 | Capital  Creditors | Sh  5,230,000  1,180,000  6,410,000  635,000  7,045,000 |

***(12 X 1/4 = 3 marks)***