**BUSINESS STUDIES**

**PAPER 2**

**FORM FOUR**

**END OF TERM ONE EXAMINATION**

**MARKING SCHEME**

1. **a) Explain five reasons that make an insurance company to refuse to compensate the insured in the event that a risk occurs.**
* When the insured had no insurable interest in the property destroyed as he’ll not suffer financial loss.
* When the insured did not disclose all relevant material facts when filling the proposal or claim forms i.e. called utmost good faith.
* When the loss / destruction of property was caused by uninsurable risks / act of God.
* When the policy was not in force at the time of loss as premiums had not been paid.
* When the loss was deliberately carried / negligence by the insured.
* When the insurance company is insolvent / bankrupt / under receivership hence cannot be able to meet financial obligations.
* When the principal of proximate cause does not apply.
* When the insured claims very late after stipulated period.
* When the insured fails to follow the laid down procedure when claiming.

Note: Answers must **Not start with a circumstances /word**

(**Any 5x2=10mks**)

**b) Discuss any five weakness of using capital income to measure the standard of living of people in a country.**

* Inaccurate pop data especially in countries like Kenya, hence gives inaccurate per capital income figure
* Inaccurate national income data which may be overstated or understated giving a wrong value of per capital income
* Inequality in income distribution with few people enjoying very high income/better standard of living while majority suffering in poverty yet per capita income may be high.
* The Government may tilt its expenditure pattern towards military hardware and capital goods which do not add to welfare of citizens.
* The high national income may be obtained by citizens straining which affects their health and little is left for enjoyment.
* Different groups of people may have different tastes in a country where better life vary with tastes
* Different price structure makes comparison of standard in living between countries difficult /ineffective.
* The size of unmarketed output (subsistence) differs in countries / regions and this affects the per capita income. (**Any 5x2=10mks**)

**2. a) Factors that may promote entrepreneurship in kenya**

* Government support / favourable government policies / regulation that may encourage the emergence of the business ventures
* Training / education on entrepreneurship i.e with relevant skills to start and run a business
* Entrepreneurial culture the encourage entrepreneurship
* Presence of role models who may inspire entrepreneurship and create interest in business ownership
* Availability of capital for starting and expanding business
* Political stability that create conducive environment for starting and running a business
* Availability of market where they can sell their goods and services
* Good infrastructure that facilitates access to the market and movement of input to the firms
* Availability of security for safety of business property and owners
* Fair competition that the business can withstand
* Good governance that ensure transparency and accountability in conducting business activities
* Availability of appropriate technology leading to production of desired quality and quantity
* Need for self reliance / independence
* Need to create employment for self and others
* Need to exercise power by having people working for him
* Need for recognition by peers / society
* Need for individual security against old age / sickness
* Need for self actualization by giving back to the society(**Any 5x2=10mks**)

**b. Explain benefits that a private limited company may enjoy by changing to a public limited company.**

* Ability to raise larger amount of capital by selling shares to the public through stock exchange market.
* Easy transferability of shares without any restriction
* Increased transference as shareholders must approve company’s annual audited accounts which are published
* Increased public confidence due to increased exposure to the public
* Freedom from interference by owners as owners has not direct managerial contra love the activities of the company
* Increased professionalism since the company can afford professional managers to run the business
* Higher chances of continuity since shares can be transferred freely without affecting the business.
* Can enjoy economics of scale due to increased scale of production
* The company can be quoted in the stock exchange market leading to sound management
* Can advertise sale of shares to the public in the media which attract new investors
* Enhanced ability to borrow funds by selling debentures
* Better management since it is run by competent board of directors /professionals. **Any 5x2=10**

**3. a) Functions rendered by wholesalers to retailers are:-**

* Availing a variety of goods from different manufactures.
* Bulk breaking by selling to retailers in smaller quantities which meets their needs and financial capacity.
* Offer transport facilities to retailers premises
* Offer storage facilities relieving retailers need to hire or construct own warehouse.
* Provide goods on credit to creditworthy retailers acting as a source of finance to run their businesses
* Preparing goods for sale which retailers receive ready to sell
* Carry out product promotion thus relieving retailers that cost. (**Any 5x2=10mks**)

b) **Zawadi Enterprises**

 **trading and profit Loss A/c**

 **for the Year ended 311st August 2018**

**kshs kshs kshs**

 Opening stock 80,200 sales 1,880,000

+ Purchases 1,120,000 - returns in 5,800

- Returns out 20,800 net sales 1,874,200

+ Carriage in 40,000

**T.G.A** 1,139,200

- Closing stock 120,000

 C.O.G.S 1,019,200

 Gross profit C/d 855,000

 1,874,200 1,874,200

**Less Expenses** Gross Profit b/d 855,000

Carriage out 12,700 + Discount received 7,500

Discount allowed 4,000 862,500

Salaries & wages 230,000

Rent 15,000

General expenses 56,700

Electricity 250,000

 568,400

Net profit c/d 294,100 862,500

 862,500 Net profit b/d 294,100

(**20 ticks x ½ = 10mks**)

**b) Benefits private LTD company get by changing to public Ltd Company**

* Ability to raise larger amount of capital by selling shares to the public through stock exchange market
* Easy transferability of shares without any restriction
* Increased transparency as shareholders must approve company’s annual audited accounts which are published
* Increased public confidence due to increased exposure to the public
* Freedom from interference by owners has no direct managerial control over the activities of the company
* Increased professionalism since the company can afford professional managers to run the business
* Higher chances of continuity since shares can be transferred freely without affecting the business
* Can enjoy economies of scale due to increased scale of production
* The company can be quoted in the stock exchange market leading to sound management
* Can advertise sale of share to the public in the media which attract new investors
* Enhanced ability to borrow funds by selling debentures
* Better management since it is run by competent board of directors/professionals

(**Any 5x2=10mks**)

**4. a) Measures to curb unemployment**

* Diversifying of the economy/establishment of different industries to create more employment opportunities
* Transforming education/ training sector to improve on skills
* Establishing employment policies by the government to make it easy for people to get jobs
* Lending/setting up funds to assist unemployed to start up income generating activities
* Encouraging informal /jua kali sector to promote self employment
* Exporting labour/assisting unemployed people to get jobs/countries with labour force deficiency
* Delocalization for balanced regional development /to reduce rural-urban migration
* Population policy to control growth and have labour force that the economy can absorb
* Improved infrastructure in order to stimulate economic activities
* Increase government expenditure to increase the size of the economy
* Effective use of natural resources to increase production activities
* Reviving collapsed industries by injecting funds
* Attract foreign investment through incentives to grow the economy
* To protect local infant industries from unfair competition from foreign established firms
* Transforming agricultural sector to curb rural-urban migration

(**Any 5x1=10mks**)

b) **Three column cash book**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date  | Details  | F | DiscountAllowed  | Cash  | Bank  |  | Date  | Details  | F | Discount Received | cash | Bank  |
| 2015Sept 121225283030 | Bal Sales Macharia Bank Wanjiku Cash Bal  | b/dC1C2b/d | 120075008700 | 55005000010500013700 | 25000035260588006750052800464360320260 |  | 2015Sep 3815253030 | Ribbons Wangila Salaries Cash Bank  | C1C2 | 60006000 | 4500340005280013700105000 | 9400050000320360464360 |

**20 x ½ =10mks**

**5. a) Principles of a good tax system**

* **Equitable** – Equity tax burden is distributed according to the payers ability to pay e.g. PAYE/ payers should be taxed according to their level of income i.e tax high income earners more than the lower income earners.
* **Certain / certainity** – Tax payers should know how much to pay when, where and how to pay tax collectors should also know where, how, when and how much to collect from the payers.
* **Economical** – Cheap to collect and administer i.e tax revenue should be higher than collection costs.
* **Flexible/flexibility** – Adaptable to all economic circumstances / subject to revision or adjustment depending on economic changes.
* **Simplicity / simple** – Easy to understand by the payer and administer by the collector.
* **Convenient to the tax payer** – Suited to the programs or activities of the payer e.g. paid when the payer earns income.
* **Elastic / elasticity** – The proceeds should be capable off expanding / contracting with changes in income or population.
* **Diversity / wide base** – There should be a wide variety to net many tax payers.
* **Difficult to evade** – All evasion points (loopholes) should be zealed / not create a loophole for payers to evade paying taxes.
* **Should have maximum social benefit to the tax payers** – Through the government providing quality goods and services to encourage people to pay taxes e.g. infrastructure construction and maintenance. (**Any 5x2=10mks**)

*Mention -1mk*

*Explain -1mk*

**b) Explain five measures that the government is taking to encourage delocalization of firms in Kenya.**

* Development of rural services e.g. rural access roads, rural electricity e.t.c which will attract investors to rural areas.
* Tax exemptions to those who want to locate industries in rural areas.
* Providing free land / cheap land to potential industrialists in rural areas
* Providing loans for firms willing to be located in rural areas
* Establishing training institutions in rural areas to provide skilled labour
* Providing a duty free allowance for the importation of raw materials and equipment to be used by delocalized industries /firms.
* Adopting the policy of industrial decentralization
* Adopting the policy of District focus for rural development(**Any 5x2=10mks**)

**6. a) Sources of monopoly power**

* Ownership by the firm of secretive production techniques which denies other firms use of the technique
* Control by the firm of strategic input/raw materials that make it have sole access to the input/raw material
* Ventures which require large capital such that other firms may not be able to raise such capital
* Enjoyment of economies of scale by a firm which enables them to produce at lower cost than others
* State monopoly with exclusive legal right of production which shut other competitors
* Amalgamation/merger of firms which eliminates competition
* Presence of market that can only be served by one firm
* Ownership of patent right/copyright by a firm barring other firms from producing

(**Any 5x2=10mks**)

**b) Outline five advantages of a large population to a country**

* High population will increase aggregate demand thus stimulating investment and employment
* A large population will provide the economy with various workers (skilled & semi skilled) and make specialization possible.
* A high population will lead to full exploitation of resources in a country hence assist in creation of wealth
* A large population will lead to invention and innovation to sustain the large population
* A large population will lead to low cost per head in provision of essential services / social amenities
* Foreign trade will be boosted with a view to sustaining the population

(**Any 5x2=10mks**)