**565/2**

**BUSINESS STUDIES PAPER 2**

**MARKING SCHEME**

1. (a) Channels that can be used to distribute locally manufactured goods.

* Local producer => Agent => Wholesaler => Retailer => Local consumer.
* Local producer => Wholesaler => Retailer => Local Consumer.
* Local producer => Local consumer.
* Local producer => Manufacturer’s Representative => Wholesaler => Retailer = Local Consumer.
* Local producer => Wholesaler => Local consumer.
* Local producer => Retailer => Local consumer. (5x2 = 10mks)

(b) Challenges that may be experienced by a new entrepreneur.

* Inadequate capital / funds to sustain / expand.
* Inadequate skills / poor management.
* Unfriendly / poor government policies e.g. high taxes which are unfavourable to the growth / expansion

of the business.

* Poor infrastructure / poor roads which may hinder access to markets or inputs.
* Inappropriate technology which may result in less quantity or poor quality products.
* Unfair competition.
* Inadequate manpower to run the business effectively.
* Poor pricing which might make the product to be too expensive to attract buyers or too cheap to sustain

the business.

* Inadequate market. (5x2 = 10mks)

1. (a) Negative economic implications of given age distribution.

* About 45% of the total population consists of those below 15 years. This implies more expenditure

has to be directed towards provision of education, health etc/

* There is high dependency ratio which adversely effects savings and investments of the

working population.

* There is need to plan for creation of employment opportunities to cater for the expected increase in

labour force.

* Industries are likely to produce mainly goods used by the young population at the expense of the

needs of adult population.

* The country may be forced to import such goods as food and medicine which leads to balance of

payments problems.

* There will be little or no exports as the majority of the population who are young consume everything. (4x2 = 8mks)

(b) NYAITUYA

TRADING PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2005

Opening stock 60,000 🗸 Sales 720,000 🗸

Add: Purchases 340,000 🗸 Less: Sales returns 20,000 🗸 700,000

Less: Purchases Returns 18,000 🗸 322,000 🗸

382,000 🗸

Less closing stock 52,000 🗸

Cost of sales 330,000 🗸

Gross profit 370,000 🗸 \_\_\_\_\_\_

700,000 700,000

Rent paid 16,000 🗸 Gross profit b/f 370,000 🗸

Add: accrued rent 6,000 🗸 22,000 🗸 Commission received 9,000 🗸

Advertising 24,000 Add due commission 5,000 🗸 14,000 🗸

Insurance paid 30,000 🗸

Less: Advance 4,000 🗸 26,000

Salaries owing 21,000 🗸

Net profit c/f 291,000 🗸 \_\_\_\_\_\_\_

384,000 384,000

(21 x 1/3 = 7mks)

NYAITUGA

BALANCE SHEET 🗸

As at 31.12.2005

Fixed Assets Capital 288,000 🗸

Furniture & Fittings 100,000 🗸 Less drawings 40,000 🗸

Premises 400,000 🗸 500,000 Add Net profit 291,000 🗸 539,000 🗸

Net capital

Current Assets

Debtors 54,000 🗸 Current Liabilities

Cash in hand 15,000 🗸 Creditors 64,000 🗸

Stock 52,000 🗸 Rent accrued 6,000 🗸

Advance insurance 4,000 🗸 Salaries owing 21,000 🗸 91,000

Commission due 5,000 🗸 130,000 \_\_\_\_\_\_

630,000 630,000

(15 x 1/3 = 5mks)

1. (a) Circumstances that make it necessary for companies to re-insure.

* Value of he property: when the value of property is great such as a ship, single insurance company may find

it difficult to bear the loss.

* High risk of loss: when chances of loss through the insured risks are high it becomes necessary to re-insure.
* Number of risks covered: when the insurance company has insured many different risks it would be too costly

to compensate many claims at once hence the need for re-insurance.

* Need to spread the risks: When the insurance company has insured many different risks it would be too costly

to compensate many claims at once hence the need for re-insurance.

* Need to spread the risks: when the insurance company wishes to share liability in the event of a major

loss occurring.

* Government policy: the government may make it a legal requirement for an insurance company to re-insure. (5x2 = 10mks)

(b) Original Books of Entry

**Purchases Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Folio | Amount |
| March 1  11  18  18 | Kawe  Kamakia  Mambo  Chuma  Jama  Sama |  |  | 26,200 🗸  15,600 🗸  33,360 🗸  33,840 🗸  21,210 🗸  53,850 🗸 |
|  | Total posted to purchases A/c. |  |  | 184,060 🗸 |

**Purchases Returns Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Folio | Amount |
| March 6  6 | Kamakia  Mambo |  |  | 2,400 🗸  4,160 🗸 |
|  | Total posted to purchases returns A/c. |  |  | 6,560 |

**Sales Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Folio | Amount |
| March 2  2  2  9  9  26  26  26 | Fuma Retailers  Tito Grocers  Wamba Traders  Tamu  Patu  Kamanja  Orengo  Wama traders |  |  | 37,200 🗸  25,500 🗸  16,250 🗸  5,500 🗸  18,200 🗸  16,600 🗸  19,260 🗸  15,200 🗸 |
|  | Total posted to sales A/c. |  |  | 153,710 |

**Sales Returns Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Invoice Number | Folio | Amount |
| March 15  15 | Tamu  Fuma  Patu |  |  | 1,500 🗸  1,820 🗸  2,600 🗸 |
|  | Total posted to Sales returns. |  |  | 5,920 |

(½ x 20 = 10mks)

1. (a) Methods that can be used by a country to solve the problem of deficit balance of payment.

* Control of imports: A country can correct a deficit balance of payment by controlling imports using total ban,

tariffs, quotas etc.

* Increase the volume of exports: a country can correct deficit by increasing / encouraging exports.
* Devaluation of home currency: this will encourage exports and discourage imports.
* Encourage foreign investment in a country so as to produce goods for export.
* Through import substitution: a country can put up industries to produce goods for home consumption instead

of importing.

* Giving subsidies to local manufactures in order to increase exports
* Using foreign reserves: a country can exchange reserves and gold to offset its deficit.
* Borrowing from other countries: a country can borrow from another country so that such money can be used

to offset a deficit balance of payment. (5x2 = 10mks)

1. Differences between land and labour as factors of production.

|  |  |
| --- | --- |
| Land | Labour |
| * Refers to all resources provided by nature used in production. * Is geographically fixed in supply (supply cannot be increased). * Productivity reduces with constant use hence reducing in quality. * Provides raw materials for production. * Quality may be improved through adding fertilizer and manure. * Rewards for land are in form of rent, rates and lease. | * Refer to human efforts in production. * Is both geographically and occupationally mobile. * Increased through growth of population. * Efficiency in production increases with constant application through experience. * Provides services in production. * Quality may be improved through training. * Rewards for labour are in form of salaries, wages, commissions and royalties. |

(5 x 2 = 10mks)

1. (a) Distinction between sets of goods and services.
   1. Free and economic goods

Free goods are those that are available in abundance as gifts of nature and have no price attached while

economic goods are those that are scarce in supply and have money value.

* 1. Producer goods and consumer goods.

Producer goods are those produced to be used in producing others while consumer goods are goods that

are readily usable by the final consumer.

* 1. Perishable and Durable goods.

Perishable goods are goods that go bad very easily unless stored using special facilities while durable goods

are those that will continue giving service for a long time without spillage.

* 1. Public goods and private goods

Public goods are those that belong to no one in particular but are owed by the government on all of us collectively while private goods are owned by individuals or groups of individuals in their private capacities.

* 1. Intermediate goods and finished goods.

Intermediate goods are those that need to go through further processing before use while finished goods are final products that come out of production in the required form ready for use. (5x2 = 10mks)

1. Ways in which an efficient road transport system may promote trade within a country.
   * Goods will be transported easily to the market.
   * Buyers and sellers will be able to move from one market to another easily.
   * Goods will be transported from areas with excess supplies to areas with shortages / scarcity.
   * Many areas of trade would be opened.
   * Quick / fast deliveries would be ensured i.e. minimal delays.
   * The cost of transport would be lower hence better profits to processors.
   * It enables producers to specialize in what they can produce cheaply.
   * Prices would stabilize due to steady / continuous supply. (5x2 = 10mks)
2. (a) Flow of national income in a two-sector economy.

FIRMS 🗸

A C B D

HOUSEHOLDS 🗸

A – Households provide firms with factors of production.

B – Firms provide households with goods and services.

C – Firms provide households with income for factors of production.

D – Households provide firms with income after buying goods and services. (2x4 = 8mks)

Households (1mk)

Firms (1mk)

1. Differences between a fixed deposit account and a savings account.

|  |  |
| --- | --- |
| Fixed Deposit account | Savings account |
| * Money is not withdrawn before contract is over. * Larger amounts are needed to open. * Interest earned on it is higher. * Can be used as security for a bank overdraft. * For people with substantial amount of money. * Account is in force for a specified period of time. | * Money can be withdrawn at an agreed interval. * Smaller amounts required to open. * Interest is usually lower. * Cannot be used as security for a bank overdraft. * For small saves. * It is a running account as minimum balance is maintained. |

(5 x 2 = 10mks)