**565/2**

**BUSINESS STUDIES**

**PAPER 2**

July, 2024

**END OF TERM 2 EXAMINATION YEAR 2024**

**Kenya Certificate of Secondary Education (K.C.S.E)**

**Marking scheme**

***Marks awarding: 1 mark for the mention otherwise award 2 marks.***

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

1. Government support/favourable government policies/regulation that may encourage the emergence of the business ventures.
2. Training/education on entrepreneurship i.e. with relevant skills to start and run a business.
3. Entrepreneurial culture that encourage entrepreneurship.
4. Presence of role models who may inspire entrepreneurship and create interest in business ownership
5. Availability of capital for starting and expanding business.
6. Political stability that create conducive environment for starting and running a business.
7. Availability of market where they can sell their goods and services.
8. Good infrastructure that facilitates access to the market and movement of input to the firms.
9. Availability of security for safety of business property and owners..
10. Fair competition that the business can withstand.
11. Good governance that ensure transparency and accountability in conducting business activities.
12. Availability of technology leading to production of desired quality and quantity.

(5 x 2 = 10marks)

**(b) Factors that may have caused a decline in the demand for leather jackets include:**

1. Decline in consumer incomes. This may reduce their purchasing power hence less able to afford the leather jackets.
2. Fall in the price of substitutes. Jackets made from other materials like wool,polyester and cotton may be cheaper.
3. Increase in the price of leather. This makes the leather jackets to be out of reach for most consumers.
4. Government policy. The government may have increased rates on leather products hence making the jackets more expensive.
5. Unfavourable change in tastes and preferences. Consumers may be purchasing more woolen and cotton jackets.
6. Decline in population. A decrease in population will lead to reduced numbers of potential and actual customers.
7. Expectations of a future fall in price. Consumers may be anticipating a fall in price in the future hence currently suspend buying

(5 x 2 = 10marks)

**2. (a) Positive effects of inflation to the economy. (10marks)**

1. Debtors may pay less.

Debtors may end up paying less in real terms. This is because the debtors pay for the commodities in the future at old low prices and not at the prices which the commodities would be selling.

1. Sellers may earn more.

This is so because sellers buy the commodities when the prices are low and sell them later when the prices are high thereby making more profits.

1. Motivation to work

As prices of goods and services increase it tend to motivate people to work harder in order to earn more so as to maintain their living standards

1. Increased production.

As people work hard in order to maintain their standards of living they had before inflation they end up producing more goods and services.

1. Better use of available resources.

People tend to use the available resources in the most economical way in order to avoid wastage

(5 x 2 = 10marks)

**b) Causes of balance of payment disequilibrium.**

1. Fall in volume of exports which reduces export earnings leading to a deficit.
2. Deterioration in the country’s terms of trade. If the value of a country’s exports reduce relative to that of imports the country may experience disequilibrium in the balance of payments as her exports would be earning less compared to what is being paid for imports.
3. Increase in the volume of imports as exports remain constant.
4. Restriction by trading partners. Which reduce the ability of the country to export.
5. Less capital in flow compared to out flow which leads to deficit in capital account.
6. Over-valuation of domestic currency which discourages exportation while encouraging importation since exports becomes more expensive than imports.
7. Devaluation of currency by a trading partner which may encourages imports than exports.
8. (5 x 2 = 10marks)

**3. a) Benefits private LTD company get by changing to public Ltd Company.**

1. Ability to raise larger amount of capital by selling shares to the public through stock exchange market.
2. Easy transferability of shares without any restriction.
3. Increased transparency as shareholders must approve company’s annual audited accounts which are published.
4. Increased public confidence due to increased exposure to the public.
5. Freedom from interference by owners as owners has no direct managerial control over the activities of the company.
6. Increased professionalism since the company can afford professional managers to run the business.
7. Higher chances of continuity since shares can be transferred freely without affecting the business.
8. Can enjoy economies of scale due to increased scale of production.
9. The company can be quoted in the stock exchange market leading to sound management.
10. Can advertise sale of shares to the public in the media which attract new investors.
11. Enhanced ability to borrow funds by selling debentures.
12. Better management since it is run by competent board of directors/professionals. Any
13. (5 x 2 = 10marks)

b)

1. Invoice - is a document sent by the seller to the buyer demanding payment for goods supplied and shows details of goods sold.
2. Debit note \_ A document sent by the seller to the buyer to correct undercharge in the invoice or when empty containers have been returned.
3. Credit note – a document sent by the seller to the buyer to correct overcharge/when goods have been returned to the seller because of being defective.
4. Receipt - a document issued by the seller to the buyer when payment is made for the goods.
5. Statement of accounts – is a document sent by the seller to the buyer showing details of the transactions between the seller and the buyers for the month.

**No splitting (5 x 2 = 10marks)**

4. a)

XYZ limited

Trading, Profit and Loss Account

For the period ended 31/12/2013

Dr Cr

Sh. Sh.

Opening Stock 200,000✓ Sales 1,200,000✓

Add: Purchases 680,000✓ Less: return inwards 50,000 ✓

880,000 Net Sales 1,150,000✓

Add: Carriage in 42,000✓

922,000

Less: Returns out 80,000✓

C.O.G A.S 842,000✓

Loss: Closing Stock 80,000✓

C.O.G.S 762,000✓

GP C/D 388,000✓

1,150,000 1,150,000✓

Expense GP b/d 388,000✓

Discount All. 80,000✓ Disc received 45,000✓

Rent 50,000✓ Rent income 60,000✓

Carriage Out 30,000✓

NP c/d 333,000✓

493,000 493,000✓

20 x ½ = 10mks

**b) Sources of public finance.**

1. Taxation for goods and services produced in the country.
2. Rent/rate/hiring charges from government properties e.g. land and buildings.
3. Sale of Assets e.g. shares, building and vehicles.
4. Loans from development partners /world bank/IMF.
5. Dividends/profits from government investments.
6. License fees from operating business.
7. Royalties granted by country’s resources e.g. forests/ minerals/national parks.
8. Grants/donations/gifts given out by government agencies.
9. Fines/penalties imposed by courts/government agencies.
10. (5 x 2 = 10marks)

**5. a) Types of advertising techniques used in product promotion.**

1. Product advertising is meant to promote a particular brand of a product. Emphasizes on brand name
2. Institutional advertising; is meant to popularize the company or firm which manufactures a product
3. Primary demand advertising; emphasizes on a whole range of a product and not a particular brand
4. Celebrity advertising; uses famous person to encourage people to buy product.
5. Informative advertising; aims at giving general information to a customer about availability, quality and price of a particular product.
6. Competitive advertising; tries to convince the consumers that the product being advertised the best.
7. (5 x 2 = 10marks)

**b) Highlight four advantages of a bonded warehouse to the importer (10marks)**

* + 1. The importer can prepare goods while in the bonded warehouse through packing / branding / grading / blending
    2. The bonded ware house relieves the importer the costs of providing security / costs of security provided by the government
    3. The bonded warehouse allows the importer time to look for a buyer / customer / market while goods are still in the warehouse.
    4. The bonded warehouse allows the importer time to look for / raise funds to pay customs duties/ storage costs/ risks.
    5. Goods may improve in quality thus improving in prices / to the advantage of the importer e.g. wines / spirits / tobacco
    6. Relieves the importer worries of theft / leakage / storage risks

(5 x 2 = 10marks)

**6. a) Government initiated methods of consumer protection**

* 1. Kenya Bureau standards act

It ensures that producers meet the required quality standards when they are producing goods and services. They test the products before allowing them to be sold to consumers.

* 1. The Licensing Act

It ensures all the goods and business are legalized

* 1. Weights and Measures Act

They ensure goods are of correct weight and measures. They check and ensure correct weighing scales and measurement are used by traders. They confiscate goods of low weights from traders.

* 1. Food and drugs Act

It checks and ensures poisonous and dangerous substances are not included in the goods being sold

* 1. Public health Act

They check and ensure goods produced and places where they are sold are clean

* 1. Sale of goods Act

It ensures that false advertisements and descriptions of goods are not aired to customers.

* 1. Rent Control Act

Prohibits landlords from overcharging their tenants where rent is concerned.

(5 x 2 = 10marks)

b) **The following opening balances were extracted from the books of Masinga Traders on 1st May 2023**

Details sh

Furniture 56,000

Capital 80,000

Creditors 20,000

Debtors 25,000

Bank 11,000

Cash 8,000

The following transactions took place in the course of the month:

- Paid a creditor sh 4,500 in cash

- Took sh 3,000 from the bank for family use

- Bought stock sh 18,600 on credit

- Acquired a 10 year bank loan sh 165,000 which was credited to the business bank account

- Purchased land worth sh 82,000 paying by cheque

- Converted a family table worth sh 55000 to business use

- Received sh 7,300 in cash from debtor.

**Required: Prepare Masinga Traders Balance sheet at the end May 2023. (10 marks)**

Furniture 56000 + 5500 = 61500

Capital 80000 – 3000 + 5500 = 82500

Creditors 20000 – 4500 + 18600 = 34,100

Bank 11000 – 3000 + 165000 – 82000 = 91,000

Cash 8000 – 4500 + 7300 = 10800

Stock 18600

Loan 165000

Land 82000

MASINGA TRADERS

BALANCE SHEET ✓

AS AT 31ST MAY 2023

FIXED ASSETS Capital 82500 ✓

Furniture 61500 ✓

Land 82000 ✓ 143500 L.T.L

Loan 165,000 ✓

CURRENT ASSETS

Debtors 17700 ✓ S.T.L

Bank 91000 ✓ Creditors 34,100 ✓

Cash 10800 ✓

Stock 18600 ✓ 29400

281600 281600

10 x 1 = 10 marks