**MARKING SCHEME**

**565/2**

**BUSINESS STUDIES END TERM 1**

**Paper 2**

1 (a) **Canons of government expenditure**

* **Maximum social benefit:** should aim at benefiting all persons/majority in the society.
* **Economy:** should avoid wasteful expenditure.
* **Equity:** should aim at reducing income/wealth inequalities in the society.
* **Sanction: proper** authorization must be secured before public projects are undertaken/expenditure is incurred.
* **Elasticity/flexibility :**so as to cope with changing times/accommodate any changes
* **Productivity:** a major proportion should be spent on development projects in order to increase production in a country.
* **Good financial management:** proper records should be kept/there should be transparency in spending public funds. **(1x 10marks)**

(b) **Reasons for marketing products direct to consumers**

* It may be that the goods are produced according to customer specifications
* The firm may be having their own retail outlets/distribution facilities.
* The market may be localised[in terms of geographical location]
* The goods may be expensive and middlemen may not be able to stock them.
* The goods may be of technical nature/require after-sales service.
* The goods may be perishable[and the firm may want to deliver them fast to the customers]
* The firm may want to have direct contact with customer/get immediate feedback.
* Where government policy requires goods to be sold directly to consumers
* If there are no middlemen.
* Where customers order for goods directly from the trader/firm
* Where goods imported are in small quantities
* Where the firm will maximise profits by selling directly to consumers
* Where there is stiff competition. **(1x 10marks)**

2(a) **Features of direct production**

* Goods/services are produced for **own consumption**/use and therefore not meant for sale
* Make use of **rudimentary/simple technology** hence goods are produced in small quantities.
* It involves **little division of labour/ specialisation** in production which leads to fatigue.
* Goods produced are of **low quality** goods due to **use of simple** **technology**
* **Volume of production** is very **small** due to use of little mechanisation.
* Promotes **individualism** due to less interdependence among producers.
* Limited **variety of goods/services** thus denying consumers choice
* Poor **time management/ waste of time** as producers switch from one activity to another. **(1x 8marks)**

2(b**) Sales Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date  2010 | Details  (debtors) | Invoice issued | Folio | Amount  Shs |
| 9/06/10 | Sargar traders  Total posted to sales a/c (cr.)in G.L | 78 | S.L | 500,000  500,000 |

**Sales Returns Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date  2010 | Details  (debtors) | Credit note issued | Folio | Amount  Shs |
| 7/06/10 | Ouma traders  Total posted to sales returns a/c (dr.)in G.L | 56 | S.L | 5,000  5,000 |

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Details | DR (shs) | CR (shs) |
| 5/7/10 | Office printer A/c  Seals Stationery A/c  Being purchase of an office printer from seal stationery on credit | 200,000  20,000 | 200,000  20,000 |

Cash Book

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Cash  Sh | Bank  sh | Date  2010 | Details | Folio | Cash  sh | Bank  Sh |
| 11/6 | Sales | G.L | 900,OOO |  | 13/6 | Salaries | N.L |  | 50,000 |

**GENERAL LEDGER**

Sales A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
|  |  |  |  | 15/6 | Total debtors | G.L | 500,000 |

Sales Returns A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
| 7/6 | Total returns | G.L | 5,000 |  |  |  |  |

Office Printer A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
| 7/6 | Seals Stationary | G.J | 200,000 |  |  |  |  |

Cash A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
| 11/6 | Cash receipts Journal | G.L | 900,000 |  |  |  |  |

Bank A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
|  |  |  |  | 11/6 | Cash payments Journal | G.L | 50,000 |

**SALES LEDGER**

SARGAR TRADERS A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
| 15/6 | Credit sales | S.L | 500,000 |  |  |  |  |

OUMA TRADERS A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
|  |  |  |  | 7/6 | Sales returns | S.L | 5,000 |

**PURCHASES LEDGER**

Seal Stationary A/C

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date  2010 | Details | Folio | Amount  Shs. | Date  2010 | Details | Folio | Amount  Shs. |
|  |  |  |  | 5/6 | Office printer | P.L | 200,000 |

**(1x 12marks)**

**3(a)** **Procedure for personal selling**

**(a) Preparing to meet the customer**

This activity involves making a good impression on the potential customer.

**(b)** **Locating the potential customer**:

The activity involves going out to look for customer.

**(c) Opening the sale:**

This involves holding face to face discussions with the potential customer the products to the potential customer.

**(d) Presenting the products:**

In this step, the sales person displays the products to the customer

**(e) Dealing with objectives**:

Objectives properly, tactfully and effectively in order to complete the successfully.

**(f)** **Closing the sale:**

In this step the sales person asks the buyer for an order, therefore the sales person should narrow down to the customer’s choice of preferred products**. (1x 10marks)**

**3(b) diagrams on the difference between a movement and a shift in the demand curve**

**Movement along the demand curve**

√Price D

√P3 c√

√P1 √a √

√

√ P2 b√

√

√ D √

√Q3 √Q1  √ Q2 √ QTY

Quantity Demanded

**(16 ticks /4= 4marks)**

When price increases from P1 to P3 it causes an upward movement on the demand curve from a to c which is a contraction of the demand resulting to a decrease in the demand from Q1 to Q3.√ When price decreases from P1 to P2 it causes a downward movement on the demand curve from a to b which is an expansion of the demand curve resulting to an increase in demand from Q1 to Q2. √

**(2 ticks /2 = 1mark)**

**Shift of the demand curve**

**√** PriceD2√

D1 √

D3√

P

D2

D1

D3 Qty.√

√ Q3 √ Q1 √ Q2

8 ticks /2 = 4mks

When price is held constant and all the other factors change positively the demand curve will shift to the right D2D2 and quantity demanded increases to Q2 √ and when all the other factors change negatively the demand curve will shift to the left D3D3 and the quantity demanded decreases to Q2 √.

**(2 ticks /2 =1mark**.)

**Differences between a movement along a demand curve and a shift of the demand curve**

|  |  |
| --- | --- |
| **Movement along the demand curve** | **Shift of a demand curve** |
| It involves only one demand curve | It involves two demand curves |
| It is brought about by a change in price of the product | Brought about by a change in other factors that influence demand other than the price of the product |
| It involves a change in the quantity demanded | It involves a change in demand |
| A different quantity is demanded only at a different price | A different quantity is demanded at the same price as before |
| It can be traced up or down along the same curve | A shift causes the curve to move either to the right or the left |

**(Any 1x 4marks)**

4(a**) Limitations of a trial balance as a tool of locating bookkeeping errors**

**Error of omission:** no record or entry of a transaction is made in any of the ledger accounts

**Error of commission:** a transaction is recorded in the wrong account but the same class where the entry should have been made eg a sale of good on credit to Anne’s account is debited to Anna’s account.

**Error of principle:** where a transaction is recorded in the wrong account of a different class from the correct account in which the entry should have been recorded eg purchase of furniture is debited to purchases account instead of furniture account

**Error of compensation/compensating Error:** the effect of this error is such that it cancels out each other. Where two errors of equal amounts, but on opposite sides of the account cancel out each other.

**Complete reversal of entries:** this occurs when the account to be originally debited is credited while one that was to be originally credited is debited.eg payment of salaries by cash is debited to cash account and credited to salaries account.

**Error of original entry:** when an item is entered but both the debit and credit entries are of the same incorrect amount**. (1x 10marks)**

4(b**) factors that could hasten economic development in Kenya**

* Presence of strong entrepreneurial culture
* Industrialisation
* Infrastructure/social amenities.
* Research and development/planning
* Education and training
* Use of modern technology/capital.
* Good medical facilities.
* Good governance/government goodwill
* Economic endowments/natural resources**. (1x 10marks)**

5(a**) Differences between a public warehouse and a private warehouse**

|  |  |
| --- | --- |
| Public warehouse | Private warehouse |
| Could be owned by business people who operate warehouses as a business | Owned by manufacturers/retailers |
| Usually mainly found in towns, port area or terminals | Usually located at traders/manufacturers’ premises |
| Used by members of the public who intends to rent it for storage of goods | Used by owners only |
| Usually bigger in size in order to meet the needs of many prospective public users | Usually in small size since it is for owner’s use only |
| More documentation involved when handling the goods | Less documentation is needed in handling the goods |
| Goods must be insured while in this warehouse | Insurance of goods is not a must. |

**(1x 10marks)**

5(b**)**

 (**1x 10marks)**

6. **a) Explain six measures that the government of Kenya may take to control her persistent Balance of**

**payment deficit (12mks)**

1. Increase the volume of export i.e. by giving incentives to traders so that they can produce more output.

ii) Reduce the level of imports i.e. by using restrictive measures such as import total ban etc.

1. By diversifying the rate of export of the country so that when some fail others can still sell in the world

market.

iv) Through Devaluation of the country’s currency – this makes the export cheaper and hence more competitive

in the market.

v) By negotiating for foreign debt reduction- which will off load the debt burden.

vi) By adding value to the export e.g processing of primary products so as to fetch better prices when exported.

(***Any six well explained points @2 =12marks)***

b) **Outline four differences between endowment policy and whole life policy.**

|  |  |  |
| --- | --- | --- |
| Endowment policy |  | Whole life policy |
| i) Benefits go to the insured unless death occurs | i) | Benefits goes to the beneficiaries. |
| ii) Focuses on financial security of insured and  beneficiaries. | ii) | Aims at financial stability of beneficiaries |
| iii) premiums paid only for the agreed period | iii) | Premium paid throughout one’s life time |
| iv) Compensation paid after the risk or expiry of  period | iv) | Compensation paid only after death of insured |
| v) Can be used as collateral for loan | v) | Cannot be used as collateral for loans |

(***Any four clear differences @2=8mks)***