

## FORM FOUR BUSINESS STUDIES

### END TERM ONE

565/2

### PAPER 2 ( marking scheme)

1. (a) Highlight five characteristics of an efficient tax system. (10mks)
- (i) ***Equity*** — ***the tax should be fair / just / people should be taxed according to their level of income.***
  - (ii) ***Economical*** — ***it should be cheap / easy to administer / cost effective / cost of collection should be relatively lower than tax revenue.***
  - (iii) ***Convenient*** / ***method of payment / collection should be convenient to the tax payer*** — ***it should be suited / favourable to the needs / activities / programmes of the tax payer.***
  - (iv) ***Certainty*** — ***tax payer / collectors should know what / when / how to pay / collect.***
  - (v) ***Flexibility*** – ***(Where a tax is used as an instrument of national policy) it should be adaptable to all (economic) circumstances/conditions / subject to revision.***
  - (vi) ***Simplicity*** — ***It should be easily understood/administered.***
  - (vii) ***Elasticity*** - ***Proceeds from taxation should be capable of expanding /contracting with changes in income/population.***
  - (viii) ***Diversity /wide base*** there should be a (wide) variety/range of taxes/ not many tax payers.
  - (ix) ***Difficult to evade*** — ***it should not create a loophole for people to escape / dodge.***
  - (x) ***should regulate the economy*** — ***by encouraging production/proper allocation of resources.***
  - (xi) ***Should have (maximum) benefits to taxpayers through provision of quality goods / services /to encourage them to pay.***  
***(any five with explanation = 10mks)***

(b) Differentiate between a public limited company and a public corporation. (10mks)

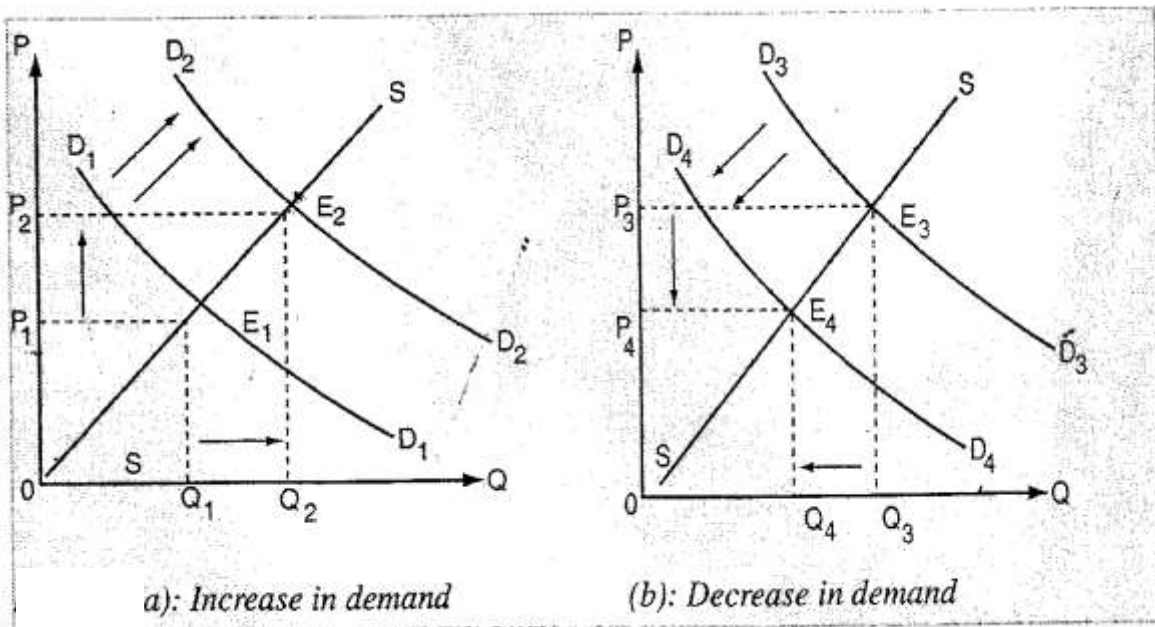
<b>Public Corporation</b>	<b>Public Ltd Company</b>
<b>(a) Formed by shareholders</b>	<b>(a) Formed by the government.</b>
<b>(b) Formed through registration under the company's act.</b>	<b>(b) Formed by an act of parliament.</b>
<b>(c) Profit motivated</b>	<b>(c) Not necessarily profit motivated.</b>
<b>(d) Financed by the shareholder</b>	<b>(d) Initially financed by the government.</b>
<b>(e) Directors are nominated or elected by shareholder.</b>	<b>(e) Directors are nominated/appointed by the government.</b>
<b>(f) No political influence except the enacted laws.</b>	<b>(f) Political influence is eminent due to political appointments by the government.</b>
<b>(g) Losses may eventually lead to collapse of business/ borne by shareholders.</b>	<b>(g) Losses occasionally borne by the government.</b>

**(five tallying differences = 10 marks)**

2. (a) Explain clearly the malpractices by traders against which consumers may need protection by the government. (10mks)
- **Selling of underweight goods – some traders may sell product that are not of the right quantity and size by tampering with the weighing scales.**
  - **Overcharging of goods – some traders may charge exorbitant prices to customers who are unaware of the actual prices of goods.**
  - **sale of harmful commodities which could adversely affect their health**

- **Giving false information about a product since consumers are sometimes very ignorant producers may take advantage and persuade them through adverts.**
  - **Hoarding of commodities by traders – producers and businessmen may create artificial shortages.**
  - **Selling of counterfeit or goods to the consumers – some traders might produce goods of low quality or use substandard ingredients in production of goods.**
  - **Breach of contract – producers and traders may fail to honour contracts entered into with consumers in regard to sales of commodities.**
- (any five with explanation = 10mks)**

(b) Explain clearly with the aid of a diagram the change in equilibrium as a result of a change in demand of a commodity. (10mks)



**(a)(3marks)**

**(b) (3 marks)**

From the above diagram, demand increased from  $D_1D_1$  to  $D_2D_2$  with the effect that the equilibrium price and quantity changed from  $P_1$  to  $P_2$  and  $Q_1$  to  $Q_2$  respectively. This change increased the equilibrium point from  $E_1$  to  $E_2$ . On the other hand, a decrease in demand will result into a decrease in the equilibrium price and also the equilibrium quantity as illustrated below. In the diagram, a reduction in demand from  $D_3D_3$  to  $D_4D_4$  changed the equilibrium price and quantity from  $P_3$  to  $P_4$  and  $Q_3$  to  $Q_4$  respectively. The point of equilibrium hence shifted from  $E_3$  to  $E_4$ .

**Explanation (4mks)**

3. (a) Discuss five benefits that a customer may get by using Automated Teller Machine (ATM) for financial transactions. (8 marks)
- (i) ***Customer can withdraw money at any time/24 hours/7 days/a week.***
  - (ii) ***Means of payment. Customer can pay utility bills/buy goods/service (through the ATMs)/ Accept examples of payment of bills as explanation.***
  - (iii) ***fees charged (for withdrawal) is low compared to over the counter/ services/withdrawals hence saving on cost.***
  - (iv) ***Strategic locations — ATMs can be found even where banks are nonexistent/ accept examples of strategic locations as an explanation.***
  - (v) ***security - The customer has a PIN number which guarantees confidentiality/safer to carry card than cash.***
  - (vi) ***Getting mini statement — Customer can use it to monitor his transactions with the bank (by getting mini statement).***
  - (vii) ***customers can deposit money/cheque at any time/24 hours/7 days.***
  - (viii) ***Saves time/faster service due to less paper work/avoidance of long queues in the bank/queues may be shorter at ATMs.***
  - (ix) ***Use of visa cards to make inter-bank withdrawals.***
  - (ix) ***probability as it is light to carry ATM card around.***
  - (xi) ***access to credit through the use of credit cards.***
  - (xii) ***simple/easy to operate/use as the user is guided by the machine.***
  - (xiii) ***transaction receipts to show current balance/amount withdrawn/for record keeping/ reveal errors.***
  - (xiv) ***Accessibility/unlimited use since it operate throughout the day/24 hours/7 days/a week.***
  - (xv) ***Funds transfer—facilitates movement of funds/cash from one account to another.***

**(any four with explanation = 8 marks)**

(b) The following trial balance related to Kimani's business as at 31<sup>st</sup> December 2012

	DR(SHS)	CR(SHS)
Stock on 1 <sup>st</sup> January 2003	60,000	
Purchases and sales	400,000	580,000
Returns	20,000	50,000
Debtors and Creditors	65,000	
Premises	540,000	
Machinery	200,000	
Fixtures and fittings	100,000	
Carriage outwards	8,000	
Wages and salaries	30,000	
Discounts	25,000	32,000
Commissions	16,000	14,000
Cash in hand	70,000	
Capital		818,000
	<u>1,535,000</u>	<u>1,534,000</u>

REQUIRED:

Prepare a trading profit and loss account for the period ended 31<sup>st</sup> December 2012 and a balance sheet as at that date if the closing stock was worth shs 70,000 (12 mks)

***Kimani's  
Trading and profit and loss account,  
for the period ended 31st Dec 2012***

Dr	Shs	Cr	Shs
Opening stock	60,000 ✓	Sales	580,000 ✓
<i>Add:</i> Purchases	400,000 ✓	<i>Less:</i> Returns inwards	20,000 ✓
<i>Less:</i> Returns outwards	<u>50,000 ✓</u> 350,000 ✓		<u>560,000 ✓</u>
Cost of goods available for sale	410,000 ✓		
<i>Less:</i> Closing stock	<u>70,000 ✓</u>		
Cost of goods sold	340,000 ✓		
Gross Profit c/d	<u>220,000 ✓</u>		
	<u>560,000 ✓</u>	Gross profit b/d	<u>560,000 ✓</u>
Carriage outwards	8,000 ✓		<u>220,000 ✓</u>
Wages and salaries	30,000 ✓	Discounts received	32,000 ✓
Discounts allowed	25,000 ✓	Commissions received	14,000 ✓
Commissions allowed	16,000 ✓		
Net profit c/d	187,000 ✓		
	<u>266,000 ✓</u>		<u>266,000 ✓</u>
		Net profit b/d	<u>187,000 ✓</u>

(24 x =8 marks)

**Kimani's  
Balance sheet  
as at 31<sup>st</sup> December**

	Shs		Shs
Premises	540,000 ✓	Capital	818,000 ✓
Machinery	200,000 ✓	<i>Add:</i> Net profit	187,000 ✓
Fixtures and fittings	100,000 ✓		<u>1,005,000 ✓</u>
Stock	70,000 ✓	Creditors	40,000 ✓
Debtors	65,000 ✓		
Cash	70,000 ✓		
	<u>1,045,000 ✓</u>		<u>1,045,000 ✓</u>

**(12 x= 8 Marks)**

4. (a) Explain clearly the problems associated with expenditure approach method in measurement of national incomes. (10mks)
- **No accurate records for expenditure are kept especially in the private sector.**
  - **Expenditure for the subsistence sector can only be mere approximations are due to lack of records in the sector**
  - **Differentiating between final expenditure and intermediate expenditure may be difficult.**
  - **It suffers the problem of double counting**
  - **Fluctuating exchange rates may pose challenges especially in valuation of exports and imports.**

**(any 5 with explanations 5x2 =10 marks)**

- (b) Outline five reasons why an ethical practice is necessary in product promotion. (10mks)
- **To safeguard consumers against misleading advertisement.**
  - **To curb environmentally degradation**
  - **To ensure compliance with existing government legislation.**
  - **To curb environmental; degradation since some promotional activities may have adverse effects on the environment.**
  - **To safeguard cultural practices sometimes product promotion encourages use of foreign products and styles that conflict with the culture of various communities in the country.**
  - **To safeguard competitors in the market by controlling unhealthy competition.**
  - **To encourage selling of quality goods including stating correct ingredients.**

**(any 5 with explanations 5x2 =10 marks)**

5. (a) Jane, a petty cashier was given Sh ,2000 on 1<sup>st</sup> June 2005. During the month, she made the following payments:

2005

- June 2 Stationery Sh 100, staff tea Sh 80.  
5 Telephone bill Sh 50, postage stamps Sh 100.  
8 Travelling Sh 200, telephone Sh 100.  
10 Stationery Sh 50, staff tea Sh 100.  
15 Postage stamps Sh 50, travelling Sh 100.  
20 Sundry expenses Sh 100.  
23 Stationery Sh 80, telephone Sh 40.

25 Travelling Sh 50, sundry expenses Sh 100.

28 Envelopes Sh 20, staff tea Sh 50.

30 Adhiambo, a creditor, was paid Sh 100.

Use the following analysis columns to prepare a petty cash book:

Stationery, Staff tea, Travelling. Telephone, Sundry expenses. Ledger accounts.

### The Petty Cash Book

Receipts	L.T	Date	Details	Vouch	Total	Stat	Post	S. tea	Travel	Tel.	Sundry Expenses	L.F	L. a/cs
Sh				No.	Shs	Shs	Shs	Shs	Shs	Shs	Shs		Shs
2,000	C.B.	20-5 June 1	Cash										
		" 2	Stationery	1	100	100		80					
		" 2	Staff tea	2	80								
		" 5	Telephone	3	50					50			
		" 5	Postage stamps	4	200		200						
		" 8	Travelling	5	200				200				
		" 8	Telephone	6	100					100			
		" 10	Stationery	7	50	50							
		" 10	Staff tea	8	100			100					
		" 15	Postage stamps	9	50		50						
		" 15	Travelling	10	100				100				
		" 20	Sundry expenses	11	100						100		
		" 23	Stationery	12	80	80							
		" 23	Telephone	13	40					40			
		" 25	Travelling		50				50				
		" 25	Sundry expenses	14	100						100		
		" 28	Envelopes	16	20	20							
		" 28	Staff tea	17	50			50					
		" 30	Adhiambo	18	100							P.L	100
					1,570	250	250	230	350	190	200		100
		" 30	Balance c/d		430								
2,000					2,000								
430		" 30	Balance b/d										
1,570		" 30	Cash										

For any correct entry  $36 \times \frac{1}{4} = 9$  marks

All correct totals 2 marks

Balance b/d 1 mark



Total 12 Marks+

(b) Explain four demerits that a country may suffer when the government becomes a major investor in business. (8mks)

- (i) Some of the managerial posts in government-run businesses are filled by political appointees who are kept in such positions even when they are performing very poorly.**
- (ii) Government involvement in business may scare away investors who would have rendered the same service in a more efficient manner.**
- (iii) Some state-run organizations continuously make losses thereby failing to sustain themselves. This may force the government to finance them with tax payers' money.**
- (iv) Most government projects are expensive enterprises which require heavy investment in terms of personnel training and equipment.**
- (v) Corruption and embezzlement of funds are rampant in government enterprises because of poor controls.**

(any 4 with explanations 4x2 = 8 marks)

6. (a) Explain the role played by insurance industry in promoting the development of Kenyan economy. (10 mks)

- **Employment creation insurance companies provided employment opportunities either directly or indirectly to individuals who would otherwise be unemployed.**
- **Insurance companies create confidence for the investors who are able to invest in risky but profitable areas in that they are assured of compensation in case of a loss.**
- **Insurance companies provide revenue for the government through profits realized and salaries for the employees when taxed.**
- **The business is continuous even with the occurrence of the risk because the insured is compensated. Thus business people convenue even in risky ventures.**
- **The amount contributed in the insurance company can be used as a security for a loan**
- **Some policies in life insurance encourages savings. The amount contribute is owners savings. This money can be invested later once the policies matures.**

(any 5 with explanations 5x2 =10 marks)

- (b) Explain clearly the tools of monetary policy unused by the central bank to control inflation.  
(10mks)

***Tools of monetary policy that may be used by government to reduce excess money in circulation include:-***

- (a) Open market operations — to sell government securities through the central bank.***
- (b) Bank rate — raising interest rate on loans to banks.***
- (c) Cash / Liquidity ratio can be raised for commercial banks.***
- (d) Directives — can be given to commercial banks to reduce money in supply.***
- (e) Raising margins requirement — raise the value of assets required as security for loans.***
- (f) Selective credit control — freeze lending to some sectors of the economy.***
- (g) Moral persuasion to reduce money supply.***
- (h) Increase compulsory deposits required.***

(any 5 with explanations 5x2 =10 marks)