

**5.5.2 Business Studies (565/2)**

1. (a) **Services that may be offered by wholesalers to the retailers include:**
- (i) Availing a variety of goods from different producers relieving the retailers of the burden of visiting the producers' premises.
  - (ii) They break bulk into quantities desired by retailers. The retailers are able to purchase only in the quantities they can afford.
  - (iii) They offer storage services. This relieves the retailer from the risks of damage and cost of storage of goods.
  - (iv) They provide credit facilities to deserving retailers which act as a source of capital to them.
  - (v) They advertise goods to the benefit of retailers who obtain a ready market.
  - (vi) They offer transport to the retailers relieving them of transportation costs and the hustle of looking for means of transport.
  - (vii) They inform retailers on available offers for certain commodities. This may help retailers improve on their profit margins.
  - (viii) Prepare goods for final sale to the benefit of the retailers by sorting, blending, packing, weighing etc.
- (Any 5 x 2 = 10 marks)

(b)

NO	SOLE PROPRIETORSHIP	NO	PUBLIC Ltd COMPANY
i	Formed by one person.	i	Formed by a minimum of seven promoters.
ii	Proprietor has unlimited liability.	ii	Shareholders have limited liability.
iii	Existence depends on the life of sole trader.	iii	Has perpetual life irrespective of life or death of shareholders.
iv	Main source of capital is personal savings.	iv	Main source of capital is sale of shares.
v	Managed by the sole trader.	v	Managed by a board of directors.
vi	Few legal formalities required in formation.	vi	Formation procedure is long requiring many legal formalities.
vii	Require little capital to start.	vii	Require a huge amount of capital to start.
viii	Quick/fast decision making process.	viii	Slow decision making process since directors and shareholders must be consulted.
ix	Maximum ownership is one person	ix	No maximum number of owners

Any 5 x 2 = 10 marks

2. (a)	<p><b>Negative implications of a young population include:</b></p> <p>(i) There is high dependency ratio since the working population is small.</p> <p>(ii) It leads to unemployment since existing job opportunities do not match the demand.</p> <p>(iii) Leads to low labour supply since they may not have attained the working age or the required skills.</p> <p>(iv) It diverts government resources to cater for consumption of goods for the youth hence hindering implementation of other development projects.</p> <p>(v) It creates pressure on social amenities e.g. schools hospitals, recreation centres.</p> <p>(vi) Increased rural –urban migration leading to the development of slums.</p> <p>(vii) Possible political instability due to inability to control and maintain the growing population.</p> <p>(viii) There is low saving and investment due to high expenditure on consumption.</p> <p>(ix) There is low investment leading to low production of goods and services.</p> <p>(x) Low per capita income due to high dependency ratio.</p> <p style="text-align: right;"><b>(Any 5 x 2 =10 marks)</b></p>																																																																	
b (i)	<p style="text-align: center;"><b>Rakwaro Enterprises</b> <b>Trading, Profit and loss Account</b> <b>For the period ending 31/12/2015</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 10%; text-align: center;">Shs</th> <th style="width: 10%; text-align: center;">Shs</th> <th style="width: 10%;"></th> <th style="width: 10%; text-align: center;">Shs</th> </tr> </thead> <tbody> <tr> <td>Opening stock</td> <td></td> <td style="text-align: right;">160,000</td> <td>Sales</td> <td style="text-align: right;">1,440,000</td> </tr> <tr> <td>Add: Purchases</td> <td style="text-align: right;">960,000</td> <td></td> <td>Less: Returns in</td> <td style="text-align: right;"><u>16,000</u></td> </tr> <tr> <td style="padding-left: 20px;">Carriage in</td> <td style="text-align: right;"><u>6,800</u></td> <td style="text-align: right;"><u>966,800</u></td> <td>Net Sales</td> <td style="text-align: right;">1,424,000</td> </tr> <tr> <td>Cost of goods for sale</td> <td></td> <td style="text-align: right;">1,126,800</td> <td></td> <td></td> </tr> <tr> <td>Less: Closing stock</td> <td></td> <td style="text-align: right;"><u>280,400</u></td> <td></td> <td></td> </tr> <tr> <td>COGS</td> <td></td> <td style="text-align: right;">846,400</td> <td></td> <td></td> </tr> <tr> <td>Gross Profit c/d</td> <td></td> <td style="text-align: right;"><u>577,600</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>1,424,000</u></td> <td></td> <td style="text-align: right;"><u>1,424,000</u></td> </tr> <tr> <td>Discount allowed</td> <td></td> <td style="text-align: right;">40,400</td> <td>G.P b/d</td> <td style="text-align: right;">577,600</td> </tr> <tr> <td>Salaries and wages</td> <td></td> <td style="text-align: right;">200,000</td> <td></td> <td></td> </tr> <tr> <td>Net profit</td> <td></td> <td style="text-align: right;"><u>337,200</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>577,600</u></td> <td></td> <td></td> </tr> </tbody> </table> <p style="text-align: right;"><b>(15 x ½ = 7½ marks)</b></p>		Shs	Shs		Shs	Opening stock		160,000	Sales	1,440,000	Add: Purchases	960,000		Less: Returns in	<u>16,000</u>	Carriage in	<u>6,800</u>	<u>966,800</u>	Net Sales	1,424,000	Cost of goods for sale		1,126,800			Less: Closing stock		<u>280,400</u>			COGS		846,400			Gross Profit c/d		<u>577,600</u>					<u>1,424,000</u>		<u>1,424,000</u>	Discount allowed		40,400	G.P b/d	577,600	Salaries and wages		200,000			Net profit		<u>337,200</u>					<u>577,600</u>		
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(ii)	<p><b>Initial capital = Final Capital – NP + D</b></p> <p style="padding-left: 40px;">= 720,000 – 337,200 +28,000</p> <p style="padding-left: 40px;">= <u>410,800</u></p> <p style="text-align: right;"><b>(5 x ½ = 2 ½marks)</b></p>																																																																	

3. (a)	<p><b>Demerits pipeline as a means of transport include:-</b></p> <ul style="list-style-type: none"> <li>(i) Require heavy initial capital outlay. It is expensive and difficult to lay pipes through mountainous and rugged terrain.</li> <li>(ii) Has limited alternative uses. Can only be used to transport fluids.</li> <li>(iii) It is prone to sabotage during war or acts of terrorism. It can easily be interfered with by malicious people.</li> <li>(iv) Leakage in remote areas may remain undetected for long. This may lead to enormous loss and a serious environmental pollution.</li> <li>(v) It is not flexible. Once laid, it cannot be changed and can also not deliver goods to the door steps of the customer.</li> <li>(vi) Different oil products cannot be transported at a go. It can only transport one product at a time to avoid contamination or loss of quality.</li> <li>(vii) Difficult and expensive to monitor since it covers long distances and sometimes passing through remote places requiring expensive equipment to monitor,</li> <li>(viii) Unsuitable for small volumes since it will be uneconomical.</li> </ul> <p style="text-align: right;"><b>(Any 5 x 2 = 10 marks)</b></p>
(b)	<p><b>Measures that can be taken to increase the volume of exports include:</b></p> <ul style="list-style-type: none"> <li>(i) Through export compensation scheme where exporters are allowed to claim a certain percentage of the value of their exports.</li> <li>(ii) Diversifying foreign markets to expand the market for exports. This increases the selling opportunities for local products in other countries.</li> <li>(iii) Lobbying for removal of trade restrictions imposed by trading partners on the country's exports. This makes it easy to sell local goods in foreign markets.</li> <li>(iv) Devaluation of a country's currency which makes its exports cheaper hence more attractive to foreign buyers.</li> <li>(v) Encourage foreign investments in the country e.g. EPZ's. This ensures production of quality goods that meet specifications of foreign countries.</li> <li>(vi) Reduction of bureaucracy in acquisition of export licenses. This makes it easy and attractive to engage in foreign trade.</li> <li>(vii) Subsidizing export oriented businesses. This increases the profit margin for exporters making the trade more attractive.</li> <li>(viii) Use of commercial attaches to promote the country's products abroad. Aggressive promotion of the country's exports leads to increased sales in those countries.</li> <li>(ix) Customs draw back where part of import duty paid on imported raw material is refunded if used to produce goods for export.</li> <li>(x) Lower tax/duty on exports to enable them be sold at lower prices that attract foreign buyers.</li> </ul> <p style="text-align: right;"><b>(Any 5 x 2 =10 marks)</b></p>

4. (a)	<p>Gross profit = sales - cost of sales          = 50,000 - 40,000          = Ksh. 10,000</p>
(i)	<p>Mark up = <math>\frac{\text{gross profit}}{\text{cost of sales}} \times 100\%</math>  <math>= \frac{10,000}{40,000} \times 100\%</math>  <math>= 25\%</math> <span style="float: right;">(4 x 1/2 = 2 marks)</span></p>
(ii)	<p>Margin = <math>\frac{\text{gross profit}}{\text{net sales}} \times 100\%</math>  <math>= \frac{10,000}{50,000} \times 100\%</math>  <math>= 20\%</math> <span style="float: right;">(4 x 1/2 = 2 marks)</span></p>
(iii)	<p>total expenses = <math>\frac{5}{100}</math> of 50,000  <math>= \text{Ksh. } 2,500</math></p>
(iv)	<p>Net profit = Gross profit - expenses  <math>= 10,000 - 2,500</math>  <math>= \text{Ksh. } 7,500</math> <span style="float: right;">(4 x 1/2 = 2 marks)</span></p>
(v)	<p>Rate of stock turnover = <math>\frac{\text{cost of sales}}{\text{average stock}}</math>  <math>= \frac{40,000}{20,000}</math>  <math>= 2 \text{ times}</math> <span style="float: right;">(4 x 1/2 = 2 marks)</span></p>

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(b)	<p><b>Benefits of a business to the society include:</b></p> <ul style="list-style-type: none"> <li>(i) Provides goods and services required for the satisfaction of the needs of members of the society.</li> <li>(ii) Exploits available resources in the society. Such resources would otherwise remain idle.</li> <li>(iii) Creates employment which enable people to earn income. This enables members of the society to afford their day-to-day needs.</li> <li>(iv) Avails variety of commodities which enables people to have high/improved living standards.</li> <li>(v) It leads to improvement in infrastructure e.g. roads. The infrastructure is required to facilitate trading activities.</li> <li>(vi) It attracts other auxiliary firms e.g. banks, insurance, colleges to the benefit of the society.</li> <li>(vii) Leads to development of better technology and new ideas for quality production. This leads to better quality goods and services being produced and consumed in the society.</li> <li>(viii) Encourages development of social facilities which improve welfare</li> <li>(ix) Earns the government revenue through taxation in order to provide public goods.</li> <li>(x) Helps save on foreign exchange through local production of goods previously imported.</li> <li>(xi) Enhances specialization leading to quality products and services.</li> </ul> <p style="text-align: right;"><b>(Any 5 x 2 = 10 marks)</b></p>
5. (a)	<p><b>Advantages of locating firms in different parts of the country include</b></p> <ul style="list-style-type: none"> <li>(i) Curbs rural to urban migration. This eases pressure on social amenities which tend to be found in areas with a concentration of many firms.</li> <li>(ii) Creates employment to rural dwellers enabling them to earn an income. Employment opportunities become available in various parts of the country leading to a fair distribution of income across different regions.</li> <li>(iii) It avails a variety of goods which enhance consumer choice/living standards. A variety of goods and services become available to the population in all parts of the country.</li> <li>(iv) Promotes even distribution of infrastructural development across the country. This is required to facilitate the operations of the firms in the different parts of the country.</li> <li>(v) It leads to transfer of new technology and skills for better utilization of resources across the country.</li> <li>(vi) Leads to development of social amenities e.g. schools, hospitals, security etc in various parts of the country.</li> <li>(vii) Attracts auxiliary services e.g. banks, insurance in different parts of the country.</li> <li>(viii) Provides market for raw materials found in various parts of the country. This broadens the income sources for locals in every part of the country.</li> <li>(ix) Reduce disparities in income distribution since people in all parts of the country are engaged in income generating activities.</li> <li>(x) Balanced regional development that open up marginalized areas.</li> <li>(xi) Promotes growth of urban centres that encourage market economies.</li> </ul> <p style="text-align: right;"><b>(Any 5 x 2 =10 marks)</b></p>

<p>(b)</p>	<p><b>Government initiated methods of consumer protection include:-</b></p> <ul style="list-style-type: none"> <li>(i) Setting standards/KEBS to ensure that goods and services are of required quality and specifications.</li> <li>(ii) Weights and measures Act. This ensures that the commodities sold are of the correct weight and measurement.</li> <li>(iii) Foods and Drugs Act. This ensures that manufacturers do not include any harmful substances in food stuffs and drugs.</li> <li>(iv) Public Health Act. This ensures that public business premises/buildings are hygienic and adhere to safety standards.</li> <li>(v) Rent Restrictions Act/Rent Tribunal Act. This protects tenants against unscrupulous land lords who may charge high rents or those who increase rent without justification.</li> <li>(vi) Trade licensing Act. Licensing of firms to control the number of firms so as to eliminate unhealthy competition.</li> <li>(vii) Trade Descriptions Act. This ensures producers indicate genuine contents of the product to avoid misleading buyers.</li> <li>(viii) Hire Purchase Act. Protects consumers against unfair repossession of goods.</li> <li>(ix) Anti-Counterfeit Act. This protects consumers from being sold goods that are not genuine.</li> <li>(x) Transport Licensing Act. This protects consumers/travelers/passengers from being ferried in unroadworthy vehicles and incompetent personnel.</li> </ul> <p style="text-align: right;"><b>(any 5 x 2 = 10 marks)</b></p>
<p>6. (a)</p>	<p><b>Procedure for obtaining an insurance policy</b></p> <ul style="list-style-type: none"> <li>(i) Filing a proposal form. The potential insured discloses all relevant material facts concerning the property or life to be covered.</li> <li>(ii) Determination of premium – the proposer calculates the monthly premiums taking into account the material facts disclosed in the proposal form.</li> <li>(iii) Payment of first premium – upon acceptance of the insurer to cover the risk, the insured is asked to pay the first premium.</li> <li>(iv) Issuance of cover note/binder – it serves as evidence that the insured is covered.</li> <li>(v) Issuance of the policy – it is issued within 30 days and contains all the terms and conditions of the cover.</li> </ul> <p style="text-align: right;"><b>(Any 5x2=10 marks)</b></p>
<p>b)</p>	<p><b>Assumptions associated with the circular flow of national income in a two sector economy include :</b></p> <ul style="list-style-type: none"> <li>(i) There are only two sectors/players in the economy, that is, households and firms.</li> <li>(ii) Households spend all their income on goods and services without making any savings.</li> <li>(iii) Firms spend all their revenues on factors of production without reserving any profits for expansion.</li> <li>(iv) There is no government interference through taxation, licensing etc.</li> <li>(v) The economy is closed to international trade.</li> <li>(vi) All output produced by firms is purchased by households.</li> <li>(vii) There is no financial sector to inject income through investment/lending or withdraw the incomes through savings.</li> </ul> <p style="text-align: right;"><b>(5 x 2= 10 marks)</b></p>