4.28 BUSINESS STUDIES (565)

4.28.1 Business Studies Paper 1 (565/1)

1. Ways in which Business Studies may benefit an individual include:

   (a) Equips the individual with skills and knowledge to manage a business.
   (b) Prepares one for future career in business.
   (c) Enables one to relate issues affecting business to its environment.
   (d) Enables one to relate issues affecting business activities taking place globally.
   (e) Enables one to identify business opportunities to venture into.
   (f) Prepares one for further studies.
   (g) Enables an individual to think creatively and make sound judgement.
   (h) Makes an individual to appreciate the role of government in business.
   (i) Makes individual disciplined and have positive attitude towards work.

   Any 4 x 1 = 4 marks

2. External factors that may influence the operations of a business negatively include:.

   (a) Unfair competition.
   (b) Inadequate technology.
   (c) Unstable political environment.
   (d) Unstable economic environment.
   (e) Unfavourable legal framework.
   (f) Unreliable supply system.
   (g) Strong consumer bargaining power.
   (h) Poor physical facilities and infrastructure.
   (i) Low population level.
   (j) Insecurity.
   (k) Unfavourable socio-cultural environment.
   (l) Natural calamities.

3. Characteristics of a successful entrepreneur inclu

de:-

   (a) Innovative and creative.
   (b) Hardworking.
   (c) Goal-oriented/desires to achieve.
   (d) Time conscious.
   (e) Self confident.
   (f) Risk taker.
   (g) Good decision maker.
   (h) A good net worker.
   (i) A good communicator.
   (j) Should be ethical.
   (k) Should be flexible.
   (l) Future oriented.

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Any 4 x 1 = 4 marks

Any 4 x 1 = 4 marks

4. Functions of the office include:

(a) Collecting information.
(b) Receiving information.
(c) Storing information.
(d) Distributing information.
(e) Production and reproduction of documents.
(f) Centre for administration.
(g) Mailing.
(h) Communication centre.
(i) safeguarding and controlling

Any 4 x 1 = 4 marks

5.

	Home Trade		International Trade	
	Retail	Wholesale	Import	Export

6x $\frac{1}{2}$ = 3 marks

6. (a) Households.
(b) Households.
(c) Firms.
(d) Firms.

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4x1 = **4 marks**

Details	**Dr**	**Cr**
Capital		500,000
Buildings	200,000	
Cash in hand	20,000	
Furniture	25,000	
Motor vehicle	400,000	
Creditors		18,000
Debtors	36,000	
Bank	100,000	
Bank Loan	598	263,000
	781,000	781,000

7. **Wekesa Traders**
Trial Balance
As at 31st December, 2009

10 x $\frac{1}{2}$ = 5 marks

8. Determining owner's capital.

C = A-L
= 2,240,000 - 750,000
= 1,490,000

4x1 = 4 marks

9. (a) Cyclical unemployment.
(b) Disguised/hidden unemployment.
(c) Structural unemployment/technological.
(d) Voluntary unemployment/real wage.

4x1 = 4 marks

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10. Circumstances under which the capital of a business may change are:-

(a) When the business makes profit.
(b) When the business makes losses.
(c) When the owner draws cash/goods for personal use/drawings.
(d) When the owner makes additional investment into the business/additional cap
ital.

4x1 = 4 marks

11. Meaning of the entries:

(a) Bank overdraft.
(b) Contra entry.
(c) Cash received from debtor.
(d) Closing cash in hand.

4x1 = 4 marks

12. (a) When correcting undercharge.
(b) When demanding payment for goods supplied.
(c) When correcting an overcharge for goods supplied/empty packaging returned/
goods returned.
(d) When replying to a specific letter of inquiry.

4x1 = 4 marks

13. Documents that may be required by the registrar of companies in order to register a p
ublic
limited company include:-

(a) Articles of Association.
(b) Memorandum of Association.
(c) Prospectus.
(d) List of directors.
(e) Declaration.
(f) Statement signed by directors.

Any 4 x 1 = 4 marks

14. Measures that a country can take to reduce the level of inflation include:

(a) Increase income taxes to reduce the disposable income available to consumer
s.
(b) Reduce government expenditure.
(c) Introduce compulsory saving schemes like Pension Fund.
(d) Reduce exports.

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(e) Enforce wage guidelines to control wage increase.
(f) Control prices by legislation.
(g) Increase interest rates on loans.
(h) Increase imports in case of shortages.
(i) Raising the margin requirements.
(j) Regulate printing and minting of money.
(k) Use of buffer stocks to stabilize prices. **Any 4 x 1 = 4 marks**

15. Factors that may make a producer to by pass the wholesaler when distributing goods inc

lude:-

(a) Having own retail outlet.
(b) Dealing in perishable goods like bread which require shorter channels.
(c) Dealing in technical goods which require elaborate after sales services.
(d) Consumers and retailers buying in large quantities.
(e) Need to keep price of goods low.
(f) Limited geographical spread of the market.
(g) Government policy.
(h) When the production is in small quantity.
(i) Where the producer has enough storage facilities.
(j) When goods are produced on order.

Any 4 x 1 = 4 marks

16. Benefits that a country would get by developing her infrastructure include:-

(a) Attraction of foreign investment.
(b) Creation of employment opportunities.
(c) Improved security.
(d) Improved health.
(e) Increased production levels.
(f) Enhanced movements of goods and service
s.
(g) Increased per capital/ income.
(h) Increased exploitation of available resourc
es.
(i) Increased entrepreneural activities.
(j) Easier/faster communication.
(k) Reduced cost of production.
(l) Enhanced industrialization. **Any 4 x 1 = 4 marks**
(m) Equitable development.

17. Benefits of a bonded warehouse to the government include:-

(a) A source of data for planning purposes.

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(b) Enable the government to control entry of harmful goods.
(c) Enable the government to inspect goods while still under bond.
(d) Enables the government to regulate the quantity of imports.
(e) The government uses it to check illegal goods entering the country.
(f) A source of revenue from customs duty.
(g) Enable verification of documents on transit.
(h) Enable checking of the quality of goods.

Any 4 x 1 = 4 marks

18. Qualities of a successful sales person include:-

(a) Has adequate product knowledge.
(b) Is a good communicator.
(c) Is sensitive to customer needs.
(d) Has a high sense of integrity/honesty.
(e) Is presentable (neat and well groomed).
(f) Is persuasive.
(g) Has a high level of commitment.
(h) Good listener.
(i) Have good command of language.
(j) Polite and courteous.
(k) Persistent and patient

Any 4 x 1 = 4 marks

19. Factors that may cause the supply curve to shift to the right include:-

(a) Reduced cost of production.
(b) Bumper harvest.
(c) Increase in the price of complementary goods.
(d) Government incentives to producers e.g. subsidy.
(e) Entry of new firms into the market.
(f) Reduced price of substitute goods.
(g) Improved production methods.
(h) Reduced incidences of industrial strikes.
(i) Availability of the factors of production.
(j) Future expectation of a fall in price.

Any 4 x 1 = 4 marks

20. Positive effects that production activities may have on community health include:-

(a) Provision of safe products.
(b) Provision of clean water.
(c) A source of income which can be used to access medical services.
(d) Provision of labour/occupation which leads to reduced stress and a chance to keep fit while working.

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(e) Provision of health facilities as a social responsibility.
(f) Provision of recreational facilities.
(g) Provision of health education to fight against diseases.
(h) Provision of sewerage disposal plants which boosts community sanitation.
(i) Planting trees to modify the environment.

Any 4 x 1 = 4 marks

21. Basic features of a market include:-

(a) Availability of buyers.
(b) Availability of goods/services.
(c) A platform for conducting transactions.
(d) Availability of sellers.
(e) Availability of medium of exchange.
(f) Freedom to buy and sell.

Any 4 x 1 = 4 marks

22. Features of a parastatal include:-

(a) Provide essential services.
(b) Not profit motivated.
(c) Is formed by an Act of Parliament.
(d) Is mainly funded by the government.
(e) Is managed by government appointees.
(f) Any surplus earned is surrendered to the government.
(g) Has limited liabilities.
(h) Attachment to a govenment ministry.
(i) Can be dissolved only through an act of parliament.

Any 4 x 1 = 4 marks

23. Circumstances in which the government may be involved in business include:-

(a) When a business venture requires investment of large sums of money which individual entrepreneurs may not provide.
(b) When the goods or services to be provided are essential to the welfare of the citizens.
(c) When there is need to protect citizens from exploitation by private entrepreneurs.
(d) When the government desires to create employment for the citizens.
(e) When the government needs to generate income through revenue collection.
(f) When there is need to safeguard national security.
(g) When the venture is strategic but provides low profits hence unattractive to private investors.
(h) Where there are monopolies in the economy, the government gets involved in business to increase competition.

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(i) Where there is need to balance regional development.
(j) To reduce foreign dominance in the economy.
(k) Where there is need to attract foreigh investment.

Any 4 x 1 = 4 marks

24. Factors that a trader may consider when choosing a means of transport include:-

(a) Nature of goods - whether they are bulky, perishable or fragile.
(b) Speed/urgency - where goods are to be delivered quickly.
(c) Cost of transport - should be economical.
(d) Distance to be covered.
(e) Availability of the means.
(f) Packaging requirements for the goods.
(g) The risks involved.
(h) Availability of terminals.
(i) Reliability of the means.
(j) Flexibility.
(k) Comfortability.
(l) Need for special services.

Any 4 x 1 = 4 marks

25. Reasons for privatizing public corporations.

(a) To improve efficiency in their operations.
(b) To generate revenue to the government through sale of shares and taxes.
(c) To enhance competition.
(d) To increase public participation in economic activities of the country.
(e) To reduce government expenditure.
(f) To comply with conditions set by development partners and international do
nor
agencies.
(g) To enable the government to concentrate on other state responsibilities.
(h) To minimize political interference.

Any 4 x 1 = 4 marks

4.28.2 Business Studies (565/2)

1 (a) Benefits that may accrue to a country with a large proportion of skilled labour f
orce
include:

(i) Saving on foreign exchange that would have been used to pay expartri
ates/
imported labour.

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(ii) Production of high quality goods/services as the workers are experts in their respective areas.
(iii) Increased output of goods/services as the workers are competent due to exploitation of resources.
(iv) Reduction in cost of production since the labour tends to be efficient/less wasteful.
(v) Increase in purchasing power/demand due to higher incomes/salaries earned.
(vi) Reduction in dependency ratio since the employment rate is higher.
(vii) Enhances creativity/innovation/research leading to new/improved/variety of goods/services.
(viii) Promotes specialization/division of labour leading to faster production.
(ix) Easen/simpilify setting of wage/employment policy due to abundance/availability of skilled labour/may reduce labour stife/unrest.
(x) Increased government revenue due to income taxes levied.
(xi) Increased foreigh exchange due to export of skilled labour.
(xii) Enhances entrepreneural culture since skilled labour is more willing to undertake risks.
(xiii) Adaptability/flexibility as they are ready to embrace changes.

Any 5 @ 2 = 10 marks

(b) Characteristics of an efficient tax system are:

(i) Equity - the tax should be fair and just/people should be taxed according to their income.
(ii) Economical - it should be cheap and easy to administer/cost effective/cost of collecting should be lower than the revenue.
(iii) Convenient - method of payment should be convenient to the tax payer/favourable to tax payer.
(iv) Certainty - tax payer/collector should know what, when and how to pay/collect.
(v) Flexibility - where tax is used as an instrument of national policy, it should be adaptable to all circumstances.
(vi) Simplicity - it should be easily understood.
(vii) Elasticity - proceeds from taxation should be capable of expanding/contracting in line with changes in income/population.
(viii) Diversity/wide base. There should be wide range/varietyof taxes/should net many tax payers.
(ix) Difficult to evade. Should not create loopholes for people to avoid.
(x) Should regulate the economy.

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Any 5 @ 2 = 10 marks

2 (a) Benefits that Kenya may get as a member of COMESA include:

(i) Free flow of goods and services.
(ii) Expanded market for goods and services.
(iii) Reduced costs of operating businesses as a result of increased scale of operation.
(iv) Production of competitive/quality goods and services.
(v) Possibility of political cooperation.
(vi) Increased variety of goods to choose from.
(vii) Improved infrastructure to facilitate conduct of business.
(viii) Creation of employment opportunities due to increased trading.
(ix) Attracts investment due to greater demand.
(x) Lower prices of goods due to abolition of tarrifs.
(xi) Encourages specialization where countries enjoy comparative advantage.

Any 5 @ 2 = 10 marks

(b) Factors that may hinder economic development in Kenya include:

(i) Inaccessibility to appropriate technology leading to low quality/quantity.
(ii) Inadequate research data.
(iii) Poor development planning.
(iv) Inadequate skilled labour force.
(v) Inadequate natural resource endowment.
(vi) Brain drain-skilled man power seeking greener pastures elsewhere.
(vii) Low demand for goods/services.
(viii) Negative socio-cultural practices.
(ix) Inadequate/lack of foreign exchange.
(x) Poor governance/corruption.

Any 5 @ 2 = 10 marks

3 (a) Benefits that may be realized by a country as a result of government policy to relocate industries to rural areas include:

(i) Increased availability of variety of goods and services as a result of new businesses in the area.
(ii) Availability of auxiliary services - citizens would enjoy more and better auxiliary services like transport.
(iii) Increased job opportunities - there will be more jobs available that would reduce unemployment.

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(iv) Increased utilisation of locally available resources - locally available factors of production will be used and the citizens would earn rewards associated with them.

(v) Improved standard of living as development of the rural areas increases the quality and variety of goods and services.

(vi) Reduced congestion in towns - this would benefit the few citizens remaining in the city.

(vii) Balanced economic development as economic activities are spread throughout the country.

(viii) Transfer of technology to rural areas which leads to production of better quality goods/services.

(ix) Creation of market for goods/services produced in rural areas.

Any 5 @ 2 = 10 marks

(b) (i)

Soilo Traders
Trading, Profit and Loss Account
For the year ending 31st December 2010

	Shs		Shs
Opening stock	75,000	Sales	500,000
Add: Purchases	395,000		
Goods available for sale	470,000		
Less: Closing stock	170,000		
Cost of Goods Sold	300,000		
Gross profit c/d (40% x 500,000)	200,000		
	500,000		500,000
General expenses	60,000	Gross profit b/d	200,000
Net profit	212,000	Rent income	72,000
	272,000		272,000

(11 x ½ = 5½ marks)

(b) (i)

Soilo Traders
Balance Sheet
As at 31st December 2010

	Shs	Shs		Shs	Shs
Fixed assets			Capital	1,000,000	
Machinery	360,000		Add: Net profit	212,000	1,212,000

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Furniture		430,500	790,500		
Current assets			Current Liabilities		
Stock		170,000	Creditors		101,550
Debtors		62,250			
Bank		202,000			
Cash		88,800	523,050		
			1,313,550		1,313,550

(9 x ½ = 4 ½ marks)

4 (a) Advantages of advertising to the consumer include:

	Allowed	Cash		Received	Cash

(i) Consumers become aware of existence of a product and where it can be found.

(ii) Consumers enjoy high quality goods resulting from competitive advertising.

/Producers seek to maintain very high standards of quality.

(iii) Makes it easy for consumers to choose products from a variety offered in the market based on their advertised quality and contents.

(iv) Protects consumers from exploitation since they are aware of prices and quality of items and can therefore enforce their rights.

(v) Communicates changes about the producer like new product lines, change of name and physical address. This enhances convenience for the customers.

(vi) Educates the consumers on the proper use of products where advertising messages involve demonstrations of product usage.

(vii) Entertainment by use of drama/music/plays.

(viii) Aiding budget/planning as they are made to know about price and existence of goods.

(ix) May enjoy lower prices due to competition.

(x) Correct misconceptions hence assist in making decisions.

Any 5 @ 2 = 10 marks

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(b)

Jumo Traders

Dr **Three Column Cash Book** **Cr**

Date	Details	Discount		Bank	Date	Details	Discount		Bank
		Shs	Shs	Shs			Shs	Shs	Shs
Jan 1	Bal b/d		22,500	250,000	Jan 15	Ndaru Traders	16,000	184,000	
2	Sales		465,200		20	Bank (c)		200,000	
5	Kamau Traders	23,750		451,250	25	Wages		144,000	
20	Cash (c)			200,000	28	Mbago Traders	45,000		255,000
29	Bank (c)		250,000		29	Cash (c)			250,000
30	Cash (c)			150,000	30	Bank (c)		150,000	
					31	Bal c\d		59,700	546,250
		23,750	737,700	1,051,250			61,000	737,700	1,051,250

(20 x ½ = 10 marks)

5 (a) Circumstances under which a trader may use air transport:

(i) Perishable nature of goods since they go bad/get damaged.
(ii) Goods are of high per unit value since they are prone to theft.
(iii) Urgency - where goods require to arrive at the destination promptly.
(iv) Security - where security of goods is of valuable consideration.
(v) Where other means of transport are unavailable.
(vi) Where distance to be covered is too large.
(vii) Where it is the policy of the business which needs to be followed.
(viii) Where destination is remote making it inaccessible by other means.

Any 6 @ 2 = 12 marks

(b) Ways through which a public limited company may be dissolved include:

(i) A resolution by the shareholders to dissolve the company. When there i s a unanimous decision by the shareholders to wind up the company during the annual general meeting.
(ii) Change in the country's law that renders the activities of the company il legal/ unlawful. When the laws of a country bars certain activities that the co mpany may have been involved in.
(iii) Inability to repay financial debts on infringement of stakeholders' rights.
(iv) Amalgamations/mergers - a company may be dissolved if it combines wi th another and a new one replaces the one combining/creates a new entity

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(v) Take overs/acquisition/absorption - a company may be dissolved if it is t
aken
over by another/or by the government through acquisition of majority s
hares
hence redirection of its activities/loss of identity.

(vi) Realization of sustained / continuous losses. A company may be dissolv
ed when
it makes losses continuously to the extent of not being able to meet its r
ecurrent
expenditure/insolvency.

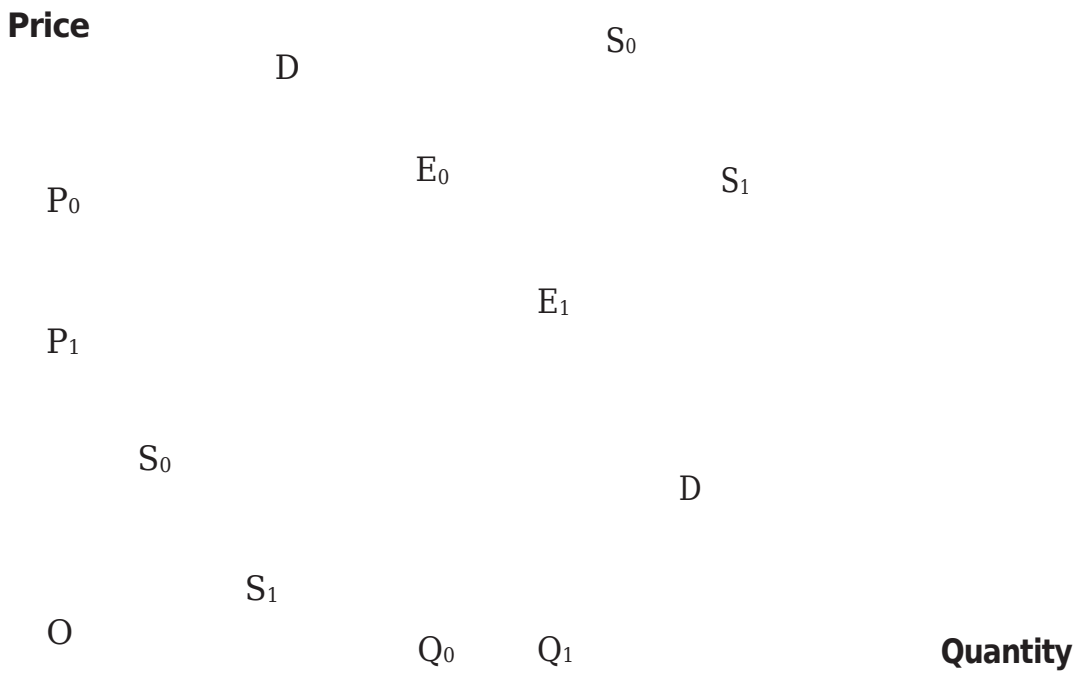
(vii) Court order for infringing on the law/granted to a complaint raised by stakeholders/acting ultravires.

(viii) Completion/fulfilment of task/activity/objective (for which the company
was
formed) hence making its continued existence unnecessary.

(ix) Failure to commence business within one year after incorporation thus contravening the company's act.

Any 4 @ 2 = 8 marks

6 (a) The effect of an increase in the supply of a commodity while the demand remain
s
constant:



Other factors remaining the same, the price of a commodity will fall from P_0

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to P_1 as the quantity supplied changes from Q_0 to Q_1.
This creates a new equilibrium E_1 from E_0 as supply curve shifts to the right from S_0S_0

The increase in supply causes excess supply/surplus.
This lowers price to the new equilibrium price oP_1 and equilibrium quantity oQ_1.

Diagram - 16@½ = 8 mark

s

Explanation - 4 @ ½ = 2 mark

s

Total = 10 marks

(b) Features of oligopoly include:

(i) Firms are interdependent in decision making. Firms keenly observe e ach others' actions/decision hence acting in any way triggers counter reactions (fr om other firms).

(ii) Firms deal in products that are homogenous or similar. The products are close substitutes of each other and are only differentiated in terms of aspect s like colour/packaging/shapes/pricing/branding.

(iii) Firms may engage in non-price competition/collusive oligopoly. The fi rms under oligopoly may avoid price wars hence only compete via other m eans like aggressive advertising/after sales services/market segmentation/fixing quotas.

(iv) Unpredictability of behaviour/uncertainty since firms under oligopoly keep reacting to market changes differently/actions taken by other firms wit hin the market may take others by surprise.

(v) The market is made up of a few large firms since such firms operating under oligopoly tend to have a large capital outlay/make extensive use of mo dern technology in their production activities/control substancial share of th e market.

(vi) There are limiting factors such as large capital investment required to be a player in this market/the level of technology involved may keep off pos sible entrants into the market/intimidation/collusion.

(vii) Firms may engage in price wars/rivalry/cut throat competition which

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may lead
to survival/collapse of some firms.

(viii) May lead to price rigidity/kinked demand occassioned by fear of other firms'
reactions.

(ix) There may be price leadership where the dominant firm dictates the market
price/rules the market.

Any 5 @ 2 = 10 marks

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