

GRADE 10 NOTES

BUSINESS STUDIES

COMPREHENSIVE HANDBOOK NOTES

Well-organized, simplified learning notes that provide clear, concise information in a logical sequence, making key concepts easily accessible and memorable, enhancing understanding and retention while fostering engagement and facilitating effective study.

By providing a clear focus on key ideas, these Mwalimu Consultancy Ltd Notes foster better retention and comprehension, making learning more accessible and enjoyable.

MWALIMU VERSION

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MWALIMU CONSULTANCY

SUMMARY OF STRANDS, SUB STRANDS

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STRAND 1.0: BUSINESS AND MONEY

MANAGEMENT

This strand introduces you to the fundamental concepts of business and money management, focusing on the role of money in facilitating economic activities and the importance of ethical practices in its use.

Sub-Strand 1.1: Money

(a) Identifying the Key Features of the Kenyan Currency

The Kenyan Shilling (KES) is the official currency of Kenya. Understanding its features is crucial for recognizing its authenticity and preventing counterfeiting.

Key Features of the Kenyan Currency (Banknotes and Coins):

- **Denominations:**
- **Banknotes:** Currently, Kenya has banknotes in the denominations of 50, 100, 200, 500, and 1000 shillings.
- **Coins:** The circulating coins are in denominations of 1, 5, 10, 20, and 40 shillings. (Note: Older, lower denomination coins may still exist but are less common).
- **Security Features (Banknotes):** These are designed to prevent forgery and ensure the authenticity of the currency. They can vary slightly between denominations but generally include:

Key security features of the Kenyan Currency



LOOK/TAZAMA

Hold up to the light and from both sides you will see:

- 4** The watermark of a perfect lion's head, the text CBK and the value of the banknote



- 5** The security thread appears as a continuous line



TILT/PINDUA

If you tilt at an angle you will see:

- 6** The security thread changes colour from red to green on all banknotes. The 200, 500 and 1000 banknotes have additional rainbow colours on the thread



- 7** The golden band on the back of the note shows the value



These features are similar in KES 50 and KES 100

These features are similar in KES 200, KES 500 and KES 1000

**FIFTY SHILLINGS
SHILINGI HAMSINI**



THEME: GREEN ENERGY

Wind Power - Geothermal Power - Solar Power

Kenya is endowed with enormous potential and resources for production of clean energy.

One of the biggest wind farms in Africa is located in Kenya at Loyangalani. Geothermal electricity production at Olkaria has made

Kenya a global leader in green energy production. Kenya strives for a cleaner world.

Big Five
Buffalo
Nyati



**ONE HUNDRED SHILLINGS
SHILINGI MIA MOJA**



THEME: AGRICULTURE

Maize - Tea - Livestock

Kenya has continued to demonstrate its strength in the agricultural sector. Our economy is largely driven by agriculture and it is a source of livelihood for a majority of Kenyans. Tea, coffee, horticulture and other crops are synonymous to Kenya. Livestock rearing also is a bedrock in the culture of many Kenyans.

Big Five
Leopard
Chui



**TWO HUNDRED SHILLINGS
SHILINGI MIA MBILI**



THEME: SOCIAL SERVICES

Medical Services - Education - Athletics

The social fabric of Kenya is quite diverse and unique. Our athletes have kept Kenya on the world map since independence.

As a nation, the country has made notable efforts in improving the health of its citizens especially children. Our education system has produced some of the best scholars globally.

Big Five
Rhino
Kifaru



FIVE HUNDRED SHILLINGS SHILINGI MIA TANO



THEME: TOURISM Beach - Parks – Simba

Tourism places Kenya at the centre of the world map. Millions of tourists visit the country to enjoy the sand, sun and parks. The Maasai Mara is one of the highly acclaimed parks in the world. It is also known for the wildebeest migration, which is one of the wonders of the world. Kenya too is famous for the lion, well known as Simba.

Big Five
Lion
Simba



ONE THOUSAND SHILLINGS SHILINGI ELFU MOJA



THEME: GOVERNANCE Parliament

The principle of governance is well entrenched in the Kenyan society. Parliament is at the apex, representing the will of the people, and exercising their sovereignty. The legislative authority of the Republic of Kenya is derived from the people and is vested in and exercised by Parliament. It is a key pillar in the effective governance of our country.

Big Five
Elephant
Ndovu



-
- **Watermark:** A translucent image visible when held against the light (often a portrait of a Kenyan leader or a national symbol).
- **Security Thread:** A visible or embedded thread running through the banknote. It may have text or change color under UV light.
- **See-through Register:** Parts of a design printed on both the front and back of the banknote that align perfectly when held against the light to form a complete image.
- **Tactile Marks:** Raised print that can be felt, aiding visually impaired individuals to identify denominations.
- **Fluorescent Ink:** Inks that glow under ultraviolet (UV) light.
- **Microprinting:** Very small text that is difficult to reproduce accurately.
- **Holographic Stripe/Patch:** A shiny, reflective stripe or patch that displays different images or colors when tilted.
- **Serial Numbers:** Unique numbers printed on each banknote.

- **Themes and Designs:** The current series of Kenyan currency notes and coins feature portraits of Kenya's first three presidents (Jomo Kenyatta, Daniel arap Moi, and Mwai Kibaki) and national symbols. The new generation banknotes, released in 2019, feature iconic Kenyan landmarks and wildlife, promoting Kenya's cultural and natural heritage.
- **Material:** Banknotes are typically made of special paper with a high cotton content for durability. Coins are made of various metal alloys.
- **Issuing Authority:** The Central Bank of Kenya (CBK) is the sole authority responsible for issuing and managing the Kenyan currency.

(b) Describing the Functions of Money When Carrying Out Financial Transactions

Money plays a crucial role in facilitating the exchange of goods and services in an economy. Its key functions are:

- **Medium of Exchange:** This is the primary function of money. It is widely accepted as a means of payment for goods and services, eliminating the need for a direct barter system, which can be inefficient and time-consuming. Instead of trading goods for other goods, people exchange goods or services for money, which they can then use to purchase what they need.
 - ✓ **Example:** A farmer sells their maize for money and then uses that money to buy clothes.
- **Store of Value:** Money allows individuals to hold wealth over time. Ideally, money should retain its purchasing power, meaning that the amount of goods and services it can buy should remain relatively stable. However, inflation can erode the store of value function of money.
 - ✓ **Example:** Instead of storing perishable goods, a person can store their wealth in the form of money for future use.
- **Unit of Account (Measure of Value):** Money provides a common way to measure the value of goods and services. It acts as a standard unit for quoting prices and recording debts. This makes it easier to compare the relative worth of different items and to conduct accounting.
 - ✓ **Example:** A loaf of bread costs Ksh. 50, and a liter of milk costs Ksh. 100. Money provides a common unit (shillings) to understand their relative values.
- **Standard of Deferred Payment:** Money is used as a standard for making payments in the future, such as loans, mortgages, and credit purchases. It allows individuals and businesses to borrow and lend with the understanding that the debt will be repaid in a commonly accepted form of money.

- ✓ **Example:** Taking out a bank loan with the agreement to repay a specific amount of money over a set period.

(c) Justifying the Demand for Money for Achieving Economic Development

The demand for money is the desire and ability of individuals, businesses, and the government to hold money. It is crucial for economic development in several ways:

- **Facilitates Transactions and Trade:** As a medium of exchange, money lubricates the wheels of commerce. It simplifies transactions, allowing businesses to operate efficiently, specialize in production, and engage in wider trade, which are all drivers of economic growth.
- **Enables Investment and Capital Formation:** Money allows for savings and the accumulation of capital. Businesses need money to invest in machinery, technology, and infrastructure, which lead to increased productivity and economic expansion. Individuals save money for future investments or to start businesses.
- **Promotes Specialization and Division of Labor:** With money, individuals can specialize in tasks they are good at and exchange their output for money, which they then use to obtain other goods and services. This leads to increased efficiency and overall economic output.
- **Supports Financial Markets:** The demand for money creates the foundation for the development of financial markets (e.g., banks, stock markets). These markets channel savings into productive investments, fostering economic growth.
- **Facilitates Government Functions:** Governments need money to finance public services such as education, healthcare, infrastructure, and security. Taxes, which are paid in money, enable the government to play its role in economic development.
- **Measures Economic Activity:** Money serves as a unit of account, allowing for the measurement of economic variables like GDP, inflation, and income. This information is essential for policymakers to make informed decisions that promote economic development.
- **Reduces Transaction Costs:** Compared to barter, using money significantly reduces the time and effort involved in finding suitable trading partners and agreeing on exchange rates. Lower transaction costs encourage more economic activity.

(d) Examining the Factors that Determine the Supply of Money in an Economy

The supply of money refers to the total amount of money circulating in an economy at a given time. Several factors influence the supply of money:

- ✓ **Actions of the Central Bank:** The Central Bank of Kenya (CBK) is the primary regulator of the money supply. It uses various tools to control the amount of money in circulation:

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- **Open Market Operations (OMO):** Buying and selling of government securities (like treasury bills and bonds) by the CBK. Buying securities injects money into the economy, increasing the money supply, while selling securities withdraws money, decreasing the money supply.
- **Reserve Requirements:** The fraction of a bank's deposits that they are legally required to hold in reserve at the Central Bank. Lowering reserve requirements allows banks to lend out more money, increasing the money supply, while raising them reduces lending and the money supply.
- **Discount Rate (Central Bank Rate - CBR):** The interest rate at which commercial banks can borrow money directly from the Central Bank. A lower CBR encourages banks to borrow more, increasing the money supply, while a higher CBR discourages borrowing and reduces the money supply.
- ✓ **Commercial Banks' Lending Policies:** Commercial banks play a crucial role in creating money through lending. When banks make loans, they create new deposit accounts, thus increasing the money supply (this is known as the multiplier effect). Factors influencing their lending include:
 - **Demand for Loans:** Higher demand for loans from individuals and businesses will lead banks to lend more, increasing the money supply.
 - **Profitability:** Banks are more likely to lend when they perceive lending to be profitable (i.e., when interest rates are favorable and the risk of default is low).
 - **Capital Adequacy Ratios:** Regulations require banks to maintain a certain level of capital relative to their assets. This can limit their ability to lend.
- ✓ **Government Policies:** Government fiscal policies (related to spending and taxation) can indirectly affect the money supply. For example, increased government spending can inject money into the economy.
- ✓ **International Flows of Money:** In an open economy like Kenya, the inflow and outflow of foreign currency can impact the domestic money supply. For example, increased exports can lead to an inflow of foreign currency, which, when exchanged for local currency, can increase the money supply.
- ✓ **Public's Desire to Hold Currency vs. Deposits:** The public's preference for holding cash versus keeping money in bank accounts can influence the effective money supply. If people prefer to hold more cash, it reduces the amount of money available for banks to lend.

(e) Evaluating Ethical and Unethical Practices on the Use of Money in Financial Transactions

Ethical practices in the use of money promote:

- + fairness,
- + trust
- + transparency,
- + accountability
- + integrity in financial transactions,
- + Contributing to a stable and trustworthy economic environment.

Unethical practices, on the other hand, can lead to

- ❖ financial instability,
- ❖ mistrust
- ❖ fraud, and
- ❖ embezzlement of funds
- ❖ money laundering
- ❖ Social injustices among other

Ethical Practices:

- + **Honesty and Transparency:** Being truthful about financial information, avoiding deception, and providing clear and accurate details in transactions.
- + **Fairness:** Ensuring that all parties involved in a financial transaction are treated justly and equitably, without exploitation or discrimination.
- + **Integrity:** Adhering to strong moral principles and avoiding conflicts of interest or corrupt practices.
- + **Compliance with Laws and Regulations:** Obeying all relevant financial laws and regulations, such as tax laws and anti-money laundering rules.
- + **Responsible Borrowing and Lending:** Borrowing only what can be repaid and lending responsibly, considering the borrower's ability to repay.
- + **Avoiding Bribery and Corruption:** Refusing to offer or accept bribes or engage in corrupt activities to gain financial advantage.
- + **Respecting Property Rights:** Not engaging in theft, fraud, or any activities that violate the financial rights of others.
- + **Environmental and Social Responsibility:** Considering the broader impact of financial decisions on the environment and society.

Unethical Practices:

- ✓ **Fraud and Deception:** Intentionally misleading or deceiving others for financial gain, such as through scams, Ponzi schemes, or false advertising.
- ✓ **Corruption and Bribery:** Offering, giving, receiving, or soliciting something of value to influence a decision or gain an unfair advantage.
- ✓ **Tax Evasion:** Illegally avoiding the payment of taxes owed to the government.
- ✓ **Money Laundering:** Concealing the origins of illegally obtained money to make it appear legitimate.
- ✓ **Insider Trading:** Using confidential information to trade in stocks or other securities for personal profit.
- ✓ **Exploitative Lending (Usury):** Charging excessively high interest rates on loans, taking advantage of vulnerable borrowers.
- ✓ **Counterfeiting:** Producing fake currency or other financial instruments.
- ✓ **Theft and Embezzlement:** Illegally taking money or assets belonging to others.
- ✓ **Financial Misrepresentation:** Falsifying financial statements or information.

(f) Acknowledging the Role of Money in Day-to-Day Life

Money plays a fundamental and pervasive role in our daily lives. Its significance cannot be overstated:

- ✓ **Facilitates Basic Needs:** Money allows us to purchase essential goods and services such as food, shelter, clothing, healthcare, and education. Without it, meeting these basic needs would be significantly more challenging.
- ✓ **Enables Transactions:** From buying groceries to paying for transportation, money is the medium through which most daily transactions are conducted. It simplifies exchanges and makes economic activity possible.
- ✓ **Provides Choice and Flexibility:** Having money gives individuals the freedom to choose what goods and services they want and from whom they want to purchase them. It offers flexibility in meeting individual needs and preferences.
- ✓ **Supports Livelihoods:** Most people earn money through employment or business activities, which provides them with the means to support themselves and their families.
- ✓ **Allows for Savings and Future Planning:** Money enables individuals to save for future goals, such as education, buying a home, retirement, or unexpected expenses.

- ✓ **Measures Value and Facilitates Budgeting:** Money acts as a unit of account, allowing us to understand the cost of different items and to create budgets to manage our finances effectively.
- ✓ **Connects People Through Economic Activity:** The exchange of money for goods and services creates economic relationships between individuals, businesses, and governments, fostering interdependence and community.
- ✓ **Influences Social Status (Potentially):** While not the sole determinant, the amount of money a person has can sometimes influence their social standing and opportunities. However, it's important to recognize that other factors like education, skills, and character are equally important.

In summary,

- ✓ Understanding the features, functions, demand, and supply of money, as well as the ethical considerations surrounding its use, is crucial for effective business and personal financial management.
- ✓ Money is a vital tool that shapes our economic interactions and plays a significant role in our daily lives and the overall development of the economy.

Sub-Strand 1.2: Business Goals

(a) Analysing the Importance of Goal Setting in Business

Goal setting is a fundamental aspect of effective business management. It provides direction, motivation, and a framework for decision-making. Here's why it's important:

- ✓ **Provides Direction and Focus:** Goals give a business a clear sense of purpose and direction. They define what the business aims to achieve, helping everyone within the organization to understand the common objectives and focus their efforts accordingly.
- ✓ **Motivates Employees and Stakeholders:** Well-defined goals can inspire and motivate employees by providing them with targets to work towards. Achieving goals can boost morale and a sense of accomplishment. Similarly, clear goals can attract investors, lenders, and other stakeholders who can see the business's vision and potential.
- ✓ **Facilitates Planning and Decision-Making:** Once goals are established, they serve as a basis for developing strategies, plans, and operational activities. Decisions made within the business should align with the overall goals to ensure progress in the desired direction.

- ✓ **Enables Performance Measurement and Evaluation:** Goals provide benchmarks against which the business's performance can be measured and evaluated. This allows for tracking progress, identifying areas of success and failure, and making necessary adjustments.
- ✓ **Improves Resource Allocation:** Clear goals help in allocating resources (financial, human, and material) effectively. By understanding what needs to be achieved, the business can prioritize and allocate resources to the activities that will contribute most to goal attainment.
- ✓ **Enhances Accountability:** When goals are specific and measurable, it becomes easier to hold individuals and teams accountable for their contributions to achieving those goals.
- ✓ **Reduces Uncertainty and Risk:** While goals cannot eliminate all risks, they provide a framework for anticipating challenges and developing strategies to mitigate them. A clear understanding of objectives helps the business navigate uncertainties more effectively.
- ✓ **Promotes Organizational Alignment:** Well-communicated goals ensure that all departments and individuals within the business are working towards the same objectives, fostering collaboration and synergy.
- ✓ **Supports Long-Term Survival and Growth:** By setting and achieving strategic long-term goals, businesses can ensure their sustainability, adapt to changing market conditions, and achieve continuous growth.

(b) Examining the Factors to Consider When Setting Goals for a Business

Setting effective business goals requires careful consideration of various internal and external factors. These factors ensure that the goals are realistic, achievable, and aligned with the overall vision of the business.

- ✓ **Business Vision and Mission:** Goals should be derived from and aligned with the overarching vision (aspirational future state) and mission (core purpose) of the business.
- ✓ **Available Resources:** Realistic goals must take into account the resources available to the business, including financial capital, human resources, technology, and infrastructure. Setting goals that exceed available resources can lead to frustration and failure.
- ✓ **Market Conditions and Competition:** External factors such as market trends, competitor activities, customer preferences, and economic conditions significantly influence the feasibility and relevance of business goals.

- ✓ **Strengths and Weaknesses of the Business:** An internal assessment of the business's strengths (competitive advantages) and weaknesses (areas for improvement) is crucial for setting achievable goals that leverage strengths and address weaknesses.
- ✓ **Opportunities and Threats:** Analysing external opportunities (favorable market conditions) and threats (potential challenges) helps in setting proactive goals that capitalize on opportunities and mitigate risks.
- ✓ **Stakeholder Expectations:** The goals of the business should consider the expectations of various stakeholders, including owners, employees, customers, suppliers, and the community. Balancing these expectations is important for long-term success.
- ✓ **Ethical and Social Responsibility:** Businesses should consider ethical principles and their social responsibilities when setting goals. Goals should not compromise ethical standards or negatively impact society or the environment.
- ✓ **Legal and Regulatory Environment:** Compliance with relevant laws and regulations is a crucial factor. Business goals should operate within the legal framework.
- ✓ **Time Horizon:** Goals can be short-term (achievable within a year), medium-term (1-5 years), or long-term (beyond 5 years). The time horizon influences the nature and scope of the goals.
- ✓ **Risk Appetite:** The level of risk the business is willing to take will influence the ambitiousness of its goals. Higher risk appetite may lead to more aggressive growth targets.

(c) Describing the Steps Followed When Setting Business Goals

Setting effective business goals is a structured process that involves several key steps:

1. **Define the Business Vision and Mission:** Start by revisiting and clearly articulating the long-term aspirations (vision) and core purpose (mission) of the business. These provide the foundation for goal setting.
2. **Conduct a SWOT Analysis:** Perform a thorough analysis of the business's Strengths, Weaknesses, Opportunities, and Threats. This helps in understanding the internal and external environment and identifying areas where goals should be focused.
3. **Identify Key Result Areas (KRAs):** Determine the critical areas where the business needs to achieve results to be successful. These might include profitability, customer satisfaction, market share, innovation, employee development, etc.

4. **Brainstorm Potential Goals:** Based on the vision, mission, SWOT analysis, and KRAs, brainstorm a wide range of potential goals for the business. At this stage, encourage creative thinking without immediate judgment.
5. **Apply the SMART Criteria:** Evaluate each potential goal using the SMART framework:
 - ✓ **Specific:** The goal should be clearly defined and unambiguous, leaving no room for misinterpretation. (What exactly do we want to achieve?)
 - ✓ **Measurable:** The goal should be quantifiable, with clear metrics to track progress and determine when it has been achieved. (How will we know when we have reached it?)
 - ✓ **Achievable (Attainable):** The goal should be realistic and achievable given the available resources and constraints. (Can we realistically achieve this goal?)
 - ✓ **Relevant (Realistic):** The goal should be aligned with the overall vision, mission, and strategic objectives of the business. (Does this goal matter to our business?)
 - ✓ **Time-bound:** The goal should have a specific deadline or timeframe for completion. (When do we want to achieve this goal?)
6. **Prioritize Goals:** Once you have a set of SMART goals, prioritize them based on their importance and potential impact on the business. Not all goals are equally critical.
7. **Communicate Goals:** Clearly communicate the finalized goals to all relevant stakeholders, including employees, managers, and investors. Ensure everyone understands the goals and their role in achieving them.
8. **Develop Action Plans:** For each goal, develop detailed action plans outlining the specific tasks, responsibilities, timelines, and resources required.
9. **Monitor Progress and Evaluate Results:** Regularly track progress towards the goals using the defined metrics. Evaluate the results and make necessary adjustments to strategies or action plans as needed.
10. **Review and Revise Goals:** Periodically review the goals to ensure they remain relevant and aligned with the changing business environment. Be prepared to revise goals if necessary.

(d) Formulating SMART Short-Term and Long-Term Goals for a Business

Applying the SMART criteria is essential when formulating both short-term and long-term business goals. Here are some examples:

Short-Term Goals (e.g., within the next year):

- ✚ **Specific:** Increase sales revenue by 15%.

- ✚ **Measurable:** Track monthly sales revenue and compare it to the previous year's figures.
- ✚ **Achievable:** Develop a targeted marketing campaign and train the sales team on new product features.
- ✚ **Relevant:** Increasing sales revenue is crucial for the business's short-term profitability and growth.
- ✚ **Time-bound:** Achieve a 15% increase in sales revenue by the end of the current fiscal year (December 31st, 2026).
- ✚ **Specific:** Improve customer satisfaction scores.
- ✚ **Measurable:** Increase the average customer satisfaction score from 7 to 8 out of 10 based on post-purchase surveys.
- ✚ **Achievable:** Implement a customer feedback system and train customer service representatives on improved communication skills.
- ✚ **Relevant:** High customer satisfaction leads to repeat business and positive word-of-mouth.
- ✚ **Time-bound:** Achieve an average customer satisfaction score of 8 by the end of the next quarter (June 30th, 2025).

Long-Term Goals (e.g., within the next 3-5 years):

- ✓ **Specific:** Expand into a new geographic market.
- ✓ **Measurable:** Establish a physical presence (e.g., a branch or office) and achieve a 5% market share in the new region.
- ✓ **Achievable:** Conduct thorough market research, develop a market entry strategy, and secure necessary funding.
- ✓ **Relevant:** Market expansion can lead to significant long-term growth and diversification.
- ✓ **Time-bound:** Establish a presence and achieve a 5% market share in the new market within the next three years (by April 2028).
- ✓ **Specific:** Become a leader in product innovation within the industry.
- ✓ **Measurable:** Launch at least three new innovative products or features that receive positive market reception (e.g., high sales, positive reviews, industry awards).
- ✓ **Achievable:** Increase investment in research and development, foster a culture of innovation, and establish partnerships with research institutions.
- ✓ **Relevant:** Product innovation can create a competitive advantage and drive long-term market leadership.

- ✓ **Time-bound:** Launch three successful new products/features within the next five years (by April 2030).

(e) Appreciating the Need for Setting Goals in Business

Understanding and appreciating the importance of goal setting is crucial for aspiring entrepreneurs and business managers. Setting goals is not just a theoretical exercise; it has tangible benefits for the success and sustainability of a business:

- ✓ **Provides a Roadmap for Success:** Goals act as a guide, outlining the path the business needs to take to achieve its aspirations.
- ✓ **Drives Motivation and Effort:** Clear goals provide a sense of purpose and challenge, motivating individuals and teams to work harder and smarter.
- ✓ **Facilitates Coordination and Teamwork:** Shared goals align the efforts of different departments and individuals, fostering collaboration and a unified sense of purpose.
- ✓ **Enhances Decision-Making:** Goals provide a framework for evaluating options and making choices that are consistent with the business's objectives.
- ✓ **Supports Performance Management:** Goals provide a basis for setting performance standards, monitoring progress, and providing feedback to employees.
- ✓ **Attracts Investment and Support:** Well-defined and ambitious yet achievable goals can attract investors, lenders, and other stakeholders who are looking for businesses with a clear vision and potential for growth.
- ✓ **Promotes Continuous Improvement:** The process of setting, monitoring, and reviewing goals encourages businesses to constantly evaluate their performance and identify areas for improvement.
- ✓ **Increases the Likelihood of Success:** Businesses with clearly defined goals are more likely to achieve their objectives and succeed in the long run compared to those that operate without a clear sense of direction.
- ✓ **Helps in Adapting to Change:** While goals provide direction, the process of reviewing and revising them allows businesses to adapt to changing market conditions and emerging opportunities.

In essence,

Setting business goals is a proactive and essential management practice that provides structure, focus, and motivation, ultimately increasing the chances of a business achieving its desired outcomes and thriving in a competitive environment.

Sub-Strand 1.3: Budgeting in Business

(a) Explaining the Importance of Budgeting in Business

Budgeting is the process of creating a detailed plan, usually expressed in monetary terms, for the income and expenditure of a business over a specific period (e.g., a month, a quarter, or a year).

It is a crucial management tool that offers numerous benefits:

- ✓ **Provides a Financial Roadmap:** A budget acts as a blueprint for the financial activities of the business. It outlines expected revenues and planned expenses, giving a clear direction for financial management.
- ✓ **Facilitates Planning and Coordination:** The budgeting process requires different departments and individuals to collaborate and plan their activities in line with the overall financial goals of the business. This promotes coordination and alignment across the organization.
- ✓ **Helps in Resource Allocation:** By forecasting income and expenses, a budget allows businesses to allocate their resources (financial, human, and material) efficiently to various activities and projects. This ensures that funds are available when and where they are needed most.
- ✓ **Enables Performance Measurement and Control:** A budget sets financial targets and benchmarks against which actual performance can be compared. This allows management to monitor progress, identify deviations (variances), and take corrective actions to stay on track.
- ✓ **Improves Decision-Making:** Budgets provide valuable financial information that supports informed decision-making. For example, comparing budgeted costs with actual costs can help in identifying areas where cost savings can be made or where additional investment is required.
- ✓ **Enhances Accountability:** By assigning budget responsibilities to specific individuals or departments, budgeting promotes accountability for financial performance. Managers are responsible for adhering to their budgets and explaining any significant variances.
- ✓ **Forces Management to Think Ahead:** The process of preparing a budget requires management to anticipate future challenges and opportunities, and to plan accordingly. This proactive approach can help the business prepare for potential risks and capitalize on favorable conditions.
- ✓ **Attracts Investors and Lenders:** A well-prepared and realistic budget demonstrates sound financial planning and management to potential investors and lenders, increasing their confidence in the business's ability to generate returns and repay debts.
- ✓ **Facilitates Communication:** The budget serves as a communication tool, conveying the financial plans and expectations of the business to all stakeholders.

- ✓ **Supports Goal Setting:** Budgets translate the business's strategic goals into financial targets, making them more concrete and measurable. Achieving budgetary targets contributes to the overall achievement of business objectives.

(b) Analysing the Types of Business Budgets for Financial Planning

Businesses use various types of budgets depending on their size, complexity, and specific needs.

Here are some common types:

- ✚ **Operating Budgets:** These budgets focus on the day-to-day revenue and expenses of the core business operations. Examples include:
 - ✓ **Sales Budget:** Forecasts the expected sales revenue for a specific period, often broken down by product, region, or customer. It is usually the starting point for other operating budgets.
 - ✓ **Production Budget:** Plans the quantity of goods to be produced based on the sales forecast and inventory levels. It includes costs related to direct materials, direct labor, and manufacturing overhead.
 - ✓ **Direct Materials Budget:** Estimates the quantity and cost of raw materials needed for production.
 - ✓ **Direct Labor Budget:** Estimates the labor hours and costs required for production.
 - ✓ **Manufacturing Overhead Budget:** Plans all manufacturing costs other than direct materials and direct labor (e.g., factory rent, utilities, indirect labor).
 - ✓ **Selling and Administrative Expense Budget:** Forecasts the costs related to marketing, sales, distribution, and general administration (e.g., salaries, advertising, rent, utilities for administrative offices).
 - ✓ **Cost of Goods Sold (COGS) Budget:** Estimates the direct costs associated with the goods sold during the period.
- ✚ **Financial Budgets:** These budgets focus on the financial position and cash flows of the business. Examples include:
 - ✓ **Cash Budget:** Forecasts the expected cash inflows (receipts) and cash outflows (payments) over a specific period. It helps in managing liquidity and identifying potential cash shortages or surpluses.
 - ✓ **Capital Expenditure Budget:** Plans for the acquisition or disposal of long-term assets such as property, plant, and equipment (PP&E).

- ✓ **Budgeted Income Statement (Profit and Loss Budget):** A forecast of the business's expected revenues, expenses, and profit or loss for the budget period. It is derived from the operating budgets.
- ✓ **Budgeted Balance Sheet:** A forecast of the business's assets, liabilities, and equity at the end of the budget period. It is based on the operating and financial budgets.
- ✚ **Flexible Budgets:** These budgets are prepared for different levels of activity. They show how costs and revenues are expected to vary with changes in production or sales volume. Flexible budgets are useful for performance evaluation because they allow for a comparison of actual costs with what costs should have been for the actual level of activity.
- ✚ **Fixed Budgets (Static Budgets):** These budgets are prepared for only one level of activity. They do not change even if the actual level of activity differs from the planned level. Fixed budgets are less useful for performance evaluation when there are significant variations in activity levels.
- ✚ **Master Budget:** This is a comprehensive set of interconnected budgets that represents the overall financial plan for the business.
 - ❖ It typically includes the operating budgets, financial budgets, and a budgeted income statement and balance sheet.
 - ❖ The choice of which budgets to use depends on the specific needs and complexity of the business. Smaller businesses may start with simpler budgets like a cash budget and a sales budget, while larger organizations will typically use a more comprehensive master budget.

(c) Preparing a Budget to Control Spending in Business

Preparing a budget is a multi-step process that requires careful planning and estimation. Here's a general outline of how to prepare a budget to control spending:

1. **Gather Information:** Collect relevant historical financial data (e.g., past sales, expenses), market research, economic forecasts, and strategic plans. This information forms the basis for making realistic estimates.
2. **Forecast Sales Revenue:** Based on historical data, market trends, and sales strategies, estimate the expected sales revenue for the budget period. This is often the starting point for other budgets.
3. **Estimate Production Costs (if applicable):** If the business produces goods, estimate the costs associated with production, including direct materials, direct labor, and manufacturing overhead.

This will be based on the production budget, which is derived from the sales forecast and inventory plans.

- 4. Estimate Operating Expenses:** Forecast all other expenses necessary to run the business, such as selling and marketing expenses, administrative salaries, rent, utilities, and other overhead costs.
 - 5. Prepare a Cash Budget:** Forecast the expected cash inflows (e.g., cash sales, collections from customers) and cash outflows (e.g., payments to suppliers, salaries, operating expenses, capital expenditures). This helps in managing cash flow and ensuring sufficient liquidity.
 - 6. Prepare a Budgeted Income Statement:** Based on the revenue and expense forecasts, create a projected income statement to estimate the business's profitability for the budget period.
 - 7. Prepare a Budgeted Balance Sheet (if needed):** Forecast the expected balances of assets, liabilities, and equity at the end of the budget period. This provides a picture of the business's projected financial position.
 - 8. Review and Approve the Budget:** Once the initial budgets are prepared, review them for accuracy, reasonableness, and alignment with the business's goals. Seek input from relevant departments and make necessary adjustments before final approval by management.
 - 9. Communicate the Budget:** Share the approved budget with all relevant personnel so they understand the financial targets and spending limits for their areas of responsibility.
 - 10. Monitor Actual Performance Against the Budget:** Regularly track actual revenues and expenses and compare them to the budgeted amounts. Identify any significant variances (differences between actual and budgeted figures).
 - 11. Analyse Variances and Take Corrective Action:** Investigate the reasons for significant variances. If spending is exceeding the budget, take corrective actions to control costs. If revenues are below budget, consider strategies to boost sales.
 - 12. Revise the Budget (if necessary):** In some cases, significant changes in the business environment or internal operations may necessitate revising the budget during the budget period.
- By following these steps, a business can create a budget that serves as a powerful tool for controlling spending, managing financial resources effectively, and achieving its financial goals.

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(d) Appreciating the Need for Budgeting in Business

Appreciating the need for budgeting is essential for understanding its value and ensuring its effective implementation within a business. Budgeting is not just a routine accounting task; it is a fundamental management practice with significant benefits:

- ✓ **Promotes Financial Discipline:** The process of creating and adhering to a budget instills financial discipline within the organization. It encourages careful planning and responsible spending.
- ✓ **Enhances Financial Awareness:** Budgeting makes employees and managers more aware of the financial aspects of their activities and the overall financial health of the business.
- ✓ **Supports Strategic Goals:** Budgets translate strategic objectives into measurable financial targets, ensuring that day-to-day operations are aligned with the long-term vision of the business.
- ✓ **Facilitates Early Identification of Problems:** By comparing actual performance against the budget, potential financial problems (e.g., overspending, declining revenues) can be identified early, allowing for timely intervention.
- ✓ **Improves Communication and Coordination:** The budgeting process fosters communication and coordination among different departments as they work together to develop and achieve common financial goals.
- ✓ **Provides a Basis for Evaluation and Rewards:** Budgets can be used as a benchmark for evaluating the performance of individuals, teams, and departments. Meeting or exceeding budgetary targets can be linked to rewards and recognition.
- ✓ **Increases Efficiency and Reduces Waste:** By setting spending limits and monitoring expenses, budgeting encourages efficiency and helps to minimize unnecessary waste of resources.
- ✓ **Builds Confidence Among Stakeholders:** A well-managed budget demonstrates financial responsibility and competence, which can build confidence among investors, lenders, suppliers, and customers.
- ✓ **Aids in Securing Financing:** When seeking loans or investment, a detailed and realistic budget is often a key requirement. It shows the business's ability to manage its finances and generate returns.
- ✓ **Essential for Growth and Sustainability:** Effective budgeting is crucial for managing growth, planning for future investments, and ensuring the long-term financial sustainability of the business.

In conclusion,

Budgeting is a vital tool for businesses of all sizes. It provides a framework for financial planning, control, and decision-making, ultimately contributing to improved financial performance, reduced risk, and the achievement of organizational goals. Appreciating its importance is the first step towards implementing a successful budgeting process.

Sub-Strand 1.4: Banking (11 Lessons)

(a) Explaining the Importance of Banking in an Economy

Banking plays a vital role in the functioning and development of a modern economy. Banks act as intermediaries between savers and borrowers, facilitating the flow of funds and contributing significantly to economic growth and stability. Here's why banking is important:

- ✓ **Facilitates Savings:** Banks provide a safe and convenient place for individuals, businesses, and other entities to deposit and save their money. They offer various savings accounts with different interest rates, encouraging people to save and accumulate capital.
- ✓ **Provides Loans and Credit:** Banks are a primary source of loans and credit for individuals, businesses, and governments. These funds enable investment in productive activities, expansion of businesses, purchase of homes and other assets, and financing of government projects, all of which drive economic growth.
- ✓ **Facilitates Transactions and Payments:** Banks provide efficient and secure payment systems, allowing individuals and businesses to make and receive payments easily through various methods like cheques, electronic transfers, debit/credit cards, and mobile banking. This lubricates the wheels of commerce and reduces the need for large amounts of physical cash.
- ✓ **Mobilizes Capital for Investment:** By pooling savings from many depositors, banks create a large pool of funds that can be channelled into productive investments, fostering economic development and job creation.
- ✓ **Manages Risk:** Banks play a crucial role in managing financial risks. They assess the creditworthiness of borrowers, diversify their loan portfolios, and provide insurance and other risk management products, contributing to a more stable financial system.
- ✓ **Facilitates International Trade:** Banks provide services like foreign exchange, letters of credit, and trade financing, which are essential for facilitating international trade and economic integration.

- ✓ **Supports Government Functions:** Banks often act as agents for the government in managing public debt, collecting taxes, and implementing monetary policies.
- ✓ **Promotes Financial Inclusion:** By offering a range of financial services to different segments of the population, including those with low incomes, banks contribute to financial inclusion and empower individuals economically.
- ✓ **Creates Employment:** The banking sector itself is a significant employer, providing jobs in various roles from customer service to financial analysis.
- ✓ **Drives Innovation:** The banking sector is constantly evolving, adopting new technologies and developing innovative products and services to meet the changing needs of customers and the economy. This innovation can lead to greater efficiency and convenience.

(b) Analysing the Types of Accounts Offered by Banks

Banks offer a variety of accounts designed to meet the diverse needs of their customers.

Understanding these different types is crucial for individuals and businesses to choose the accounts that best suit their financial goals and activities. Here are some common types of bank accounts:

- ✓ **Savings Accounts:** These are designed for customers who want to save money and earn interest over time.
 - ❖ **Features:** Typically offer interest on the deposited amount, although the interest rate may vary. There may be restrictions on the number or frequency of withdrawals.
 - ❖ **Purpose:** Ideal for accumulating funds for future goals, emergencies, or general savings.
 - ❖ **Examples:** Regular savings accounts, fixed deposit accounts (where money is locked in for a specific period at a fixed interest rate), money market accounts.
- ✓ **Current Accounts (Checking Accounts):** These are primarily designed for facilitating frequent transactions and payments.
 - ❖ **Features:** Usually offer limited or no interest. Allow for frequent withdrawals and deposits through various means like cheques, debit cards, and electronic transfers. Often have associated fees for certain transactions or if the balance falls below a certain minimum.
 - ❖ **Purpose:** Used for day-to-day financial transactions, paying bills, and managing business finances.
- ✓ **Fixed Deposit Accounts (Term Deposits):** These are savings accounts where a lump sum of money is deposited for a fixed period at a predetermined interest rate.

- ❖ **Features:** Offer higher interest rates compared to regular savings accounts due to the commitment of funds for a specific term. Penalties may apply for early withdrawal.
- ❖ **Purpose:** Suitable for individuals or businesses with surplus funds that they don't need immediate access to and want to earn a higher return on.
- ✓ **Money Market Accounts:** These are a type of savings account that typically offers higher interest rates than regular savings accounts but may have higher minimum balance requirements and restrictions on withdrawals.
- ❖ **Features:** Interest rates are often tiered based on the account balance. May offer limited cheque-writing or debit card access.
- ❖ **Purpose:** Attractive for individuals and businesses with larger balances who want to earn a competitive interest rate while still having some liquidity.
- ✓ **Investment Accounts:** These accounts are specifically designed for investing in financial instruments like stocks, bonds, and mutual funds.
- ❖ **Features:** The value of these accounts can fluctuate based on market performance. They may be managed by the bank or self-directed.
- ❖ **Purpose:** To grow wealth over the long term through investments.
- ✓ **Business Accounts:** These are specifically tailored for businesses and often offer features and services relevant to their operations.
- ❖ **Features:** May include features like online banking for businesses, payroll services, merchant services for processing customer payments, and business loans. Different types of business accounts may cater to different business structures (e.g., sole proprietorships, partnerships, corporations).
- ❖ **Purpose:** To manage business finances, facilitate transactions, and access business-specific financial services.
- ✓ **Junior/Children's Savings Accounts:** These are designed to encourage saving among young people.
- ❖ **Features:** Often have lower minimum deposit requirements and may offer educational resources on saving. There might be restrictions on withdrawals until the child reaches a certain age.
- ❖ **Purpose:** To teach children the importance of saving and help them build a financial foundation.
- ✓ **Dormant Accounts:** Accounts that have had no activity (deposits or withdrawals) for a prolonged period are classified as dormant. Banks have procedures for managing dormant accounts, and customers may need to reactivate them to resume transactions.

(c) Exploring the Ethical Practices in Banking

Ethical practices are paramount in the banking industry due to the significant role banks play in managing people's money and facilitating economic activities. Maintaining trust and integrity is crucial for the stability and reputation of the banking sector. Key ethical practices in banking include:

- ✓ **Transparency and Honesty:** Banks should be transparent in their dealings with customers, providing clear and accurate information about fees, interest rates, terms and conditions of accounts and loans. They should avoid hidden charges or misleading information.
- ✓ **Fairness and Equity:** Banks should treat all customers fairly and without discrimination, regardless of their background or financial status. Loan applications, account services, and other banking products should be offered based on objective criteria.
- ✓ **Confidentiality and Data Security:** Banks have a responsibility to protect the privacy and security of their customers' financial information. They should have robust systems and procedures in place to prevent unauthorized access, data breaches, and misuse of customer data.
- ✓ **Integrity and Avoiding Conflicts of Interest:** Bank employees and management should act with integrity and avoid situations where their personal interests could conflict with the interests of the bank or its customers.
- ✓ **Compliance with Laws and Regulations:** Banks must strictly adhere to all applicable laws, regulations, and industry codes of conduct. This includes regulations related to anti-money laundering, consumer protection, and financial stability.
- ✓ **Responsible Lending:** Banks should practice responsible lending, carefully assessing the creditworthiness of borrowers and ensuring that they can afford to repay loans without undue hardship. They should avoid predatory lending practices.
- ✓ **Fair Debt Collection Practices:** When customers are unable to repay loans, banks should follow fair and ethical debt collection procedures, treating borrowers with respect and exploring reasonable repayment options.
- ✓ **Community Responsibility:** Banks should consider their impact on the communities they serve and strive to be responsible corporate citizens. This may involve supporting local initiatives, promoting financial literacy, and contributing to sustainable development.
- ✓ **Ethical Marketing and Advertising:** Banks should ensure that their marketing and advertising materials are truthful, not misleading, and do not exploit vulnerable individuals.
- ✓ **Training and Awareness:** Banks should invest in training their employees on ethical principles and conduct to foster a culture of ethical behavior throughout the organization.

(d) Describing the Trends in Banking in Kenya

The banking sector in Kenya has been dynamic and has witnessed significant changes in recent years, driven by technological advancements, evolving customer needs, and regulatory developments. Some key trends in banking in Kenya include:

- ✓ **Mobile Banking Dominance:** Kenya is a global leader in mobile money adoption, with services like M-Pesa playing a central role in financial transactions. Banks have increasingly integrated their services with mobile platforms, offering mobile banking apps for account management, transfers, bill payments, and even accessing loans.
- ✓ **Digital Transformation:** Banks are heavily investing in digital technologies to enhance efficiency, improve customer experience, and expand their reach. This includes online banking platforms, mobile apps, digital lending solutions, and the use of data analytics and artificial intelligence (AI).
- ✓ **Fintech Disruption and Collaboration:** The rise of financial technology (Fintech) companies has brought both competition and collaboration opportunities for traditional banks. Fintechs are often more agile and focused on specific niches, driving innovation in areas like payments, lending, and investment. Banks are increasingly partnering with or acquiring Fintechs to leverage their technologies and reach new customer segments.
- ✓ **Increased Focus on Financial Inclusion:** There is a growing emphasis on bringing more unbanked and underbanked Kenyans into the formal financial system. Banks are developing innovative products and services tailored to the needs of these populations, often leveraging mobile technology and agent banking models.
- ✓ **Branch Transformation and Optimization:** While digital channels are gaining prominence, physical branches still play a role, particularly for complex transactions and customer relationship management. Banks are optimizing their branch networks, often reducing the number of traditional branches and investing in smaller, more digitally enabled service points.
- ✓ **Enhanced Cybersecurity Measures:** With the increasing reliance on digital platforms, cybersecurity has become a critical concern. Banks are investing heavily in strengthening their security infrastructure to protect customer data and prevent cyberattacks.
- ✓ **Sustainable and Green Banking:** There is a growing awareness of environmental and social issues, leading some banks to adopt sustainable and green banking practices, such as offering green financial products and incorporating environmental considerations into their lending decisions.

- ✓ **Regulatory Developments:** The banking sector in Kenya is subject to ongoing regulatory changes aimed at promoting financial stability, protecting consumers, and fostering innovation. These regulations can influence how banks operate and the services they offer.
- ✓ **Data-Driven Banking:** Banks are increasingly leveraging data analytics to gain deeper insights into customer behavior, personalize services, improve risk management, and develop targeted marketing campaigns.
- ✓ **Agent Banking Expansion:** Agent banking, where banks partner with local businesses to offer basic banking services, has expanded significantly, particularly in rural areas, helping to increase accessibility to financial services.

(e) Appreciating the Role of Banking in an Economy

Appreciating the role of banking in an economy involves recognizing its fundamental contributions to economic growth, stability, and social well-being. Banks are more than just places to store money; they are essential pillars of a functioning modern economy:

- ✓ **Facilitators of Economic Activity:** By channeling savings into productive investments and providing credit, banks enable businesses to expand, create jobs, and generate wealth, driving overall economic activity.
- ✓ **Promoters of Financial Stability:** A well-regulated and sound banking system is crucial for financial stability. Banks play a role in managing risks and ensuring the smooth functioning of payment systems.
- ✓ **Drivers of Innovation:** The banking sector's adoption of new technologies and development of innovative financial products and services can lead to greater efficiency, convenience, and economic opportunities.
- ✓ **Supporters of Social Development:** By promoting financial inclusion and providing access to credit and savings facilities, banks can empower individuals and communities, contributing to social development and poverty reduction.
- ✓ **Essential for International Trade and Finance:** Banks facilitate cross-border transactions and provide the financial infrastructure necessary for international trade and investment, fostering global economic integration.
- ✓ **Contributors to Government Revenue:** Through taxes and fees, the banking sector contributes to government revenue, which can be used to fund public services and infrastructure development.

- ✓ **Creators of Employment Opportunities:** The banking industry provides a wide range of job opportunities, contributing to employment and income generation.
- ✓ **Guardians of Savings:** Banks provide a safe and secure environment for individuals and businesses to store their savings, protecting their wealth and encouraging future investment.

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STRAND 2.0: BUSINESS AND ITS

ENVIRONMENT

Sub-Strand 2.1: Business Activities

Detailed Notes:

(a) Explaining the Concept of Needs and Wants as Used in Day-to-Day Life

In economics and business, the terms "needs" and "wants" are fundamental to understanding human behavior and the driving forces behind economic activity. While both relate to things people desire, they have distinct meanings:

- ✓ **Needs:** These are basic requirements for human survival and well-being. They are essential for physical health and maintaining a minimum standard of living. Needs are generally limited and universal across different cultures, although the specific ways they are met may vary.

❖ Examples of Needs:

- ✚ **Food:** Essential for nourishment and survival.
- ✚ **Water:** Crucial for hydration and bodily functions.
- ✚ **Shelter:** Protection from the elements and a place to rest.
- ✚ **Clothing:** Necessary for warmth, protection, and social decency.
- ✚ **Healthcare:** Essential for treating illnesses and maintaining health.
- ✚ **Basic Education:** Fundamental for acquiring knowledge and skills for survival and participation in society.
- ✓ **Wants:** These are desires for goods and services that go beyond basic survival. Wants are often influenced by culture, society, advertising, and personal preferences. They are generally unlimited and can vary significantly from person to person and across different societies.

❖ Examples of Wants:

- ✚ **Luxury cars:** Beyond basic transportation.
- ✚ **Designer clothing:** More about fashion and status than basic covering.
- ✚ **Expensive vacations:** Leisure and enjoyment beyond basic rest.
- ✚ **Latest gadgets:** Technological advancements that are not essential for survival.
- ✚ **Gourmet food:** Elaborate and often costly meals beyond basic nutrition.
- ✚ **Entertainment systems:** For leisure and enjoyment.

Key Differences between Needs and Wants:

Feature	Needs	Wants
Definition	Basic requirements for survival and well-being	Desires beyond basic survival; often influenced by culture and preferences
Nature	Limited and relatively universal	Unlimited and highly variable
Urgency	Often urgent for survival	Generally less urgent
Satisfaction	Meeting them provides basic sustenance	Meeting them provides comfort, pleasure, or status

Understanding the distinction between needs and wants is crucial for businesses because it

- ✚ Helps them identify target markets,
- ✚ Develop products and services that cater to these desires, and
- ✚ Understand consumer behavior.

Businesses strive to satisfy both needs and wants, but the focus and marketing strategies may differ depending on which they are addressing.

(b) Analysing the Types of Economic Resources in Satisfaction of Human Needs and Wants

Economic resources, also known as factors of production, are the inputs used to produce goods and services that satisfy human needs and wants. These resources are scarce, meaning their availability is limited relative to the unlimited wants of society. The four main types of economic resources are:

- ✚ **Land:** This encompasses all natural resources available on or under the earth's surface. It includes:
 - ❖ **Raw materials:** Minerals, oil, forests, water, etc.
 - ❖ **Fertile land:** Used for agriculture.
 - ❖ **Space:** Used for building factories, offices, and infrastructure.
 - ❖ **Characteristics of Land:**
 - ✓ **Fixed in supply:** The total amount of land is finite.
 - ✓ **Immobile:** Land cannot be moved from one place to another.
 - ✓ **Differences in quality:** Some land is more fertile or resource-rich than others.
 - ✓ **Passive factor:** Land itself does not produce anything without the application of other resources.
 - ❖ **Reward for Land:** Rent.

✚ **Labour:** This refers to the human effort, both physical and mental, used in the production of goods and services. It includes the skills, knowledge, and abilities of the workforce.

❖ **Characteristics of Labour:**

- ✓ **Human effort:** Requires physical or mental exertion.
- ✓ **Perishable:** Labour capacity is lost if not utilized.
- ✓ **Heterogeneous:** Workers possess different skills and levels of expertise.
- ✓ **Mobile:** Labour can move geographically and occupationally (to some extent).
- ✓ **Active factor:** Labour is essential for transforming other resources into goods and services.
- ❖ **Reward for Labour:** Wages and salaries.

✚ **Capital:** This includes all manufactured or human-made resources used in the production of other goods and services. It does *not* refer to money itself, but rather to the tools, machinery, equipment, factories, and infrastructure used in production.

❖ **Characteristics of Capital:**

- ✓ **Man-made:** Created through the combination of other resources.
- ✓ **Used in production:** Aids in the creation of goods and services.
- ✓ **Depreciable:** Capital goods wear out or become obsolete over time.
- ✓ **Mobile:** Capital goods can often be moved.
- ✓ **Increases productivity:** Enables more efficient production.
- ❖ **Reward for Capital:** Interest.

✚ **Entrepreneurship:** This is the ability and willingness to take risks, organize the other factors of production (land, labour, and capital), and innovate to produce goods and services.

Entrepreneurs are the driving force behind business creation and economic development.

❖ **Characteristics of Entrepreneurship:**

- ✓ **Risk-taking:** Willingness to invest time, effort, and capital in uncertain ventures.
- ✓ **Innovation:** Developing new products, processes, or markets.
- ✓ **Organization:** Combining and managing the other factors of production effectively.
- ✓ **Decision-making:** Making strategic choices about production and business operations.
- ✓ **Profit-oriented:** Driven by the desire to create value and earn profits.

❖ **Reward for Entrepreneurship: Profit.**

These economic resources are essential for satisfying the unlimited needs and wants of society.

Businesses combine these resources in various ways to produce the goods and services that consumers demand. The scarcity of these resources necessitates making choices about what to produce, how to produce it, and for whom to produce it.

(c) Investigating the Importance of Business Activities in the Society

Business activities play a crucial and multifaceted role in society, contributing significantly to its economic, social, and overall well-being. Here are some key aspects of their importance:

- ✓ **Provision of Goods and Services:** The primary role of business is to produce and distribute the goods and services that satisfy the needs and wants of individuals and organizations within society. From basic necessities like food and shelter to more complex products and services, businesses ensure their availability.
- ✓ **Creation of Employment:** Businesses are major employers, providing jobs for a significant portion of the population. Employment generates income, improves living standards, and contributes to economic stability.
- ✓ **Generation of Income and Wealth:** Business activities create income for individuals (through wages, salaries, profits) and wealth for the economy as a whole (through production, sales, and investment). This wealth can be reinvested for further growth and development.
- ✓ **Contribution to Economic Growth:** Successful businesses contribute to the Gross Domestic Product (GDP) of a country through their production and sales. Their growth and expansion are key drivers of economic development.
- ✓ **Innovation and Technological Advancement:** Businesses are often at the forefront of innovation, developing new products, services, and processes. Competition in the business world encourages the adoption of new technologies and leads to improvements in efficiency and quality of life.
- ✓ **Improvement of Living Standards:** By providing a wider variety of goods and services, creating employment, and driving innovation, businesses contribute to higher living standards for the population. Access to better products, healthcare, education, and entertainment is often facilitated by business activities.
- ✓ **Payment of Taxes:** Profitable businesses pay various taxes to the government, which are then used to fund public services such as infrastructure, education, healthcare, and security.
- ✓ **Social Responsibility and Community Development:** Increasingly, businesses are recognizing their social responsibilities. They may engage in activities that benefit the community, such as

environmental sustainability initiatives, charitable donations, and support for local development projects.

- ✓ **Facilitation of Trade and Commerce:** Businesses engage in buying, selling, and distributing goods and services, both domestically and internationally, facilitating trade and commerce within and between societies.
- ✓ **Meeting Evolving Needs and Wants:** As society evolves, so do its needs and wants. Businesses constantly adapt and innovate to meet these changing demands, ensuring that consumers have access to the products and services they desire.

In essence,

- ✓ Business activities are the engine that drives modern economies and significantly shapes the societies in which they operate.
- ✓ Their contributions are essential for progress, prosperity, and the overall well-being of individuals and communities.

(d) Classifying Business Activities in an Economy

Business activities in an economy can be classified in various ways based on their nature, purpose, and the stage of production they are involved in. Here are some common classifications:

- ✓ **By Sector of the Economy:** This is a broad classification based on the primary type of economic activity:
 - ❖ **Primary Sector:** Involves the extraction and production of raw materials from nature. Examples include agriculture (farming, fishing, forestry), mining, and oil and gas extraction.
 - ❖ **Secondary Sector:** Involves the processing and manufacturing of raw materials into finished or semi-finished goods. Examples include manufacturing industries, construction, and power generation.
 - ❖ **Tertiary Sector:** Involves the provision of services to individuals and other businesses. Examples include retail, wholesale, transportation, finance, healthcare, education, tourism, and entertainment.
 - ❖ **Quaternary Sector:** Sometimes considered a sub-sector of the tertiary sector, it involves knowledge-based activities such as research and development, information technology, consulting, and education.
 - ❖ **Quinary Sector:** Represents high-level decision-making roles in government, business, education, and other organizations. It involves top executives and policy makers.
 - ✓ **By Function:** This classification focuses on the main activities performed by a business:
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- ❖ **Production:** Activities involved in creating goods or services (e.g., manufacturing, farming, service delivery).
- ❖ **Marketing:** Activities involved in promoting and selling goods or services (e.g., advertising, sales, market research).
- ❖ **Finance:** Activities related to managing the money and financial resources of the business (e.g., raising capital, budgeting, accounting).
- ❖ **Human Resources:** Activities related to managing the workforce (e.g., recruitment, training, employee relations).
- ❖ **Research and Development (R&D):** Activities focused on innovation and creating new products, services, or processes.
- ❖ **Purchasing/Procurement:** Activities involved in acquiring the necessary resources (materials, supplies, equipment) for the business.
- ✓ **By Size:** Businesses can be classified based on their scale of operations:
 - ❖ **Small-Scale Enterprises (SSEs):** Typically characterized by a small number of employees, low capital investment, and localized operations.
 - ❖ **Medium-Scale Enterprises (MSEs):** Larger than SSEs in terms of employees and capital, with a wider market reach.
 - ❖ **Large-Scale Enterprises (LSEs):** Have a significant number of employees, substantial capital investment, and often operate in national or international markets.
- ✓ **By Ownership:** This classification depends on who owns and controls the business:
 - ❖ **Sole Proprietorship:** Owned and run by one person.
 - ❖ **Partnership:** Owned and run by two or more individuals who agree to share profits or losses.
 - ❖ **Limited Liability Company (LLC):** A hybrid structure that offers the limited liability of a corporation but the pass-through taxation of a partnership or sole proprietorship.
 - ❖ **Corporation:** A legal entity separate from its owners (shareholders), offering limited liability. Can be private or public (listed on a stock exchange).
 - ❖ **Cooperatives:** Owned and run by their members, who share the benefits.
 - ❖ **Public Sector Enterprises:** Owned and controlled by the government.
- Understanding these different classifications helps in analyzing the structure of an economy,
- ✓ The roles of various types of businesses, and
- ✓ The factors that influence their operations.

(e) Examining the Micro and Macro Factors that Affect Business Activities

Business activities do not operate in a vacuum. They are constantly influenced by a range of factors that can either facilitate or hinder their success. These factors can be broadly categorized into micro and macro environments:

Micro Environment (Internal and Immediate External Factors): These are factors that have a direct and immediate impact on a specific business.

- **Customers:** The target market for a business's products or services. Factors include customer needs, wants, preferences, purchasing power, and loyalty. Changes in customer demand can significantly affect sales and profitability.
- **Competitors:** Other businesses that offer similar products or services. Understanding competitors' strengths, weaknesses, strategies, and market share is crucial for developing a competitive advantage.
- **Suppliers:** Businesses that provide the resources (raw materials, components, services) needed for production. Factors include supplier reliability, pricing, quality of supplies, and payment terms. Disruptions in the supply chain can severely impact a business.
- **Employees:** The workforce of the business. Factors include employee skills, motivation, productivity, wages, and labor relations. A skilled and motivated workforce is essential for efficient operations.
- **Owners/Shareholders:** The individuals or entities that own the business. Their objectives, investment decisions, and influence on management can shape the direction of the business.
- **Intermediaries:** Businesses that help in distributing and selling the products or services, such as wholesalers, retailers, and agents. Their effectiveness and relationships with the business are important.
- **Publics:** Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. These can include media, government agencies, local communities, and special interest groups. Their opinions and actions can affect the business's reputation and operations.

Macro Environment (Broader External Factors): These are larger societal forces that affect all businesses in an economy to varying degrees. A business typically has little or no control over these factors. Often remembered using the **PESTEL** acronym:

- ✓ **Political Factors:** Government policies, regulations, political stability, trade agreements, tax laws, and legal frameworks can significantly impact business operations and profitability.

- ✓ **Economic Factors:** Economic conditions such as inflation rates, interest rates, exchange rates, economic growth, unemployment levels, and consumer income affect demand, costs, and investment decisions.
- ✓ **Social Factors:** Cultural norms, values, demographics, lifestyle changes, education levels, health consciousness, and social trends influence consumer preferences and the way businesses operate.
- ✓ **Technological Factors:** Advancements in technology, automation, research and development, and the adoption of new technologies can create opportunities and threats for businesses. They can affect production processes, product development, and market access.
- ✓ **Environmental Factors:** Growing awareness of environmental issues, regulations related to pollution and sustainability, climate change, and the availability of natural resources can impact business operations and consumer preferences.
- ✓ **Legal Factors:** Laws related to consumer protection, labor practices, competition, environmental regulations, and intellectual property rights can impose constraints and create obligations for businesses.

Businesses need to constantly monitor and adapt to changes in both their micro and macro environments to remain competitive and successful. Understanding these factors helps in strategic planning, risk management, and identifying opportunities.

(f) Appreciating the Importance of Business Activities in an Economy

Appreciating the importance of business activities in an economy involves recognizing their fundamental role in driving economic prosperity, social well-being, and overall development. As previously discussed, businesses are the engines that power modern economies through:

- Creating wealth and income.
- Generating employment opportunities.
- Providing essential goods and services.
- Driving innovation and technological progress.
- Contributing to government revenue through taxes.
- Improving living standards and quality of life.
- Facilitating trade and commerce.
- Responding to evolving societal needs and wants.
- Potentially contributing to social responsibility and community development.
- ✓ Without vibrant and thriving business activities, an economy would stagnate, and the quality of life for its citizens would likely decline.

- ✓ Businesses not only satisfy our material needs and wants but also provide opportunities for personal and professional growth, drive progress, and contribute to the overall dynamism of society.
- ✓ Recognizing their importance encourages a supportive environment for entrepreneurship and business development, which is crucial for sustained economic growth and societal advancement.

Sub-Strand 2.2: Types of Business Ownership

(a) Exploring the Formation, Management, Sources of Finance, Advantages, and Disadvantages of a Sole Proprietorship Business Enterprise in Kenya

A **sole proprietorship** is a business owned and run by one person, and there is no legal distinction between the owner and the business. The owner receives all profits but is also personally liable for all business debts.

Formation:

- ✓ **Simplicity:** It is the easiest form of business to start.
- ✓ **Minimal Legal Requirements:** Generally involves registering the business name with the relevant government authority (e.g., the Business Registration Service - BRS in Kenya).
- ✓ **No Separate Legal Entity:** The business is not a separate legal entity from the owner.

Management:

- ✓ **Owner as Manager:** The owner typically makes all the decisions and manages all aspects of the business.
- ✓ **Flexibility:** The owner has complete control and can make quick decisions.
- ✓ **Direct Contact with Customers:** The owner often has close relationships with customers.
- ✓ **Heavy Workload:** The owner is responsible for all tasks, which can be demanding.

Sources of Finance:

- ✓ **Personal Savings:** The owner's own funds are the primary source of initial capital.
- ✓ **Loans from Family and Friends:** Informal borrowing from close relations.
- ✓ **Trade Credit:** Obtaining goods or services from suppliers with an agreement to pay later.
- ✓ **Small Business Loans:** Banks and other financial institutions may offer loans to sole proprietors, often requiring collateral.
- ✓ **Microfinance Institutions (MFIs):** These institutions provide small loans and other financial services to small businesses and individuals.

Advantages:

- ✓ **Ease of Formation:** Simple and inexpensive to set up.
- ✓ **Complete Control:** The owner makes all decisions and retains all profits.
- ✓ **Direct Incentives:** The owner directly benefits from the success of the business.
- ✓ **Flexibility in Decision-Making:** Quick adaptation to changing market conditions.
- ✓ **Secrecy:** Financial information and business plans are not shared with partners or shareholders.
- ✓ **Close Customer Contact:** Owner often builds strong relationships with customers.
- ✓ **Tax Advantages:** Profits are taxed as the owner's personal income (in Kenya, subject to individual income tax rates).

Disadvantages:

- ✓ **Unlimited Liability:** The owner is personally liable for all business debts. Personal assets (e.g., house, car) can be at risk.
- ✓ **Limited Capital:** Funding is primarily limited to the owner's personal resources and borrowing capacity.
- ✓ **Difficulty in Raising Large Sums:** Attracting significant investment is challenging.
- ✓ **Heavy Workload and Responsibility:** The owner bears all the responsibilities of running the business.
- ✓ **Lack of Continuity:** The business may cease to exist if the owner dies, becomes incapacitated, or decides to retire.
- ✓ **Limited Skills and Expertise:** The owner may lack expertise in all areas of business management.
- ✓ **Difficulty in Attracting Skilled Employees:** May not be able to offer competitive salaries and benefits compared to larger businesses.

(b) Examining the Formation, Management, Sources of Finance, Advantages, and Disadvantages of a Partnership Business Enterprise in Kenya

A **partnership** is a business owned and run by two or more individuals (partners) who agree to share in the profits or losses of a business. The terms of the partnership are usually outlined in a partnership agreement.

Formation:

- ✓ **Agreement:** Formed by a voluntary agreement between two or more individuals.

- ✓ **Partnership Deed:** It is advisable to have a formal written agreement (partnership deed) that outlines the partners' contributions, responsibilities, profit/loss sharing ratios, and procedures for dissolution.
- ✓ **Registration:** Partnerships are required to register their business name with the Business Registration Service (BRS) in Kenya.
- ✓ **No Separate Legal Entity:** Like sole proprietorships, a general partnership is not a separate legal entity from its owners. Partners have joint and several liability.

Management:

- ✓ **Shared Responsibility:** Management responsibilities are typically shared among the partners, as outlined in the partnership agreement.
- ✓ **Collective Decision-Making:** Major decisions usually require the consent of all or a majority of the partners.
- ✓ **Specialization:** Partners can specialize in different areas of management based on their skills and expertise.
- ✓ **Potential for Disagreements:** Differences in opinion among partners can lead to management challenges.

Sources of Finance:

- ✓ **Partners' Contributions:** Each partner contributes capital to the business as agreed in the partnership deed.
- ✓ **Loans from Banks and Financial Institutions:** Partnerships may have a better chance of securing loans compared to sole proprietorships due to the combined financial strength of the partners.
- ✓ **Trade Credit:** Similar to sole proprietorships, partnerships can obtain goods or services on credit from suppliers.
- ✓ **Retained Earnings:** Profits generated by the business can be reinvested.
- ✓ **Potential for More Capital:** The combined resources of multiple partners can provide a larger capital base than a sole proprietorship.

Advantages:

- ✓ **Ease of Formation:** Relatively easy to set up compared to companies.
- ✓ **More Capital:** Combined financial resources of partners.
- ✓ **Shared Responsibility and Expertise:** Partners can share the workload and bring diverse skills and knowledge.
- ✓ **Relatively Easy to Obtain Loans:** Banks may be more willing to lend to partnerships.

- ✓ **Tax Advantages:** Profits are usually taxed as the partners' individual income (in Kenya, subject to individual income tax rates).
- ✓ **Potential for Growth:** More resources and shared management can facilitate expansion.

Disadvantages:

- ✓ **Unlimited Liability:** In a general partnership, all partners have joint and several liability for the business debts. Each partner can be held responsible for the full amount of the debt, even if it was caused by another partner.
- ✓ **Potential for Disagreements:** Conflicts among partners can arise regarding management decisions, profit sharing, and business direction.
- ✓ **Lack of Continuity:** The partnership may dissolve if a partner dies, withdraws, or becomes bankrupt.
- ✓ **Frozen Investment:** It can be difficult for a partner to withdraw their investment without dissolving the partnership.
- ✓ **Binding Actions:** Each partner can act on behalf of the partnership and bind the other partners to contracts and obligations.
- ✓ **Profit Sharing:** Profits must be shared among the partners according to the agreed ratio, which may not always be satisfactory to all.

(c) Analysing the Formation, Types, Management, Sources of Finance, Advantages, and Disadvantages of a Cooperative for Economic Growth

A **cooperative** is an autonomous....

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