

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

- 1 (a) Benefits that may accrue to a country with a large proportion of skilled labour force include:
- (i) Saving on foreign exchange that would have been used to pay expatriates/imported labour.
  - (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) Eases/simplify setting of wage/employment policy due to abundance/availability of skilled labour/may reduce labour strife/unrest.
  - (x) Increased government revenue due to income taxes levied.
  - (xi) Increased foreign exchange due to export of skilled labour.
  - (xii) Enhances entrepreneurial 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/variety of taxes/should net many tax payers.
- (ix) Difficult to evade. Should not create loopholes for people to avoid.
- (x) Should regulate the economy.

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 tariffs.
- (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.
- (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                   | <u>395,000</u> |                  |                |
| Goods available for sale         | 470,000        |                  |                |
| Less: Closing stock              | <u>170,000</u> |                  |                |
| Cost of Goods Sold               | 300,000        |                  |                |
| Gross profit c/d (40% x 500,000) | <u>200,000</u> |                  |                |
|                                  | <u>500,000</u> |                  | <u>500,000</u> |
| General expenses                 | 60,000         | Gross profit b/d | 200,000        |
| Net profit                       | <u>212,000</u> | Rent income      | <u>72,000</u>  |
|                                  | <u>272,000</u> |                  | <u>272,000</u> |

(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     | <u>212,000</u> | 1,212,000        |
| Furniture      | <u>430,500</u> | 790,500          |                     |                |                  |
| Current assets |                |                  | Current Liabilities |                |                  |
| Stock          | 170,000        |                  | Creditors           |                | 101,550          |
| Debtors        | 62,250         |                  |                     |                |                  |
| Bank           | 202,000        |                  |                     |                |                  |
| Cash           | <u>88,800</u>  | <u>523,050</u>   |                     |                |                  |
|                |                | <u>1,313,550</u> |                     |                | <u>1,313,550</u> |

(9 x ½ = 4½ marks)

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

- (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

(b)

**Jumo Traders**

| <b>Three Column Cash Book</b> |       |               |          |         |           |    |          |               |           |
|-------------------------------|-------|---------------|----------|---------|-----------|----|----------|---------------|-----------|
| Dr                            | Date  | Details       | Discount | Cash    | Bank      |    | Date     | Details       | Cr        |
|                               |       |               | Shs      | Shs     | Shs       |    |          |               | Shs       |
|                               | Jan 1 | Bal b/d       |          | 22,500  | 250,000   |    | Jan 15   | Ndaru Traders | 16,000    |
|                               | 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    |
|                               | 29    | Bank (c)      |          | 250,000 |           | 29 | Cash (c) |               | 255,000   |
|                               | 30    | Cash (c)      |          |         | 150,000   |    | 30       | Bank (c)      | 150,000   |
|                               |       |               |          |         |           |    | 31       | Bal c/d       | 59,700    |
|                               |       |               | 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.

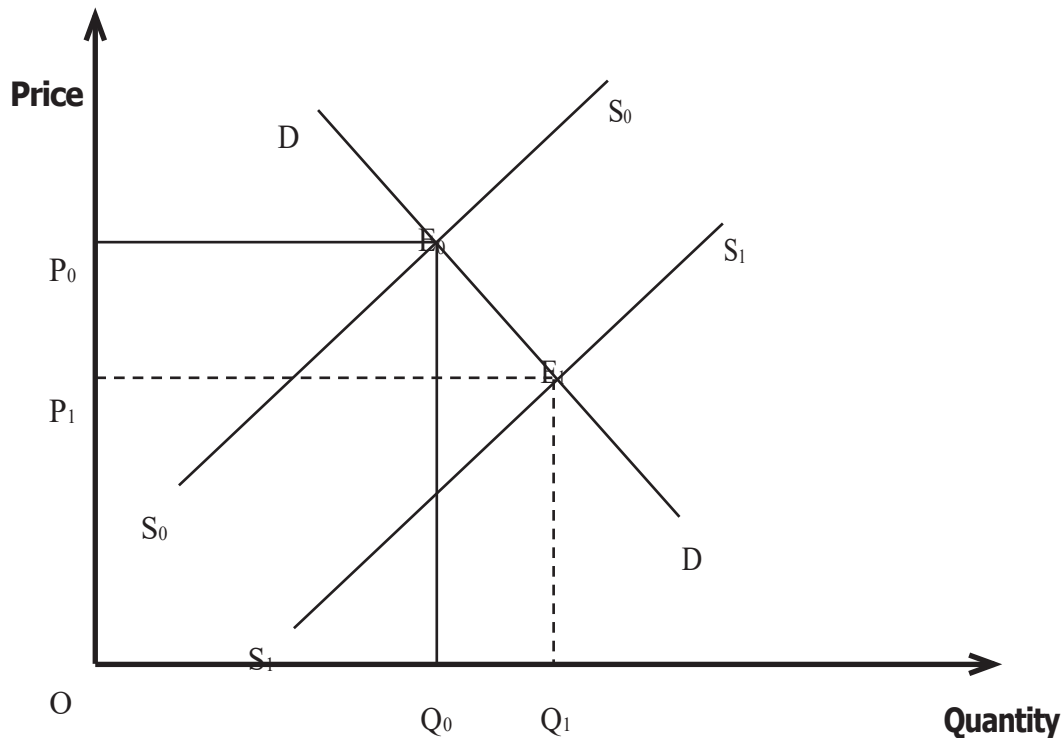
Any 6 @ 2 = 12 marks

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

- (i) A resolution by the shareholders to dissolve the company. When there is 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 illegal/unlawful. When the laws of a country bars certain activities that the company 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 with another and a new one replaces the one combining/creates a new entity.
- (v) Take overs/acquisition/absorption - a company may be dissolved if it is taken over by another/or by the government through acquisition of majority shares hence redirection of its activities/loss of identity.
- (vi) Realization of sustained / continuous losses. A company may be dissolved when it makes losses continuously to the extent of not being able to meet its recurrent 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 remains constant:



Other factors remaining the same, the price of a commodity will fall from  $P_0$  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  $S_0$  to  $S_1$ .

The increase in supply causes excess supply/surplus.

This lowers price to the new equilibrium price  $P_1$  and equilibrium quantity  $Q_1$ .

Diagram - 16 @  $\frac{1}{2}$  = 8 marks

Explanation - 4 @  $\frac{1}{2}$  = 2 marks

Total = 10 marks

(b) Features of oligopoly include:

- (i) Firms are interdependent in decision making. Firms keenly observe each others' actions/decision hence acting in any way triggers counter reactions (from 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 aspects like colour/packaging/shapes/pricing/branding.
- (iii) Firms may engage in non-price competition/collusive oligopoly. The firms under oligopoly may avoid price wars hence only compete via other means 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 within 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 modern technology in their production activities/control substantial share of the 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 possible entrants into the market/intimidation/collusion.
- (vii) Firms may engage in price wars/rivalry/cut throat competition which may lead to survival/collapse of some firms.
- (viii) May lead to price rigidity/kinked demand occasioned 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