

BUSINESS STUDIES PAPER 2

No.1a. Explain five factors that may promote entrepreneurship in Kenya. (10 marks)

- ❖ *Government support/ favourable government policies/ funding regulation (of business activities) may encourage the emergence expansion of business venture.*
- ❖ *Training/ in education entrepreneurship/ trainees are equipped with skills/ knowledge to undertake entrepreneurial activities to start businesses.*
- ❖ *Entrepreneurial culture/ cultural practices that encourage entrepreneurship through early exposure to business activities opportunities/ positive attitude towards business.*
- ❖ *Presence of role model interaction with successful business people who may inspire/ create interest in entrepreneurship/ business ownership.*
- ❖ *Availability of capital/ loans/ credit facilities for start expanding a business (may facilitate entrepreneurship).*
- ❖ *Political stability/ non political interference that creates a confused environment for starting/ running expanding business.*
- ❖ *Availability of market/ market information.*
- ❖ *Availability of security- that ensure safety of businesses/ property/ business owners.*
- ❖ *Healthy/ fair competition that business owners can withstand/ be safe with.*
- ❖ *Good government that ensures accountability in conducting business activities.*
- ❖ *Availability of technology that can lead to the production of desired quality/ quantity of goods/ services.*
- ❖ *Employment creation for self/ others.*
- ❖ *Independence/ needs to earn an income/ livelihood.*

No.1b.Explain five circumstances under which a partnership may be dissolved. (10 marks)

- ❖ *Temporary partnership/ (/expiry of time / accomplishment of purpose / where the partnership was formed for a definite time /for a particular purpose)hence the expiry of time / accomplishment of purpose terminates the partnership*
- ❖ *Mutual / voluntary agreement among partners / where the partners agree among themselves(to terminate the partnership), when they may have no alternative for whatever reason.*
- ❖ *Bankruptcy/ insanity of a partner where (a court declares) the value of one of the partner's property insufficient to settle his or her debt. / due to loss of contractual capacity.*
- ❖ *Change in law/ government policy that makes the operation of the partnership illegal.*
- ❖ *Permanent inability of a partner to perform / fulfill part of the partnership agreement either as a result of diseases / ill health / incapacitation.*
- ❖ *Internal dissension / disagreement among partners / disagree irreconcilably then the partnership may be terminated.*
- ❖ *Persistent losses in operation / where the business has continued to operate at a loss then it is terminated hence making it difficult to meet its financial obligations.*

- ❖ Court orders (where the partnership was formed under) due to fraud / mistake / misrepresentation / breach of law / partnership agreement court of law may order it dissolution.
- ❖ Request by one / some partners to dissolve the partnership hence having to abide by their wish / granting their wish.
- ❖ Withdrawal / admission of a partner which changes the status of the partnership.
- ❖ Death of a partner which alters the composition of a partnership / which may necessitate a new agreement / arrangement.

**No.2a..Explain five advantages of government involvement in business.
(10 marks)**

- ❖ Provision of essential services / goods for fair / reasonable prices / affordable.
- ❖ Provision of large capital investment / undertake ventures that require large sums – which private sectors may not be able to raise / without which development would be minimal.
- ❖ Protection of citizens / to protect citizens from exploitation / malpractices by business.
- ❖ Stimulation of economic development by developing social amenities / infrastructure / roads / injecting funds into the economy / through development projects.
- ❖ Creation of employment / to create jobs (for its citizens) to earn a living / improve standards of living.
- ❖ Income generation / to generate government revenue through taxation / activities.
- ❖ Stabilization of the economy – through regulation / market intervention.
- ❖ Promote equity / fairness in distribution of resources
- ❖ Control use of resources – through conservation / legislative measures / ensure their sustainability.
- ❖ Maintenance of law / order – which allows for smooth operations (of country's affairs).
- ❖ Promotion of best practices through encouraging adoption of ICT / good governance / social programmes / inclusivity.
- ❖ Promoting a country's identity / image – through cultural programmes / branding initiatives / participation in international competition / fairs.
- ❖ Reduce foreign dominance / promote a country's sovereignty by regulating foreign participation / encouraging local participation in the economy.
- ❖ Promotion of entrepreneurship cultures by encouraging business ownership / training / funding businesses.
- ❖ Promotes investment in the country by creating enabling environment.

No.2b.Traders are required to observe ethical practices when carrying out product promotion. Explain five reasons for observing such ethical practices.(10 mrk)

- ❖ *To ensure fair competition.*
- ❖ *To protect consumers/ customers.*
- ❖ *To protect the environment.*
- ❖ *To protect the rights of employees.*
- ❖ *To promote social responsibility.*
- ❖ *To maintain a positive image.*
- ❖ *To abide by the country's laws,*
- ❖ *To maintain suppliers.*
- ❖ *To promote positive cultural practices.*

No.3a.Explain five methods of determining the price of a product other than price control (10 marks)

- ❖ *Bargaining / Haggling – terms of exchange is negotiated / argued / debated between buyers and sellers.*
- ❖ *Demand and supply / price mechanism interactions between forces of demand and supply.*
- ❖ *Auction – prices determined by the highest bidder.*
- ❖ *Tendering – Prices determined by the (lowest) bidder who meets the required specifications.*
- ❖ *Retail price maintenance / recommended retail price / products price fixing / price fixing where producers / manufacturers agree on the price of commodities.*
- ❖ *(Price) collusion – where different market players such as buyers / sellers conspire to fix the price.*
- ❖ *Taxation / subsidy – which will influence the selling / buying price.*
- ❖ *Private treaty – a sale of property at a price agreed on by the seller and buyer without an intervening agency.*

No.3b .Explain five benefits that may be realised by a country as a result of government policy to relocate industries to rural areas (10 marks)

- ❖ *Increased availability of variety of goods and services as a result of new businesses in the area,*
- ❖ *Availability of auxiliary services - citizens would enjoy more and better auxiliary services like transport,*
- ❖ *Increased job opportunities - there will be more jobs available that would reduce unemployment,*
- ❖ *Increased utilization of locally available resources - locally available factors of production will be used and the citizens would earn rewards associated with them,*
- ❖ *Improved standard of living as development of the rural areas increases the quality and variety of goods and services,*
- ❖ *Reduced congestion in towns - this would benefit the few citizens remaining in the city,*
- ❖ *Balanced economic development as economic activities are spread throughout the country.'*
- ❖ *Transfer of technology to rural areas which leads to production of better quality goods/ services,*
- ❖ *Creation of market for goods/ services produced in rural areas.*

No.4a. On 1st January 2015, Ndovu Traders had Ksh 30,000 in cash and Ksh 75,000 at the bank.

During the month, the following transactions took place:

January 2: Bought goods in cash worth Ksh 15,500.

5: Received cash from Chui Ksh 23,750 after allowing 5% cash discount.

8: Withdrew Ksh 8,900 from the bank for personal use.

11: Maro, a debtor settled her account of Ksh 16,800 by a cheque of Ksh 16,000.

15: Sales amounted to Ksh 24,250 in cash.

17: Paid Furaha traders Ksh 29,100 in cash in full settlement of their account less

3% cash discount.

20: Withdrew Ksh 15,000 from the bank for business use.

22: Koko a debtor settled her account of Ksh 40,000 by cheque less 2.5% cash discount.

25: Paid wages Ksh 21,000 cash

Required: Prepare a duly balanced three column cash book. (12 marks)

Date	Details	Discount Allowed	Cash (shs)	Bank (shs)	Date	Details	Discount Received	Cash (shs)	Bank (shs)
Jan 1 st	Bal b/d		30,000	75,000	Jan 2 nd	Purchases		15,500	
Jan 5 th	Chui	1,250	23,750		Jan 8 th	Drawings			8,900
Jan 11 th	Maro	800		16,000	Jan 17 th	Furaha	900	29,100	
Jan 15 th	Sales		24,250		Jan 20 th	Cash			15,000
Jan 20 th	Bank		15,000		Jan 25 th	Wages		21,000	
Jan 22 nd	Koko	1,000		39,000	Jan 30 th	Bal c/d		27,400	106,000
	Bal b/f								
		3,050	93,000	130,000			900	93,000	130,000
			27,400	106,100					

**NDOVU TRADERS
THREE COLUMN CASH BOOK**

No.4b .The following balances were extracted from the books of Rehema Traders on 1st January 2015.

	Ksh
Capital	600,000
Creditors	180,000
Motor van	200,000
Furniture	200,000
Stock	60,000
Debtors	80,000
Cash	240,000

The following transactions took place during the year ended 31st December 2015:

- (i) Sold furniture worth Ksh 60,000 for which Ksh 40,000 cash was received and the balance was due at the end of the year.
- (ii) Purchased goods worth Ksh 100,000 for which cash of Ksh 70,000 was paid and the balance was still outstanding at the end of the year.
- (iii) Cash Ksh 10,000 was taken from the business by the proprietor to settle the spouse's hospital bill.

Required: Outline the effect of each transaction on the items of the balance sheet.(8 marks)

Rehema Traders Balance Sheet As at 31 December 2007			
	Kshs.	Kshs.	Kshs.
Fixed Assets			Capital
Motor Van	200,000		600,000
			Less drawing
			<u>10,000</u>
			590,000
Furniture	140,000	340,000	Current Liabilities
			Creditors
			210,000
<u>Current Assets</u>			
Stock	160,000		
Debtors	100,000		
Cash	200,000	460,000	
		<u>800,000</u>	
			<u>800,000</u>

No.5a ..Explain five guidelines that may be used by the government of a country to promote efficient use of her resources. (10 marks)

- ❖ *Maximum social benefit/optimal benefit.* Government spending should benefit as many people as possible.
- ❖ *Flexibility.* Should be elastic enough to accommodate changing circumstances.
- ❖ *Economy.* Should be capable of being changed to accommodate prevailing economic circumstances.
- ❖ *Equity.* Should aim at distributing incomes fairly.
- ❖ *Sanction.* Government spending must be approved by the relevant authority to enhance accountability.
- ❖ *Accounting.* Proper accounting records should be kept to facilitate good financial management.
- ❖ *Productivity.* A larger proportion of the national income should be spent on development projects.
- ❖ *Surplus.* Expenditure should be less than the total revenue collected.
- ❖ *Elasticity* - should be capable to being expanded/contracted depending on the size of the economy.

No.5b. Explain five disadvantages that a country may face if she restricted trade with other countries. (10 marks)

- ❖ *Reduced competition – leading to low quality goods/ services*
- ❖ *Reduced/ low consumer goods – trade restriction reduces the availability of goods/ services available to consumer leading to low state of living.*
- ❖ *Retaliation/ trading partners are likely to retaliate – leading to loss of business (between two involved/ reduced export/ imports)*
- ❖ *Reduced/ low investment – due to limited trading opportunities*
- ❖ *Reduced limited market – hence under exploitation of available resources/ reduced production capacity.*
- ❖ *Inappropriate allocation of resources – It may force the use her resources in areas where she has no comparative interest/ not best suited in.*
- ❖ *Cost to the government – (This may happen) if measures are used (to enhance restriction / by encouraging import substitution) meet part of the costs.*
- ❖ *Reduced/ loss of government revenue earned from import/ export services not exported.*
- ❖ *Leads to increased unemployment due to reduced trading activities.*
- ❖ *Poor international relations which may lead to conflicts/ friction, among countries/ may not get assistance in times of calamities.*
- ❖ *Curtailed transfer of technology/ factors of production that may lead to poor quality goods low quantity of products.*
- ❖ *Reduced/ limited supply of goods/ services which may adversely affect consumers (access / examples of adverse effect as explanation)*
- ❖ *Encourages smuggling/ black marketing leading to loss of revenue/ entry of counterfeit goods/ services.*

No.6a. On 1st September 2015, Gondi had Ksh 55,000 in hand and Ksh 250,000 at bank. During the month, the following transactions took place:

- September 2 Cash sales banked Ksh 35,260
- 3 Bought ribbons in cash Ksh 4,500
- 8 Paid Wangila, a creditor Ksh 94,000 by cheque in full settlement of his account after deducting 6% cash discount
- 12 Received a cheque for Ksh 58,800 from Wetu after allowing her a cash discount of Ksh 1,200
- 15 Paid salaries Ksh 34,000 in cash
- 25 Withdrew Ksh 50,000 from bank for office use
- 28 Anyango, a debtor paid her account of Ksh 75,000 by cheque less 10% - cash discount
- 30 Deposited all the cash into bank except Ksh 13,700

Required: Prepare a three column cash book and balance it off. (10 marks)

Date	Particulars	Disc	Cash	Bank	Date	Particulars	Disc Rec'd	Cash	Bank
Sept. 1	Balance b/d	Shs	Shs 55,000	Shs 250,000	Sept. 3	Ribbons	Shs	Shs 4,500	Shs
Sept 2	Sales			35,260	Sept. 8	Wangila	6,000		94,000
Sept 12	Wetu	1,200		58,800	Sept. 15	Salaries		34,000	
Sept. 25	Bank(c)		50,000		Sept.25	Cash(c)			50,000
Sept. 28	Anyango	7,500		67,500	Sept.30	Bank(c)		52,800	
Sept. 30	Cash (c)			52,800	Sept. 30	Bal.c/d		13,700	320,360
		8700	105,000	464,360			6,000	105,000	464,360
Oct. 1	Bal. b/d		13,700	320,360					

No.6b .. Outline five reasons that may influence the government to start a parastatal. (10 marks)

- ❖ To provide strategic goods and services.
- ❖ To increase revenue collection.
- ❖ To encourage import substitution industries/ to discourage importation.
- ❖ To encourage foreign investment.
- ❖ To reduce foreign influence.
- ❖ To address special social needs.
- ❖ To take care of sensitive ventures.
- ❖ To take care of business that requires a large initial capital.
- ❖ To create employment.
- ❖ To provide goods & services all over the country.
- ❖ To stimulate economic development.
- ❖ To provide essential goods and services at low cost.
- ❖ To promote competition with private sector in security.
- ❖ To provide goods and services with low returns (low profits).
- ❖ To regulate business activities.