

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

1. (a)	<p><b>Ways in which the internal environment may contribute to the success of a business. <del>Comprehensive</del> <del>Final</del> <del>Version</del></b></p> <ul style="list-style-type: none"> <li>(i) A functional business structure. Formal arrangement of functions and the relationships of people that is directed towards achievement of organizational goals.</li> <li>(ii) Employment of qualified, skilled and experienced personnel. When the correct labour force is acquired and correctly matched to their jobs, then performance is enhanced.</li> <li>(iii) Proportionate allocation of financial resources. The business finances are allocated to activities based on percentage contribution to the organization's success.</li> <li>(iv) Access to relevant physical resources like buildings, machinery, furniture and other equipment to complement human effort.</li> <li>(v) Appropriate technology. Effective methods of production boosts the quantity and quality of output.</li> <li>(vi) Positive business culture. Productivity is enhanced when culture matches the expectations, beliefs and values of the staff.</li> <li>(vii) Realistic objectives. Setting objectives that are simple, measurable, achievable and specific.</li> </ul>	<p><b>Any 5 x 2 = 10 marks</b></p>
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(b)	<p><b>Channels of distribution that a Kenyan manufacturer would use to ensure their goods reach consumers in another country include:</b></p> <ul style="list-style-type: none"> <li>I. Kenyan → Wholesaler → Retailer → Consumer              Manufacturer (Foreign) (Foreign) (Foreign)</li> <li>II. Kenyan → Import → Retailer → Consumer              Manufacturer Agent</li> <li>III. Kenyan → Manufacturer's → Consumer              Manufacturer Agent in the foreign country</li> <li>IV. Kenyan → Manufacturer's → Retailer → Consumer              Manufacturer Representative</li> <li>V. Kenyan → Foreign              Manufacturer Consumer</li> <li>VI. Kenyan → Manufacturer's → Wholesaler → Retailer → Consumer              Manufacturer Representative</li> <li>VII. Kenyan → Retailer → Consumer              Manufacturer (Foreign) (Foreign)</li> </ul>	<p><b>Any 5 x 2 = 10 marks</b></p>
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2. (a)	<b>Differences between chain stores and departmental stores include:</b>		<b>Any 5 x2 = 10 marks</b>
<p><b>CHAIN STORES</b></p> <p>PDF Compressor Free Version</p> <ul style="list-style-type: none"> <li>i. Have different towns.</li> <li>ii. Purchases are centralized.</li> <li>iii. Have standardized prices in all branches.</li> <li>iv. Has uniform outward appearance and interior layout in all branches.</li> <li>v. Management of the stores is centralized.</li> <li>vi. Slow moving goods in one branch can be moved to another where demand for them is higher.</li> <li>vii. A customer can pay for goods in one branch and collect them from another branch.</li> </ul>	<p><b>DEPARTMENTAL STORES</b></p> <ul style="list-style-type: none"> <li>i. Have different departments within the same building.</li> <li>ii. Purchases are made per department.</li> <li>iii. Every department sets its own prices.</li> <li>iv. Each department is different from the other in terms of outward appearance and interior layout.</li> <li>v. Each department has its own management.</li> <li>vi. Slow moving goods in one department cannot be moved to another department.</li> <li>vii. Goods paid for in a department can only be collected from that department.</li> </ul>		

(b)

**OJWANG LIMITED**  
**TRADING, PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED 31/12/2013**

Dr.					Cr
	Shs	Shs		Shs	Shs
Opening stock		200,000	Sales	1,200,000	
Add: Purchases	680,000		Less: Returns in	<u>50,000</u>	1,150,000
Add: Carriage in	<u>42,000</u>				
	722,000				
Less: Returns out	<u>80,000</u>	<u>642,000</u>			
COGAFS		842,000			
Less: Closing stock		<u>80,000</u>			
COGS		762,000			
Gross Profit c/d		<u>388,000</u>			
		<u>1,150,000</u>			<u>1,150,000</u>
<b>Expenses</b>			Gross profit b/d		388,000
Carriage out		30,000	Discount received		45,000
Rent		50,000	Rent income		60,000
Discount allowed		80,000			
Net profit		<u>333,000</u>			
		<u>493,000</u>			<u>493,000</u>

(20 x ½ = 10 marks)

3. (a)	<p><b>Benefits that a private limited company would get by converting to a public limited company include:</b></p> <ol style="list-style-type: none"> <li>i. Ability to raise larger amounts of capital. Converting to a public limited company will enable the firm to access more funds by selling shares to members of the public through the stock exchange.</li> <li>ii. Enjoy permanency of capital. Shareholders cannot easily withdraw the shares bought in public limited companies, such shares can only be sold to other investors.</li> <li>iii. Increased transparency and accountability. The shareholders must scrutinize and approve the company's annual audited accounts which must also be published.</li> <li>iv. Increased public confidence in the company. This is due to increased exposure to the public and control by the stock exchange.</li> <li>v. Freedom from interference by owners as it operates as a separate legal entity in which owners have no direct managerial control.</li> <li>vi. Increased professionalism and specialization in management. It is mandatory to have professional managers and staff to run the company on behalf of the shareholders.</li> <li>vii. Perpetual succession. The firm is assured of continuity since shares can be transferred and membership changed without affecting the business.</li> </ol>	Any 5 x 2 =10 marks
(b)	<p><b>Disadvantages of using direct taxes to raise revenue include:</b></p> <ol style="list-style-type: none"> <li>i. Direct taxes are very unpopular with the citizenry. The burden of paying this tax is borne directly by the individual taxpayer and is paid at once or even in advance.</li> <li>ii. Gives the taxpayer motivation to evade tax payment. The tax payer may come up with ways of concealing their income in order to avoid paying the tax or reduce the amount to be paid.</li> <li>iii. Non-consultation of taxpayers in the determination of the tax rate. The determination of the rate and amount of tax to be paid is at the discretion of the tax authorities.</li> <li>iv. Not an adequate source of government revenue. Most people in developing countries are low income earners hence limiting the amount of tax revenue from this source.</li> <li>v. Reduced ability to save and invest. Direct taxes take away money from the citizens hence reducing their purchasing power causing low investments.</li> <li>vi. Tax payers are not involved in the expenditure of the tax revenue. There is low civic involvement and call for government accountability since tax payers do not make decisions on government expenditure.</li> <li>vii. May encourage capital flight. Foreign investors may conceal their profits in order to transfer such earnings to other countries.</li> </ol>	Any 5 x 2 =10 marks

4. (a)

**Dagoretti Enterprises**  
**Cash Book**  
**for the Month of March 2016**

<b>Dr</b>					<b>Cr</b>				
Date	Details	Folio	Cash (shs)	Bank (shs)	Date	Details	Folio	Cash (shs)	Bank (shs)
1/3/16	Bal. c/d		15,300		1/3/16	Bal. b/d			8,200
4/3/16	Harrison		4,600	13,400	3/3/16	Purchases		10,200	
6/3/16	Chebets			9,310	5/3/16	Wages			5,000
7/3/16	Otieno		7,720		8/3/16	Hassan		5,450	
9/3/16	Cash			6,000	9/3/16	Bank		6,000	
12/3/16	Mwende		8,570		10/3/16	Insurance			3,700
13/3/16	Makokha			11,200	11/3/16	Repairs		3,900	
29/3/16	Cash			10,640	14/3/16	Water bill			2,590
					15/3/16	Rent			6,500
					29/3/16	Bank		10,640	
					31/3/16	Bal c/d		-	24,560
			<b>36,190</b>	<b>50,550</b>				<b>36,190</b>	<b>50,550</b>
	Bal b/d		-	24,560					

20 x ½ = 10 marks

4. (b)	<p><b>Factors that one may consider when selecting a means for communicating include:-</b></p> <ol style="list-style-type: none"> <li>i. Confidentiality of the message. The means should safeguard the content of the message from being accessed by unauthorized people.</li> <li>ii. Accuracy of the means. Should be able to deliver the message in its original form without distortions.</li> <li>iii. Urgency of the message. The means should be fast enough to ensure timely delivery of the message.</li> <li>iv. Need for feedback. The means should allow for response/action where necessary.</li> <li>v. Affordability of the means. The sender must be able to meet the cost of the means so chosen.</li> <li>vi. Nature of the message. A combination of means could be chosen if the message is very complex.</li> <li>vii. Need for future reference. The means must be able to provide evidence if future reference will be required.</li> <li>viii. Capacity of the means. The means should allow the required volume of information to be passed at an agreeable speed.</li> <li>ix. Reliability of the means. The means should be able to deliver the information to the receiver as intended.</li> <li>x. Availability of the means. The means should be readily available</li> <li>xi. Type/nature of audience/Recipients. The means chosen should be appropriate/suitable to the needs of the audience.</li> </ol>	<p><b>Any 5 x 2 = 10 marks)</b></p>
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5. (a)	<p><b>Demerits of the output approach in measuring national income include:</b></p> <ol style="list-style-type: none"> <li>i. It excludes crucial services that contribute to national income but <b>PDF Compressor! Get Version</b> services, and self-employment. It is difficult to make a decision about the goods and services to include in this measure.</li> <li>ii. Problem of subsistence sector/output. It is difficult to value subsistence output.</li> <li>iii. Some activities considered illegal generate a lot of income but are not included in the measure of national income. These activities inject a lot of money into the economy.</li> <li>iv. Difficulty in valuing stock at the end of the accounting year as this differs with their value at production.</li> <li>v. Difficulty in determining the increase in value as a result of increasing volumes of output. Final price is usually affected by market forces.</li> <li>vi. Difficulty in deciding on the value to use when making records. The values keep changing in line with market forces.</li> <li>vii. It is difficult to determine the value of depreciation hence failure to record accurately the value of capital goods.</li> <li>viii. Fluctuations in prices which may cause output to appreciate.</li> </ol>	Any 5 x 2 =10 marks
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(b)	<p><b>Circumstances under which a country may realize surplus in its balance of payment include:</b></p> <ol style="list-style-type: none"> <li>i. When the country exports highly valued finished products. The demand for such products is high and they fetch higher prices in the international market.</li> <li>ii. When the country mainly imports lowly valued primary goods. These cheap imports are converted into finished goods hence earning profits from international trade.</li> <li>iii. When the country aggressively promotes its exports. This will create more market for exporting goods thus increasing the country's earnings.</li> <li>iv. When the country devalues its currency. This makes imports more expensive forcing local consumers to buy locally produced goods while exports become cheaper and are sold in large volumes.</li> <li>v. When the country enjoys favourable economic order. The country may be able to influence the world market prices to favour its exports.</li> <li>vi. When the country diversifies its exports. The country increases the range of its exports hence becoming more competitive.</li> <li>vii. When the country has access to adequate capital and technology. This makes the country to have a highly developed manufacturing and processing sector.</li> </ol>	Any 5 x 2 =10 marks
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6. (a)	<p><b>Methods that the government may use to increase the supply of goods in the market include:</b></p> <p><b>PDF Compressor Free Version</b></p> <ol style="list-style-type: none"> <li>i. Reduce the taxes levied on producers. This causes a reduction in the cost of production hence motivating producers to increase production.</li> <li>ii. Increase subsidies. The government meets part of the production cost hence making production more affordable.</li> <li>iii. Eliminating quotas on production. By not limiting the quantity of goods to be produced, the producers are free to supply as much as they can to the market.</li> <li>iv. Setting favourable producer prices. The government fixes the prices at a high level which encourages emergence of new producers/ expansion of existing ones.</li> <li>v. Improving access to credit. The government extends loans to producers through bodies like K.I.E., IDB and ICDC to boost investment in production.</li> <li>vi. Facilitating marketing. The government may form agencies that buy produce to cushion producers and stabilize selling prices e.g. through NCPB</li> <li>vii. Availing new research findings and technology to producers. New methods of production from government research bodies like KARI, KIRDI, KEFRI will help boost supply.</li> </ol>	<p><b>Any 5 x 2 =10 marks</b></p>
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(b)	<p><b>Factors that may promote the growth of entrepreneurship in Kenya include:</b></p> <ol style="list-style-type: none"> <li>i. Development of a positive culture that values individuals who are successful entrepreneurs, recognizes and holds them highly.</li> <li>ii. Relevant education curriculum. The training in business is made part of the curriculum hence preparing the youth at an early age to become entrepreneurs.</li> <li>iii. Presence of role models. Successful businessmen are an encouragement and a motivation to the youth and would-be entrepreneurs to also go into business.</li> <li>iv. Government support. Policies passed by the government that put in place institutions that support entrepreneurship like the youth fund.</li> <li>v. Diminishing jobs in the formal sector. Since formal employment is becoming difficult to secure, entrepreneurship becomes the only viable alternative.</li> <li>vi. Availability of finances. The financial institutions support businesses and provide loans to the entrepreneurs hence supporting the growth of entrepreneurship.</li> <li>vii. Positive peer influence. When people see their peers succeeding in business, they get motivated and also try their hands at it.</li> <li>viii. Availability of security that ensures the safety of business owners/property.</li> <li>ix. Availability of market. Ready market where they can sell their produce is a motivating factor to venture into business.</li> <li>x. Good infrastructure. This facilitates the conduct of business, access to markets, raw materials and movement of factor inputs.</li> </ol>	<p><b>Any 5 x 2 =10 marks</b></p>
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