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 expartriates/ 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) Easen/simpilify setting of wage/employment policy due to abundance/ availability of skilled labour/may reduce labour stife/unrest.
(x) Increased government revenue due to income taxes levied.
(xi) Increased foreigh exchange due to export of skilled labour.
(xii) Enhances entrepreneural culture since skilled labour is more willing to undertake risks.
(xiii) Adaptability/flexibility as they are ready to embrace changes.

Any 5 @ 2 = 10 marks

(b) Characteristics of an efficient tax system are:

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

Any 5 @ 2 = 10 marks

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

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

Any 5 @ 2 = 10 marks

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

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

Any 5 @ 2 = 10 marks

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

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

Any 5 @ 2 = 10 marks

(b) (i)

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

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

(11 x ½ = 5½ marks)

(b) (i)

Soilo Traders
Balance Sheet
As at 31st December 2010

	Shs	Shs		Shs	Shs
Fixed assets			Capital	1,000,000	
Machinery	360,000		Add: Net profit	212,000	1,212,000
Furniture	430,500	790,500			
Current assets			Current Liabilities		
Stock	170,000		Creditors		101,550
Debtors	62,250				
Bank	202,000				
Cash	88,800	523,050			
		1,313,550			1,313,550

(9 x ½ = 4 ½ marks)

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

(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

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

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

(20 x ½ = 10 marks)

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

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

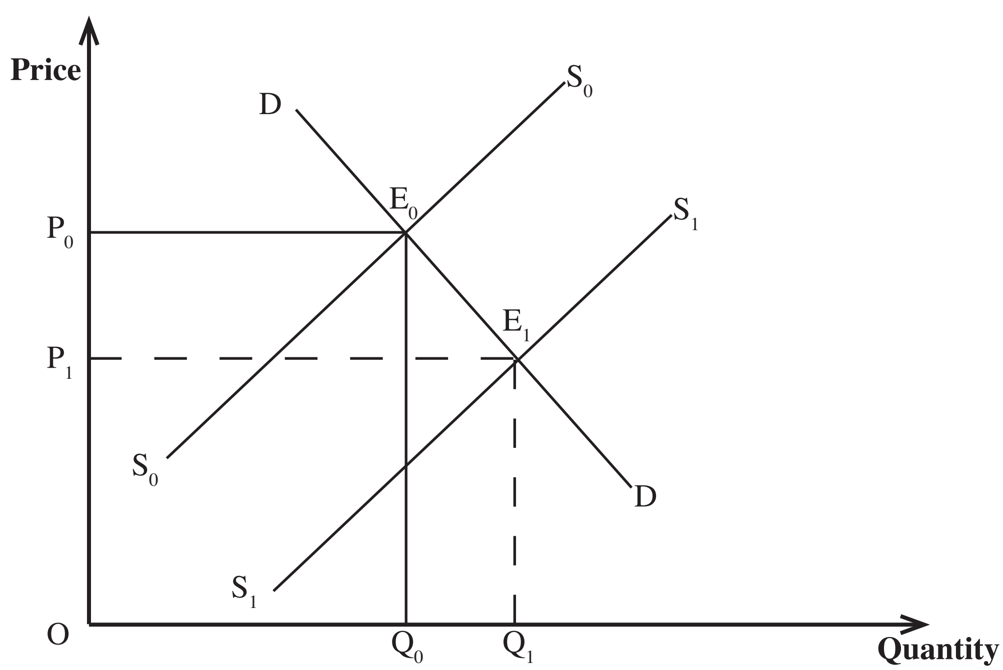
Any 6 @ 2 = 12 marks

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

(i) A resolution by the shareholders to dissolve the company. When there 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_0S_0 to S_1S_1.
The increase in supply causes excess supply/surplus.
This lowers price to the new equilibrium price oP_1 and equilibrium quantity oQ_1.

Diagram - 16@½ = 8 marks
Explanation - 4 @ ½ = 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 substancial 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 occassioned by fear of other firms' reactions.
(ix) There may be price leadership where the dominant firm dictates the market price/rules the market.

Any 5 @ 2 = 10 marks