* + 1. **Business Studies Paper 2 (565/2)**

1. (a)

| ***Public Limited Company*** | ***Partnership*** |
| --- | --- |
| (i) Membership is a minimum of seven  Shareholders  (ii) Shares can be transferred freely  without consent of others members  (iii) Members have limited liability  (iv) Managed by people appointed by  the board of directors  (v) Regulated by Articles/memorandum  of Association/Company Act  (vi) Pay corporation tax  (vii) Has legal entity/can sue or be sued  under its name | (i) Membership is a minimum of  two partners  (ii) shares/capital contribution can only  be transferred with consent of other  partners  (iii) No limited liability for partners (At  least one partner has unlimited  liability incase of limited partnership)  (iv) Managed by partners themselves  (Active partners)  (v) Regulated by partnership deed/  Partnership agreement/articles  of partnership/partnership Act  (vi) Does not pay corporation tax  (vii) Has no legal entity/individual  Partners can be sued  ***(Any 5 x 2 = (10 marks))*** |

(b)

Average Costs

Average

Cost (Decreasing)

(Increasing)

(Optimum output)

Output/Quantity

For a firm with fixed production capacity, the average costs are high in the beginning as they are divided among few production units. As production increases, the average costs fall, since the costs are divided among more production units (the firm experiences economies of scale). The average costs will then fall to a minimum level then start to rise again as more costs are incurred over time (the firm experiences diseconomies of scale). ***(10 marks)***

2 (a)

* High rate of unemployment as demand for jobs outstrips the available job opportunities.
* Rate of crime/social evils may rise. As the youth remain idle, they are likely to resort to crime and other social evils as they look for means of survival.
* Constraints on goods/services associated with young people as demand outstrips supply.
* Dependency ratio will rise as economically active population will shoulder a bigger burden.
* Reduced savings/investments. Investments will decline as a result of high rate of consumption by young people. This may lead to low development.
* Low per capita income. Since the National Income will be spread over a large non-contributing population which may lead to a low standard of living.
* Problem of raising government revenue which may force the government to divert resources meant for other sectors to cater for the young.
* Low labour supply as many young people may not have attained the working age nor acquired the required skills and experience. ***(10 marks)***

(b)

| **Date** | **Particulars** | **Dis** | **Cash** | **Bank** | **Date** | **Particulars** | **Disc**  **Rec’d** | **Cash** | **Bank** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Shs | Shs | Shs |  |  | Shs | Shs | Shs |
| Sept. 1 | Balance b/d |  | 55,000 | 250,000 | Sept.3 | Ribbons |  | 4,500 |  |
| 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 | Ban k(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 |
|  |  | 8,700 | 105,000 | 464,360 |  |  | 6,000 | 105,000 | 464,360 |
| Oct. 1 | Bal. b/d |  | 13,700 | 320,360 |  |  |  |  |  |

***(20 x ½ = 10 marks)***

3 (a)

* Proper planning is put in place so that good results can be anticipated and also accommodate future changes.
* Relevant strategies may be established so as to achieve desired results.
* Setting clear goals and objectives so as to achieve the intended results.
* Providing and using organizational resources efficiently and effectively. This involves budgeting to avoid wastage and misuse.
* Proper time management to ensure set activities (tasks) are accomplished within the required time.
* Good supplier/customer/employee relations to attract and retain them (suppliers, employees and customers).
* Corporate social responsibility is fostered. This builds on the image and reputation of the company.
* Compliance with legal requirements in order to operate smoothly and avoid conflict with law enforcement authorities.
* Motivation of employees to increase productivity.
* Proper organization to avoid overlap/duplication of duties.
* Proper direction to ensure activities are geared towards achieving the set goals.
* Identifying the required skills/training relevant staff for smooth running of the organization
* Monitoring/evaluating/checking that planned activities take place in order to achieve desired results.
* Proper co-ordination to reduce conflicts. ***(Any 5x2=10 marks)***

(b)

* Tidiness is maintained in the office as documents are arranged neatly.
* Quick access to information since documents are coded/serialized.
* Safety of information from damage by bad weather, fire etc is minimized.
* Saves on storage space since documents are kept is a compact manner.
* Encourages prompt decision making as information is readily available.
* Encourages transparency and accountability since the movement of documents can be monitored.
* Security of information/documents against loss from theft and misplacement.
* Safeguards secret and confidential information as documents are kept away from unauthorized access.
* Facilitates storage/safekeeping of information/documents for future reference.

***(Any 5x2=10 marks)***

4 (a)

* Where the producer lacks adequate storage. The wholesaler may relieve the producer of the storage costs.
* Where goods require bulk breaking. The wholesaler may re-package the goods in smaller quantities as required by customers.
* Where there is need to prepare goods for final sale. The wholesaler may pack, brand, blend, grade sort and weigh goods to the relief of the producer.
* Where the market is wide and the goods have to be distributed far. The wholesaler will reach the consumer more easily.
* Where the producer would want feedback on the market status. The wholesaler may reach consumers through the retailers and get feedback regarding the product more easily.
* Where the producer would want to engage wholesaler to assist with advertising so as to save on costs.
* Where the producer wants to sell in bulk since the wholesalers can afford to buy in large quantities.
* Where the producer lacks transport, the wholesaler would relieve him of the cost.
* Where it is the government policy to distribute through wholesalers then the producer would have no choice.
* Where the marketing risks are high since the wholesalers can bear some of the risks.
* Where the producer wants to concentrate/specialize in production, then the distribution can be handled by wholesalers.
* Where the producer needs to maintain fewer records by dealing with wholesalers who are few.

***(Any 5x2=10 marks)***

4 (b) (i) Sales = Cash Sales - Drawings

= 420,200 – 25,000

= Sh.395,200

(ii) Purchases = Cash Purchases

= Shs. 260,000

(iii) Commission receivable A/c

Shs. Shs.

Balance b/d 8,400 Cash 36,400

Profit and Loss 38,200 Balance c/d 10,200

46,600 46,500

(N.B. Accept vertical format)

(iv) Insurance expenses A/c

Shs Shs

Balance b/d 16,200 Profit and Loss A/c 27,000

Cash 14,800 Balance c/d 4,000 31,000 31,000

***(10 marks)***

5. (a)

* Compulsory deposits/special deposits/increase minimum reserve requirements. The Central bank may require that commercial banks deposit a certain amount of their cash with the central bank.
* Selective credit control/credit rationing. The government through the central bank may require that certain sectors of the economy be assisted financially.
* Open market operations. The government may instruct the central bank to sell government securities/stocks/bonds in the open marker/stock exchange.
* Raise interest rates - High interest rates may be offered for savings to encourage more deposits.
* Raise cash/liquidity ratio thereby leaving commercial banks with less money to lend.
* Raising the bank rate leading to credit/loans becoming more expensive.
* Raising margin requirement to discourage borrowing.
* Moral suasion by government appealing to commercial banks to reduce lending to the public.
* Reducing government expenditure by suspending some projects.
* Raising taxes to reduce disposable income hence lower purchasing power.
* Surplus budgeting by spending less than the income raised. ***(Any 4x2=8 marks)***

(b)

* Where there is need to protect local/infant industries which may not withstand competition from established foreign industries.
* Where there is need to control dumping to prevent adverse effects on the economy.
* Where balance of trade/payment continues to deteroriate to reduce payment on imports.
* Where goods are hazardous/harmful for consumption in order to protect the health of consumers.
* Where goods involved are a security risk to the country to ensure peace and stability.
* Where it is necessary to counter the actions of trading partners as a retaliatory measure.
* Where there is need to avoid imported inflation arising from overpriced imports.
* Where it is politically expedient to do so in order to promote good governance in another country.
* Where there is need to safeguard local employment which may be lost through entry of cheap imports.
* Where there is need to avoid overdependence on imports which may lead to political blackmail.
* Where there is need to avoid overexploitation of resources which may cause their depletion.
* Where there is need to build reserves of strategic commodities to avoid shortages in meeting local demands. ***(Any 6x2=12 marks)***

6 (a)

* Where goods sold are of technical nature and may need advice/demonstration on use.
* Where expertise is required in installation and the trader has technical knowledge/ability/ backup.
* Where the product is new in the market and the trader requires feedback on the product’s performance.
* Where competition is stiff and the trader uses after sales services as a product promotional tool to win more customers and increase sales.
* Where expertise is required in maintenance/service/repairs and the trader is able to provide the service.
* Where it is the policy of the business as a way of improving customer relations and improve business image.
* Where it is the government policy, the trader will have no option.
* Where the nature of the product is such that is requires specialized transport and the trader can provide it. ***(Any 4x2=8 marks)***

(b)

Simba traders

Profit and Loss Account

For the year ended 31st December 2006\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Shs Shs Shs. Shs

Salaries 322,600 Gross profit b/d 210,000

Rent 14,800 Discount received 14,500

Add. owing 2,400 17,200 Net loss c/d 354,850

Interest on loan 36,000

Depreciation

Motor vehicle 187,500

Furniture 16,050 203,550

579,350 579,350

Simba Traders

Balance Sheet

As at 31st December 2006

Fixed Assets Shs. Shs. Shs. Shs.

Motor Vehicle 750,000 Capital 800,000

Less: Depreciation 187,500 562,500 Less: net Less 354,850

Furniture 160,500 Less: Drawings 60,800 384,350

Less: Depreciation 16,050 144,450

Current Assets L.T Liabilities

Stock 45,600 Bank Loan 200,000

Debtors 130,200 175,800 S.T. Liabilities

Creditors 260,000

Rent unpaid 2,400

Interest Due 36,000 298,400

882,750 882,750

***(24 x ½ = 12 marks)***