

FORM FOUR CLUSTER KCSE MODEL1

BUSINESS STUDIES PAPER 2 ANSWER

1. (a) Challenges to under population to the country.

- i) Limited labour supply to carry out production activities.
- ii) Limited market - a small population may not offer enough market for goods and services. It may even lead to closure of existing businesses Under utilization of available resources.
- iii) Some of the available resources may be unexploited due to lack of people to make use of them.
- iv) Uneconomical to provide goods and services - the cost of providing essentials and social amenities by the government may be very high to a small population and especially if the population is scattered.
- v) Lack of specialization which leads to production of low quality goods and services. Citizen therefore has low standards of living.
- vi) Owing to lack of less competition and underutilization of available resources, citizens are not creative and innovative which redness phase of economic growth and development.

(b) Ways in which commercial banks have enhanced development of business activities in the Country.

- Acts as a referee to business which intend to get credit facilities
- Give advisory services to business people on investment possibilities
- Guarantees payment for overseas suppliers by issuing a letter of credit
- Facilities payment among business people in form of cash/cheques/credit transfer etc.
- They offer safe custody/safe keeping of money
- They offer credit facilities/lending money through savings/current and fixed deposit
- Acting as a trusted execution of wills in management of properties of deceased persons to beneficiaries
- Agents of the stock exchange/companies they assist traders to buy shares
- Custodians of valuables/valuable items e.g. A Land title deed, certificates, wills etc
- Availing foreign currency to importers thus assisting in international trade

2. (a) Factors that have limited the adoption of containerization

- i) Initial cost/ expensive - The initial cost of acquiring the containers is high
- ii) Volume of business - This may be too small to warrant such an investment
- iii) Equipment - The specialized equipment for handling containers is expensive to buy
- iv) Ports - It requires total re-designing of existing ports which could be quite expensive or the technology may be lacking
- v) Skilled personnel - The management skills that are required to monitor the system may be lacking, or are expensive to acquire or hire

(b) Cash received and cash payment journals.

Cash received journal

Date	Details	Receipt	Ledger Folio	Discount Allowed	Cash	Bank
June 2	Sales	063			50,000✓	
6	Kemunto	064	C	3200✓		76,800✓
18	Bank				30,000✓	
21	Mwikali	065		600✓	16,500✓	
30	Sales	066				150,000✓
				3800✓	96,500✓	226,800✓

(½x10=5mks)

Cash payment journal

Date	Details	Receipt no	Ledger Folio	Discount Allowed	Cash	Bank
June 3	Salary/wages	083				101,500✓
12	Omwambi	0656		800✓	39,200✓	
18	Cash	C				30,000✓
22	Furniture	734				85,000✓
23	Drawings				5,000	24,000✓
28	Wages	801			24,000	
				800	62,800	216,500

(½x10=5 mks)

3. (a) Importance of business plan to an entrepreneur.

- i) Business plan helps in the allocation of the resources.
- ii) It helps in determining the amount of capital required.
- iii) Identifying strength/weakness of business.
- iv) Reducing mistakes.
- v) Adaptability.
- vi) Funding by financial institutions.

(b) Ordinary shares and debentures are both sources of capital to limited liability companies.

Outline FIVE differences between them.

Ordinary shares	Debentures
1. Shares are irredeemable capital	They are redeemable capital.
2. They are unit of capital.	They are units of loans.
3. Share holder earns dividend.	Holders earn interest.
4. Shareholders has voting rights.	Holders has no voting rights.
5. Dividends are paid only when declared.	Interest on loans must be paid annually.
6. Shares do not have security.	Loans have security.

4. (a) Explain SIX factors influencing the choice of a distribution channel
- a) Nature of product- perishable commodities are usually sold directly to the consumer or through retailer
 - b) The intermediaries - as different intermediaries performs functions differently, the firm may have to select the channel that would be convenient to it
 - c) Resources and size of the firm- size of the firm determines the size of its market and the channel to be used
 - d) Competitions - where the firm wishes to have its product compete directly with that of a

competitor, it would select channel that is used by the competitors

e) Government policies - the distributors of certain products is controlled by government policies where such product are involved, the chain of distribution should be consistent with government policy

f) Geographical distribution of consumers - if consumers are concentrated within a small region then shorter chance of distribution would be appropriate g) Fashion ,taste and preference -if a commodity has a high risk due to change in fashion ,it will need to be sold as fast as possible ,thus a shorter chain of distribution

(b) Outline five circumstances under which an insurance contract may be terminated.

a. When the policy expires - since it becomes invalid after expiry

b. Failure by insured to pay premiums as agreed- since it will be breach of contract

c. When the risks insured against- has occurred and the property has fully been compensated

d. When the insurer discovers that the insured does not have the insurable interest

e. when the insured voluntarily-decides to terminate the contact e.g whole life policy

5. (a) Factors that may cause a shift in a good's supply curve to the left:

□ Prices of other goods - the supply of one good may decrease if the price of another good increases, causing producers to reallocate resources to produce larger quantities of the more profitable good.

□ Number of sellers - less sellers result in less supply, shifting the supply curve to the left.

□ Prices of relevant inputs - if the cost of resources used to produce a good increases, sellers will be less inclined to supply the same quantity at a given price, and the supply curve will shift to the left.

□ Technology - technological advances that reduce production efficiency shift the supply curve to the right.

□ Expectations - if sellers expect prices to increase, they may decrease the quantity currently supplied at a given price in order to be able to supply more when the price increases, resulting in a supply curve shift to the left.

□ Increase in taxation of inputs

□ Decrease in supply of inputs

□ Reduced government subsidies

(b) Reasons why a customer may prefer to buy goods on credit purchase rather than hire purchase

■ There is no deposit required or down payment before goods are released

■ Ownership of the goods passes to the buyer immediately

■ It is a cheaper method of buying

■ The goods cannot be repossessed

■ He can release the goods as he is the legal owner