



MURANG'A UNIVERSITY COLLEGE (MRUC)

A Constituent College of Jomo Kenyatta university of Agriculture and Technology (JKUAT)

**FIRST YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF COMMERCE AND BACHELOR OF BUSINESS INFORMATION TECHNOLOGY**

UNIT HBC – 2102 – INTRODUCTION TO BUSINESS

DATE: APRIL 2013

TIME: 2 HOURS

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.

- Q1. a) What is a partnership? [1 mark]
- b) Outline the contents of a partnership agreement as required by the Kenya Partnership Act of 1963. [10 marks]
- c) "A partnership may have different types of partners". Discuss [14 marks]
- d) Critically discuss the principal advantages of partnerships. [5 marks]
- Q2. a) Giving examples discuss the four major types of economic utility. [8 marks]
- b) Briefly discuss the major elements of inputs in an input – output model of a business firm. [8 marks]
- c) In what ways has land as a factor of production influenced the location of business in Kenya [4 marks]
- Q3. Describe how the following business environments affect the functions of business management.
- a. Political – Legal environment [5 marks]
 - b. Economic environment [5 marks]
 - c. Social – cultural environment [5 marks]
 - d. Demographic environment [5 marks]
- Q4. Explain how business could be socially responsible in each of the following areas:-
- a. The customers [5 marks]
 - b. The employees [4 marks]
 - c. The government [3 marks]
 - d. The suppliers [3 marks]
 - e. The community and general public [5 marks]
- Q5. a. What is sole proprietorship? [4 marks]
- b. Discuss any FOUR advantages of sole proprietorships in a business entity. [16 marks]

MARKING SCHEME

HBC – 2102 – INTRODUCTION TO BUSINESS

1a. Partnership – It is a relationship that exists between two or more persons jointly carrying out a business with the objective of making profit. [1 mark]

b. Contents of a partnership agreement as required by the Kenya partnership Act of 1063 are as follows:-

- i. Name and purpose of business
- ii. Location of business and commencing date
- iii. Name, address and occupation of each partner
- iv. Capital to be contributed and in what ratios.
- v. Interest rates to be paid on capital
- vi. Remuneration of partners
- vii. How profits and losses will be shared
- viii. Drawings allowable each year
- ix. Duties and rights of each partner
- x. Admission, withdrawal and expulsion of partners. [10 x 1 = 10 marks]

c. There are seven types of partnership i.e. general partnership and the limited partnership.

a. - In general partnership all parties are required to have at least one general partner who will carry the burden of the financial liabilities of the entire organization.

- Has unlimited liability, for firms debts.

b. – In a limited partnership there must be at least one general partner and one or more limited partners. Has limited liability in the partnership.

- Limited partners provide capital without assuming financial liability beyond the amount they have invested in the organization.

- A partnership can have a minimum of two and a maximum of twenty members.

c. Active partner – As a partner sharing in every way the capital contribution, management and shares in the profit and liabilities of the business. He is disclosed to the public as a being partner.

- d. Silent partner – Does not participate actively in management of the firm and is NOT disclosed to the public as being a partner.
- e. Nominal partner- is not one of the owners of the firm but allows his name to be identified with the business. He does not contribute any capital nor take part in management of the firm.
- He lends his name to be used by the business for a fee hence enhances firms prestige and reputation.
- f. Quasi partner – One who is presented to the public as a partner, though he contributes no capital and does not participate in management of the firm. He may share profits and liabilities of the firm.
- g. Minor partner – One who serves as a partner but still under the statutory majority of eighteen years(He is a minor) [7 x 2 = 14 marks]

(d) Advantages of partnership

- i. Ease of formation
- ii. Additional sources of capital
- iii. Broader management base i.e. lawyers, finance, sale
- iv. Ease of expansion
- v. sharing of losses and liabilities
- vi. Duration – Partnership have a longer duration than sole proprietorship because retirement of one person cannot interest partnership. [5 x 1 = 5 marks]

2. a. The four major economic utility are:-

- i. Form Utility- Created by converting a given raw material from its original form into another form that yields greater satisfaction e.g. when a bakery uses wheat flour to bake bread scones etc.
- ii. Place utility is a type of utility which is created when an individual trader or company transports products from the factory to location which is more convenient to the customer e.g. moving products from manufacturing warehouse to a retail shop.
- iii. Possession Utility – is created by increasing the desire or willingness to own a product when customers buys the good or service either through self financing or being financed by banks, then possession utility is created.
- iv. Time Utility – This is created by ensuring that the products are made available when customers want them. [4 x 2 = 8 marks]

b. The major elements of inputs in an input – output model of a business firm are.

i. Land – Land refer to all farm land and all natural resources provided by nature e.g. agricultural land, forests, rivers, lakes seas and natural resources are land.

- The use of land which is scarce relative to human wants has to be paid for in form of rent.

- Land as a factor of production explains the existence of a variety of businesses including furniture and food business.

ii. Labour – This refers to all the physical and mental effort exerted in the production of goods services.

- The quantity of labour can be increased by higher birthrates or from inflow of people from other countries.

- Quality on the other hand can be improved through vocational training, better education and better health care.

iii. Capital – refers to funds available for investment or equipment and machinery used by entrepreneurs and managers to produce goods and services.

iv. Entrepreneurship – This is the process of combing land, labour and capital to produce goods and services. [4 x 2 = 8 marks]

c. How land as a factor of production influences location of business in Kenya?

- It provides space to construct firms

- It provides raw materials for firms.

[4 marks]

Q3a. Political – legal environment

i. Laws and regulations (of both central and local govt) such as laws and regulations governing prices, products etc.

ii. Political stability e.g. Stability in the policies and system of a government.

iii. Political climate i.e. whether hostile or sensitive on certain issues.

iv. Judicial system e.g. the procedures adopted by the court.

[5 marks]

b. Economic Environment

- This is determined by the stages of the economy.

1. The stage of the business cycle an economy is in such ad depression, recession, recovery or prosperity.

2. The inflationary or deflationary trend in the prices of goods and services.
3. Monetary policies such as interest rates and devaluation or revaluation of the country's currency relative to other currencies.
4. Fiscal policies such as tax rates for firms and individuals.
5. Balance of payments such as surpluses or deficits relative to foreign trade. [5 marks]

c. Social Cultural Environment

1. Social factors i.e. family, religion, education, health and recreation. The role they play in a society affect business activities in society.
2. Cultural factors e.g. Social values, beliefs customs desires and lifestyles affect the operation of a business enterprise. [5 marks]

d. Demographic Environment

- Demographics refer to the characteristics of a population, such as size of the pop, age, sex distribution, education, income etc. Changes in the demographic factors may favour or disfavour a business in its endeavour to achieve its objectives.
- The physical environment which includes factors such as topography or relief, climate or infrastructure may affect the environment. [5 marks]

Q4. Business has an obligation to be socially responsible to various parties in the society.
The major ones are as follows:-

a) The customers:-

- The business should be socially responsible to customers by:-
 - i. Giving customers/consumers good quality and not defective products.
 - ii. Giving consumers safe products.
 - iii. Educating consumers about products and use of the products.
 - iv. Being fair in the quality and prices of products sold.
 - v. Avoiding misleading advertisements.
 - vi. Making products available and affordable to the consumers.
 - vii. Being fair in their terms of sale to the consumers.
 - viii. Proper labeling, packaging and presentation of products.
 - ix. Responding to consumer complaints.
 - x. conducting ample research before allowing a product on the market. [any 5 x 1 = 5 marks]

b. The Employees

The business should be socially responsible to employees by:-

1. Rewarding employees equitably.
2. Safeguarding employees health and safety.
3. Giving employees equal opportunities in such things as promotions and training.
4. Promoting employees welfare by providing educational, recreational, housing and credit facilities.
5. Effective and efficient personnel administration and industrial relations practices.

[4 marks]

c. The Government

Business should be socially responsible to the government in:-

1. Complying with government laws and regulations.
2. Paying proper taxes.
3. Supporting the government in welfare and development programs.

[3 marks]

d. The Suppliers:-

The major business social responsibilities include.

1. Buying fair in the allocation of tenders to suppliers.
2. Paying the suppliers in good time.
3. Fair and reasonable terms of purchase.

[3 marks]

e. The community and the General public:-

The business could be socially responsible by doing the following;

1. Supporting or providing such things as educational, recreational, cultural, health, transportation, welfare and housing facilities.
2. Active participation in community development programmes.
3. Participate in welfare programmes for the aged, handicapped in the community.
4. By creating employment opportunities, but also by making such opportunities equal to all.
5. Giving due consideration to the minorities and disadvantaged groups in society.
6. Avoiding pollution of the environment.

[5 marks]

5. a Sole proprietorship refers to a form of business organization which is owned, managed and controlled by an individual who is the recipient of all profits and the bearer of all risks.

[4 marks]

b. i. Advantages of sole proprietorship

- a. It is easy to start a one person business because there are few legal intricacies.
- b. Quick decision making.
- c. A sole trader enjoys all the profits from his business and this may encourage him to work harder.
- d. A sole trader is in a better position to establish direct controls with customers and employees.
- e. A sole trader is in a better position to keep the secrets of the business.
- f. Ease of formation and closure – ease to start and close the business as per the wish of the owner.

[any 4 x 2 = 8 marks]

ii. Disadvantages

- a. The sole trader is personally liable for all the debts of the business.
- b. Sole traders are often unable to raise sufficient capital capital funds.
- c. A sole trader may be unable to attract and keep highly qualified persons and may also be unable to retain good employees because of inability to provide them with attractive terms and conditions of service.
- d. Sole proprietorship suffer from lack of continuity. This means that the business is likely to close down if the owner becomes bankrupt, dies or imprisoned.
- e. Sole traders suffer from lack of training or specialization. [any 4 x 2 = 8 marks]