# Grade 11 Business Studies

**CBC NOTES | Terms 1, 2 and 3 - notes for 15 topics**

## IN EVERY TOPIC

- What you will learn, the key words and key terms explained.
- Clear notes under headings and subheadings, with labelled pictures and step-by-step procedures.
- Comparison tables, and advantages and disadvantages where methods are compared.
- Key points to remember, then structured questions to practise.
- All the answers and a glossary at the back.

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# 1.1 Types of Business Ownership

## WHAT YOU WILL LEARN

By the end of this topic you should be able to:

- differentiate between private and public limited companies in relation to formation, management and sources of finance in Kenya
- examine the advantages and disadvantages of private and public limited companies in an economy
- sensitise the local community on the importance of limited companies in a country

## KEY WORDS

limited company, limited liability, shareholder, share capital, director, memorandum of association, articles of association, certificate of incorporation, prospectus, dividend, debenture.

*Many of the biggest businesses in Kenya are limited companies. In this topic you learn what makes a company "limited", how private and public limited companies differ in formation, management and finance, and why they matter to the economy.*

## 1. Limited companies and limited liability

**Limited company**

A business owned by shareholders and registered under the Companies Act, 2015. Once registered it is a separate legal person: it can own property, sign contracts, sue and be sued in its own name, and it continues to exist when shareholders change or die (perpetual succession).

**Limited liability**

A shareholder can lose only the money put into the company (or agreed to be paid for the shares). Personal property such as a house or car cannot be taken to pay the company's debts.

**Wanjiru's case**

Wanjiru put KSh 50,000 into a business that failed owing KSh 2 million.
As a sole proprietor (unlimited liability) she could lose her house to pay the debts.
As a shareholder of a limited company she loses her KSh 50,000 only.

**COMMON MISTAKE**

"Limited" does not mean the company is small or that its profits are limited. It refers to the limited liability of its owners.

## 2. Private and public limited companies

**Private and public limited companies**

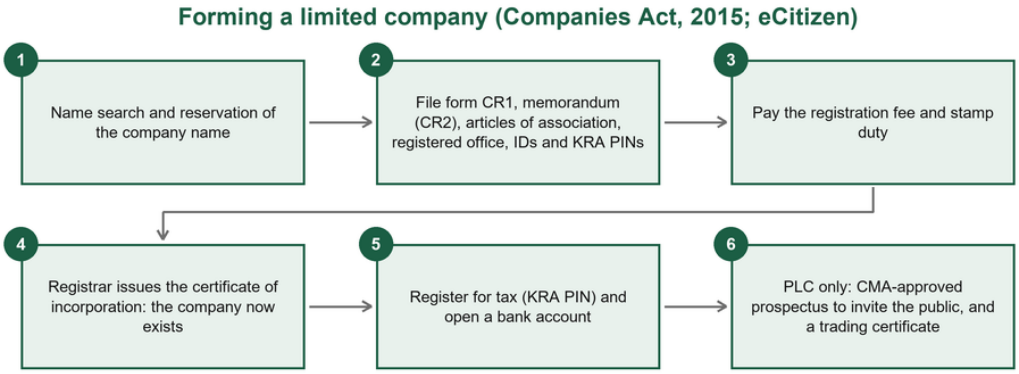
| | Private (Ltd) | Public (PLC) |
|---|---|---|
| Members | 1 to 50 (not counting employee shareholders) | no maximum |
| Shares | not offered to the public; transfer restricted | offered to the public by a CMA-approved prospectus; freely transferable, often on the NSE |
| Management | at least one director; secretary optional if small | at least two directors and a qualified company secretary |
| Name ends in | "Limited" or "Ltd" | "PLC" |
| Finance | members' money, retained profits, bank loans | also large sums from the public through shares, debentures and bonds |
| Disclosure | fewer reporting requirements, lower costs | AGM and published audited accounts; CMA and NSE rules |

*How a private and a public limited company differ*

Examples of private limited companies: many family businesses, local transport companies, private schools and hospitals, and consultancy firms. Examples of public limited companies: Safaricom PLC, KCB Group PLC, East African Breweries PLC and Kenya Power PLC.

A private company is small and closely held. A public company is open to the public, needs more paperwork and disclosure, and can raise far more capital. A PLC must also have the minimum share capital set by law before it starts trading, and receives a trading certificate.

## 3. Forming a limited company



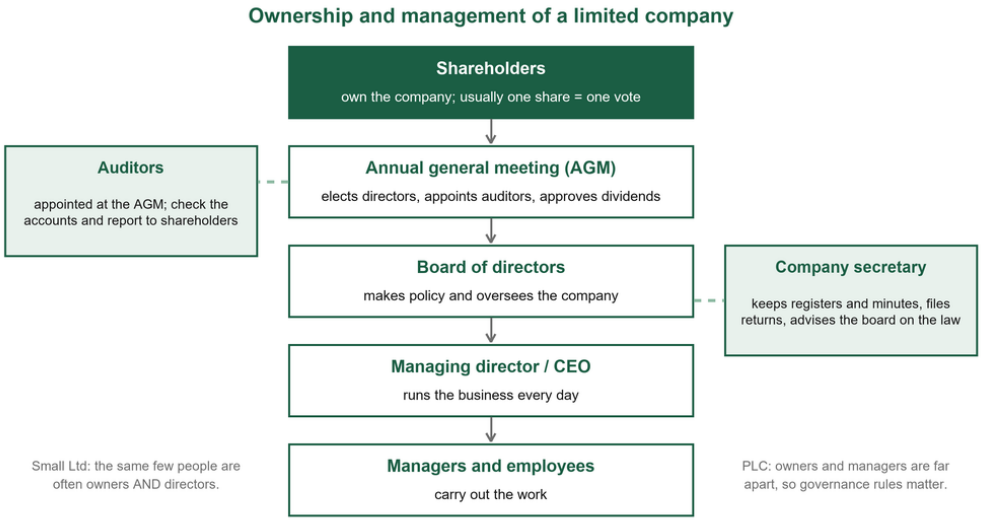

*Steps in forming a limited company through the Business Registration Service on eCitizen*

**Company documents**

| Document | What it contains |
|---|---|
| **Application form (CR1)** | details of directors, shareholders and shares |
| **Memorandum of association (CR2)** | the founding members agree to form the company and take shares |
| **Articles of association** | the internal rules of the company (or the model articles) |
| **Notice of registered office** | the official address of the company |

| Document | What it contains |
|---|---|
| **Certificate of incorporation** | issued by the Registrar of Companies: the company now legally exists |
| **Prospectus (PLC only)** | invites the public to buy shares; approved by the Capital Markets Authority (CMA) |

## 4. How limited companies are managed




*Ownership is separated from management*

- Shareholders own the company and vote at the annual general meeting (AGM): they elect directors, appoint auditors, approve dividends and receive the audited accounts.
- The board of directors makes policy and oversees the company; the managing director or CEO runs it daily.
- The company secretary keeps registers of members and directors and minutes, files returns with the Registrar and advises the board on the law. A PLC must have a qualified secretary.

## 5. Sources of finance

**Where limited companies get money**

| Source | Explanation |
|---|---|
| **Ordinary shares** | owners share profits as dividends and vote |
| **Preference shares** | fixed dividend paid first; usually no vote |
| **Debentures and corporate bonds** | long-term loans from the public at fixed interest (public companies only) |
| **Retained (ploughed-back) profits** | profit kept instead of paid as dividends |
| **Loans and overdrafts** | from banks |
| **Hire purchase and leasing** | use equipment while paying for it in instalments or rent |
| **Trade credit and grants** | buy now, pay later from suppliers; grants that need no repayment |

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A private company depends mostly on its members' money, retained profits and bank loans. A public company can also raise very large amounts from the public through shares and bonds.

## 6. Advantages and disadvantages

### Private limited company

**+ Advantages**

- Limited liability; separate legal entity and continuity.
- Control stays with a small group because share transfers are restricted.
- More capital than a sole trader (up to 50 members); easier to borrow.
- Fewer reporting requirements and lower costs than a PLC.

**- Disadvantages**

- Capital limited because shares cannot be sold to the public.
- Registration costs and paperwork (annual returns).
- Shares are hard to sell; profits shared and taxed as company income.
- Disagreements among members can slow decisions.

### Public limited company

**+ Advantages**

- Very large capital from the public; limited liability; continuity.
- Shares easy to sell on the NSE; can employ specialists and enjoy economies of scale.
- Published audited accounts build public trust; citizens share profits.

**- Disadvantages**

- Expensive, long registration and listing; must disclose information to competitors.
- Risk of takeover; directors may pursue their own interests.
- Slow decisions, large bureaucracy and heavy CMA and NSE rules.

## 7. The role of limited companies in Kenya

- They create employment and support small suppliers who sell to them.
- They pay corporate tax that funds public services.
- They bring investment and new technology and provide goods and services on a large scale.
- They let citizens save and invest by buying shares.

**POSTER MESSAGE IDEAS**

"Protect your family property: limited liability", "Raise more capital", "Your business can outlive you", "Own a share of Kenya's big companies".

**KEY POINTS TO REMEMBER**

- A limited company is a separate legal person; its shareholders have limited liability.
- Private (Ltd): 1-50 members, at least one director, shares not offered to the public.
- Public (PLC): no maximum members, at least two directors and a qualified secretary, CMA-approved prospectus, often listed on the NSE.
- Formation: name reservation, CR1, memorandum, articles, fees, certificate of incorporation.
- Finance: shares, debentures and bonds, retained profits, loans, hire purchase, trade credit.

## ANSWER THESE

1. Explain the meaning of limited liability. (2 marks)
2. Give four differences between a private and a public limited company. (8 marks)
3. Name four documents used when forming a limited company in Kenya. (4 marks)
4. State three functions of the annual general meeting. (3 marks)
5. Explain why a public limited company can raise more capital than a private one. (4 marks)
6. Give four disadvantages of a public limited company. (4 marks)

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# 1.2 Methods of Price Determination

## WHAT YOU WILL LEARN

By the end of this topic you should be able to:

- analyse the concept of demand and supply in a market
- explore factors influencing demand and supply for a product
- draw demand and supply schedules, curves and market equilibrium for price determination
- determine the effects of movement along and shift in demand and supply curves in the market
- investigate other methods of determining the price of a product in the market
- embrace the role of demand and supply in determining market prices of products

## KEY WORDS

demand, effective demand, supply, schedule, curve, equilibrium price, excess demand, excess supply, shift, movement along, auction, tender, price control.

*Prices in most markets are set by the forces of demand and supply. This topic shows how to draw demand and supply schedules and curves, find the equilibrium price, tell a movement from a shift, and use other ways of setting prices.*

## 1. Demand and supply

> **Demand**
> The quantity of a good or service that buyers are willing and able to buy at a given price over a given period. Desire backed by the ability and willingness to pay is effective demand.

> **Supply**
> The quantity of a good that sellers are willing and able to offer for sale at a given price over a given period. Stock is the total held; supply is only the part offered for sale (a farmer with 100 bags who sells 60 this month supplies 60).

### Types of demand and supply

| Type | Demand | Supply |
|---|---|---|
| **Joint** | goods used together: car and fuel, phone and airtime | producing one gives another: beef and hides; petrol and diesel |
| **Competitive** | substitutes: tea and coffee | resources used for one cannot be used for another: land for tea or maize |
| **Derived** | demand for bakers comes from demand for bread | - |
| **Composite** | one good with several uses: milk for drinking, yoghurt, butter | a need met by several goods: energy from electricity, gas or charcoal |

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