

565/2  
BUSINESS STUDIES  
PAPER 2  
JULY/AUGUST 2010  
TIME : 2 ½ HOURS

**KENYA CERTIFICATE OF SECONDARY EDUCATION**  
**FORM FOUR EVALUATION EXAMINATION**

**INSTRUCTIONS TO CANDIDATES**

- This paper consists of six questions
- Answer any FIVE questions
- Write your answers in the answer sheet provided
- All questions carry equal marks

1. a) Labour is an important factor of production. Explain five barriers that may hinder its mobility as a factor of production. (10 marks)

b) Recently there has been a general rise in the price of consumer goods and services in Kenya. Explain five negative effects of this trend. (10 marks)

2. a) Insurance is based on several principles. Explain five principles of insurance. (10 marks)

b) The table below shows the terms of trade for country A from year 2006 to 2009.

Year	Terms of trade (%)
2006	80
2007	77
2008	74
2009	68

Explain five factors that may have accounted for the trend in term of trade of country A above. (10 marks)

3. a) Explain five circumstances under which a high population growth may be desirable to a country. (10 marks)

b) Explain five factors that influence the amount of money held by an individual for transactionary motive. (10 marks)

4. a) Highlight five ways through which a government can provide an enabling environment for the success of business activities in a country. (10 marks)

b) On 1<sup>st</sup> June 2008 Happy Traders had cash in hand shs.5000 and cash at Bank shs7500. The following transactions took place during the month.

June 2: Bought goods in cash sh750

June 4: Paid salaries by cash shs. 3750

June 5 Received cheques from the following debtors after allowing 2% discount in each case, Kamau sh. 490, Jane sh. 980.

June 8: Paid the following accounts by cheque in each case deducting a 5% discount Otieno sh.1,500, Wanjiku sh.600.

June 12: Bought office machinery by cheque shs.2,500

June 20: Withdrew cash sh.500 for private use.

June 25: Cash sales sh.1000  
June 26: Banked cash amounting to sh.500  
June 29: Received shs.1,500 cash from Wanjohi a debtor.

Required: Prepare a three column cash book duly balanced. (10 marks)

5. a) A potential manufacturing firm of domestic products would like to introduce new products in the market. Explain five factors that would influence their decision on what goods to produce. (10 marks)

b) Explain five considerations to be made by a government when deciding on a good tax system. (10 marks)

6. a) Manufacturers distribute their products to the final consumers through various channels. Explain five factors considered when choosing a particular channel of distribution. (10 marks)

b) The following information was extracted from Simba traders on 31<sup>st</sup> Dec. 2008

Stock (1-1-08)	Shs.25,000
General expenses	19,000
Commission income	21,250
Discounts allowed	2,750
Salaries	20,000
Carriage outwards	2,500
Purchases	350,000
Return outwards	2,000
Sales	500,000
Return inwards	15,000
Carriage inwards	5,000
Stock (31-12-08)	3,000

Required: Prepare Simba Traders trading profit and loss account for the period ended 31<sup>st</sup> Dec. 2008. (10 marks)