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

FORM FOUR MID-YEAR CONTINUOUS ASSESSMENT TEST
Kenya Certificate of Secondary Education
BUSINESS STUDIES
PAPER 2
2 ½ HOURS

INSTRUCTION TO CANDIDATES

Answer any five questions

This paper consists of 3 printed pages

Please Turn Over

1. (a) The Kenya government is in the process of establishing a new rail service in the country.
Explain five reasons why the government is involved in business activities in the country. (10mks)
- (b) Most of African's top professionals do not work in the continent but work in the "Diaspora".
Explain five measures that individual countries may use to prevent "brain drain." (10mks)
2. (a) From the recent economic survey, the gap between the rich and the poor is so wide in Kenya.
Explain any five factors that must have contributed to this display in income distribution
- (b) The following balances were extracted from the books of Melito Holdings on 31, December 2009.

	Sh
Gross profit	200,000
Capital	500,000
Cash at bank	50,000
Cash in hand	25,000
Equipment	450,000
Provision for depreciation on equipment	85, 000
Furniture	250,000
Provision for depreciation on furniture	32,500
Electricity	12,000
Stock(31.12.09)	17,500
General expenses	120,000
Debtors	175,000
Creditors	275,000
Discount allowed	13,000
Discount received	20,000

Additional information:

- Electricity paid in advance was sh. 2,000
- Depreciation is to be provided as follows:
Equipment 20% on cost
Furniture 10% on book value
- General expenses due amounted to sh.6,000

Prepare

- (i) Profit and loss account for the year ended 31 December, 2009
- (ii) Balance sheet as at 31 December, 2009 (10mks)

3. (a) Outline five differences between a parastatal and a co-operative society (10mks)
- (b) Explain five reasons why mobile banking services are becoming increasingly popular in Kenya (10mks)
4. (a) Discuss five principles that should be considered when designing a good tax system (10mks)
- (b) The table below shows the age distribution of a country.

Age (year)	%
0-15	45
16-55	31
56 and above	24

Explain five negative economic implications of this age distribution to a country (10mks)

5. (a) Describe the procedure that should be followed when taking an insurance policy (10mks)
(b) Injera investment operates a wholesale business and the following information relates to a various transactions during the month of May, 2010.

May 3 sold goods on credit to Anyimba sh 60,000
8 purchased goods on credit from Mjuaji stores sh 120,000
12 returned goods bought on credit from Mjuaji stores sh 6,000
16 purchased goods on credit from Mjuaji stores sh 160, 000
22 sold goods on credit to Mafala retailers sh 150,000
23 bought a new motor vehicle from Mashariki motors worth sh 3,200,000 on credit
24 Anyimba returned goods worth sh 10,000 to the business
29 sold equipment worth sh 840,000 on credit to chap chap limited.

Record these transactions into Injera investment books of original entry. (10mks)

6. (a) Explain five merits of globalization to the Kenyan economy (10mks)
(b) Naftali started business on 1st July 2008 with a capital of sh 54,000 in the bank. The business Bank account summary for the year ended 30th June 2009 is given below.

Sh

Receipts:

Takings banked	296,000
Commission	4,800
Bank loan	40,000

Payments:

Purchases	280,000
Furniture	16,000
Insurance	7,000
Telephone	5,800
Rent	14,400
Loan repayment	41,000
Drawings	4,400

All the takings were banked except sh 26,000 which was utilized for:

Paying rent	sh 1,600
Buying goods for resale	sh 16,000
Personal needs	sh 8,400

Additional information:

- (i) all the purchases were made on cash basis.
(ii) Goods were sold at a mark up of 25%
(iii) As at 30th June 2009, stock was valued at sh 24,000 while insurance prepaid amounted to sh 1,000.

Prepare the trading, profit and loss account for the year ended 30th June 2009. (10mks)

