

**565/2**  
**BUSINESS STUDIES**  
**PAPER 2**  
**JULY / AUGUST 2011**  
**TIME: 2 HOURS**

**NANDI EAST, NANDI SOUTH AND TINDERET DISTRICTS**  
**JOINT EVALUATION TEST 2011**  
**KENYA CERTIFICATE OF SECONDARY EDUCATION (KCSE)**

**INSTRUCTIONS TO CANDIDATES:**

- (a) *This paper consists of **SIX** questions.*
- (b) *Answer any five questions.*
- (c) *Write your answers in the answer booklet provided.*
- (d) *All questions carry equal marks.*

1. (a) Highlight **five** principles of insurance stating the significance of each. (10mks)
- (b) Explain **five** reasons why per-capita income is not a reliable measure to determine the standards of living of a country. (10mks)
2. (a) Discuss the effects of five external environmental factors on business. (10mks)
- (b) Explain **five** factors that limit the effectiveness of open market operations as a tool of monetary policy in developing countries. (10mks)
3. (a) Explain **five** roles of the stock exchange as a market for securities. (10mks)
- (b) The following balances were extracted from the books of Kapsabet wholesalers for the period ended 31/12/2005,

	Shs.
Land and Buildings	770,000
Motor Vehicles	600,000
Furniture	100,000
Stock of goods	90,000
Stock of Stationery	12,000
Debtors	58,000
Cash in hand	16,000
Insurance paid in advance	4,000
Net profit	282,000
Loan from ICDC	400,000
Creditors	47,000
Salaries owing	13,000
Bank Overdraft	8,000
Capital	900,000

**Required:** Prepare Kapsabet Wholesalers balance sheet as at 31/12/2005 showing:

- (i) Working capital (2mks)
- (ii) Capital owned (2mks)
- (iii) Capital employed (2mks)
- (iv) Borrowed capital (2mks)
- (v) Fixed capital (2mks)

4. (a) Explain **five** effects of a declining population on an economy. (10mks)
- (b) Explain the functions of the following documents as used in international trade.
- (i) Import licence (2mks)
  - (ii) Bill of Lading (2mks)
  - (iii) Certificate of Origin (2mks)
  - (iv) Proforma Invoice (2mks)
  - (v) Letter of hypothecation (2mks)

5. (a) Explain **five** roles of intermediaries in the distribution process of goods and services. (10mks)
- (b) Explain **five** differences between direct tax and indirect tax. (10mks)

6. (a) Explain **four** advantages of a business plan to a business operating in a competitive environment. (8mks)
- (b) The following transactions were carried out by Mohammed's business in the month of June, 2005.

June	1	Balances brought forward: cash sh. 2,000; bank sh. 3,250
	2	The following debtors cleared their accounts by cheque, with each getting 5% cash discount: Mugambi – sh.6,500, Kinyua – 3,500, Makau – sh. 2,500
	4	Paid rent amounting to sh. 3,450 by cheque.
	6	Sarah lent Mohammed sh. 25,000 in cash.
	8	Mohammed paid the following creditors accounts by cheque: Beth sh. 2,500, Ndung'u sh. 5,400, Kimotho sh. 3,900 and got a 2% cash discount in each case.
	12	Paid motor vehicle expenses amounting to sh. 3,500 in cash.
	14	Paid sh. 1,500 in cash as wages
	16	Withdrew sh. 2,300 from the bank for personal use
	24	Received a commission of sh. 4,300 by cheque.

Required:

Prepare a three column cash book for Mohammed's business for the month of June 2005 and balance it off. (12mks)