

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

**KAKAMEGA NORTH DISTRICT JOINT EVALUATION TESTS**  
**Kenya Certificate of Secondary Education (K.C.S.E) 2010**

565 / 2  
BUSINESS STUDIES  
PAPER 2

**INSTRUCTIONS TO CANDIDATES**

- ❖ *Answer any five questions*
- ❖ *Write your answers in the answer booklet provided.*
- ❖ *All questions carry equal marks.*

This paper consists of 4 printed pages. Candidates should check the question paper to ensure that all the pages are printed as indicated and no questions are missing.

1. (a) **Explain four** circumstances that would influence a business firm to use courier services in distributing their products. (8mks)
- (b) With the aid of diagrams **state** the difference between a firm operating under perfect competition and that operating under monopoly. (12mks)

2. (a) **Explain five** benefits that could be enjoyed by a person who decides to take out an endowment policy. (10mks)

(b) Record the following transactions in the appropriate journals of Kyapo traders.

(10mks)

**2007**

Jan	1	Started business with Shs. 120,000 in cash
	2	credit purchases from Atieno Shs. 10,000
	5	Cash sales Shs, 6,000
	7	credit sales to Sara Shs. 5,000
	10	Credit purchases from Atieno Shs. 15,000
	12	received a cheque Shs. 4,500 from Sara in full settlement of her account
	15	paid Atieno by cash Shs. 24,000 for full settlement of her account
	16	Credit sales to karima Shs. 8,000
	18	Credit purchases from Wafula Shs. 10,000
	20	received a cheque from Karima Shs. 7,600 in full settlement of his account
	26	cash sales banked Shs. 10,000
	27	paid Wafula his account of shs. 10,000 by cheque less 10% cash discount.
	30	deposited all cash into the bank except Shs. 20,000
	31	paid salaries by cheque Shs. 12,000

3. (a) **Explain five** challenges that may be experienced by a new entrepreneur who is intending to establish a business in Kenya. (10mks)

(b) **Discuss five** factors that may encourage the use of pipeline as a means of transporting petroleum products in a country. (10mks)

4. (a) The table below shows the trends in inflation rates in a country.

<u>Year</u>	<u>inflation rates</u>
2006	12%
2007	19%
2008	27%

**Explain five** causes that would have triggered the increasing inflation trends in the country.

(10mks)

- (b) The following trial balance relates to kazi Ngumu Traders for the year ending 31<sup>st</sup> Dec 2006.

**KAZI NGUMU TRADERS**

**TRIAL BALANCE**

**AS AT 31<sup>ST</sup> DEC 2006**

**Dr**

**Cr**

	<u>Shs.</u>	<u>Shs.</u>
General expenses	120,000	
Rent expenses	46,000	
Telephone expenses	48,000	
Salaries	360,000	
Sales		4,000,000
Purchases	2,600,000	
Discount received		36,000
Sales returns	40,000	
Motor vehicle	500,000	
Debtors	300,000	
Land and buildings	2,000,000	
Cash at bank	120,000	
Cash in hand	12,000	
Capital		1,950,000
Drawings	80,000	
Creditors		240,000
	<u>6,226,000</u>	<u>6,226,000</u>

**Additional informations**

Stock as at 31<sup>st</sup> Dec 2006 was valued at ksh. 100,000

- (i) **prepare** trading, profit and loss account for the year ended 31<sup>st</sup> Dec 2006
  - (ii) **calculate** return on capital
  - (iii) **calculate** margin
5. (a) **Outline five** reasons why the government of Kenya is encouraging the location of industries in all parts of the country. (10mks)
- (b) **Explain five** differences between direct tax and indirect tax. (10mks)
6. (a) **Explain** the meaning and significance of the following terms used in international trade. (12mks)
- (i) Depreciation of the currency of a country.
  - (ii) Deterioration of terms of trade of a country.
  - (iii) Balance of payment on current account
  - (iv) Trade restriction
  - (v) Common market
  - (vi) Bill of lading

(b) Fair price traders does not keep a complete set of books of accounts. The following information was extracted from his books of account

	1/1/2007	31/1/2007
	Shs.	Shs.
Stock	160,000	185,000
Debtors	175,000	195,000
Creditors	166,000	172,000
Cash	115,000	

During the year, cash received from debtors was Shs. 1,260,000 while cash paid to creditors amounted to shs. 1,160,000. Cash sales were Shs. 150,000 while cash purchases amounted to Shs. 160,000. Carriage inwards was Shs. 40,000

Other relevant information

- Return inwards was Shs. 19,600
- Discounts allowed and received were shs. 112,000 and shs. 124,000 respectively
- Bad debts written off amounted to shs. 18,200
- Fair price traders had taken goods amounting to shs50,000 for personal use.

**Required:**

**Prepare** a statement to determine

- (i) Total sales for the year
- (ii) Total purchases for the year (8mks)