565/2
BUSINESS STUDIES
Paper 2
Oct./Nov. 2009
2½ hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL
Kenya Certificate of Secondary Education
BUSINESS STUDIES
Paper 2
2½ hours

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.*
(e) **This paper consists of 6 printed pages.**
(f) **Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.**

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Turn over

1   (a)   Explain **five** features of sole proprietorship form of business.   (10 marks)

(b)   Explain **five** measures that the government may take to improve the volume of exports.   (10 marks)

2   (a)   Explain **five** demerits that may be associated with water transport.   (10 marks)

(b)   The trial balance of Zakayo Traders as at 1 June 2008 is given below.

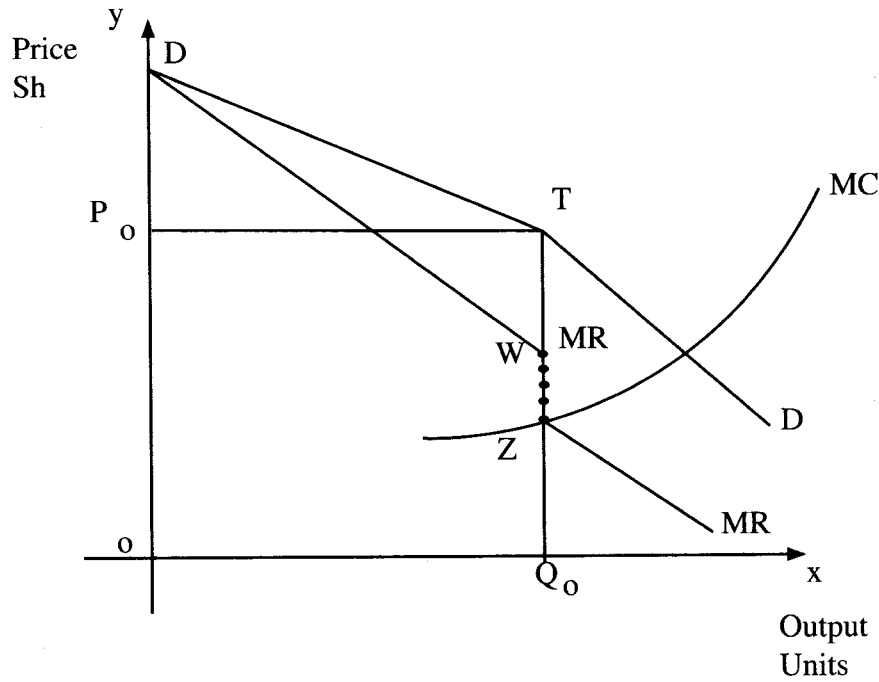|	DR Sh	CR Sh
Stock	76,500	
Creditors		450,400
Debtors	350,000	
Bank	260,400	
Fixed assets	970,200	
Cash	120,500	
Capital		1,300,000
Lighting due		27,200
	1,777,600	1,777,600

During the month, the following transactions took place.

2008
June 5   Paid a creditor Sh 228,000 by cheque in full settlement of a debt after deducting 5% cash discount.

15   Withdrew Sh 100,000 from bank for office use.

28   Received Sh 160,000 cash from a debtor after allowing cash discount of Sh 40,000.

Record the above transactions in the relevant ledger accounts and balance them off.   (10 marks)

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3 (a) The diagram below shows an oligopolist kinked demand curve DD and current price and quantity at P_o and Q_o respectively.

(i) Name the curve represented by the gap WZ.

(ii) State why the curve WZ is vertical to price axis.

(iii) Advice when the oligopolist can raise and lower the price of the commodity.

(10 marks)

(b) Explain **five** ways in which the government of Kenya may reduce the level of unemployment. (10 marks)

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4   (a)   Using a diagram, explain the circular flow of income in a two sector economy.

(10 marks)

(b)   Analyse the following document issued by Sheikh Traders.

Sheikh Traders			P O Box 235Y Nairobi No. 4262 12 October 2008	
Debit Kamau Limited P O Box Y125 MOLO				
Terms: 10 per cent one month on Furniture only				
Quantity		**Rate Sh**	**Sh**	**Sh**
60	Dinning tables Mvuli	4,000	240,000	
4	Beds	2,000	8,000	
50	Coffee Tables	1,000	50,000	
			298,000	
	Less Trade discount 10%		29,800	268,200
4	Floor carpets	2,500	10,000	9,000
	Less Trade discount 10%		1,000	
	Carriage			7,500
	E & O.E		**Total**	284,700

Required:

(i)   Name the document above.

(ii)   Calculate the amount paid for the goods, if the debtor paid on 28 October 2008.

(iii)   Determine the net profit of the business if transaction (ii) above was Sh 120,400 and the debtor paid for the goods on 15th November 2008.   (10 marks)

5 (a) Explain **four** services that the Central Bank of Kenya may offer as a banker to commercial banks   (8 marks)

(b) Malamu Traders had the following balances as at 31 December 2008.

	Sh
Building	540,000
Bank loan	472,500
Debtors	116,900
Creditors	227,000
Furniture	408,170
Gross profit	520,600
Motor vehicle	900,000
Discount allowed	142,000
Lighting	25,200
Interest on loan	1,200
Closing stock	72,500
Rent received	120,000
Repairs on buildings	60,000
Repairs on furniture	72,030
Repairs on motor vehicles	300,000
General expenses	102,100
Capital	1,400,000

Prepare:

(a) Profit and loss account for the year ended 31 December 2008.

(b) Balance sheet as at 31 December 2008.   (12 marks)

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6   (a)   The following table represents the price and quantity of a commodity.

Month	Price	Quantity
January	80	2,000
February	40	5,000

   (i)   Plot the above information on a graph.   (5 marks)

   (ii)   Calculate the price elasticity of demand.   (5 marks)

   (b)   Lunga, a sole trader, does not keep a complete set of accounting records. Information extracted from the records are as follows:

	1 January 2007 Sh	31 December 2007 Sh
Stock	75,000	136,400
Pre-paid salaries	-	8,000
Creditors	142,500	158,400
Debtors	120,000	335,000
Furniture & Equipment	820,000	754,400
18% loan from bank	200,000	

Cash summary for the year was as follows:

Cash Summary

	Sh		Sh
Balance b/d	460,800	Payment to creditors	660,500
Bad debts	16,000	Loan (31/12/2007)	50,000
Receipts from debtors	750,000	Salaries	48,000
		Purchases	135,400
		Interest on loan	30,000
		Balance c/d	302,900
	1,226,800		1,226,800

Additional information:

   (i)   Interest charged on debtors overdue accounts amounted to Sh 2,000.
   (ii)   Bad debts written off amounted to Sh 4,200.

Prepare trading, profit and loss account for the year ended 31 December 2007.

(10 marks)

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