565/2
BUSINESS STUDIES
Paper 2
Oct./Nov.2008
$2\frac{1}{2}$ hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL
Kenya Certificate of Secondary Education
BUSINESS EDUCATION
Paper 2
$2\frac{1}{2}$ hours

Instructions to candidates
This paper consists of six questions.
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 ascertain that all the pages are printed as indicated and no questions are missing.

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1 (a) Explain **five** features that differentiate a Public Limited Company from a partnership form of business. (10 marks)

(b) With the aid of a diagram, explain the behaviour of average cost curve in the short run for a firm with fixed production capacity. (10 marks)

2 (a) Explain **five** challenges that may be experienced by a country whose population is made up of a large proportion of young people. (10 marks)

(b) On 1 September 2006, Igonji had Sh55 000 in hand and Sh 250 000 at bank. During the month, the following transactions took place:

September	2	Cash sales banked Sh 35 260
	3	Bought ribbons in cash Sh 4 500
	8	Paid Wangila, a creditor Sh 94 000 by cheque in full settlement of his account after deducting 6% cash discount
	12	Received a cheque for Sh 58 800 from Wetu after allowing her a cash discount of Sh 1200
	15	Paid salaries Sh 34 000 in cash
	25	Withdrew Sh 50 000 from bank for office use
	28	Anyango, a debtor paid her account of Sh 75 000 by cheque less 10% cash discount.
	30	Deposited all the cash into bank except Sh 13 700

Prepare a three column cash book and balance it off. (10 marks)

3 (a) Explain **five** ways in which effective management practices may contribute to the success of a business. (10 marks)

(b) Explain **five** reasons why an effective filing system is important in an office. (10 marks)

4 (a) Explain **five** circumstances that would influence a producer to use wholesalers in distributing farm produce. (10 marks)

(b) Memon Traders does not keep a complete set of accounting records. The following information relates to the year ended 31 December 2006.

(i) Extract of cash summary was:

Cash receipts	
Cash sales	420,200
Commission received	36,400
Cash payments	
Purchases	260,000
General expenses	50,000
Insurance	14,800

(ii) Extract of assets and liabilities:

	1.1.06 Sh.	31.12.06 Sh.
Stock	65,000	92,500
Insurance paid in advance	16,200	4,000
Commission receivable	8,400	10,200
Unpaid General expenses	48,000	70,000

Additional information

Included in credit sales are drawings of stock valued at Sh 25 000.

For the year ended 31 December 2006, determine the following:

(i) Total sales
(ii) Total purchases
(iii) Commission receivable
(iv) Insurance expense
(v) General expenses (10 marks)

5 (a) Describe **four** measures that the Government may put in place to reduce the amount of money in circulation. (8 marks)

(b) Explain **six** circumstances under which a country may restrict international trade. (12 marks)

6 (a) Explain **four** circumstances in which a trader may offer after sales service to the buyer. (8 marks)

(b) The following balances were extracted from books of Simba Traders for the year ended 31 December 2006.

	Shs
Debtors	130,200
Motor vehicles	750,000
Creditors	260,000
Furniture	160,500
Drawings	60,800
Salaries	322,600
Rent	14,800
Bank loan	200,000
Discount received	14,500
Gross profit	210,000
Stock	45,600

Additional information

(i) Motor vehicle is depreciated by Sh187 500 while furniture is to be depreciated by Sh16 050 per year.

(ii) Interest on loan is charged at 18% per year. This interest was still owing on 31 December 2006.

(iii) Rent unpaid on 31 December 2006 was Sh 2400

Prepare

(a) Profit and loss account for the year ended 31 December 2006
(b) Balance sheet as at 31 December 2006.

(12 marks)