

**565/2**  
**BUSINESS STUDIES**  
**Paper 2**  
**Oct./Nov. 2006**  
**2 ½ hours**

**THE KENYA NATIONAL EXAMINATIONS COUNCIL**  
**Kenya Certificate of Secondary Education**  
**BUSINESS STUDIES**  
**Paper 2**  
**2 ½ hours**

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

**This paper consists of 3 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 **five** factors that may influence the level of national income of a country. (10 marks)
- (b) Over the years, Southern Star has grown into a large business enterprise. Explain **five** diseconomies of scale which it may experience. (10 marks)
- 2 (a) Explain **four** ways that a government can use to finance a budget deficit. (8 marks)
- (b) The following trial balance was extracted from the books of Fula Traders on 31 December 2005.

Fula Traders  
Trial Balance  
as at 31.12.2005

	Dr. Sh.	Cr. Sh.
Sales		600,000
General Expenses	60,000	
Rent expense	10,000	
Commission Received		20,000
Motor Vehicle	600,000	
Furniture	240,000	
Cash	50,000	
Creditors		180,000
Debtors	120,000	
Purchases	400,000	
Sales Returns	20,000	
Capital	1,500,000	700,000 1,500,000

Additional information

- Stock on 31 December 2005 was valued at Sh. 60,000

- Depreciation to be provided for as follows:

Motor Vehicle 20% p.a. on cost  
Furniture 10% p.a. on cost

Prepare:

- (i) Trading, Profit and Loss Account for the year ended 31 December 2005.
- (ii) Balance Sheet as at 31 December 2005. (12 marks)

- 3 (a) Explain five benefits that may accrue to a community that is involved in trading activities. (10 marks)
- (b) Outline five benefits that a Savings and Credit Co-operative Society (SACCO) provides to its members. (10 marks)
- 4 (a) Musi Enterprises are considering to market their imported products direct to consumers. Outline five reasons that may be influencing them to make this decision. (10 marks)
- (b) Explain five disadvantages that a country may experience from imposing trade restrictions on trading partners. (10 marks)
- 5 (a) Outline five factors that may limit the use of containers as a method of transporting goods in a developing country. (10 marks)
- (b) Using a diagram, explain how a monopolist firm determines its output. (10 marks)
- 6 (a) Explain four functions of money. (8 marks)
- (b) Cheru Traders does not keep a complete set of books of accounts. The following information was extracted from her books of accounts.

	1.1.05	31.12.05
	Sh.	Sh.
Stock	920,000	1,200,000
Debtors	400,000	540,000
Creditors	800,000	950,000

During the year, cash received from debtors was Sh. 1,400,000 while cash paid to creditors amounted to Sh. 2,000,000. Cash sales were for Sh. 250,000 while cash purchases amounted to Sh. 320,000. Carriage inwards was for Sh. 46,000.

Other relevant information.

- Returns inwards was Sh. 42,000.
  - Cheru had taken goods amounting to Sh. 50,000 for personal use.
- (i) Determine total sales.
- (ii) Determine total purchases.
- (iii) Prepare Trading Account for the period ended 31 December 2005. (12 marks)