

565/2
BUSINESS STUDIES
Paper 2
Oct./Nov. 2007
2½ hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL
Kenya Certificate of Secondary Education
BUSINESS STUDIES
Paper 2
2½ 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 ascertain that all the pages are printed as indicated and no questions are missing.

- 1 (a) Explain six reasons why a new business may fail. (12 marks)
- (b) Explain **four** advantages of transacting business through e-commerce. (8 marks)
- 2 (a) Explain **six** sources of Government revenue for development expenditure. (12 marks)

- (b) Karani does not keep a complete set of accounting records. During the year ended 30 June 2006, the following balances were extracted from the books of accounts.

	Sh.
Stock	140 000
Motor vehicle	500 000
Land and buildings	2 500 000
Cash in hand	120 000
Cash at bank	240 000
Debtors	80 000
Creditors	120 000
Long-term loan	1 400 000
Plant and Machinery	600 000

Additional information:

- Karani drew sh.140 000 from the business for private use.
- Opening capital was sh.2 000 000 as at 1 July 2005.
- Additional capital during the year was sh.120 000.

- (i) Prepare statement of affairs for the year ended 30 June 2006. (6 marks)
- (ii) Determine profit or loss for the year ended 30 June 2006. (2 marks)
- 3 (a) Explain **five** ways in which the Agricultural Finance Corporation (AFC) contributes to economic development in Kenya. (10 marks)
- (b) Explain **five** factors that could affect the quantities of cabbages supplied in a market. (10 marks)
- 4 (a) Explain **five** strategies that a small-scale firm could adopt to expand so as to enjoy economies of scale. (10 marks)
- (b) Explain five benefits that could accrue to a customer who buys goods from a departmental store. (10 marks)
- 5 (a) Discuss **five** reasons why Less Developed Countries are reluctant in implementing free trade agreement. (10 marks)
- (b) Draw a diagram to show how equilibrium price and output are determined under monopoly. (10 marks)

- 6 (a) Explain five features that you would consider in establishing a warehouse for imported goods. (10 marks)
- (b) The following Trial Balance was prepared from the books of Mugambi Traders for the year ended 31 December 2005.

Mugambi Traders
Trial Balance

	DR Sh	CR Sh
Land and Buildings	500 000	
Capital		940 000
Plant & Machinery	200 000	
Motor Vehicles	300 000	
10 year bank loan		200 000
3 year ICDC loan		100 000
Stock	100 000	
Debtors	60 000	
Creditors		60 000
Accrued expenses		20 000
Cash at bank	100 000	
Cash in hand	20 000	
Drawings	40 000	
	<u>1 320 000</u>	<u>1 320 000</u>

Prepare

- (i) A balance sheet for the year ended 31 December 2005.
- (ii) Determine:
- Working Capital
 - Capital Employed
 - Borrowed Capital
- (10 marks)