565/2
BUSINESS STUDIES

1. (a) Describe five factors that determine price elasticity of demand. (10mks) *Nym*
   (b) A farmer in Kitale has maize to transport to Mombasa. He could either use road or railway transport. Explain to him five merits of using road instead of railway to transport the maize.
   (10mks) *Nym*

2. (a) From the balances extracted from Malimingi Traders books, you are required to prepare a statement of affairs as at 31/12/2005.

	1/1/2005	31/12/2005
	Ksh	Ksh
Stock	200,000	250,000
Debtors	40,000	50,000
Premises	60,000	50,000
Creditors	70,000	40,000
Motor vehicle	400,000	350,000
Net profit	_____	40,000
Drawings	_____	10,000

(8mks) *Nym*

   (b) Explain five factors that influence the level of the National Income of a country.(10mks)

3. (a) Explain five roles of the central Bank of Kenya to the country. (10mks) *Nym*
   (b) From the following account balances extracted from the books of Mwema Traders for the year ended 31st Dec. 2005. Prepare a trading and profit / loss accounts.

	shs
Rates	50,000
Water	60,000
Wages	80,000
Discount on debtors	6,000
Stock 1/1/2005	800,000
Stock 31/12/2005	40,000
Purchases	600,000
Carriage on purchases	100,000
Sales during the year	2,000,000
Return into the business	2,000
Commission received	4,000
Carriage outwards	1,000
General expenses	6,000
Repairs to vehicles	20,000
Bank loan interest	5,000

(10mks). *Nym*

4. (a) Explain five circumstances under which an insurance contract may be terminated.
   (10mks) *Nym*
   (b) Explain five negative consequences of a rapidly increasing population. (10mks) *Nym*

5. (a) With the aid of diagrams, explain the relationship between the industry's equilibrium and a firm's equilibrium under perfect competition. (10mks) *Nym*
   (b) Highlight five points on the importance of a local purchase order. (10mks) *Nym*

6. (a) Explain any five principles of government expenditures. (10mks) *Nym*
   (b) The following are transactions of Sukuma Week business for the month of June 2005.
   June
   1st Purchased stock for sh. 84,000 in cash and was given 2% cash discount.
   2nd paid workers' wages by cheque shs. 20,000
   3rd Sold goods worth sh. 240,000 and received cash after allowing 4% cash discount.
   4th Received sh. 400,000 by cheque from a debtor after 2% cash discount allowed.

5th	Bought office furniture for sh. 20,000 in cash.
6th	sold an old business van for sh. 320,000 receiving the money through the bank
7th	Purchased more stocks worth sh.20,000 by cheque.
8th	Withdrew sh. 40,000 from bank to cash till.
9th	Took sh. 80,000 to bank from the business.
10th	Took stock of goods worth sh. 2000 from the business for personal use.
11th	Paid electricity bill worth sh 3750,in cash sh. 2000 and the rest by cheque.
12th	Received a cheque from Mwendwa a debtor worth sh. 60,000 in settlement of his debt of sh. 66000.
13th	Was given a loan of sh. 100,000 in cash from his bankers.
14th	Received payment from a debtor Poro sh. 46,000 by cheque.
15th	All the cash at bank was taken to the business for office use except sh. 50,000.

Required: Enter the above transactions in the two-column cash book.   (10mks) *Nym*