INSTRUCTIONS TO CANDIDATES:

1. This paper consists of six questions.
2. Answer any FIVE questions.
3. Write your answers in the answer booklet provided.
4. All questions carry equal marks.
5. This paper consists of 3 printed pages.
6. Candidates should check the question paper to ascertain that all pages are printed as indicated and no questions are missing.
1. (a) Explain **five** reasons why it is important for a business to prepare a business plan. (10mks)
(b) Explain **five** features that differentiate a perfect competition market from a monopoly market structure. (10mks)

2. (a) Explain **five** challenges that may be experienced by a new entrepreneur who is intending to start a business in Kenya. (10mks)
(b) Advise the Minister for Trade and Industry why Kenya should be a member of the East African Community (E.A.C.). (10mks)

3. (a) Despite the announcement by the government that the country has achieved 6% economic translated to economic development. Discuss **five** indicators of underdevelopment being experienced in Kenya. (10mks)
(b) Ijara Investments operates a wholesale business. The following transactions took place in the month of May 2010. (10mks)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 3</td>
<td>Sold goods on credit to Ayimba sh. 60,000</td>
<td></td>
</tr>
<tr>
<td>“ 8</td>
<td>Purchased goods on Credit from Mjuaji stores sh. 120,000</td>
<td></td>
</tr>
<tr>
<td>“ 12</td>
<td>Returned goods to Mjuaji stores worth sh. 6,000</td>
<td></td>
</tr>
<tr>
<td>“ 16</td>
<td>Purchased goods on Credit from Mjuaji stores 160,000</td>
<td></td>
</tr>
<tr>
<td>“ 22</td>
<td>Sold on Credit to Mafala retailers sh. 150,000</td>
<td></td>
</tr>
<tr>
<td>“ 23</td>
<td>Bought a new Motor Van from Mashariki Motors worth shs. 3,200,000</td>
<td></td>
</tr>
<tr>
<td>“ 24</td>
<td>Ayimba returned goods worth sh. 10,000.</td>
<td></td>
</tr>
<tr>
<td>“ 29</td>
<td>Sold equipment worth 840,000 on credit to Chap Limited.</td>
<td></td>
</tr>
</tbody>
</table>

**Required:**
Record the above transaction in the relevant books of original entry for Ijara Investments. (10mks)
4. (a) Explain **five** importance of National Income Statistics to an economy. (10mks)

(b) As at 1st July 2008, the cash book of Emori enterprise showed the following balances: Cash – Shs. 20,000 and a Bank overdraft – Shs. 8,600.

During the month, the following transactions took place:

3/07/08: Nafula settled her account of sh. 16,000 by a cheque of sh. 15,000
6/07/08: Paid rent by cash sh. 8,000
10/07/08: Deposited sh. 6,000 into the business bank account from the cash till.
15/07/08: Settled Wakulis account of sh. 20,000 and he allowed a discount of 1% by cheque.
18/07/08: Deposited sh. 28,000 in the bank from private sources.
21/07/08: Cash sales sh. 12,000
24/07/08: Otieno a debtor settled his account by cheque of sh. 8,00 having been allowed a discount of 20%.
26/07/08: Purchased furniture of sh. 5,200 paying by cheque.
28/07/08: Received sh. 3,600 cash from Nduta.
30/07/08: Banked the crucible cash except sh. 1,600.

**Required:**

Draw up a three-column cash book. (10mks)

5. (a) State and explain **five** limitations of using per capita income as a measure of standard of living. (10mks)

(b) With the help of a diagram, describe excess supply and excess demand. (10mks)

6. (a) Explain **five** factors that would make a producer to build his own warehouse rather than rely on a public one. (10mks)

(b) Explain **five** circumstances under which a client may not be compensated when an insured risk occurs. (10mks)