1. a) Discuss FIVE reasons for the existence of small firms in an economy.  
   10mks*BND*
b) Discuss FIVE causes of inflation in a country.  
   10mks*BND*

2. a) Explain FIVE benefits that would accrue to a business person who transports goods by liners rather than tramp streamers.  
   10mks*BND*
b) Explain FIVE sources of finance open to Kenya government.  
   10mks*BND*

3. a) Highlight FIVE indicators used to evaluate a country’s economic development.  
   10mks*BND*
b) Prepare a duly balanced three column cash book from the following information.

   Jan 1:   Balance b/d cash shs.4,000 bank shs 27,000
   "  4 Settled Olweny creditors account of shs. 8,000 by cheque having deducted 6% cash discount.
   "  8:   Received shs. 6000 cash from Mutoma traders
   " 16: Deposited shs. 4,500 to the bank account
   " 24: Withdrew shs. 9,200 from the bank for private use.
   " 29: Received shs. 19,950 from Kawawa by a cheque after allowing 5% discount.
   " 31: Banked all the cash leaving only sh 1,500 in the office.

   10mks*BND*

4. a) Explain FIVE methods of trade restriction.  
   10mks*BND*
b) Highlight FIVE problems encountered when measuring the national income of a country.  
   10mks*BND*

5. a) Discuss FIVE roles played by commercial banks in facilitating home trade.  
   10mks*BND*
b) The following information relates to the business of Omondi for the week ended 30th May, 2004.

   2004
   May 25: Started business with shs.24,000
   " 26: Bought goods for shs. 18,000
   " 27: Cash sales shs. 18,900
   " 28: Paid for rent. sh. 150 cash
   " 29: Received cash shs. 5625 from sales
   " 30: Paid commission shs. 900

   Required:
   (i) Ledger accounts to record the transactions above.
   (ii) Trial balance as at 30th May, 2004.

   10mks*BND*

6. a) Outline FIVE reasons why a business would like to operate its own warehouse.  
   10mks*BND*
b) The following Trial balance was extracted from the books of Likoni Traders on 31st December 2004.

<table>
<thead>
<tr>
<th>Description</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td>88,800</td>
</tr>
<tr>
<td>Returns inwards</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>General expenses</td>
<td>5,200</td>
<td></td>
</tr>
<tr>
<td>Cash in hand</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Return outwards</td>
<td></td>
<td>2,400</td>
</tr>
<tr>
<td>Bank Overdraft</td>
<td></td>
<td>7,500</td>
</tr>
<tr>
<td>Salaries</td>
<td>14,000</td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>10,500</td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td></td>
<td>8,500</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>82,000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>95,000</td>
</tr>
<tr>
<td>Stock (1:04)</td>
<td>12,500</td>
<td></td>
</tr>
<tr>
<td>Bad debts</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>202,200</td>
<td>202,200</td>
</tr>
</tbody>
</table>

Additional information
Closing stock was valued at shs. 6,500
Salary outstanding was shs. 2,800

Prepare
i) Trading, profit and loss account for the period ended 31st December, 2004. 6mks

ii) Balance sheet as at 31st December, 2004 4mks