

FORM 4 BUSINESS STUDIES

PAPER 2

565/2

TIME: 2 ½ HRS

INSTRUCTIONS TO CANDIDATES

- i) This paper contains six questions.
- ii) Attempt five question in the booklet provided.
- iii) All questions carry equal marks

1.
 - a) Explain **five** principles of a good tax system. (10 mks)
 - b) With the aid of a diagram, explain the circular flow of income in a two sector economy. (10 mks)
2.
 - a) Explain **five** measures that the government of Kenya can employ to reduce the amount of money in circulation. (10 mks)
 - b) Explain **five** ways through which the government may create an enabling environment. (10 mks)
3.
 - a) Explain **five** benefits that Kamau would get by joining Korocho SACCO. (10 mks)
 - b) Explain **five** reasons why businessmen observe ethical practice. (10 mks)
4.
 - a) Explain **five** factors that one would consider when choosing a method for product promotion. (10 mks)
 - b) On January 2018, Mbogo Traders had shs 40,000 in cash and a bank overdraft of shs16,200. During the month of following transactions took place.

January

- 3rd : Bought goods in cash worth shs17,500.
- 4th : Received from Tembo a cheque of shs14,250 after allowing 5% cash discount.
- 8th : Mando, a debtor settled his account of shs17,000 by a cheque of shs16,500.
- 10th : Withdrew shs7,200 from the bank for personal use.
- 14th : Sales amounted to shs22,450 in cash.
- 18th : Paid Simba traders shs28,500 in cash in full settlement of their account less 5% cash discount.
- 20th : Withdrew shs4,000 from the bank for business use.
- 22nd : Kunguru, a debtor, settled her account of shs40,000 by cheque less 1.5% cash discount.
- 26th : Paid wages shs12,000 in cash.

Received:

Prepare a duly balanced three column cashbook.

(10 mks)

- 5.
- a) In the last one year apple supply in Murang'a has been on rise. Explain **five** factors that would have lead to this trend. (10 mks)
 - b) Explain **five** demerits of free trade. (10 mks)

- 6.
- a) Explain **five** benefits of using electronic filing system. (10 mks)
 - b) The following information relates to Kipruto Enterprises as at 31st December 2017.

| | Sh |
|--------------------|---------|
| Motor vehicle | 146,500 |
| Office equipment's | 120,000 |
| Drawings | 12,000 |
| Capital | 200,000 |
| Stock | 68,000 |
| Net profit | 82,000 |
| Bank loan | 80,000 |
| Debtors | 86,000 |
| Cash in hand | 6,000 |
| Creditors | 50,000 |
| Bank overdraft | 26,500 |

Required

- (i) Prepare Kipruto's balance sheet (6 mks)
- (ii) Calculate
 - a) Working capital (2 mks)
 - b) Borrowed capital (1 mk)
 - c) Current ratio (1 mk)