

**565/2**  
**BUSINESS STUDIES**  
**PAPER 2**  
**TIME: 2 ½ HOURS**

## **LANY ACHIEVERS JOINT EXAMINATION TEST 2018**

Business Studies  
Paper 2  
**Time: 2 ½ Hours**

### **INSTRUCTIONS TO CANDIDATES**

This paper consists of six questions.  
Answer any five questions  
Write your answers in the answer booklet provided.  
All questions carry equal marks.

- 1a) Outline five reasons why a firm may be located near the market for its product? (10mks)
- b) Discuss five limitations of using consumer price index to measure the level of inflation in a country? (10mks).

2a) Explain five instruments of monetary policy that the central bank may use to reduce money supply in a country?(10mks).

b) On 1<sup>st</sup> may 2011, Atieno had sh. 150,000 In hand and sh. 60,000 in bank. During the month, the following transactions took place?

May 3 : Paid wages sh. 10,000 in cash.

5: Musyoka a debtor, settled his account of sh. 22,000 by cheque of sh. 21,500

6: Paid rent cash sh. 12,000.

7: Withdrew sh. 15,000 from bank for office use.

11: Paid Mwangi, a creditor sh. 30,000 by cheque in full settlement of his account after deducting 6% cash discount.

19: Cash sales banked sh. 52,000.

22: Received a cheque of sh. 12,000 from Agnes after allowing her cash discount of sh.500.

25: Purchased office equipment for sh. 11,000 paying by cash.

31: Deposited all the cash into bank except sh.10, 000.

Required: Prepared three column cash book and balance it off. (10mks)

3a) Using a well labeled diagram, explain the effects of an increase in demand on the equilibrium price and quality of commodity? (10mks)

b) Outline five circumstances under which a manufacturer may prefer to sell directly to consumers? (10mks)

4a) Explain five principles on which insurance is based on? (10mks)

b) Explain five measures that a country can take to correct a deficit in the balance of payment? (10mks)

5a) Describe Five indications of under development in less developed countries (LDCs)? (10mks)

b) Langat started a hardware business on 1<sup>st</sup> January 2002. The following is a summary of his transactions during the month.

2002:-

Invoices received:-

January 2. Jirani ltd sh.80,000

18. Chuma ltd sh.140,000

26. Mwanaisha traders sh.160,000

Invoice issued:-

January 5. Mungi traders sh.50,000  
20. Motor traders sh.150,000  
25. Jua kali traders sh.70,000

Credit note issued:-

January 5. Mungi traders sh.6,000  
28. Jua kali traders sh.4,000

Credit note received

January 12. Jirani Ltd sh.3,000  
24. chuma Ltd sh.800  
30. Mwanisha traders sh.12,000

Required :Record the above transactions in the appropriate subsidiary books (10mks)

6a) Outline four benefits that make an entrepreneur to prepare a business plan? (8mks)

b) Kiambu traders started business with sh.80,000 in cash on 1<sup>st</sup> January 2011.

2011 Jan 2- Deposited sh.450,000 cash into the bank

7 – Bought stock in cash sh.40,000  
12 – Took sh.20,000 cash for personal use  
19 – Paid salaries sh.120,000 by cheque.  
20 – Cash sales sh.85,000  
30 – Paid salaries sh.80,000 by cheque

Required:-

- i. Enter the above transactions in kiambu traders ledger accounts (7 mks)
- ii. Balance the ledger accounts and extract a trial balance as at 30<sup>th</sup> January 2011 (5 mks)