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NATIONAL EXAMINATIONS COUNCIL OF TANZANIA
ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

052/1

COMMERCE 1

(For Both School and Private Candidates)

Time: 3 Hours

ANSWERS

Year: 2015

Instructions

1. This paper consists of seven questions.
2. Answer five questions, question number one is compulsory

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1. (a) What is the main difference between cover note and insurance policy? Elaborate three functions of the cover note.

(b) (i) Explain the procedures necessary for making an insurance claim.

(ii) Joseph is a wholesaler who has decided to insure his business. The value of his stock was shs.150,000,000 but he insured only part of his stock against fire worth shs.80,000,000. A month after, his store was ablaze and everything was destroyed. How much would the insurer pay to Joseph as compensation? Explain the principle of insurance applied on compensating the loss.

(a) The main difference between a cover note and an insurance policy is that a cover note is a temporary document issued by an insurer to provide immediate coverage before the final insurance policy is prepared and issued. An insurance policy, on the other hand, is the formal contract that outlines the full details, terms, conditions, and coverage limits of the insurance agreement.

Cover notes serve several functions. One important function is providing temporary coverage. Since preparing an insurance policy may take time, a cover note ensures that the insured receives immediate protection before the final document is issued.

Another function is acting as proof of insurance. The insured can use the cover note to show that they are covered by insurance when dealing with authorities, lenders, or business partners.

Lastly, the cover note allows the insured to claim compensation in case of a loss before the final policy is issued. If a loss occurs during the period when the insurance policy is still being processed, the cover note serves as valid proof for making a claim.

(b) (i) To make an insurance claim, the insured must follow several procedures. The first step is notifying the insurer immediately after the incident occurs. This allows the insurer to begin investigations and assess the validity of the claim.

The second step is providing evidence of loss. The insured must submit documents such as police reports (in case of theft or accidents), invoices, or photos showing the extent of the damage or loss.

The third step is filling out a claim form. The insurer requires the insured to complete a claim form detailing the nature of the loss, date, and circumstances surrounding the event.

Once the claim is submitted, the insurer conducts an investigation to verify the claim's legitimacy. This may involve sending assessors to inspect the damage and determine the compensation amount.

Finally, if the claim is approved, the insurer pays compensation based on the agreed terms and principles of insurance.

(ii) Joseph insured his stock for shs.80,000,000, but the total stock value was shs.150,000,000. Since he underinsured his stock, the insurer will apply the principle of indemnity and contribution, meaning the compensation will be proportional to the insured amount.

Using the formula:

$$\begin{aligned}\text{Compensation} &= (\text{Insured Amount} / \text{Actual Value}) \times \text{Loss} \\ &= (80,000,000 / 150,000,000) \times 150,000,000 \\ &= \text{shs.}80,000,000\end{aligned}$$

Joseph will be compensated shs.80,000,000, as he only insured part of his stock. The principle of indemnity ensures that an insured person is compensated only to the extent of their insured amount, preventing profit from an insurance claim.

2. (a) Explain five roles of middlemen in the distribution process.
(b) Elaborate five kinds of mercantile agents.

(a) Middlemen play an important role in the distribution process by ensuring goods move smoothly from producers to consumers. One key role is facilitating the movement of goods. Middlemen, such as wholesalers and retailers, help transport and distribute products efficiently.

Another important role is breaking bulk. Wholesalers buy goods in large quantities from manufacturers and sell them in smaller portions to retailers, making products more accessible to consumers.

Providing storage services is another crucial function. Middlemen store goods in warehouses until demand increases, preventing shortages and ensuring a steady supply.

Middlemen also help in price stabilization. By managing supply levels, they prevent extreme fluctuations in product prices, benefiting both consumers and producers.

Lastly, middlemen provide credit facilities to retailers. Wholesalers often allow retailers to buy on credit, enabling small businesses to operate without requiring large upfront payments.

(b) Mercantile agents perform specific roles in trade transactions. One type is brokers, who connect buyers and sellers and negotiate deals on behalf of clients without taking ownership of the goods.

Another type is commission agents, who sell goods on behalf of manufacturers or wholesalers and earn a commission based on sales made.

Factors (del credere agents) guarantee payment from buyers and assume responsibility if the buyer fails to pay, reducing risks for sellers.

Auctioneers conduct public auctions where goods are sold to the highest bidder, ensuring quick sales and competitive pricing.

Lastly, wholesale merchants buy goods in bulk and sell them to retailers, acting as intermediaries between manufacturers and small-scale traders.

3. (a) (i) Analyse four types of utility.

(ii) Why are some countries involved in specialization? Give two reasons.

(b) Examine four advantages of specialization to an industry.

(a) (i) Utility refers to the ability of a good or service to satisfy consumer needs. There are different types of utility:

Form utility: Created when raw materials are converted into finished goods. For example, processing wheat into flour increases its usefulness.

Place utility: Created when goods are transported to locations where they are needed. For instance, transporting fish from coastal areas to inland regions increases its value.

Time utility: Ensured when goods are stored and supplied at the right time, such as selling umbrellas during the rainy season.

Possession utility: Created when ownership of goods is transferred from the seller to the buyer, making them available for use.

(ii) Countries engage in specialization for several reasons. One reason is maximizing efficiency. Specialization allows countries to focus on producing goods where they have an advantage, increasing productivity.

Another reason is international trade benefits. Countries that specialize in specific products can trade with others, gaining access to goods they do not produce efficiently.

(b) Specialization benefits industries in various ways. One advantage is increased production efficiency. When workers focus on specific tasks, they become skilled and complete work faster.

Another benefit is cost reduction. Specialization allows industries to use resources more effectively, reducing production costs.

Improved product quality is also achieved through specialization. Workers with experience in specific tasks produce better-quality goods.

Lastly, specialization enhances innovation. When industries focus on a particular sector, they invest in research and development to improve production methods and create new products.

4. (a) Examine five disadvantages of pipeline transport.
(b) (i) Differentiate internal communication from external communication.
(ii) Explain four merits of good external communication in an organization.

(a) Pipeline transport has several drawbacks. One disadvantage is high initial construction costs. Building pipelines requires heavy capital investment, making it an expensive transport method.

Another disadvantage is limited flexibility. Unlike roads or railways that connect multiple destinations, pipelines follow fixed routes, limiting their usability for different products.

Environmental hazards are another issue. Pipeline leaks can cause severe environmental damage, including water and soil contamination.

Additionally, slow transportation speed makes pipelines inefficient for urgent deliveries. Goods take longer to move through pipelines compared to trucks or rail transport.

Finally, maintenance difficulties pose a challenge. Pipeline repairs require specialized skills, making maintenance costly and time-consuming.

(b) (i) Internal communication refers to the exchange of information within an organization, such as communication between employees, managers, and departments. External communication, on the other hand, involves communication between an organization and external parties such as customers, suppliers, and stakeholders.

(ii) Good external communication benefits organizations in various ways. One key benefit is enhancing customer relationships. Clear communication with customers improves trust and satisfaction.

Another benefit is attracting investors. Organizations that communicate effectively with investors gain financial support for growth.

Building a strong brand image is another advantage. Positive communication with the public enhances reputation and credibility.

Lastly, ensuring smooth business transactions is crucial. Good communication with suppliers and partners prevents misunderstandings and delays.

5. (a) Explain five forms of outdoor advertising.
(b) Describe six benefits of trade fair and exhibition to both businessmen and customers.

(a) Outdoor advertising is a form of marketing that reaches consumers when they are outside their homes. It is an effective way for businesses to create brand awareness and attract potential customers. One common form is billboard advertising. Billboards are large, strategically placed advertisements along roads,

highways, and city centers. They are effective in capturing public attention due to their size, bright colors, and engaging designs.

Another form is posters and wall paintings. These are smaller advertisements placed on walls, notice boards, or buildings. They are commonly used by small businesses, event organizers, and political campaigns to reach local audiences.

Transit advertising is another important form of outdoor advertising. It involves placing ads on public transport vehicles such as buses, taxis, and trains. These moving advertisements help reach large numbers of people as vehicles travel through different areas.

Neon signs and digital displays are also a popular outdoor advertising method. These illuminated advertisements are often found in commercial areas, shopping malls, and entertainment districts. Neon signs attract attention, especially at night, making them effective for businesses that operate late hours, such as restaurants and casinos.

Finally, inflatable advertising involves using large, eye-catching balloons or air-filled structures to promote brands. These advertisements are commonly seen at events, trade shows, and store openings, where they attract attention from long distances.

(b) Trade fairs and exhibitions provide several benefits to both businesses and customers. One major benefit to businessmen is increased brand visibility. Exhibiting at a trade fair allows businesses to showcase their products to a large audience, creating awareness and attracting new customers.

Another benefit is networking opportunities. Trade fairs bring together businesses, suppliers, and investors from different industries, allowing companies to establish valuable partnerships and expand their market reach.

Market research and feedback is also a key advantage. Businesses get the opportunity to interact directly with customers, gather opinions, and understand consumer preferences, which helps in improving products and services.

For customers, trade fairs provide access to a wide variety of products and services under one roof. Consumers can compare different brands, check prices, and make informed purchasing decisions.

Another benefit for customers is promotional offers and discounts. Many businesses use trade fairs to launch new products, offer discounts, and provide free samples, allowing customers to enjoy cost savings.

Lastly, educational opportunities are available at exhibitions. Customers can attend product demonstrations, workshops, and seminars to learn about new technologies, innovations, and industry trends.

6. (a) (i) Identify four levels of stock held in the warehouse.
(ii) Calculate the order point in bags from the following data: Minimum stock of 850 bags of rice @ 50 kilograms, the time to deliver new stock ordered is 12 days, and sales per day are 12,500 kilograms.
(iii) Why is it necessary to indicate the delivery time in the calculation of order point?
(b) Analyse the procedures necessary for storing and removing goods from the bonded warehouses.

(a) (i) Businesses hold stock at different levels in a warehouse to ensure efficient operations and prevent shortages. The first level is minimum stock level, which refers to the lowest quantity of goods that must be available to prevent stockouts.

The second level is maximum stock level, which represents the highest quantity of stock that a warehouse can hold without causing storage problems or excessive costs.

The third level is re-order level, which is the point at which new stock must be ordered to prevent running out of inventory. It is calculated based on sales volume and delivery time.

The fourth level is buffer stock (safety stock), which is extra stock held to cover unexpected increases in demand or delays in supply.

(ii) Order Point Calculation:

$$\begin{aligned}\text{Order point} &= \text{Minimum stock} + (\text{Daily sales} \times \text{Delivery time}) \\ &= 850 \text{ bags} + (12,500 \text{ kg} \times 12 \text{ days}) \div 50 \text{ kg per bag} \\ &= 850 + (150,000 \div 50) \\ &= 850 + 3,000 \\ &= 3,850 \text{ bags}\end{aligned}$$

(iii) Indicating delivery time in the calculation of the order point is important because it ensures that new stock arrives before the current stock runs out. If delivery time is not considered, businesses risk running out of stock, leading to production delays, lost sales, and customer dissatisfaction.

(b) Storing and removing goods from bonded warehouses involves several steps. When storing goods, the first step is documentation and inspection. Importers must present required documents, such as invoices and customs clearance forms, before goods are stored. Customs officers inspect the goods to verify the details and ensure compliance with regulations.

The second step is classification and labeling. Goods are categorized based on type, destination, and taxation requirements. They are labeled with tracking information for easy identification and retrieval.

Next, goods are stored securely under customs supervision. Since bonded warehouses store goods without immediate duty payment, security measures are taken to prevent unauthorized access.

For removing goods, the first step is applying for release. The importer must submit a request, along with proof of tax and duty payment, before goods can be cleared for removal.

The second step is customs verification. Officers review documents and inspect the goods to ensure that all duties have been paid and no restrictions apply.

Finally, after clearance, the goods are transported to their final destination under proper supervision to prevent tax evasion or smuggling.

7. (a) Define the term trade and describe its branches.

(b) Discuss how aids to trade facilitate trade.

(a) Trade refers to the buying and selling of goods and services to satisfy human wants and generate income. It is categorized into two main branches: home trade and foreign trade.

Home trade occurs within a country and is divided into wholesale trade (selling in bulk) and retail trade (selling to consumers in small quantities).

Foreign trade involves buying and selling goods between different countries. It has three types:

Import trade (buying goods from other countries)

Export trade (selling goods to other countries)

Entrepôt trade (importing goods and re-exporting them without significant processing)

(b) Aids to trade are essential services that support commercial activities, ensuring smooth transactions and market efficiency. Transport and communication help businesses move goods from producers to consumers and enable quick exchange of business information.

Banking and finance facilitate trade by providing businesses with loans, credit facilities, and secure payment methods such as electronic transfers.

Insurance protects traders from financial losses caused by risks like theft, fire, and accidents, allowing businesses to operate with confidence.

Warehousing ensures the continuous supply of goods by storing surplus stock and preventing shortages during high demand periods.

Lastly, advertising and marketing promote products and inform consumers about new goods, boosting sales and competition in the market.

8. (a) Explain the impact of privatization of banks in Tanzania. Give five points.

(b) Analyse five features of a current account.

(a) Privatization of banks in Tanzania has had a significant impact on the financial sector. One major impact is increased efficiency and competition. Private banks operate with higher efficiency, leading to better customer service, faster loan processing, and improved financial services.

Another impact is expanded access to financial services. Privatized banks invest in branch expansion, mobile banking, and digital services, making banking accessible even in rural areas.

Attraction of foreign investment is another benefit. Privatized banks bring in foreign investors, increasing capital inflows and improving financial stability in the country.

Privatization has also reduced government financial burdens. By transferring ownership to private investors, the government no longer needs to support underperforming banks with public funds, allowing resources to be used for other development projects.

Lastly, technological advancements have improved banking services. Private banks invest in modern banking systems, enhancing security, convenience, and transaction speed.

(b) A current account has several unique features. One key feature is unlimited withdrawals and deposits. Unlike savings accounts, current account holders can deposit and withdraw funds multiple times without restrictions.

Another feature is cheque facility, which allows account holders to make payments using cheques, providing a secure way to conduct business transactions.

Overdraft facility is another benefit. Banks may allow current account holders to withdraw more money than their account balance, helping businesses manage short-term cash flow shortages.

Direct payments and transfers are possible with current accounts, enabling businesses to make online transactions, salary payments, and supplier settlements efficiently.

Lastly, no interest earnings is a common feature. Unlike savings accounts, current accounts do not earn interest because they are primarily used for daily transactions.