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NATIONAL EXAMINATIONS COUNCIL OF TANZANIA
ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

052/2

COMMERCE 2

(For Both School and Private Candidates)

Time: 3 Hours

ANSWERS

Year: 2016

Instructions

1. This paper consists of Eight questions.
2. Answer five questions, choosing at least two questions from each section. question number one is compulsory

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1. Mashaka, Mawazo, and Majuto have been in a partnership business for a year, but they did not prepare the partnership agreement before starting their business. What does the provisions of the Partnership Act state in relation to this situation? Give ten points.

When a partnership operates without a written agreement, the Partnership Act provides standard provisions that govern the relationship between partners. One provision states that profits and losses must be shared equally among the partners, regardless of their individual contributions. If one partner invested more capital than the others, they cannot claim a larger share unless a written agreement states otherwise.

Another provision states that all partners have an equal say in decision-making, meaning no single partner has more authority over business operations than the others. Additionally, partners are not entitled to salaries for their work in the partnership. Any compensation they receive must come from their share of the profits.

The Act also specifies that each partner must contribute equally to the repayment of business debts. If the business owes money, all partners are personally responsible for covering the liabilities, even if one partner was not involved in incurring the debt.

Furthermore, no partner can introduce a new partner without the consent of all existing partners. This ensures that every partner agrees before changes are made to the structure of the business. Also, each partner has the right to access business records and review financial documents, ensuring transparency and accountability.

If one partner advances money to the business beyond their required capital contribution, they are entitled to interest at the legal rate on the extra amount. Another provision states that any differences arising in ordinary business matters shall be decided by a majority of partners, but changes to the fundamental nature of the business require unanimous agreement.

Additionally, each partner must act honestly and disclose any personal business activities that might compete with the partnership. If a partner secretly runs a competing business, they must return any profits earned from such activities to the partnership.

Lastly, the Act provides that a partnership may be dissolved if any partner gives notice of their intention to leave unless the partners agree to continue with a new structure. This ensures flexibility while maintaining fairness.

2. (a) Describe five merits of marketing research as a marketing function.

Marketing research provides valuable insights that help businesses make informed decisions. One major benefit is that it helps businesses understand customer needs and preferences, allowing them to develop products that meet market demand. This increases customer satisfaction and brand loyalty.

Another advantage is that marketing research reduces business risks by providing data on market trends, potential competitors, and consumer behaviors before launching a new product or entering a new market. This prevents costly mistakes.

Marketing research also enhances competitive advantage by allowing companies to analyze their competitors' strengths and weaknesses. With this information, businesses can improve their own strategies to attract more customers.

Additionally, research improves decision-making in pricing and promotion strategies. Businesses can determine the best pricing models based on consumer purchasing power and find the most effective advertising channels to reach their target audience.

Lastly, marketing research helps businesses expand into new markets by providing insights into customer preferences, cultural differences, and local economic conditions. This ensures successful entry into different geographical areas.

(b) Analyse five problems facing marketing boards in developing countries.

Marketing boards in developing countries face several challenges that limit their effectiveness. One major issue is lack of funding, which prevents them from providing necessary support to farmers and producers. Without adequate financial resources, marketing boards struggle to offer fair prices and modern storage facilities.

Another challenge is poor infrastructure, including inadequate roads and unreliable transportation. This makes it difficult to distribute goods efficiently, leading to delays and losses. Farmers often suffer because their products reach markets in poor condition.

Additionally, marketing boards suffer from political interference, where decisions are influenced by government interests rather than market forces. This leads to inefficiencies and corruption, affecting the fair pricing of goods.

A lack of proper data collection and research is another issue. Without accurate market data, marketing boards fail to provide relevant price forecasts and demand estimates, making it difficult for producers to plan their production.

Finally, global competition from imported goods negatively affects local producers. Many developing countries import cheap products, making it difficult for domestic businesses to compete, thereby reducing the effectiveness of marketing boards.

3. (a) Explain seven limitations of international trade.

One limitation of international trade is trade restrictions and tariffs, where governments impose duties and quotas that increase the cost of importing and exporting goods. These restrictions reduce trade volumes and increase prices for consumers.

Another limitation is foreign exchange fluctuations, which can make international trade unpredictable. If a country's currency depreciates, imports become more expensive, leading to inflation and reduced purchasing power.

Differences in legal and regulatory systems also pose challenges. Countries have different trade laws, tax policies, and safety standards, making compliance complicated for international traders. Cultural and language barriers create another limitation. Misunderstandings in communication, product labeling, and business etiquette can lead to inefficiencies and disputes.

Additionally, international trade depends on complex logistics and transportation systems. Any disruptions such as strikes, natural disasters, or high fuel costs can delay shipments and increase costs.

Another issue is dependency on foreign markets. Countries that rely heavily on exports for economic growth may suffer if global demand declines, leading to job losses and economic instability.

Finally, political instability and conflicts can negatively impact trade. Sanctions, trade wars, or conflicts between countries can disrupt business operations and limit market access.

(b) Outline three functions of a bill of lading.

A bill of lading serves as a contract of carriage between the exporter and the shipping company, outlining the terms and conditions for transporting goods.

It also acts as a receipt of goods, proving that the shipping company has received the specified goods in good condition for delivery to the buyer.

Lastly, the bill of lading functions as a document of title, meaning it can be used to transfer ownership of the goods while they are in transit. This allows importers to claim goods upon arrival.

4. (a) Identify four main differences between sales and agreement to sell?

One key difference is that in a sale, ownership of goods is transferred immediately, while in an agreement to sell, ownership remains with the seller until conditions are met.

In a sale, the buyer bears the risk of loss if goods are damaged after the sale, whereas in an agreement to sell, the seller is responsible for any damages until ownership is transferred.

A sale is legally binding, meaning the seller can sue for the price of the goods if the buyer refuses to pay. However, in an agreement to sell, the seller can only sue for damages, not the price, since ownership has not yet passed.

In case of insolvency, if the buyer becomes bankrupt after a sale, the seller cannot reclaim the goods. However, in an agreement to sell, the seller still owns the goods and can refuse to deliver them.

(b) Examine six remedies for the breach of a contract.

One remedy is rescission, where the injured party cancels the contract and is restored to their original position before the agreement was made.

Another remedy is damages, where the party that suffered a loss is compensated financially for the breach. The compensation amount depends on the loss incurred.

Specific performance is another remedy where the court orders the breaching party to fulfill their contractual obligations, especially when monetary compensation is not adequate.

Injunctions may be granted to prevent a party from performing a certain act that violates the contract, such as stopping a business from selling copied products.

A court may also order quantum meruit, meaning the injured party is paid for the work they have already completed, even if the full contract was not fulfilled.

Finally, liquidated damages may apply if the contract specifies a fixed penalty for breach. In such cases, the defaulting party must pay the agreed compensation amount.

5. (a) Explain four main forms of business capital.

Business capital is the financial and physical resources a business needs to operate and grow. One form is fixed capital, which includes long-term investments such as land, buildings, machinery, and vehicles. These assets are used in production and are not easily converted into cash. Fixed capital is essential for businesses that require significant infrastructure, such as manufacturing companies.

Another form is working capital, which refers to the short-term assets and liabilities that help businesses meet daily operational expenses. It includes cash, inventory, accounts receivable, and accounts payable. Sufficient working capital ensures that a business can pay its employees, purchase raw materials, and meet short-term financial obligations.

Equity capital is another type, which comes from the owner's personal investment or funds raised through selling shares in a company. Equity capital does not require repayment, making it a stable source of

financing. This form of capital is common in large corporations where shareholders invest money in exchange for ownership stakes.

Lastly, debt capital refers to funds borrowed from banks, financial institutions, or investors. This includes loans, bonds, and overdraft facilities. Debt capital must be repaid with interest, and businesses must manage it carefully to avoid financial strain. However, it allows businesses to access large sums of money quickly for expansion and investment.

(b) Identify two sources of finance that come from within the business firm itself.

One internal source of finance is retained earnings, where a business reinvests its profits instead of distributing them as dividends. This allows the business to grow without borrowing externally. Retained earnings are a cost-effective source since they do not require repayment or interest.

Another internal source is sale of assets, where a business raises funds by selling non-essential assets such as old machinery, vehicles, or real estate. This is useful when a company needs quick cash to cover operational expenses or invest in new projects.

(c) Tunambi's business has a rate of inventory turnover of 8 times per year. His average inventory was Tshs 3,248,000. The mark-up was 50 percent and the expenses of his business were 60 percent of the gross profit. Calculate the following:

(i) Cost of goods sold

Cost of goods sold (COGS) = Inventory turnover \times Average inventory

COGS = $8 \times 3,248,000$

COGS = Tshs 25,984,000

(ii) Gross profit

Gross profit = Mark-up percentage \times COGS

Gross profit = $50\% \times 25,984,000$

Gross profit = Tshs 12,992,000

(iii) Turnover (Sales revenue)

Sales revenue = COGS + Gross profit

Turnover = $25,984,000 + 12,992,000$

Turnover = Tshs 38,976,000

(iv) Total expenses

Total expenses = 60% of Gross profit

Total expenses = $60\% \times 12,992,000$

Total expenses = Tshs 7,795,200

(v) Net profit

Net profit = Gross profit - Total expenses

Net profit = 12,992,000 - 7,795,200

Net profit = Tshs 5,196,800

6. (a) Explain the following:

(i) Organization chart

An organization chart is a visual representation of a company's structure, showing the hierarchy and relationships between different roles and departments. It helps employees understand reporting lines and responsibilities within an organization.

(ii) The main types of organization charts

One type is hierarchical organization chart, which has a pyramid structure with the CEO at the top, followed by senior managers, middle managers, and lower-level employees. Another type is functional organization chart, where employees are grouped based on their specific functions such as marketing, finance, or production. There is also a matrix organization chart, where employees work under multiple supervisors, often in project-based companies.

(iii) Three advantages and two disadvantages of an organization chart

One advantage is clarity in roles and responsibilities, ensuring that employees know their duties and who they report to. Another advantage is improved coordination, as the chart visually defines how departments interact, reducing confusion. A third advantage is better decision-making, as leaders can identify reporting structures and streamline communication.

However, one disadvantage is rigidity, as a fixed structure can limit flexibility in decision-making and innovation. Another disadvantage is complexity in large organizations, where a detailed organization chart can become difficult to manage and update as the company grows.

(b) Explain two principles of delegation of authority.

One principle is clarity of authority, meaning that when managers delegate tasks, they must clearly define the limits of authority given to subordinates. This prevents misunderstandings and ensures accountability.

Another principle is parity of authority and responsibility, which states that the amount of authority given to an employee should match their level of responsibility. If employees have more responsibility than authority, they may struggle to complete tasks effectively.

7. (a) Identify five objectives of consumerism.

One objective is consumer protection, ensuring that buyers receive safe, high-quality, and fairly priced products. This prevents exploitation by unethical businesses.

Another objective is consumer education, where people are informed about their rights, responsibilities, and the best ways to make informed purchasing decisions.

A third objective is fair trade practices, ensuring that businesses follow ethical practices, such as honest advertising and proper labeling of goods.

Another goal is product standardization, where consumer groups push for laws that ensure goods meet minimum quality and safety requirements.

Lastly, consumerism aims at establishing legal frameworks that allow consumers to seek redress in cases of defective products or unfair business practices.

(b) Describe five legislative measures available to safeguard consumers in Tanzania.

One measure is the Fair Competition Act, which prevents businesses from engaging in monopolistic practices and ensures fair market competition.

Another measure is the Tanzania Food and Drugs Authority (TFDA), which regulates the quality and safety of food, cosmetics, and pharmaceutical products to protect public health.

The government also enforces the Standards Act, which ensures that products meet Tanzanian Bureau of Standards (TBS) regulations before being sold in the market.

The Consumer Protection Act allows consumers to take legal action against businesses that sell defective or misleading products.

Finally, the Weights and Measures Act ensures that businesses use correct measurements in trade, preventing consumers from being cheated through incorrect weighing scales.

8. (a) What is incidence of taxation? Describe three main systems of taxation.

Incidence of taxation refers to who ultimately bears the burden of a tax—whether it is the producer or the consumer. If a business increases prices to compensate for taxes, the tax burden falls on consumers. If the business absorbs the tax, it falls on the producer.

The three main taxation systems are:

- Progressive tax – The tax rate increases as income increases. Higher earners pay a larger percentage of their income in taxes. Example: Income tax.
- Regressive tax – The tax rate decreases as income increases, meaning lower-income individuals pay a higher proportion of their earnings in taxes. Example: Sales tax.
- Proportional tax – The tax rate is fixed, meaning all individuals pay the same percentage of their income, regardless of earnings. Example: Corporate tax.

(b) Explain six limitations of direct taxes.

One limitation is tax evasion, where individuals and businesses underreport income to avoid paying high taxes, leading to reduced government revenue.

Another limitation is discouragement of investment, as high direct taxes reduce disposable income and discourage entrepreneurs from expanding their businesses.

Direct taxes also create administrative burdens, requiring complex systems for assessment, collection, and enforcement.

Another issue is discouragement of work effort, as employees may feel less motivated to earn higher salaries if more of their income is taxed.

A fifth limitation is political manipulation, where governments may change tax policies for political reasons rather than economic stability.

Lastly, double taxation occurs when individuals or companies are taxed multiple times on the same income, such as corporate profits being taxed and shareholders paying tax again on dividends.