

THE UNITED REPUBLIC OF TANZANIA
NATIONAL EXAMINATIONS COUNCIL
CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

061

COMMERCE

(For Both School and Private Candidates)

Time: 2:30 Hours

ANSWERS

Year: 2004 p.m.

Instructions

1. This paper consists of sections A, B and C.
2. Answer **all** questions in sections A and B and **two (2)** questions from section C.
3. Calculators are **not** allowed in the examination room.
4. Cellular phones are **not** allowed in the examination room.
5. Write your **Examination Number** on every page of your answer booklet(s).

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1. For each of the items (i) - (x), choose the correct answer from among the given alternatives and write its letter beside the item number.

(i) Trade is defined as:

- A. buying and selling manufactured goods only
- B. buying and selling of goods and services
- C. any activity undertaken to make a profit
- D. changing of raw materials into finished goods
- E. selling goods to the ultimate consumer

B

Reason: Trade involves the buying and selling of both goods (tangible) and services (intangible) to facilitate exchange, which aligns with the core definition of commerce.

(ii) Which of the following statements is true?

- A. balance of trade is the same as balance of payments
- B. balance of payments is the difference between the imports and exports of goods by a country
- C. Balance of trade is the excess of visible imports over visible exports or vice versa
- D. A favourable balance of trade necessarily means a favourable balance of payments
- E. Balance of trade as much as balance of payments

C

Reason: Balance of trade is the difference between a country's visible (tangible) exports and imports. If exports exceed imports, it's a surplus (favourable); if imports exceed exports, it's a deficit (unfavourable).

(iii) Which of the following is not an element of transport?

- A. terminal
- B. way of transport
- C. motive power
- D. containerization
- E. unit of carriage

D

Reason: Elements of transport include terminal (e.g., ports), way (e.g., roads), motive power (e.g., fuel), and unit of carriage (e.g., vehicles). Containerization is a method of packing goods, not a core element of transport itself.

(iv) A bonded warehouse is used to store:

- A. goods which are dangerous or inflammable
- B. goods against theft
- C. imported goods of a particular manufacturer only
- D. imported goods till duty is paid on them
- E. goods against fire

D

Reason: A bonded warehouse stores imported goods without immediate payment of customs duties, allowing the importer to defer duty payment until the goods are released for domestic use or re-exported.

(v) A tied shop is a:

- A. number of single shops under one roof and one management
- B. large store that stocks many items a house wife is likely to buy
- C. self-service store

- D. super market complex
- E. type of single shop which sells products of one manufacturer only

E

Reason: A tied shop is a retail outlet that exclusively sells products from one manufacturer, often due to a contractual agreement, e.g., a shop selling only Coca-Cola products.

(vi) Which of the following items does not appear in the memorandum of an association?

- A. power of directors
- B. type and amount of share capital
- C. objects of a company
- D. name of a company
- E. liability clause

A

Reason: The memorandum of association includes the company's name, objectives, share capital, and liability clause. The power of directors is detailed in the articles of association, which govern internal management.

(vii) Teachers, doctors and lawyers are said to be involved in production. Their contributions may be grouped under:

- A. commercial occupations
- B. direct services
- C. industrial occupations
- D. distributive occupations
- E. manufacturer occupations

B

Reason: Teachers, doctors, and lawyers provide direct services (tertiary production) that benefit individuals directly, such as education, healthcare, and legal advice, rather than producing goods or engaging in commerce.

(viii) A cheque bearing a special crossing:

- A. can be endorsed to anyone
- B. can be deposited in any account as long as it is with the named bank and branch
- C. must be deposited in the payee's account with the named bank and branch
- D. can be endorsed to another bank
- E. must be withdrawn from the drawer's account

C

Reason: A special crossing specifies the bank and branch (e.g., "CRDB Bank - Arusha Branch") where the cheque must be deposited, restricting it to the payee's account at that specific branch for added security.

(ix) E. Ngosha had an opening stock of Shs. 20,000.00 and a closing stock of Shs. 25,000.00. His net purchases for the year amounted to Shs. 150,000.00 and his gross profit margin was 40% on cost. His expenditure for the year was Shs. 28,600.00. What was his net profit?

- A. 58,000.00
- B. 145,000.00
- C. 56,000.00
- D. 203,000.00
- E. 29,400.00

E

Reason:

Cost of Goods Sold (COGS) = Opening stock + Net purchases - Closing stock
 = 20,000 + 150,000 - 25,000 = 145,000 Shs.

Gross profit margin = 40% on cost, so Gross Profit = 40% of COGS = $0.40 \times 145,000 = 58,000$ Shs.

Selling Price = COGS + Gross Profit = 145,000 + 58,000 = 203,000 Shs.

Net Profit = Gross Profit - Expenses = 58,000 - 28,600 = 29,400 Shs.

(x) In a regressive taxation system, low income earners pay:

- A. less taxes as their income increases
- B. less taxes as their income remain constant
- C. more taxes as their income decreases
- D. more taxes as their income increases
- E. less taxes as their income decreases

C

Reason: In a regressive taxation system, the tax burden is proportionally higher for low income earners. As their income decreases, they pay a higher percentage of their income in taxes (e.g., a flat sales tax impacts the poor more).

2. Match the responses in List B with statements in List A by writing the letter of the correct response beside the item number.

LIST A	LIST B
(i) The art of selling to the final consumers	H. Retailing
(ii) Is a document that shows the amount of goods which are in a warehouse for a particular importer	T. Inbond notes
(iii) Any stock in business being sold and replaced by another	Q. Stock turnover
(iv) Refers to one of the canons of taxation	A. Equity
(v) Is a motivation of stimulus for working efficiently	K. Incentive
(vi) Quantity of imported goods that may be deposited in a bank for safe keeping after banking hours	E. Quota
(vii) A method by which money can be deposited in a bank for safe keeping after banking hours	C. Night safe
(viii) Refers to human effort, physical or mental, employed to produce goods or services	G. Labour
(ix) Supplier reserves the right of any error or omission that may have been in the invoice	O. E and O.E.
(x) Refers to an instruction by a customer to his bank to make periodic payment to a named person at specific dates	M. Standing Order

Answers

LIST A	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
LIST B	H	T	Q	A	K	E	C	G	O	M

3. Write short notes on the following:

(a) **Indirect production:** The production of goods or services for exchange or sale rather than personal use, e.g., a farmer growing maize to sell in the market, involving specialization and trade.

(b) **Public enterprises:** Businesses owned and operated by the government to provide essential services or

achieve economic goals, e.g., TANESCO in Tanzania managing electricity supply.

(c) **Buffer stock:** A reserve of goods held to stabilize prices or ensure supply during shortages, e.g., a government storing maize to release during droughts to prevent price spikes.

(d) **Dumping:** Selling goods in a foreign market at a price below production cost or domestic price to capture market share, often seen as unfair, e.g., cheap imported electronics flooding Tanzanian markets.

(e) **Certainty:** A canon of taxation (per Adam Smith) stating that tax rules should be clear, predictable, and not arbitrary, ensuring taxpayers know how much and when to pay, e.g., a fixed VAT rate.

4. Differentiate between:

(a) **Bill of lading and bill of exchange:** A bill of lading is a shipping document that acts as a receipt, contract, and title to goods, used in transport (e.g., for cargo on a ship). A bill of exchange is a financial document ordering one party to pay another a specified amount on a future date, used for credit in trade.

(b) **Hire purchase and deferred payment:** Hire purchase involves paying for goods in installments with interest, where ownership transfers after the final payment, and the seller can repossess if payments fail. Deferred payment involves paying in installments without interest, with ownership transferring upon delivery, often with less risk of repossession.

5. (a) **Define elasticity.**

Elasticity measures how responsive the quantity demanded or supplied of a good is to a change in its price, income, or other factors, expressed as a percentage change ratio, e.g., price elasticity of demand.

(b) Use the following demand and supply schedule to answer the questions below:

PRICE PER kg (Shs)	QUANTITY DEMANDED (kg)	QUANTITY SUPPLIED (kg)
P1 5	90,000	30,000
P2 10	70,000	40,000
P3 15	50,000	50,000
P4 20	30,000	60,000

(i) **Draw the demand and supply curves in the same pair of axes.**

- **Demand Curve:** Plot points (5, 90,000), (10, 70,000), (15, 50,000), (20, 30,000). The curve slopes downward (negative slope) as price increases, quantity demanded decreases.
- **Supply Curve:** Plot points (5, 30,000), (10, 40,000), (15, 50,000), (20, 60,000). The curve slopes upward (positive slope) as price increases, quantity supplied increases.
- The curves intersect at (15, 50,000), indicating equilibrium.

(ii) **Indicate the equilibrium price and quantity.**

Equilibrium occurs where quantity demanded equals quantity supplied:

Price = 15 Shs., Quantity = 50,000 kg.

(iii) **Calculate the elasticity of supply of the commodity from P2 to P3.**

Elasticity of Supply (E_s) = (% change in quantity supplied) / (% change in price)

From P2 (10 Shs., 40,000 kg) to P3 (15 Shs., 50,000 kg):

% change in quantity supplied = $[(50,000 - 40,000) / 40,000] \times 100 = 25\%$

% change in price = $[(15 - 10) / 10] \times 100 = 50\%$

$E_s = 25 / 50 = 0.5$

Answer: 0.5

(iv) **Comment on the results you obtain in 5 (b) (iii) above.**

The elasticity of supply ($E_s = 0.5$) is inelastic ($E_s < 1$), meaning the quantity supplied is not very responsive to price changes. A 50% price increase (from 10 to 15 Shs.) leads to only a 25% increase in quantity supplied (from 40,000 to 50,000 kg), possibly due to production constraints or limited resources.

6. Complete the following table by writing your answer beside the item number in your answer booklet.

	COST PRICE	SELLING PRICE	GROSS PROFIT	MAKE UP %
(a)				AMOUNT %
(b)	500	600	(i)	(ii)
(c)	420	(iv)	(v)	30
(d)	(vii)	800	(viii)	(ix)
(e)	(x)	1000	200	20

Row (b):

(i) **Gross Profit** = Selling Price - Cost Price = 600 - 500 = 100 Shs.

(ii) **Make Up % (Amount)** = Gross Profit = 100 Shs.

(iii) **Make Up %** = (Gross Profit / Cost Price) $\times 100 = (100 / 500) \times 100 = 20\%$.

Row (c):

Make Up % = 30% (given).

(iv) **Selling Price:** Let CP = 420. Make Up % = (Gross Profit / CP) $\times 100$.

Gross Profit = 30% of CP = $0.30 \times 420 = 126$ Shs.

Selling Price = CP + Gross Profit = 420 + 126 = 546 Shs.

(v) **Gross Profit** = 126 Shs. (from above).

(vi) **Make Up %** = 30% (given).

Row (d):

Make Up % = 25% (given).

Selling Price = 800 Shs.

(vii) **Cost Price:** Make Up % = (Gross Profit / CP) $\times 100$.

Let CP = x. Gross Profit = Selling Price - CP = 800 - x.

$25 = [(800 - x) / x] \times 100$.

$$0.25x = 800 - x.$$

$$1.25x = 800.$$

$$x = 800 / 1.25 = 640 \text{ Shs.}$$

$$\text{(viii) Gross Profit} = 800 - 640 = 160 \text{ Shs.}$$

$$\text{(ix) Make Up \% (Amount)} = \text{Gross Profit} = 160 \text{ Shs.}$$

Row (e):

$$\text{Selling Price} = 1000 \text{ Shs., Gross Profit} = 200 \text{ Shs., Make Up \%} = 25\% \text{ (given).}$$

$$\text{(x) Cost Price: Gross Profit} = \text{Selling Price} - \text{CP.}$$

$$200 = 1000 - \text{CP.}$$

$$\text{CP} = 1000 - 200 = 800 \text{ Shs.}$$

$$\text{Make Up \%} = (\text{Gross Profit} / \text{CP}) \times 100 = (200 / 800) \times 100 = 25\% \text{ (matches given value).}$$

Completed Table:

	COST PRICE	SELLING PRICE	GROSS PROFIT	MAKE UP %
(a)				AMOUNT %
(b)	500	600	100	100 20%
(c)	420	546	126	30%
(d)	640	800	160	160 25%
(e)	800	1000	200	20 25%

7. (a) What do you understand by the term "market research"?

Market research refers to the process of gathering, analyzing, and interpreting information about a market, including details about the target customers, competitors, and industry trends. It helps businesses understand what customers need and want, which products or services are in demand, and how to position themselves to gain a competitive advantage. Market research is essential for making informed decisions about marketing, production, and business strategy.

(b) Outline seven types of useful information that can be analyzed in market research

One type of useful information is customer preferences. This includes understanding what kinds of products customers like, their tastes, and their opinions about pricing, quality, and packaging.

Market size is another key piece of information. It helps a business estimate how big the potential market is for a product or service and whether there is enough demand to justify investment.

Competition analysis is also crucial. It involves studying competitors, their pricing strategies, marketing approaches, and product features. This helps a business develop strategies to stand out.

Consumer behavior patterns, such as buying habits and seasonal trends, are also analyzed. This helps businesses plan their production and marketing efforts at the right time.

Information about pricing sensitivity is important too. Businesses can learn how price changes affect customer demand, which helps in setting the right price.

Distribution channels are another aspect. Market research helps identify the most effective ways to deliver products to customers, such as through shops, online platforms, or agents.

Lastly, demographic data like age, income, gender, and location of customers is useful. It helps businesses segment the market and target specific groups more effectively.

8. (a) Define insurance

Insurance is a financial arrangement or contract in which a person or business pays regular premiums to an insurance company in exchange for protection against financial loss or risk. When a specific event occurs—such as an accident, illness, fire, or theft—the insurance company compensates the policyholder based on the terms of the agreement. It is a tool for managing risks and provides peace of mind to individuals and businesses.

(b) Explain the principles of insurance

One principle of insurance is the principle of indemnity. This means the insured should not profit from a claim but should be restored to the same financial position they were in before the loss occurred.

Another important principle is insurable interest. The person buying the insurance must have a financial or legal interest in the item or life being insured, meaning they would suffer a genuine loss if something happened.

The principle of utmost good faith requires both parties, especially the insured, to provide all relevant and honest information when applying for insurance. Failure to disclose important facts may render the policy void.

The principle of contribution applies when a person has more than one insurance policy covering the same risk. In the event of a loss, the insured cannot claim the full amount from all insurers but must claim proportionately.

Lastly, the principle of subrogation allows the insurer to take legal action on behalf of the insured after compensation is paid. For example, if someone damages the insured's car and the insurer pays for the repairs, the insurer can recover that amount from the person at fault.

9. (a) Outline the main types of bank accounts

The first type is a savings account. This is designed mainly for individuals who want to save part of their income securely while earning interest. It encourages saving habits by allowing customers to deposit money and withdraw when necessary, although some limits may apply to withdrawals.

The second type is a current account. This is mostly used by business people and institutions that need to perform frequent and large transactions. It allows for unlimited deposits and withdrawals and often provides services like cheque books and overdrafts, but typically does not earn interest.

A fixed deposit account is another important type. It involves depositing a specific amount of money in a bank for a set period, during which it cannot be withdrawn. In return, the bank offers a higher interest rate than a regular savings account, making it ideal for long-term saving.

The call deposit account is designed for short-term deposits where funds can be withdrawn at short notice, usually within a day or two. It is a flexible option for businesses or individuals who might need immediate access to their funds while still earning some interest.

Lastly, there is a joint account. This is an account operated by two or more individuals, often family members or business partners. All joint account holders have equal rights over the funds and can perform transactions according to the agreed terms with the bank.

9. (b) Explain five factors to be considered by a bank manager before providing loans to customers

A bank manager first considers the creditworthiness of the applicant. This involves assessing the borrower's ability and willingness to repay the loan by reviewing their financial history, existing debts, and repayment habits to minimize the risk of default.

The purpose of the loan is another critical factor. The manager must understand how the loan will be used, whether for expanding a business, buying property, or personal reasons. A well-defined and productive purpose increases the chances of approval.

Collateral is also an important consideration. This refers to the asset or guarantee the borrower offers to secure the loan. In case the borrower fails to repay, the bank can seize the collateral to recover the money, reducing financial risk.

The bank manager also looks at the borrower's source of income or revenue. A steady and reliable income source assures the bank of the borrower's ability to meet monthly loan installments without difficulties.

Lastly, the current economic environment is considered. During times of inflation, economic downturn, or unstable market conditions, banks may be more cautious in issuing loans to avoid potential losses if businesses or individuals struggle to repay.

10. (a) State and explain the various forms of ownership in business units

The first form is sole proprietorship. This is a business owned and run by one person who provides the capital, controls the operations, and keeps all the profits. It is simple to start and operate, with fewer legal requirements, but the owner bears unlimited liability.

The second form is a partnership. This involves two or more people who pool resources to run a business and share profits and losses according to an agreed ratio. Partnerships allow for shared skills and capital but require trust and legal agreements to avoid conflicts.

A private limited company is a business owned by a small group of shareholders, often family or friends. It has a separate legal identity from its owners, offering them limited liability. Shares cannot be sold to the public, which limits capital-raising options.

A public limited company is owned by many shareholders and can sell its shares to the public through a stock exchange. It raises large amounts of capital and has a separate legal identity, but faces stricter regulations and must disclose its financial affairs.

A cooperative society is a business formed by a group of people with common interests, often producers or consumers, who pool resources to achieve mutual benefits. It operates democratically and shares profits among members.

(b) Explain the most important difference between "memorandum of association" and "articles of association"

The most important difference between the memorandum of association and the articles of association lies in their purpose and content. The memorandum of association is a legal document that defines the fundamental details of a company, such as its name, objectives, location, and the extent of liability of its members. It serves as the company's charter and governs its relationship with external parties like customers, suppliers, and the government.

On the other hand, the articles of association are internal rules and regulations that guide how the company operates and manages its affairs. This document outlines the rights and responsibilities of directors and shareholders, procedures for meetings, distribution of profits, and rules for appointing or removing officers. While the memorandum deals with external relationships, the articles focus on internal management.