

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

061

COMMERCE

(For Both School and Private Candidates)

Time: 3 Hours

ANSWERS

Year: 2018

Instructions

1. This paper consists of section A, B and C with a total of eleven questions.
2. Answer all questions in section A and B and two questions from section C.

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I. Which of the following is not a characteristic of itinerant traders?

- A. They may operate as regular dealers throughout the year.
- B. They operate with a minimum of the establishment expenses.
- C. They operate only alongside the main roads.
- D. They operate their business without fixed premises.
- E. They operate with a very small amount of capital.

Correct answer: A. They may operate as regular dealers throughout the year.

Reason: Itinerant traders are mobile and do not have fixed locations. Their operations are seasonal or based on demand in different locations, meaning they do not necessarily operate as regular dealers throughout the year.

II. The basic factors of production comprise the following:

- A. Land, labour and organization.
- B. Land, labour, organization and capital.
- C. Land, organization and capital.
- D. Land, labour and capital.
- E. Land, organization, capital and production.

Correct answer: D. Land, labour and capital.

Reason: The three main factors of production are land, labour, and capital. Organization is often considered a coordinating factor rather than a primary one, as it brings together the other three factors.

III. The inquiry letter may not be answered by one of the following:

- A. By sending a catalogue.
- B. By sending a price current.
- C. By sending an invoice.
- D. By sending a list price.

Correct answer: C. By sending an invoice.

Reason: An invoice is a bill sent to a customer after a purchase has been made, not a response to an inquiry letter. Inquiry letters are typically answered with quotations, catalogues, or price lists.

IV. Which of the following statements is true?

- A. Economics is a branch of commerce.
- B. Economics is a branch of production.

- C. Commerce is a branch of economics.
- D. Commerce is not a branch of production.
- E. Production is a branch of commerce.

Correct answer: C. Commerce is a branch of economics.

Reason: Economics is the broader discipline that studies the production, distribution, and consumption of goods and services. Commerce, which deals with trade and business activities, is a subset of economics.

V. Why does advertising become a burden to the users of the product?

- A. It increases production.
- B. It increases the final price.
- C. It reduces quality of the product.
- D. It reduces the choice of the customers.
- E. It increases the turnover.

Correct answer: B. It increases the final price.

Reason: Advertising costs are usually passed on to consumers in the form of higher prices. Businesses factor in marketing expenses when determining the selling price of a product.

VI. Which of the following statements represents indirect service?

- A. A farmer produces maize for her personal use.
- B. A factory worker produces shoes for his customers.
- C. Retailer sells goods to his customers.
- D. Wholesaler sells goods to his customers.
- E. A doctor provides treatment to his customers.

Correct answer: E. A doctor provides treatment to his customers.

Reason: Indirect services involve providing services rather than tangible goods. A doctor offers a service, making it an indirect form of production, while other options involve the sale of goods.

VII. Which one of the following is not among the limitations of insurance?

- A. Losses must be accidental.
- B. Losses must be catastrophic.
- C. Losses must be compensated.
- D. Losses must be of similar risks.
- E. Losses must be reasonably unexpected.

Correct answer: C. Losses must be compensated.

Reason: Insurance does not guarantee compensation for every loss. Claims are only paid if the policyholder meets the terms and conditions, such as proving insurable interest and complying with policy requirements.

VIII. The five main functions of stock administration include:

- A. Receiving, placing of items, selling, care of stock and issuing.
- B. Receiving, placing of items, care of stock, issuing and stock control.
- C. Receiving, issuing, stock control, stock care and dusting of items.
- D. Receiving, issuing, stock control, stock level and placing of items.
- E. Receiving, issuing, placing of items, dusting and sorting of spoilt items.

Correct answer: B. Receiving, placing of items, care of stock, issuing and stock control.

Reason: Stock administration involves managing inventory efficiently by receiving goods, storing them properly, monitoring stock levels, issuing stock when needed, and maintaining control to prevent losses.

IX. The tax system whose rate remains constant irrespective of change in income or property is referred to as

- A. Direct tax
- B. Proportional taxation
- C. Indirect tax
- D. Progressive taxation
- E. Regressive taxation

Correct answer: B. Proportional taxation

Reason: In a proportional taxation system, the tax rate remains the same regardless of income level. This means everyone pays the same percentage of their income as tax, unlike progressive or regressive systems.

X. Movement alongside the supply curve is caused by

- A. Change in price of the commodity
- B. Change in quantity demanded
- C. Increase in price of the commodity
- D. Decrease in price of the commodity
- E. Increase in quantity supplied

Correct answer: A. Change in price of the commodity

Reason: Movement along the supply curve occurs when there is a change in the price of the commodity itself. If the price increases, the quantity supplied increases, and if the price decreases, the quantity supplied decreases, following the law of supply.

2. Match the items in Column A with the responses in Column B by writing the letter of the correct response beside the item number in the answer booklet provided.

Column A

- i. The shares entitled to profits payment after all other shares paid.
- ii. The unit of loan that needs no property to be pledged against it.
- iii. The shares that may be bought back by the company after a stated period of time.
- iv. Profits which are not paid to the ordinary shareholders in the period they are earned.
- v. The shares from which the shareholders have the first right to receive dividends at a fixed rate.
- vi. The unit of loan that can be bought back by the company.
- vii. The shares which are entitled to a fixed rate of dividend till they are paid.
- viii. The shares which are entitled to a fixed rate of dividend when sufficient profits are available.
- ix. The shares which are entitled to a fixed rate of dividend plus any extra profit after ordinary shares being paid.
- x. A long-term finance raised by a company through public borrowing.

Column B

- A. Unsecured debenture
- B. Non-cumulative preference share
- C. Debenture
- D. Retained earnings and provisions
- E. Redeemable preference shares
- F. Participating preference shares
- G. Preference shares
- H. Non-cumulative debentures
- I. Redeemable debenture
- J. Dividends
- K. Ordinary shares
- L. Cumulative preference shares
- M. Mortgaged debentures
- N. Ordinary shareholders
- O. Redemption of shares

Correct answers:

- i. K. Ordinary shares
- ii. C. Debenture
- iii. O. Redemption of shares
- iv. D. Retained earnings and provisions
- v. G. Preference shares

- vi. I. Redeemable debenture
- vii. L. Cumulative preference shares
- viii. B. Non-cumulative preference share
- ix. F. Participating preference shares
- x. M. Mortgaged debentures

3. a. Why taxes are levied by the government? Briefly explain by giving five reasons.

Taxes are levied by the government to generate revenue that is used to fund public services such as education, healthcare, and infrastructure. Without taxes, the government would lack the financial resources to provide essential services to the population.

Taxes help in controlling inflation by reducing the amount of money circulating in the economy. When the government increases taxes, individuals and businesses have less disposable income, which helps in stabilizing excessive demand that could lead to price increases.

They are used as a tool to promote economic equality by redistributing wealth from higher-income earners to lower-income individuals through social welfare programs and subsidies. Progressive taxation ensures that those who earn more contribute more to the government's revenue.

Taxes protect local industries by imposing tariffs on imported goods. This makes foreign products more expensive, encouraging consumers to buy locally produced goods and supporting domestic businesses.

They help in maintaining economic stability by funding government operations, reducing budget deficits, and enabling the government to intervene in economic activities during times of crisis or recession.

b. In brief, analyze five advantages of direct taxes.

Direct taxes, such as income tax and corporate tax, are equitable because they are based on the taxpayer's ability to pay. Higher earners contribute more, ensuring fairness in taxation.

They are predictable, as individuals and businesses know the amount they are required to pay. This allows them to plan their financial activities accordingly without unexpected tax liabilities.

Direct taxes help in reducing income inequality by redistributing wealth from the rich to the poor. The government can use tax revenues to provide social services and financial assistance to low-income groups.

They encourage economic efficiency by discouraging harmful behaviors such as excessive consumption of luxury goods. Higher taxes on non-essential items can lead to more responsible spending.

Direct taxes generate significant revenue for the government without the need for intermediaries. Since they are collected directly from individuals and businesses, they reduce administrative costs associated with tax collection.

4. a. How does temporary partnership differ from permanent partnership?

A temporary partnership is formed for a specific project or period, and it dissolves automatically once the objective is achieved. In contrast, a permanent partnership continues indefinitely unless dissolved by mutual agreement or legal action.

Temporary partnerships do not require long-term commitments from partners, while permanent partnerships involve long-term obligations where partners remain responsible for business operations over an extended period.

b. What is meant by the following commercial terms?

i. A limited partner is an investor in a partnership who contributes capital but does not participate in daily management. Their liability is limited to the amount of capital they have invested.

ii. A quasi-partner is a person who has retired from a partnership but still receives a share of the profits without actively participating in business operations.

iii. A dormant partner is a partner who invests in the business but does not take part in its management or public representation. They remain silent in business operations.

iv. An active partner is fully involved in managing the partnership's activities, making decisions, and overseeing daily operations. They play a major role in business development.

c. Give four advantages of partnerships over sole proprietorship.

Partnerships allow for pooling of resources, meaning that multiple partners contribute capital, reducing the financial burden on any single individual. This enables the business to expand more easily.

They bring diverse skills and expertise, as different partners have different strengths, leading to better decision-making and improved efficiency in business management.

Partnerships allow for shared responsibilities, reducing workload and pressure on individual partners. This leads to more effective management of business operations.

The risks and losses in a partnership are shared among partners, making it less burdensome compared to sole proprietorships, where a single individual bears all the financial risks.

5. a. A wholesaler J. Gerald sells his product (maize) at Tsh 500 per kg. He gives trade discount to his customers as shown here under:

Less than 1,000 kg 10%
From 1,000 kg to 5,000 kg 25%
Over 5,000 kg 30%

One of his customers bought 4,550 kg.

i. Calculate the amount of trade discount given to that customer.

Trade discount = Selling price per kg \times Quantity bought \times Discount rate
Trade discount = $500 \times 4,550 \times 25\%$
Trade discount = $500 \times 4,550 \times 0.25$
Trade discount = 568,750 Tsh

ii. Calculate the actual amount to be paid to J. Gerald.

Actual amount = Total price - Trade discount
Actual amount = $(500 \times 4,550) - 568,750$
Actual amount = $2,275,000 - 568,750$
Actual amount = 1,706,250 Tsh

b. The following information was extracted from the books of Nyakamande a wholesale trader for the financial year ending 31st May 2016.

Closing stock Tsh 240,000
Gross profit Tsh 320,000
Net purchases Tsh 720,000
Cost of goods sold Tsh 800,000
Salaries Tsh 80,000
Cash in hand Tsh 15,000

i. Calculate opening stock.

Opening stock = Cost of goods sold + Closing stock - Purchases
Opening stock = $800,000 + 240,000 - 720,000$
Opening stock = 320,000 Tsh

ii. Calculate net sales.

Net sales = Cost of goods sold + Gross profit
Net sales = $800,000 + 320,000$

Net sales = 1,120,000 Tsh

iii. Calculate average stock.

Average stock = (Opening stock + Closing stock) ÷ 2

Average stock = (320,000 + 240,000) ÷ 2

Average stock = 560,000 ÷ 2

Average stock = 280,000 Tsh

iv. Calculate rate of stock turn.

Rate of stock turn = Cost of goods sold ÷ Average stock

Rate of stock turn = 800,000 ÷ 280,000

Rate of stock turn = 2.86 times

v. Calculate margin as percentage.

Margin = (Gross profit ÷ Net sales) × 100

Margin = (320,000 ÷ 1,120,000) × 100

Margin = 28.57%

6. a. Differentiate the following types of retailers.

i. Mobile shops form single shops are businesses that move from place to place selling goods directly to consumers. These include vendors who operate from vehicles or carts.

ii. Tied shops from roadside sellers refer to retailers that are attached to a specific brand or supplier. Tied shops exclusively sell products from one manufacturer, whereas roadside sellers operate independently without brand restrictions.

b. Briefly explain six factors that a manufacturer should have to consider when choosing a distribution channel.

Market size determines whether a manufacturer should use wholesalers, retailers, or direct distribution. Large markets may require intermediaries to ensure effective coverage.

Nature of the product affects the choice of distribution. Perishable goods require a short and efficient distribution channel, while durable goods can be distributed through multiple intermediaries.

Cost of distribution must be considered to ensure that the chosen channel is cost-effective. Expensive distribution methods may reduce profitability.

Consumer preferences influence how products should be delivered. Some consumers prefer buying directly from manufacturers, while others prefer accessing goods through retail stores.

Level of competition affects distribution strategies. Manufacturers in highly competitive industries may need to use aggressive distribution channels to reach customers efficiently.

Government regulations may restrict certain distribution methods. Manufacturers must comply with legal requirements when selecting their distribution channels.

7. a. Explain what would happen if money is not rightly controlled. Give four points.

If money is not rightly controlled, inflation may occur, leading to a general increase in prices. Excessive money supply in the economy reduces the purchasing power of currency, making goods and services more expensive.

Poor control of money can cause instability in financial markets, resulting in unpredictable exchange rates and fluctuations in interest rates. This discourages investments and affects overall economic growth.

It can lead to economic inequality, where a few individuals accumulate wealth while the majority struggle financially. This widens the gap between the rich and the poor, increasing social and economic disparities.

Lack of proper money control can encourage excessive borrowing and debt accumulation by individuals, businesses, and governments. Unregulated lending can cause financial crises and economic recessions.

b. Describe six merits of barter system.

The barter system eliminates the need for money, making trade possible even in societies where currency is unavailable. People can exchange goods and services directly based on their needs.

It promotes the direct exchange of useful goods, ensuring that people acquire only what they need rather than accumulating unnecessary wealth in the form of money.

Barter encourages local trade, as people exchange goods within their communities, strengthening relationships and fostering cooperation among individuals.

It reduces the risk of inflation since there is no currency involved. The value of goods and services remains relatively stable compared to monetary systems, where inflation can devalue money.

The system promotes resource utilization, as individuals exchange surplus goods for items they lack. This helps in reducing wastage and ensuring efficient use of available resources.

It provides economic stability in situations where money has lost its value, such as during hyperinflation or financial crises. People can continue trading essential goods without relying on currency.

8. a. Explain four indicators of good internal communication in the industry.

Clear and timely feedback from employees and management indicates effective communication. When messages are well understood, employees can provide responses quickly, ensuring smooth business operations.

Increased employee engagement and participation in company activities show that communication is effective. Employees who understand company goals and policies are more likely to contribute positively.

Low levels of misunderstandings and conflicts suggest that communication channels are functioning properly. When information is accurately conveyed, there are fewer disagreements or errors in executing tasks.

High productivity levels indicate that communication within the organization is strong. When employees receive clear instructions and updates, they can perform their duties efficiently without delays.

b. Elaborate six advantages of written communication.

Written communication provides a permanent record of transactions, agreements, and policies. This documentation can be used for future reference and legal purposes.

It ensures clarity and accuracy, as messages are carefully structured and reviewed before being shared. This reduces the chances of misinterpretation and mistakes.

Written communication allows information to be shared with multiple people simultaneously, making it an efficient method for delivering company announcements, reports, and instructions.

It is useful for long-distance communication, as letters, emails, and reports can be sent across different locations without requiring physical presence. This is important for multinational businesses.

Written messages can be revised and proofread before being sent, ensuring professionalism and correctness. Unlike verbal communication, which can be spontaneous and prone to errors, written communication allows for careful editing.

It promotes accountability, as written records serve as evidence of communication between parties. If disputes arise, written documents can be referred to for clarification and resolution.

9. a. Explain five means in which any exporter may secure payments.

Letters of credit provide financial security by ensuring that payments are made once the exporter meets the conditions of the contract. Banks guarantee payment on behalf of the importer, reducing risks for the exporter.

Advance payment requires the importer to pay before goods are shipped. This eliminates the risk of non-payment and ensures the exporter receives funds before delivering the products.

Documentary collection involves the exporter submitting shipping documents through a bank, which releases them to the importer upon payment. This process ensures that payment is received before goods are handed over.

Open account transactions allow exporters to ship goods first and receive payment later. This method is riskier but can be secured by credit insurance to protect against non-payment.

Export credit insurance covers the exporter against risks such as non-payment by the importer due to insolvency, political instability, or currency fluctuations. This ensures financial protection in international trade.

b. Discuss three incentives provided by the government to its exporters to improve exports.

Tax exemptions and reductions help exporters lower their production costs by reducing the tax burden. This makes their products more competitive in international markets.

Export subsidies provide financial support to exporters, allowing them to sell their goods at lower prices. Governments may offer direct payments or reduced production costs to encourage exports.

Trade agreements and diplomatic support create favorable conditions for exporters by reducing tariffs and trade barriers. Government negotiations with foreign countries help secure better market access for local businesses.

c. What is the difference between pro-forma invoice and consular invoice? Give their importance in relation to international trade.

A pro-forma invoice is a preliminary bill of sale sent to the buyer before goods are shipped. It outlines the estimated costs, product details, and terms of sale but is not a demand for payment. Its importance in international trade lies in helping buyers arrange for funds and necessary import approvals.

A consular invoice is a certified document issued by the exporter's consulate in the buyer's country. It confirms the value and authenticity of the goods for customs clearance. Its importance in international trade is ensuring compliance with the importing country's regulations and preventing fraudulent declarations.

10. a. Elaborate four main types of organization structure.

A functional structure groups employees based on their specific job functions, such as marketing, finance, and production. Each department operates independently, focusing on its specialized tasks.

A divisional structure organizes a company into separate divisions based on products, geographical locations, or customer segments. Each division functions as a self-contained unit with its own resources and management.

A matrix structure combines elements of both functional and divisional structures, allowing employees to work on multiple projects while reporting to different managers. This increases flexibility and collaboration within the organization.

A hierarchical structure follows a top-down approach, where authority flows from higher management to lower levels. Decisions are made at the top, and instructions are passed down through various levels of employees.

b. Explain six principles of organization.

The principle of unity of command states that each employee should report to only one supervisor to avoid confusion and conflicting instructions. This ensures clear authority and accountability.

The principle of specialization emphasizes assigning tasks based on employees' skills and expertise. This leads to increased efficiency and higher productivity.

The principle of delegation involves transferring decision-making authority from higher management to subordinates. Delegation empowers employees and improves workflow efficiency.

The principle of span of control defines the number of subordinates a manager can effectively supervise. A narrow span allows close supervision, while a wide span promotes autonomy and efficiency.

The principle of coordination ensures that different departments and employees work together towards common organizational goals. Effective coordination reduces redundancy and enhances teamwork.

The principle of flexibility allows an organization to adapt to changes in the business environment. Companies that adjust their structures and operations based on market demands remain competitive and sustainable.