

COMMERCE MADE EASY.

COMMERCE QUESTIONS AND ANSWERS

1) What is the meaning of the term *Commerce*?

- It is the study of the way through which goods and services are distributed from the producers to the final consumers. It can also be defined as the study of *Trade and Aids to trade*.
- Or it is a study of how man organizes the production and distribution of goods and services in the most efficient manner.

2) What is the meaning of the phrase *Aids to trade*?

- It refers to the services that facilitate the smooth running of trade. These services include: - Transport, Banking, Advertising, Ware housing, Insurance, Market research and Communication.

Market research;

- It involves producers carrying out investigations regarding consumers' opinions and attitudes towards certain goods and services.

Banking;

- It is the provision of safe custody to the funds received from the public. This service is rendered by Banks.

Advertising;

- It is the publishing of information to the consumers regarding the availability of given products on market to stimulate sales.

Transport;

- It involves the movement of goods and services from one place to another through various modes.

Ware housing;

- It is the protection afforded to the raw materials, semi-finished and finished products from the time when they are not needed until when required for processing or consumption.

Insurance;

- It is a fund into which individuals or organizations that are subjected to a certain risk pay a certain contribution (premium) from which those who suffer loss are compensated.

Communication;

- This involves the transfer of business information from one businessman or firm to another.

3) What are the reasons for studying commerce in secondary schools?

- To provide students with knowledge that helps them understand the business environment.
- To act as a foundation for studying other subjects at a future date.
- To encourage students develop neatness and orderliness in their work.
- To enable students appreciate some policies put in place by the government e.g. privatization.
- To equip students with the knowledge of the commercial language used in business.

COMMERCE MADE EASY.

- To provide students with the knowledge of auxiliary services that makes trade easier.
- To enable the students pick interest in current affairs in the country. For instance information relating to foreign exchange rates, inflation extra.
- To equip learners with skills that will enable them secure employment opportunities for instance as commerce teachers.
- To equip students with marketing techniques to succeed in their ventures.
- To enable students become wise consumers of business products and services.
- To arouse the learners desire and attitudes to work as a group since some businesses presently take the form of partnerships and companies.
- To enable students understand when professional legal advice is needed.

4) What are the functions of commerce?

- ✓ It bridges the gap between the producers and the final consumers.
- ✓ It encourages countries to specialize in the production of goods that utilizes the available resources.
- ✓ It promotes international trade hence enabling countries to exchange goods amongst themselves.
- ✓ It enables the public to get information concerning the availability of goods on market.
- ✓ It enables the people to get a variety of goods from different countries hence improving on their standard of living.
- ✓ It enables business men to acquire capital to invest in their firms due to the availability of banking services.
- ✓ It provides employment opportunities to the people eg.exporters, retailers etc.
- ✓ It creates utility by ensuring that goods and services reach the final consumers in the rightful place and at the rightful time.
- ✓ It leads to quality improvement in the products as a result of the competition created amongst the various producers.
- ✓ It promotes interdependence among countries which strengthens trading relationships amongst them.
- ✓ It helps to instill confidence in the traders since they are assured of being compensated incase of any loss due to the availability of insurance services.

5(a) what is production?

It is a process that involves the transformation of in puts into outputs to satisfy human needs. It may also refer to the creation of utility. *Utility* refers to the ability of a good or service to satisfy human needs.

(b) Define the term economic resources and explain the various types of these resources.

"**Economic resources** are those scarce resources which help in the production of goods and services". These are alternatively known as the factors of production.

The economic resources are classified under two main heads;

- **Property resources**
- **Human resources**

COMMERCE MADE EASY.

(a) **Property Resources:** In property resources, we include land and capital. The term **land** is used to describe all natural resources which are used in the process of production and yield income. These resources which are free gifts of nature include agricultural land, forests, mineral deposits, fisheries, rivers, lakes, oil deposits; etc. The reward for land is rent.

The term **capital** refers to all man made resources which aid to production. Thus machinery, equipment, tools, factories, storage, transportation, etc., which are used in the production of new goods and supplying them to the ultimate consumers are capital resources. The reward for capital is interest.

(b) **Human Resources:** Human resources include labor and entrepreneurial ability. **Labor** refers to human effort, physical and mental which is directed to the production of goods and services. Thus factory worker, clerk, typist, teacher, doctor, Judge, physicist, etc., fall under the category of labor.

It is the services of labor which are bought and sold for money and not the labor itself. Labor is rewarded by salaries and wages for skilled and unskilled labor respectively.

Entrepreneur or Enterprise:

➤ The **entrepreneur or enterprise** is the person who takes initiative and combines resources for the production of goods and services. Hence Entrepreneurship is the ability to organize and co-ordinate other factors of production during the process of production. Entrepreneurship is rewarded by profits. Among the role of Entrepreneurs include:-

- ✓ Making policy decisions of the firm.
- ✓ Introduction of new products in the market, new techniques of production.
- ✓ Coordination and organization of other factors of production.
- ✓ Bearing of risks.
- ✓ Employing and rewarding other factors of production.
- ✓ Financing and initiating the production process.

(c) What is the difference between Direct and indirect production?

Direct production involves the transformation of goods and services for one's own consumption where as **indirect production** involves the transformation of goods and services for exchange. The former takes the form of subsistence production where as the latter takes the form of market or commercial production.

(d) Explain the various stages of production and give examples in each case.

There are three stages of production:-

- Primary production.
- Secondary production.
- Tertiary production.

➤ **Primary production;**

- It is a stage of production that involves extraction of resources from nature. It is also termed as extractive industry. It includes activities like; minning, agriculture, fishing etc.

➤ **Secondary production;**

- It involves the transformation of raw materials provided by nature into a better form. Value is added on the product hence making it yield high utility e.g. changing cotton into cloth. It

COMMERCE MADE EASY.

includes both manufacturing and construction activities e.g. food processing, oil refining, soda making, fish canning, house building, road construction, etc.

➤ **Tertiary production;**

- This stage involves the provision of services. It is also termed as service industry or service trade. This stage starts after the completion of the production of goods. It involves provision of commercial services like transport, advertising, insurance e.t.c. and Direct services e.g. hair dressing, teaching, e.t.c.

(e) What is the meaning of the following;-

- i. Substitutes.
- ii. Complementary goods
- iii. Capital goods
- iv. Consumer goods
- v. Perishable goods

Solutions:

i. Substitutes;

- It refers to commodities which serve a similar purpose e.g. close up and delident. when the price of one increases relative to the other, the quantity demanded of the one whose price is high will reduce and vice vasar.

ii. Complementary goods;

- These are goods which are consumed together/simultaneously consumed e.g. car and petrol, mobile phone and air time, radio and dry cells among others. An increase in the price of one is likely to reduce the quantity demanded of another.

iii. Capital goods;

- These are already produced goods that are used in the production of other goods e.g.tractors, computers, Raw materials e.t.c.These are also referred to as producer goods.

iv. Consumer goods;

- Are goods which have reached their final stage of production and ready for final use by the consumer to derive his or her satisfaction e.g. Bread, shirt, shoes e.t.c.

v. Perishable goods;

- These are goods which are likely to go bad very fast unless consumed in time e.g. fish, tomatoes e.t.c.

7(a) Define the term demand.

- It defined as the quantity of goods that a consumer is willing and able to buy at a particular period of time at a given price. It can also refer to one's desire for a commodity backed by financial ability to acquire it.

(b) Explain the factors that determine quantity demanded.

COMMERCE MADE EASY.

- **Price of the commodity;** High prices reduce quantity demanded and the reverse is true.
- **Consumer's income;** More quantities of goods are demanded at higher income levels than at lower consumer income levels.
- **Consumer's tastes and preferences;** High consumer tastes and preferences for a given commodity increases its demand and vice versa.
- **Population;** A high population in an area increases demand for goods and services as compared to a small population.
- **Seasonal factor;** Demand for certain commodities increases with season for instance, the demand for rain coats increases during the rainy season.
- **Rate of advertising;** High levels of advertising increases demand for goods and services as compared to lower levels of advertising.
- **Quantity of money in circulation;** when too much money is in circulation, the demand for goods and services will increase and vice versa.
- **Government policy;** the government's policy of subsidization increases demand for goods and services where as the policy of taxation increases the final prices of goods hence reducing effective demand.
- **Consumer's expectations of price changes;** When the consumers speculate a fall in prices in the future, they will buy less at present and buy much in the future when prices fall further. The reverse is equally true.
- **Price of substitutes;** these commodities tend to serve the same purpose e.g. meat and fish. In case the price of one falls relative to the other, the quantity demanded of that commodity whose price had fallen will increase and vice versa.
- **Price of complements;** these are commodities that are demanded jointly e.g. car and petrol. A change in price of one affects the quantity demanded of the other, for instance an increase in the price of cars will lead to a reduction in the quantity demanded of petrol.
- **Consumer's habit or addicted;** consumers who are addicted to consuming certain products tend to consume almost the same quantity of goods despite of the price changes.
- **Income distribution;** Even distribution of incomes among the population increases demand for goods and services and vice versa.

COMMERCE MADE EASY.

8(a) Define the term consumption?

(b) Explain the factors that determine the level of consumption.

Solution;

(a) **Consumption** refers to the buying of goods and services to be put to final use by the consumers to satisfy their needs.

(b) *The factors to the previous question 7(b) also applies here*

9(a) what is supply?

(b) Explain the factors that determine the supply of goods and services.

Solution;

(a) **Supply** refers to the quantity of goods that sellers are willing to put on the market at various prices at a given period of time.

(b) *The determinants of supply includes;*

- **Price of the commodity;** High quantities of goods are supplied at high prices than at low prices.
- **Level of technology;** Low levels of technology used in production reduce quantity supplied and high technological levels increases quantity supplied.
- **Weather conditions;** Favorable weather conditions especially in the agricultural sector increases quantity supplied and less will be supplied when weather conditions are not favorable.
- **Number of producers;** a big number of producers increases quantity supplied than when the number of producers is small.
- **Demand;** High demand for goods and services increases quantity supplied where as low demand limits market hence low quantities supplied.
- **Free entry of firms into the industry;** high restrictions to entry of new firms into the industry reduces quantity supplied and vice versa.
- **Political environment;** political stability encourages hard work hence increases quantity supplied which is not the case in situations of political instabilities.
- **Size of market;** High quantities of goods will be supplied when the market size is big than when the market size is small.
- **Government policy;** High taxes levied from producers tend to discourage them hence reduces quantity supplied and vice versa.
- **Transport and communication system;** Efficient and effective transport system increases supply of goods and services and vice versa.
- **Goal of the firm;** It its to maximize sales and improving welfare, supply will be high. However, if the goal of the firm is profit maximization, the firm will produce less and sell at high prices in order to maximize profit.
- **Cost of production;** High cost of production discourages producers thus leading to reduced supply and the reverse is equally true.
- **Gestation period;** when the harvesting period of the commodity is short enough, its supply will be easy to increase but if it's too long, supply will take long to be increased.

10(a) Define term specialization and explain the various forms of specialization.

(b) What are the advantages and disadvantages of specialization?

COMMERCE MADE EASY.

Solution;

- (a) **Specialization** refers to the concentration of an individual or country on performing a given task which he/she can do best and leave the other tasks to be performed by others. It's different from division of labor in that *division of labor* refers to the concentration of an individual on one task in production process of a commodity.

Specialization takes the following forms:-

- ❖ **Specialization by commodity;** Refers to the concentration of an individual or country on the production of a given commodity on a large scale and exchanging it with others.
- ❖ **Specialization by process;** Its one where by an activity or process is broken down into various stages and each stage being managed by different individuals or specialists.
- ❖ **Specialization by region/area;** Its where a particular region concentrates on production of what it can do best due to the available resources and exchange with what others can produce.
- ❖ **Specialization by skill;** In this form, individuals concentrate on activities they can do best depending on their skills, talents or professional training.
- ❖ **International specialization;** This is specialization among countries where by each country concentrates on the production of a commodity according to the law of comparative advantage.

(b) **The advantages of specialization includes among others;**

- It leads to time saving since an individual does the work that she/he knows best.
- It increases on the skills of an individual due to repetition of the same task.
- It promotes personal initiative in the work since an individual does the work which is best suited to him or her.
- It results into less fatigue among workers since they become used to doing the same task repetitively.
- It encourages the use of machines on large scale production which promotes production of quality out put.
- It leads to massive out put since it involves use of machines and skilled man power.
- It leads to promotion of social understanding amongst the employees since it encourages team work especially under specialization by process.
- It helps to build self confidence among the workers since they become independent in their areas of specialization.
- It leads to discovery of new and simple methods of production since workers identify hindrances in the production process and comes up with immediate solutions.
- It encourages exchange of goods among countries hence enabling the citizens to get a variety of goods from different countries.
- It results into more job opportunities since work is divided into stages which may necessitate employment of many workers.
- It encourages the countries to fully exploit the available resources to produce the required goods hence promoting development.

The disadvantages of specialization include;

- Doing the same task repeatedly makes work monotonous and boring.
- It leads to loss of craftsmanship because an individual concentrates on one particular task which he can do best.
- It makes labor immobile and inflexible which places it to a risk of unemployment in case it's laid off.

COMMERCE MADE EASY.

- Over exploitation of resources will lead to their depletion hence affecting the development of the country.
- In case of over production, a country may be affected negatively due to the fluctuations in the prices of the products on the world market.
- It may cause work to come to a stand still in case of the absence of one specialist in the production process.
- It creates dependency syndrome which may be dangerous if countries develop some misunderstandings.
- The use of machines in the production process may cause unemployment in an economy with many people since machines require few workers to operate them.
- In case of the occurrence of natural calamities, a country that specializes in the production of a given commodity will be affected seriously.
- It makes it hard to change from one line of production to another because this may require purchasing new machines and retraining of the labourforce.

11(a) Distinguish between the term location and localization of an industry?

(b) Explain the factors that influence the location of an industry.

Solution;

(a) **Location of an industry** refers to the physical area where an industry is established or site where an industry is placed *where as localization of an industry* refers to the concentration of many industries in one geographical area.

(b) **The factors that influence the location of an industry include among others:-**

- ✓ **Availability of Water;** industries which use water as a raw material e.g. those which produce soft drinks should be established near a source of water.
- ✓ **Availability of Power;** Nearness to source of power or availability of power supply in an area will reduce the cost of production. Large scale industries e.g. steel rolling mills should be located in an area with cheap, abundant and reliable power supply.
- ✓ **Availability of Labour:** Efficiency of labour is an important factor affecting location of industry. Areas with cheap, abundant and skilled manpower will attract many industries.
- ✓ **Good government policies;** Government policies might influence the location of industry. A favorable government policy will improve the location of industry as funds and other forms of incentives will be given to the industry for the purchase of raw materials. The government can decide to locate an industry in an area to achieve balanced industrial development.
- ✓ **Availability of raw materials;** Inputs in the production process should be located near the industry in order to reduce on the transport costs. This is more so with inputs which are bulky.
- ✓ **Availability of land;** Areas which are spacious enough to provide enough land for expansion tend to attract many firms.
- ✓ **Good transport and communication net work;** Areas which are accessible to good transport and communication network tend to attract industries.
- ✓ **Availability of capital;** the availability of capital especially financial capital which is instrumental in the procurement of inputs can influence the location of an industry in an area.

COMMERCE MADE EASY.

- ✓ **Availability of infrastructures;** the availability of facilities like Banking, Insurance, Ware housing e.t.c tend to promote the location of an industry in an area.
- ✓ **Favorable climatic conditions;** this will Marjory influence the location of industries that deal in agricultural products.
- ✓ **Nearness to market;** industries tend to be located near the consumers of the business products to reduce on the transport or distribution costs which may erode the firms products.
- ✓ **Political stability;** areas with a conducive political climate tend to attract more industries than areas which are politically unstable.

12. What are the advantages and disadvantages of industrial concentration in one geographical area?

Solution; It requires the advantages and disadvantages of localization.

The advantages of industrial concentration in one geographical area include:-

- It leads to the provision of employment opportunities to the people in the area.
- It leads to the development of subsidiary industries which provide market to the main industry.
- It leads to interdependence between firms due to the sharing of same facilities and market.
- It leads to the development of infrastructures in the area like hospitals, roads, banks e.t.c. which are vital for development.
- It promotes urbanization which is significant in breaking the traditional rigidities that hinder development.
- It promotes competition among firms which enhances the production of quality output.
- It increases government revenue through taxing these industries.
- It promotes joint research hence reducing the cost of production for the firms in the industry.
- It leads to international reputation of the area hence attracting tourists which increases foreign exchange in the country.
- It leads to the creation of market for the raw materials and finished products since a big population is attracted in the area.
- It increases the supply of skilled manpower in the area to work in the industry hence promoting development.
- It improves on the standard of living of the members in the area since they are exposed to a variety of goods at cheap prices.
- It becomes easy for firms producing related products to merge and expand their operations hence enjoying economies of scale.

The disadvantages of industrial concentration in one geographical area include:-

- ❖ It promotes regional imbalances where some areas remain behind in terms of development.
- ❖ It increases the cost of living due to increased competition for the available facilities like food, shelter e.t.c
- ❖ It leads to congestion and overcrowding in the area hence causing slum development in the area.
- ❖ It leads to the pollution of the environment by the fumes produced by the industries.
- ❖ It results into traffic congestion in the area hence increasing the rate of accidents.
- ❖ It may cause a country to over depend on one particular region which may be dangerous in case this area is affected.
- ❖ It promotes rural-urban migration which affects agricultural development.

COMMERCE MADE EASY.

- ❖ It leads to unemployment in the area due to the failure of the existing industries to absorb the increased labor force in the area.
- ❖ It may cause the new firms to be out competed hence leading to their closure.
- ❖ It leads to pressure on the existing infrastructures like schools, hospitals e.tc due to the high population.
- ❖ It leads to the displacement of the people due to the increased need for industrial development.
- ❖ It leads to a break down of the traditional norms and customs due to increased infiltration of various cultures in the area.
- ❖ It leads to exhaustion of resources due to increased production activities.

13(a) what is delocalization?

(b)What are the reasons in favor and against delocalization?

Solution;

(a) **Delocalization** is the dispersion/ spreading of an industry or firms to different parts of the country.

The following are the reasons in favor of delocalization:-

- ✓ It encourages balanced industrial development because of the spread of the industries throughout the country.
- ✓ It improves on the standard of living of the people in the rural areas due to the extension of employment opportunities to them through the industries constructed.
- ✓ It reduces the social costs and evils that are associated with localization like traffic congestion.
- ✓ It reduces the problem of rural-urban migration.
- ✓ It leads to increased utilization of redundant resources like land which would otherwise be idle.
- ✓ It reduces on the magnitude of loss which could have resulted in the event of an outbreak of a calamity.
- ✓ It reduces strain on the available resources when industries are spread throughout the country.

The reasons against delocalization include:-

- It does not necessarily end the social costs but merely spreads them to various parts of the country.
- Economies of scale may not be enjoyed by the firms as they lack contact in order to share facilities.
- It may be difficult to attract professional staff in some areas especially if such areas are not attractive.
- Lack of competition among firms may cause production of poor quality goods and firms may develop monopoly power.
- Some areas may not attract commercial services like Banking, Insurance and other infrastructures.
- It becomes too costly for the government to develop infrastructures throughout the country.

14(a) what is retail trade?

(b)Explain the factors that are considered before setting a retail outlet.

(c)What are the qualities of a good retailer?

Solutions

(a) **Retail trade** refers to the selling of goods to the final consumers in affordable quantities.

(b) **The factors that are considered before setting up a retail business include:-**

- **Cost of rent;** the cost of rent should be relatively low not to consume the profits of the firm.
- **Type of goods sold;** the goods to be sold should be those ones that are needed by the customers.
- **Political stability;** the area should be free from wars and theft.
- **Mode of advertising;** should consider whether to use sales men, posters e.t.c. to publish the products.
- **Language;** should consider the local language used in the area.
- **Market;** should consider the number of existing customers in the area to consume the business products.
- **Capital required;** the initial capital to procure stock and other equipments should be considered but this depends on the size of business to be started.
- **Government policy;** should not conduct a business which is unlawful.

COMMERCE MADE EASY.

- **Room for expansion;** it should be set in an area which is spacious enough to provide room for expansion when need arises.
- **Terms of sale;** should consider whether to offer credit facilities or to sale on cash basis.
- **Source of supply;** should be set near the suppliers of goods to reduce on the transport costs.
- **Transport network;** should be set in an area which is accessible to good transport and communication system for easy movement of goods and exchange of messages.
- **Level of competition;** should consider the existence of other shops dealing in similar products and the strategies to be adopted to out compete them.
- **Experience/skill;** should have enough experience in the business to be started.

(c) The qualities of a good retailer includes among others:-

- ❖ **Good buyer;** should buy goods which are demanded by the consumers.
- ❖ **Pleasantness;** should love his work and deal with his customers kindly.
- ❖ **Predict demand;** should forecast consumers demand and stock goods accordingly considering their tastes and preferences.
- ❖ **Good administrator;** should be able to monitor the movement of his stock and also supervise his staff to avoid theft and cases of misappropriation.
- ❖ **Relationship with suppliers;** should maintain a good relationship with the suppliers by paying them promptly hence enabling him get discounts from them.
- ❖ **Honesty;** should always tell his customers true information concerning the price, quality of the products e.t.c and should not un necessarily over charge the buyers to make abnormal profits.
- ❖ **Flexibility;** should always adjust his business in line with the consumers tastes and preferences.
- ❖ **Availability;** should always be available whenever customers need him/her and should be able to extend his/her working hours to attend to the customers at any time they want to buy.
- ❖ **Proper records;** should have knowledge of book-keeping to enable him know whether the business is operating at a profit or at a loss.
- ❖ **Offering credit;** should be in position to offer credit facilities to the trustworthy customers without any fear of bad debts.
- ❖ **Variety stocking;** should be able to stock a wide range of products to meet the tastes of different customers.
- ❖ **Proximity with the buyers;** should locate his/her business near the customers to enable him/her sell goods quickly to them and also save customers from incurring high transport costs.
- ❖ **Hygienic;** should maintain a high degree of cleanliness to enable customers develop interest in his/her products.

15(a) Who are itinerant traders?

(b) Give reasons why the number of small scale retail firms have increased in Uganda.

(c) Outline the circumstances under which large scale firms can outcompete small scale firms.

Solution;

- **Itinerant traders** refer to a category of small scale retailers who carry their goods on motor vehicles, bicycles, wheelbarrows, on their heads and move from place to place selling their products. These are common in towns and villages. They some times sell defective goods since they don't aim at creating permanent clientele. They always exploit customer's ignorance by over charging them. However, they help in bringing the goods to the door steps of the customers. These may include:- market vendors, mobile shops,hawkers,street vendors, roadside traders,pedlars,barrow-boys e.t.c
- **Market vendors;** these have permanent stalls in market places where they sell their products e.g. traders Nakasero market.
- **Peddlers;** these use bicycles to move long distances selling their goods.
- **Roadside traders;** they sell their goods along side roads e.g. at bus stops.

COMMERCE MADE EASY.

- **Street vendors;** these normally operate from pavements and verandas of big shops on main streets and are very common in big towns.
- **Hawkers;** these move with their goods on foot from one place to another. They carry goods on their shoulders and some times on their heads.
- **Mobile shops;** these carry their goods from one place to another using mobile vans or Lorries.
- **Barrow-boys;** these use wheelbarrows to sell their goods from place to place.

(a) The reasons why the number of small scale retail firms have increased in Uganda include:-

- ✓ They require little initial capital to operate.
- ✓ They do not require payment of high taxes as compared to large scale firms.
- ✓ They are flexible in terms of changing from one line of business to another.
- ✓ They promote personal initiative which encourages hard work to earn more profit.
- ✓ They are usually singly owned hence the owners enjoy all the profits alone.
- ✓ They are easy to control and supervise because of their small size.
- ✓ They favor the owners to establish close contact with the owners.
- ✓ They do not require highly skilled man power to operate.
- ✓ They do not require too much space unlike the large scale firms.
- ✓ They do not incur much expenses in terms of rent, electricity e.g. pedlars, hawkers e.t.c
- ✓ They do not require a lot of legal formalities like obtaining trading licenses.
- ✓ They are convenient to the customers in terms of selling goods to them in affordable quantities.
- ✓ The profits earned by taking advantage of ignorant customers have promoted an increase in the number of these retailers.
- ✓ They can operate in any given location where large scale firms may not function well.
- ✓ They are convenient in as far as confidentiality and secrecy concerning business dealings are concerned.

(b) Large scale firms can out compete small scale firms under the following circumstances:-

- When they can afford to buy in bulky and get discounts.
- When they can afford enough capital base to carry out research regarding consumers tastes and preferences.
- When they can afford an efficient and effective transport system for proper marketing and delivery of the products to the consumers.
- When they can manage to insure their products against various risks to ensure compensation in case of any loss.
- In case they can offer a variety of goods to the consumers which can increase their range of choice.
- If they can afford to rise up enough collateral securities which can enable them access financial assistance from banks.
- If they can operate numerous departments where by losses made in one department can be covered by profits from the other departments or branches.
- When they can afford to employ highly skilled man power which is efficient and effective in the production of quality output.
- When they can afford to advertise their products hence creating a wider market for their products.
- When they can provide better welfare facilities to their employees.
- When they can afford better after sales services to their customers.

16(a) Distinguish between natural growth and amalgamation.

(b) Describe the ways in which companies merge.

(c) Mention at least five advantages of amalgamation.

Solution;

COMMERCE MADE EASY.

- (a) **Natural growth** refers to a situation when a firm expands on its own especially by the owner's policy of ploughing back profits while amalgamation is a situation when two or more firms with separate entities combine to enjoy economies of scale.
- (b) **The various ways in which companies amalgamate include;**
- ✓ **Complete amalgamation;** is where all firms intending to merge dissolve and form a new firm which takes over the business.
 - ✓ **Absorption;** is where one firm takes control over other firms and others are submerged in it or one company takes over the business of other companies completely but retains its entity.
 - ✓ **Holding company;** is one where a number of firms entering into a combination retain their entities while one of them (holding company) acquires controlling shares in others (subsidiary companies). A holding company is one that has at least 51% of the share capital of the companies that have merged.
 - ✓ **Cartel;** it is an association of firms producing similar goods established with a purpose of controlling prices of their products.
- N.B; Mergers take the following directions or lines;**
- **Horizontal mergers;** is where two or more firms in the same industry and at the same stage of production process combine.
 - **Vertical mergers;** is one where two or more firms at different stages of production process combine
 - **Lateral mergers;** is one where two or more firms producing related products that do not compete with each other join together.
 - **Conglomerate/diversifying mergers;** is a merger of two or more firms which produce products that are totally unrelated.
- (c) **The advantages of amalgamation of firms includes among others;**
- ✓ It enables acquisition of better management skills which promotes efficiency.
 - ✓ It leads to the harmonization of marketing policies which is advantageous to the business.
 - ✓ Specialization is made possible which leads to the production of quality output.
 - ✓ It reduces wasteful competition due to duplication of resources.
 - ✓ It increases the firm's capital resources hence increasing its productivity level.
 - ✓ It increases the firm's ability to acquire loans due to the existence of enough collateral securities.
 - ✓ It reduces the cost of production for the firm which enables it to enjoy economies of scale.

17. What services do retailers rendered to the;

- a) Retailers
- b) Producers

Solution:

- a) **The services rendered by the retailers to the final consumers include among others;-**
- **Bulky breaking;** they sell goods to the consumers in quantities they can afford.
 - **Advertising;** they publish new products to the consumers using window display, news papers e.t.c
 - **Variety stocking;** they offer a wide range of products for the consumers to choose from hence improving on their standard of living.
 - **Transport;** some of them offer free transportation of goods for those consumers who buys in large quantities.
 - **Storage;** they provide storage facilities for the goods bought from producers and whole sellers hence consumers can get these goods at any time when need arises.
 - **Advisory services;** they provide advice to the consumers regarding the right choice of products and how these products can be used.
 - **Cash discounts;** they give cash discounts to those consumers who settle their debts promptly.

COMMERCE MADE EASY.

- **Credit facilities;** they offer credit facilities to those consumers who are creditworthy without any fear of bad debts.
- **Conveying information;** they transfer information got from the consumers to the producers or wholesalers as regards their tastes and preferences which enables the producers or wholesalers to make product adjustments.
- **Bringing goods closer;** they bring goods near the consumers which save the consumers from the transportation costs.

(c) The services that a retailer offers to the final producers include:-

- He helps to inform the producers about the consumer's complaints regarding their products.
- He looks for market on behalf of the producers hence saving them from the burden of carrying out market research.
- He advertises the goods of the producers through window display and other means which saves the producers from incurring such costs.
- Some large scale retailers e.g. super markets can afford to transport goods bought from producers by them selves. This relieves the producers from covering such costs.
- Large scale retailers buy goods in bulky from the producers. This relieves them from the burden of ware housing.
- They buy goods from them in relatively large quantities and pay them promptly hence enabling them to have enough working capital to finance the production process.

18(a) Mention any five types of large scale retailers.

(b)What are the features of large scale retailers?

(c)What are the advantages and disadvantages of super markets?

Solution;

(a) The types of large scale retailers include:-

- ✓ Supermarkets.
- ✓ Multiple shops
- ✓ Departmental stores.
- ✓ Mail order shops.
- ✓ Consumer co-operatives e.t.c

- **Supermarkets;** these usually deal in house hold items which a house wife is most likely to buy. They are characterized by self service, commodities carrying price tags, commodities spread in shelves, no room for bargaining, and no credit facilities e.t.c
- **Multiple shops;** this involves a combination of similar shops controlled and owned by a single firm. These shops have got various branches scattered in many parts of the country and deal in similar products.
- **Departmental stores;** It is a combination of shops under one roof, ownership and management. The store is sub divided into various independent departments and each deals in a different class of goods.
- **Mail order shops;** these are retail businesses which deal in selling and receiving goods through the post office. The business depends heavily on intensive advertising by giving colorful

COMMERCE MADE EASY.

catalogues and afterwards getting orders from the prospective customers. The traders do not have a shop but have a ware house and an office.

- **Consumer co-operatives;** these are retail businesses formed by a number of consumers to safeguard themselves from being exploited by the middlemen like wholesalers in form of high prices. Their major aim is not to make profits but to ensure that the members' welfare is improved.

(b) The features of large scale retailers include:-

- ✚ They invest large capital in the business.
- ✚ They serve a wide market.
- ✚ The floor area covered by the business is relatively large.
- ✚ They practice some specialization.
- ✚ They employ many people compared to small scale firms.
- ✚ They hold large stock of goods.

(c) The advantages of super markets include:-

- ✓ They deal in a variety of goods hence offering a wide range of choice to the consumer.
- ✓ It operates on a self service system which is time saving and convenient to the customers.
- ✓ Some goods are sold to the customers at low prices which encourage them to buy more goods.
- ✓ Credit facilities are not offered hence safeguarding the firm from bad debts.
- ✓ Large volumes of goods are sold hence enabling the firm to make more profits.
- ✓ Few workers are employed hence reducing on the operational expenses of the firm.
- ✓ They usually purchase their goods in bulky hence buying cheaply because of the discounts extended to them.
- ✓ The attractive display of the products in the shelves promotes self advertisement hence increasing sales.
- ✓ The commodities carry price tags hence saving the time which would be wasted in bargaining.
- ✓ The presence of deep freezers facilitates the storing of perishable goods for a long duration.
- ✓ The extra services rendered e.g. wrapping of goods appropriately encourages customers to buy from them.
- ✓ The consumers are free to make their own choices because they are not persuaded by any one to buy.
- ✓ The provisions of shopping baskets and trolleys for carrying the goods tend to make the shopping task easy.

The disadvantages associated with super markets include:-

- The customers without ready cash cannot get the goods since no credit facilities are offered.
- The rural areas are ignored since most super markets are located in urban centers.
- The customers end up being over charged due to the absence of haggling opportunities.
- The check points tend to be over congested hence wasting the consumers' time on the line.
- Shop lifting is very common especially with unfaithful customers.
- Lack of personal attention tends to discourage customers who may be ignorant concerning the products.
- Time is wasted by the customers in the shop when comparing the various brands.
- The absence of credit facilities tends to limit the number of customers.

19(a) what is the difference between branding and packaging?

(b)What are the features of branded goods?

(c)What are the advantages and disadvantages of branding?

COMMERCE MADE EASY.

(d) What are the advantages and disadvantages of packaging?

Solution;

(a) **Branding** refers to the process of giving a particular name; design or label to a product to distinguish it from other similar products from different producers where as **packaging** refers to the process of wrapping goods in special containers to safe guard them from atmospheric conditions especially pouring and contamination.

(b) The features of branded goods include:-

- ❖ They are uniformly priced.
- ❖ They facilitate persuasive advertising.
- ❖ They are usually packed properly.
- ❖ They are usually weighed.
- ❖ They carry some important information e.g. usage details and expiry dates.
- ❖ They contain specific symbols, designs e.t.c.
- ❖ They are easily distinguished from other similar products by colour, size, and package e.t.c.

(c) The advantages of branding include:-

- It enables consumers to identify quickly what they want since braded goods have specific names.
- It helps to increase sales especially when the customers become accustomed to a specific brand.
- Branding makes it easy to advertise the products since the products bear trade names.
- Branding guard's customers against exploitation since their prices are fixed.
- Branding facilitates self service since the goods bear trade marks hence saving consumers time.
- Branded goods are easy to handle because they are uniformly packed.
- Branded goods are usually weighed. This saves the retailers from the burden of weighing.
- The trade mark label help to protect the producers from dubious dealers who may violate trade mark rights.
- Branded goods tend to attract consumers attention since they look attractive when displayed.
- The branded goods bear useful information describing how the commodity can be used and other salient features of the product.
- Branding safe guards' consumers from being cheated in terms of measurements and weight since these products are uniformly weighed and measured.
- Branding enables consumers to enjoy goods which are not contaminated since branded goods are usually packed.
- Branding facilitates production of better quality production due to the competition amongst various producers to establish brand loyalty.

The disadvantages of branding include:-

- Branding tends to be expensive since the retailer has to stock a variety of goods to cater for the needs of different customers.
- The cost of branding can be shifted to the final consumer in form of high prices for the final products.
- It gives no room for bargaining since the prices of branded goods are usually fixed.
- The customers cannot practice their bargaining skills since the prices of these goods are fixed.
- The consumers may some times become addicted to a particular brand hence ignoring others.
- Branding encourages duplication of the fast selling brand of a product hence leading to poor quality goods being purchased.
- It is difficult to offer discounts on branded goods since these products are uniformly priced.

(d) The following are the advantages of packaging:-

- Goods which are well packed are easy to handle especially the liquids.
- Well packed goods can easily be sold through automatic vending.

COMMERCE MADE EASY.

- Some packaging materials can be put to other uses after removing the contents e.g. jerry cans, boxes e.t.c.
- Packed goods are always kept clean hence free from contamination and damage.
- Packed goods can easily be sent by mail order services hence reducing travel expenses.
- The illustrations indicated on the packaging material helps the customers to be informed on how to use and handle a product.
- Self service is made easy when goods are packed.
- Well packed goods offer convenience in storage hence less space is used.
- It saves time since the customers need not to weigh the containers as the quantity is always shown on the package.
- Well packed goods create a better product image hence attracting the customers to buy the goods.

The disadvantages of packaging include:-

- ✓ The packed goods appear bigger than the actual size of the product hence wasting space in the warehouse.
- ✓ The cost of packaging may be transferred on the final product hence making it expensive.
- ✓ Some packaging materials are harmful to the environment e.g. polythene bags.
- ✓ Attractive packaging materials may encourage the customers to buy a product which is not of good quality due to the colorful design.
- ✓ It may not be possible for a consumer to critically examine the product he intends to buy.

20(a) what is self service?

(b)What are the advantages and disadvantages of self service?

Solution;

- **Self service** is a retailing system where goods are spread in shelves carrying price tags such that a customer enters the shop, picks a commodity of his choice and goes to the counter for payment. This system of self service is commonly practiced in super markets.

(b)The advantages of Self service include:-

- ✓ It is a time saving system since the prices are indicated on the commodities hence no time is wasted on bargaining.
- ✓ It reduces the expenses on wages and salaries since it requires few workers.
- ✓ It involves attractive display of the products in shelves which attracts the customers hence increasing sales.
- ✓ It eliminates the problem of bad debts since credit facilities are not offered.
- ✓ It enables the customers to procure their goods from one shopping center since the operation of this system involves stocking a variety of products.
- ✓ It reduces consumer exploitation since the commodities bear price tags.
- ✓ It increases the profit margin of the trader since the prices are indicated on the commodities and no bargaining is accommodated.
- ✓ It enables the customers to practice their freedom of choice due to the absence of persuasions.
- ✓ It facilitates provision of services like trolleys and shopping baskets which makes shopping easy.
- ✓ It enables the customers to enter the shop and compare different brands which can make them make an informed decision.

The disadvantages of Self service include:-

- It denies the customers the freedom to practice their bargaining skills.
- It does not allow physical contact between the sellers and buyers hence the sellers can't know the consumers opinions.

COMMERCE MADE EASY.

- It may force the customers to buy what they might have not budgeted for due to the attractive display of the products.
- It may attract unfaithful customers who end up pick-pocketing some small items.
- It reduces the number of customers due to the absence of credit facilities.
- It is a costly system as it requires much capital to install shelves and stocking a variety of goods.
- It involves too much time wasted in queues especially at the checking points and at the cashier's desk.
- It may encourage the customers to spend too much time in the shop while comparing the various brands.

21(a) what is installment selling?

(b) What is the difference between Hire purchase and deferred payments?

(c) What are the advantages and disadvantages of installment selling to;

i) Sellers

ii) Consumers

Solution:

(a) **Installment selling** refers to a system where a customer is allowed to take a good by paying small amounts until when the whole amount is cleared. This system is very common to items which are durable and expensive that consumers may not be able to pay cash at once e.g. Television sets, cars, fridges, vehicles e.t.c.

(b) **Hire purchase** is a system of installment selling where by after a down payment made by the customer, he processes the item but is not the legal owner until he pays the last installment. In case of failure to clear up to the last installment, the commodity can be repossessed by the seller. Where as **Deferred payment** is a system of installment selling where by after a down payment from the customer, he acquires possession and ownership of the item and failure to pay the remaining installments will lead to suing the buyer to court in order to recover the outstanding balance.

(c) **The advantages of installment selling to the sellers include:-**

- ✓ It increases the sales made since the small installments will motivate and tempt customers to buy more goods.
- ✓ It further increases the profit margin of the seller since goods sold under this system carry high prices.
- ✓ The seller can repossess the article under hire purchase in case of failure to clear the last installment.
- ✓ The frequent visits of the customers to clear the remaining installments attract them to buy more goods hence increasing sales.
- ✓ It strengthens the relationship between the sellers and buyers after a successful completion of all the installments.
- ✓ It reduces the problem of bad debts since the customers will try hard to clear due to the fear of losing the commodity and the earlier paid up deposits.
- ✓ It relieves the sellers from the burden of maintaining very large warehousing facilities since the customers can take the goods under deferred payments and keep them in their own premises.

i) **The disadvantages of installment selling to the sellers include:-**

- ❖ There is a high risk of bad debts especially under deferred payment system.
- ❖ In case the seller decides to repossess the item under deferred payment, the property may be in a bad shape hence making it hard to recover the remaining balance even if it is resold.
- ❖ The system is costly on part of the seller since it involves maintaining a record of the customer's accounts and the costs of recovering the debt.
- ❖ It is likely to worsen the relationship between the seller and the buyer in case the buyer is sued to court of failing to pay all the remaining installments.
- ❖ The seller may suffer a total loss in case of a serious accident which may involve a complete destruction of the property and death of the debtor.

COMMERCE MADE EASY.

- ❖ The system requires the seller to have a large capital outlay since most of his capital is always tied up in debts.
- ❖ The legal right to repossess the item by the seller in case of failure to pay the last installment tends to discourage the prospective customers from this system.

ii) The advantages of installment selling to the customers include:-

- It enables customers to acquire expensive items since the payments tend to be spread over a long period of time.
- The commodity acquired may act as a collateral security in case the customer is in need of any financial assistance from the money lenders.
- It enables the customers to save in form of accumulating durable assets.
- It enables the buyer to use the item before all the installments are cleared. This is more so with deferred payment system.
- It enables the buyer to budget for his income and expenditures since the payments in installments are predetermined.
- It is a more convenient system of purchase to the low income earners compared to a cash payment system.
- The article acquired under deferred payment can be used to generate more income that can be used to pay the remaining installments.

The disadvantages of installment credit to the consumers include:-

- ❖ The customer ends up paying a high price than he would have paid if he was to pay in cash.
- ❖ It may tempt buyers to purchase more goods on credit than they could actually pay for. This may result into losses if they fail to complete all the installments.
- ❖ It may worsen the relationship between the customer and the seller in case the customer is taken to court for failing to complete all the installments.
- ❖ It is costly to the customer since he has to visit the seller many times until the final installment is paid.
- ❖ The payment of regular payments over burdens the customers.
- ❖ The buyer under this system may not be in good position to bargain hence ends up being over charged.

22. What are the advantages and disadvantages of credit sales:-

The advantages of credit sales include:

- ✓ Customers buy more goods in case the payments are postponed hence resulting into increased sales.
- ✓ It is a promotional tool to increase sales of the firm.
- ✓ It enables the buyer to acquire the goods without actually paying for them.
- ✓ It improves on the standard of living between the seller and the customer due to the credit facility extended.
- ✓ It helps in ensuring that the goods about to expire are actually sold off hence minimizing losses in the business.
- ✓ It enables the trader to earn more profits since he charges a high price.
- ✓ It provides goodwill to the business since it is a financial assistance to the customer.

The disadvantages of credit sales include:-

- It ties up the working capital of the business in debts.
- It increases the operational costs of the business for instance one has to keep a record of the customers.
- The credit customers have a tendency of returning the goods more often compared to the cash customers.
- Some times the debtors may end up buying more goods than they can actually pay for.
- The customers end up paying for the goods expensively than they would have paid if the transaction was on a cash basis.
- Selling on credit may come along with some strings attached.

COMMERCE MADE EASY.

23(a) What is automatic vending?

(b) What are the advantages and disadvantages of automatic vending?

Solution:

(a) **Automatic vending** is as a system that involves the selling of goods to the consumers through coin operated machines. This system favors mainly the sale of small items like soft drinks, sweets, books, stamps, tinned foods e.t.c. It is also known for selling pre-packed goods to the customers.

(b) **The advantages of automatic vending include:-**

- ✓ It is a fast system hence convenient to the customers.
- ✓ It is an economic system since it does not require use of cashiers and shop attendants.
- ✓ It is operational all the day round hence enabling customers to get whatever they want at any time of their convenience.
- ✓ It tends to be accurate and perfect since fewer errors are made.
- ✓ It avoids bad debts since credit facilities are not offered to the customers.

The disadvantages of automatic vending include:-

- The machines are costly to buy and install.
- Few products may be sold using this system.
- The system is mainly urban based.
- The disruptions in the power supply may affect the operation of this system.
- Some times the customers may cheat using fake coins.
- It undermines the significance of customer care service.

24(a) what is wholesale trade?

(b) What are the features of whole sale trade?

(c) What are the different types of wholesalers?

Solution:-

(a) **Wholesale trade** refers to activity that involves buying of goods from producers in bulky and selling them to other traders e.g. retailers, industrial users e.t.c. in quantities they can afford.

(b) **The features of wholesale trade include:-**

- It involves linking producers to retailers in home trade.
- It involves buying goods from a producer in bulky.
- It involves breaking the bulky.
- It involves use of large capital to stock a variety of goods.
- It involves warehousing since large quantities of goods are bought and stored.
- It involves sale of products to other traders especially retailers.
- It is mainly carried out in urban centers due to the big size of market.
- It is usually carried out by a trader called a wholesaler.

(c) **The different types of wholesalers include:-**

- **Nation wide wholesalers**, these carry out their activities in the whole nation. They have various branches established in different parts of the country. They offer a wide range of products to retailers throughout the country.
- **Regional wholesalers**, these operate in a particular area and also set up branches in that particular region. They deal in a variety or a selected range of products.
- **Specialized wholesalers**, these concentrate on a particular field and a great deal of products in this field are offered.
- **Cash and Carry wholesalers**, these offer their products on a cash basis but at relatively low prices than other wholesalers. They don't offer delivery services.

COMMERCE MADE EASY.

- **General wholesalers**, these deals in unrelated products from different fields depending on the needs of the various retailers.
- **Truck wholesalers**, these move from place to place selling goods to retailers from their vans and Lorries.

25. Mention the services that a wholesaler renders to each of the following:-

- (a) **Producers.**
- (b) **Retailers.**
- (c) **Consumers**

Solution;

(a)The services that wholesalers render to the producers include;

- He transports goods bought from the producer to his premises hence saving the producer from these transportation costs.
- He finances the producer by buying from him in bulky and paying him promptly hence equipping him with enough working capital to fund the production process.
- He relieves the producers from the storage expenses and other losses since he provides a warehouse for him self.
- He normally advertises products on behalf of the producer.
- He provides a link between the producer and the retailer hence he is in position to convey information to the producers especially on people's opinions regarding their products.
- He buys from the producer in large quantities hence enabling him produce massively.
- He saves the manufacturers from the task of dealing with very many small orders from retailers.
- He relieves the producer from a number of risks like theft, damage e.t.c.through buying from him in large quantities.

(b)The services that a wholesaler renders to the retailers include:-

- ✓ He breaks the bulky by selling goods to them in affordable quantities.
- ✓ He finances the retailers by offering credit facilities to them.
- ✓ He holds enough stock which enables the retailers to make orders at any time they feel like.
- ✓ He sometimes offer transport to those retailers who buys from him in bulky hence saving them from such costs.
- ✓ He sometimes advertises goods on behalf of retailers hence increasing the retailer's turn over.
- ✓ He offers advice to the retailers concerning the right choice of goods and on how to handle certain products.
- ✓ He offers trade discounts to retailers who buy from him in bulky and cash discounts to those who settle their debts promptly.
- ✓ He offers a variety of goods to the retailers which he buys from different producers.
- ✓ He keeps retailers updated with information for instance information on latest fashions, price changes e.t.c.
- ✓ He carries out packaging and branding of goods hence saving the retailers from such costs.

(c) The services that a wholesaler renders to the consumers include:-

- ❖ He keeps the prices stable by allowing a steady supply of goods in the market.
- ❖ He holds large stocks and releases it regularly which helps the consumer to get the goods throughout the year.
- ❖ He stocks a variety of goods which enables the consumers to have a wide range of choice.
- ❖ He undertakes the distribution function by bringing the products with in the reach of the public. This saves the consumers from the transport costs.
- ❖ He sometimes advertises products to the consumers which helps consumers to quickly buy what they want.

COMMERCE MADE EASY.

- ❖ He acts as a middleman through which the goods from the manufacturers reach the consumers.

26(a) why should a wholesaler not be eliminated in home trade?

(b) Under what circumstances a wholesaler may be eliminated from the chain of distribution?

Solution:-

Part (a) requires the functions of a wholesaler. A wholesaler should not be eliminated from home trade because:-

- He bridges the gap between the producers and retailers.
- He buys from producers in bulky hence relieving them from the storage costs.
- He finances the retailers by allowing them credit facilities.
- He carries out packaging, grading and pricing of the products hence saving the retailer from such a task.
- He ensures a continuous supply of goods throughout the year by regulating the quantities released in the market.
- He transports goods bought from the producer to his premises hence saving the producer from incurring transport costs.
- He advises the producer on a wide range of goods that are needed by the customers.
- He advertises goods on behalf of producers and retailers.
- He offers discounts to retailers who buy from him in bulky and pays him promptly.
- He provides for himself warehousing facilities hence saving the producers and retailers from storage costs.
- He carries out market research on behalf of the producer hence saving him from such costs.
- He breaks the bulky by selling goods to the retailers in affordable quantities.
- He finances the producers by buying from him and paying him cash promptly. This enables him to have enough working capital.

(b) The wholesaler may be eliminated from the chain of distribution/the services of a wholesaler may not be required under the following circumstances.

- ❖ When manufacturers are financially strong to open up their own retail outlets through which they can serve their customers.
- ❖ When large scale retailers which buys in bulky from the producer exist like supermarkets, institutions among others.
- ❖ When the consumers require direct services of the producer e.g. a patient requires direct services of the doctor.
- ❖ When the producer has his appointed agents in all parts of the country where goods are sold directly to the consumers.
- ❖ When the sale of goods is by contract, the producer will deal directly with the consumer hence no need for a wholesaler.
- ❖ When the goods involved are bulky, delicate, technical and expensive, the producers find it convenient to deal with the consumers.
- ❖ When mail order services exist or if the producer's business is operated through the post office.
- ❖ When a producer deals in perishable products which requires minimum level of handling. e.g. fish, tomatoes e.t.c.
- ❖ When the distance between the producer and the consumers is very short, the consumers can buy directly from the producer.
- ❖ When consumer's co-operatives exist, they can pool enough capital to enable them buy in bulky from producers hence eliminating a wholesaler.
- ❖ When the producer can afford to break the bulky by selling in small quantities to the consumers.

COMMERCE MADE EASY.

- ❖ When the producer owns mobile vans which can enable him distribute his products efficiently to the consumers.
- ❖ When the producer can afford warehousing facilities for the goods which he produces in bulky.
- ❖ When the demand for the goods is seasonal, the wholesalers may not be desired.

27(a) what is the meaning of the following terms as used in home trade;

- i. *Letter of inquiry*
- ii. *Quotation*
- iii. *Order*
- iv. *Credit status inquiry*
- v. *Proforma invoice*
- vi. *Package sheet*
- vii. *Dispatch/advice note*
- viii. *Delivery note*
- ix. *Goods received note*
- x. *Invoice*
- xi. *Credit note*
- xii. *Debit note*
- xiii. *Goods returned note*
- xiv. *Statement of account*
- xv. *A receipt*

(b) What problems do traders in your country experience?

Solution:

- **Letter of inquiry**, is a document prepared by the buyer and sent to the seller seeking for information about the goods available for sale. Several inquiries may be sent to various sellers to enable the buyer select the best alternative.
- **Quotation** is a reply to a letter of inquiry. It is sent by the seller to the buyer stating the terms and conditions under which goods can be sold. This reply of inquiry may be in different forms which include:-
 - **Catalogue**, It is a booklet that gives details and illustrations of the supplier's goods plus other services performed by the seller. This booklet is designed in an attractive manner to attract the customers.
 - **Price list**, It is a list of products available at the seller's premises and their respective prices.
 - **Price current**, It is sent when there has been a change in the original price of the items hence it shows the current price of the commodities prevailing in the market.
- **Order**, is a document prepared by the buyer and sent to the seller requesting him to send the goods named in it. The buyer usually places an order with a supplier who offers him with the best terms of sale. An order can be sent verbally, through writing or by filling an order form prepared by the supplier.
- **Credit status inquiry**, This document is prepared by the seller who wishes to extend credit facilities to the customer and would like to have confidential information regarding the customer's financial status. This confidential information can be obtained from sources like; Banker's to the buyer, other suppliers, friends to the buyer trade association's e.t.c.
- **Proforma invoice** Is a document prepared by the seller and sent to the buyer when payment is expected before the goods are delivered to the buyer. It enables the buyer to prepare cash for the goods in time.

COMMERCE MADE EASY.

- **Package sheet**, It is a document that shows the number of items in each container or box. It is inserted each container during the wrapping stage.
- **Dispatch/advice note**, It is sent by the seller to the buyer to inform him that the goods ordered for are in transit. It specifies the time when the goods are expected to arrive. This gives the buyer enough time to organize the warehousing facilities and transport to pick the goods from the terminals.
- **Delivery note**, it is drawn by the seller and sent to the buyer through the transporter along with the goods. It indicates the number of packets delivered and is accompanied by a package sheet. It is handed over to the buyer who signs it after cross checking that the goods match with the delivery note and order form.
- **Goods received note**, This is drawn by the buyer in case he does not receive a delivery note from the seller. This document shows the details of goods that had been received by him.
- **Invoice**, It is a document prepared by the seller and sent to the buyer informing him of the amount due. It is sent only when goods were issued to the buyer on credit. It notifies the buyer of the amount that he owes to the supplier. It contains; Description of goods, Name and address of the seller/buyer, Prices and quantity of goods, Total cost of the goods, Terms of payment, Discounts allowed, Net amount paid, e.t.c. The abbreviation 'E&O.E' indicated at the foot note of an invoice stands for; **Errors and Omissions Excepted**. The letters signify that the seller reserves the right to rectify any mistake if discovered at a later date.
- **Credit note**, It is a document prepared by the seller and sent to the buyer to rectify an over charge in the invoice. It is issued if part of the goods sent to the buyer is returned. It credits the account of the buyer hence reducing the amount of money on the invoice. It may be sent under circumstances when;
 - ✓ Wrong quantities of goods were sent.
 - ✓ Inferior goods were sent.
 - ✓ Part of the goods sent was damaged.
 - ✓ Wrong descriptions of goods were sent.
 - ✓ Errors in calculations were made e.t.c
- **Debit note**, It is sent by the seller to the buyer to correct an under charge in the invoice. It increases the buyer's liability to the seller. The seller may send a debit note if;
 - ✓ Superior goods were sent.
 - ✓ More goods were sent than what was ordered.
 - ✓ Less than the actual amount was indicated on the invoice.
 - ✓ The buyer is to pay for the packaging materials.
 - ✓ Wrong prices are quoted.
 - ✓ Omissions of some of the goods from the totals.
- **Goods returned note**, This is prepared by the buyer and sent to the seller after finding out that part or all the goods received are defective. These goods are returned to the supplier and the buyer makes a credit claim for their cost.
- **Statement of account**, It is a document issued by the seller to the customer showing a summary of transactions carried out between them for a particular period of time. It actually notifies the buyer what he owes the seller and demands for money that the buyer owes to the seller. It contains;-
 - ✓ Unpaid balances from the previous month.
 - ✓ Value of particular items issued on credit.
 - ✓ Payments made during the year.
 - ✓ Balance due at the end of the month.

COMMERCE MADE EASY.

- ✓ Invoices issued during the month.
- ✓ Name and address of the seller.
- ✓ Name and address of the buyer.
- ✓ Date/month/period of the statement.
- ✓ Signature and official stamp e.t.c.

➤ **A receipt**, It is issued by the seller to the buyer to acknowledge that money has been received for the goods supplied. Issuing a receipt marks the end of a transaction.

b) The problems that traders in Uganda experience include among others;-

- They **lack adequate capital** to expand their businesses.
- They suffer from **limited market** for their products due to poverty amongst the population.
- **Lack of business management skills** amongst some traders affects their operations.
- **Poor transport network** especially in rural areas cause delays in the delivery of goods hence creating frequent shortages.
- **Political instabilities** in some parts of the country affect traders in such areas. This is because traders are attacked and robbed of their properties and money hence limiting business activities.
- **High interest rates** charged by the money lending institutions discourage traders from borrowing hence limiting their business activities.
- **Many legal formalities** involved before starting business activities for instance the need for a trading license scares away some traders hence limiting their activities.
- **High risks** involved in business activities for instance bad debts, theft e.t.c.cause fear amongst some traders hence limiting their activities.
- **Limited room for expansion** especially in urban areas affect the activities of those traders who would have wished to expand their businesses.
- **High taxes** imposed on traders affect their profit margin hence scaring away traders.
- **High levels of competition** amongst traders who deal in similar commodities amidst few customers tend to affect traders.
- **High rate of price fluctuations** in the country may in one way or another affect the operations of traders.
- **High inflation rates** in the country increases the prices of goods and services which tend to discourage the customers.
- **High demonstration effect** among the citizens tends to limit market for the locally produced products.

28. Give the meaning of the following terms as applied in trade.

- a) **Transaction**
- b) **Cash transaction**
- c) **Credit transaction**
- d) **Commercial transaction**
- e) **C.O.D(cash on delivery)**
- f) **C.W.O(cash with order)**
- g) **Spot cash**
- h) **Prompt cash**
- i) **Trade discount**
- j) **Cash discount**

Solution;

- a) **Transaction** refers to any dealing between two parties involving transfer of goods and services from one party to another for a consideration which is usually money.
- b) **Cash transaction** refers to a transaction which involves cash payment for goods immediately they are handed over to the buyer.

COMMERCE MADE EASY.

- c) **Credit transaction**, Is a transaction that involves exchange of goods and services but payment is effected at a future date.
- d) **Commercial transaction**, It is a transaction which is carried out between traders more so between wholesalers and retailers.
- e) **Cash on delivery**, This involves the seller collecting the money when the goods have been delivered to the buyer.
- f) **Cash with order**, This involves placing an order accompanying it with full amount of money for the goods required.
- g) **Spot cash**, It is where the buyer pays for the goods as he collects them from the supplier's premises. The seller issues a cash sales slip to act as a proof that cash has been received from the buyer.
- h) **Prompt cash**, This is cash paid by the buyer within a given credit period specified by the supplier.
- i) **Trade discount** is an allowance or reduction in price given to customers who buy goods in bulky.
- j) **Cash discount** is an allowance which is given to buyers who settle their debts promptly or before the credit period given by the supplier is due.

29(a) what is international trade?

(b) What are the differences between International trade and Home trade?

(c) What are the factors that give rise to international trade?

Solution;

(a) **International trade** refers to the exchange of goods and services between countries

(b) **The differences between International trade and Home trade include;**

- International trade involves exchange of goods across the country's boundaries where as home trade involves exchange of goods from within the boundaries of the countries.
- International trade involves importers and exporters where as home trade involves wholesalers and retailers.
- International trade involves use of foreign currency where as home trade involves use of local currency.
- The goods in international trade are subjected to customs duties where as those in home trade are subjected to excise duty.
- Foreign languages are used in international trade while a local language is used in home trade.
- Foreign trade involves use of trade restrictions which limits a country's market share where as home trade doesn't involve such restrictions.
- Goods in international trade take long to reach the buyers due to the long distance involved while goods in home trade take a short period of time to reach because the distance involved is a bit short.
- In foreign trade, it is not easy to carry out after sales services where as in home trade, it is very easy since the sellers and the buyers are from the same country.
- Goods in international trade are stored in bonded ware houses where as those in home trade are mainly stored in wholesalers warehouses.
- Goods in international trade are exposed to a wider market where as in home trade, the local market is small.
- International trade involves preparation of many documents where as home trade involves preparation of few documents.
- The costs involved in international trade are high where as those involved in home trade are slightly low due to the short distance involved.

c) **The factors that give rise to international trade include;**

- ✓ **Difference in natural endowments**, countries may not have all the resources needed in the production process hence giving rise to international trade to get such resources.
- ✓ **Differences in skills**, this result into production of different qualities of products hence giving rise to international trade to enable a country get better quality products.

COMMERCE MADE EASY.

- ✓ **Production of surplus commodities**, some countries produce in excess of what they can consume hence requiring them to export these surplus products in other countries leading to a rise in international trade.
- ✓ **Treaties between countries**, some countries enter into agreements with others to supply products to such countries. This give rise to international trade amongst such countries.
- ✓ **None use of a commodity**, some countries produce commodities which they don't actually consume hence requiring such countries to export these products to foreign countries.
- ✓ **Differences in technological development**, this gives rise to international trade to enable a country acquire modern technology from other countries for development.
- ✓ **Natural calamities**, this gives rise to international trade in form of relief extended to countries effected by wars,earthquakes,drought,e.t.c
- ✓ **Enhancing political ties**, the need for a country to strengthen political relations with another may give rise to international trade between these countries.
- ✓ **Comparative cost advantage**, some countries may find it cheaper to import a particular commodity than producing it locally hence giving rise to international trade.
- ✓ **Demand for a particular commodity**, a country may not be in position to produce a product which is desired by its population hence giving rise to international trade to enable such a country get this product.
- ✓ **Differences in tastes and preferences**, some countries prefer to use products which are produced by other countries hence giving rise to international trade in order to get these commodities.

30(a) what is the meaning of the following terms as used in international trade;

- i. **Bi-lateral trade**
- ii. **Multi-lateral trade**
- iii. **Visible trade**
- iv. **Invisible trade**
- v. **Balance of trade**
- vi. **Balance of payment**
- vii. **Devaluation**
- viii. **Dumping**
- ix. **Terms of trade**
- x. **Comparative cost advantage**
- xi. **Entrepot trade**
- xii. **Customs draw back**

b) What are the advantages and disadvantages of international trade?

c) What factors limit international trade?

Solution;

- i. **Bi-lateral trade** refers to the trading relationship that exists between two countries for instance Uganda and Rwanda.
- ii. **Multi-lateral trade** refers to trade that involves he exchange of goods and services among several nations of the world (more than two countries are involved).
- iii. **Visible trade** refers to the kind of trade that involves the importation and exportation of tangible items (goods) such as computers, cars e.t.c.
- iv. **Invisible trade** refers to the kind of trade that involves importation and exportation of services like Banking,Tourism e.t.c
- v. **Balance of trade** refers to the difference between the value of a country's visible imports and exports. If the value of visible exports is more than the value of visible imports, the country would be experiencing a Favorable Balance of Trade and the reverse is equally true.
- vi. **Balance of payment** refers to the difference between a country's receipts for both visible and invisible exports and expenditures for both visible and invisible imports. In case the total receipts from the exports are more

COMMERCE MADE EASY.

than the total payments on the imports, a country would be experiencing a favorable balance of payment and the reverse is equally true.

- vii. **Devaluation** refers to the reduction in the value of a country's currency in relation to foreign currency. It is aimed at encouraging exports and discouraging imports hence rectifying the balance of payment position of a country.
- viii. **Dumping** refers to the selling of goods in the foreign markets at lower prices than those that are charged in the home markets.
- ix. **Terms of trade** refers to the relationship between the country's imports and exports in terms of their prices. In case the prices of a country's exports are higher than those of her imports, a country would be experiencing favorable terms of trade and the reverse is equally true.
- x. **Comparative cost advantage** refers to a situation where a country specializes in the production of a commodity where it incurs the lowest cost of production and it imports such commodities where its cost of production would be high.
- xi. **Entrepot trade** refers to a kind of trade where a country re-exports a commodity that it had previously imported from other countries.
- xii. **Customs draw back;** It is an arrangement where producers import raw-materials and pay customs duty for them, in case they process them and decide to re-export the finished products, the duty may be fully or partially refunded to them. This may encourage export trade as exporters are assured of the refund when they re-export.

b) The advantages of international trade include;

- ✓ It encourages countries to specialize which leads to massive production and lower prices for the goods.
- ✓ It enables a country to dispose off its surplus products to foreign countries which would otherwise be wasted.
- ✓ It widens market for the country's products hence increasing its turn over.
- ✓ It enables a country to get relief from other countries in case of natural calamities like floods,drought,earthquakes e.t.c
- ✓ It enables a country to get commodities which it cannot produce due to inadequate resources e.g. Uganda imports computers from outside countries.
- ✓ It promotes good trading relationship, cooperation and international understanding among countries since it allows easy movement of people from one country to another.
- ✓ It enhances competition between the local and foreign producers which promotes the production of quality output.
- ✓ It enables the citizens of a country to get a variety of goods from different countries which increase their freedom of choice.
- ✓ It enables a country to increase its revenue from the customs duties levied on goods exported and imported.
- ✓ It enables a country to get foreign exchange from the goods exported which is significant for the development of the country.
- ✓ It promotes massive production which increases employment opportunities to several people in different countries especially through export promotion industries, transportation e.t.c
- ✓ It enables easy transfer of technology from developed to developing countries which promotes efficient utilization of resources.

The disadvantages of international trade include;

- It leads to the collapse of local infant industries more so when citizens prefer imports to locally produced products.
- It may cause negative implications to a country like price fluctuations due to over production.
- It leads to unfavorable balance of payment when a country's expenditure on imports exceeds its receipts from exports.

COMMERCE MADE EASY.

- Some of the imported goods like drugs; alcohol e.t.c. may cause side effects to the citizens of the country.
- It encourages a country to over depend on other countries which may not be good in case of misunderstandings.
- It leads to imported inflation when a country gets its supplies from another country experiencing inflation.
- It encourages over exploitation of resources which would lead to their depletion due the increased desire to export and earn more foreign exchange.
- It encourages dumping which affects the growth of local industries and also causes unemployment in the domestic market.
- It leads to erosion of morals and cultural values of the citizens due to high demonstration effect among the local population.
- It widens the gap between the rich and poor countries since poor countries continue producing agricultural products which fetch lower prices and rich countries continue producing industrial products whose prices are high.

c) The following are some of the factors that limit international trade;

- ❖ Language barrier limits the level of interaction between sellers and buyers.
- ❖ Great need for modification and standardization of goods leads to an increase in their final prices hence affecting their demand in the market.
- ❖ High risks involved e.g. theft, bad debtors; bad weather e.t.c discourages many traders.
- ❖ High transport costs due to long distance involved discourage many traders hence limiting trade.
- ❖ Lack of knowledge concerning the different exchange currency rates tend to discourage many traders.
- ❖ Too much documentation involved discourages some traders from carrying out this trade.
- ❖ Trade protectionism tends to limit the volume of imports and exports hence limiting free trade.
- ❖ Cultural differences especially where some cultures discourage consumption of certain products tend to limit the size of market.
- ❖ High competition among traders from different countries further limits the size of market.
- ❖ Political instabilities in the country tend to discourage the local and foreign traders.
- ❖ Unfavorable climatic conditions tend to affect those traders who engage in agricultural products since it limits the quantities of goods supplied in the foreign market.

31(a) Explain the methods used to regulate international trade.

(b) Why do countries regulate international trade?

Solution;

(a) The methods used to regulate international trade include;

- **Imposing tariffs**, high taxes on imports raises their prices hence discouraging their consumption in the local market. High export taxes may also be imposed to discourage exportation of essential items.
- **Fixing quotas**, the government fixes a physical restriction in the amount of goods that should be imported. The maximum quantity set over a given period of time is not exceeded hence any excess is rejected.
- **Use of devaluation**, this involves a reduction in the value of local currency in relation to foreign currency. This policy makes imports expensive hence discouraging their importation.
- **Use of subsidization**, the government gives financial assistance to the local producers to keep their cost of production low hence having a price advantage over the imports. This will discourage imports.

COMMERCE MADE EASY.

- *Use of foreign exchange control*, the government may restrict the foreign exchange given to the importers or may fix it at a high rate to make importation expensive. This will at the end discourage imports.
- *Issuing import licenses*, the government charges high license fees from importers or issues few licenses to importers hence limiting imports.
- *Total ban*, the government completely prohibits importation of certain items by law. This is mainly done to commodities that are deemed dangerous to the citizens in the country.
- *Introduction of sanitary regulations*, the government introduces strict health standards that are supposed to be met by importers before allowing their goods into the local market. This discourages importers of products which do not meet the required standards.
- *Use of administrative controls*, the government put in place lengthy procedures to be complied with before one is allowed to import or it may put in place technical specifications that are to be complied with by the importers.
- *Use of import prepayments*, the government may require the importer to deposit import fees in advance before allowed to import. This may discourage some importers who could not meet this requirement.

b) The government regulates international trade because of the following reasons.

- ✓ *To protect home infant industries* against competition from foreign firms whose products are cheap and of better quality.
- ✓ *To improve on the balance of payment position* of a country as a result of a reduction in the expenditures made on the imports.
- ✓ *To fight imported inflation* as a result of restricting in flow of goods coming from a country experiencing inflation.
- ✓ *To discourage importation of harmful products* that may endanger the health of the citizens.
- ✓ *To maintain good security* in the country by ensuring that the government controls the inflow of fire arms.
- ✓ *To preserve the national cultural values* through discouraging infiltration of foreign cultures.
- ✓ *To increase government revenue* through imposing custom duties on the products.
- ✓ *To increase employment opportunities* in the country since local producers will be encouraged to invest their resources in many productive activities.
- ✓ *To prevent dumping* which may lead to the collapse of the domestic industries.
- ✓ *To promote industrialization* in the country since the local individuals will be encouraged to invest in import substitution industries to produce commodities initially imported.
- ✓ *To encourage exploitation of the available resources* as individuals will utilize the available resources to produce goods that are needed in the country.
- ✓ *To improve on domestic savings* as a result of a reduction of people's expenditure on imports.
- ✓ *To protect technology and craftsmanship*, this may be eroded due to international trade.

32. Give the functions of each of the following documents below;

- i. Indent
- ii. Bill of exchange
- iii. Consular invoice
- iv. Charter party
- v. Letter of Hypothecation
- vi. Freight note
- vii. Bill of lading
- viii. Air way bill
- ix. Certificate of origin
- x. Certificate of inspection

COMMERCE MADE EASY.

Solution;

- i. **Indent**, it is an order in international trade and its used when one is importing goods through an agent in the exporting country. Its function is to request the agent to place an order on behalf of the importer. It can be **an open indent** when the importer requests his agent to place an order without naming the specific supplier or **a closed indent** when the importer specifies the name of the supplier where the agent should place an order.
 - ii. **Bill of Exchange**, it is an unconditional document drawn by the exporter to the importer requiring the latter to pay a specified sum of money to the former on demand or at a particular future date. Its function is to demand for payment. It can be a **sight bill** if it is payable on demand or a **usance (dated) bill** if it is payable at a stated future date.
 - iii. **Consular invoice**, it is a document signed by the consulate or embassy of the country to which the goods are being exported. Its function is to ensure that the goods have been reasonably priced, not harmful e.t.c
 - iv. **Charter party**, it is a contract between the shipping company and the hiring business when an entire ship is to carry cargo for a voyage. Its function is to enable the hiring company take an absolute control over the vessel for a given period of time specified in the contract.
 - v. **Letter of Hypothecation**, it is a letter from the exporter of goods authorizing his bank to obtain and sell goods being exported to the importer at the best price it can get after failing to obtain payment on a bill of exchange drawn on the importer.
 - vi. **Freight note**, it is a document given by the shipping company that shows the cost of transport for the goods from one terminal to another.
 - vii. **Bill of lading**, it is a freight contract drawn by the shipping company that shows the details of goods loaded on the ship and the terms and conditions under which the goods have been accepted by the shipper. It acts as a document of title, a contract of carriage, acts as a receipt for the goods e.t.c.
 - viii. **Air way bill**, it is a document drawn by the Airline Company that shows the details of goods loaded on the aircraft and the terms and conditions under which they were accepted by the airline company.
 - ix. **Certificate of origin**, it is a document that shows the country where the imported goods were produced. This is to enable countries that have reached mutual agreements know the rate of duty levied from a given state.
 - x. **Certificate of inspection**, it is a document which evidences that the goods imported are free from any contamination.
33. (i) Explain the following price quotations and delivery terms in international trade.
- a) *Ex-works/loco/Ex-factory*
 - b) *F.O.R*
 - c) *D.D*
 - d) *F.A.S*
 - e) *F.O.B*
 - f) *Cost &Freight*
 - g) *C.I&F*
 - h) *Loaded price*
 - i) *In bond*
 - j) *Paid duty*
 - k) *Franco*

(ii) Distinguish between Advalorem tax and Specific tax?

Solution;

- a) **Ex-works**, this refers to the lowest price quoted by the importer. The buyer is charged for the cost of producing the goods. It doesn't include expenses like transport, insurance e.t.c hence the buyer has to meet all the expenses up to his premises.
- b) **F.O.R (Free on rail)**, the price quoted includes the cost of producing the goods plus the transportation expenses up to the nearest rail station. The buyer meets the remaining expenses up to his premises.

COMMERCE MADE EASY.

- c) **D.D (Delivery to dock)**, It involves the cost of producing the goods plus the transport charges up to the nearest dock. The remaining expenses are met by the exporter.
- d) **F.A.S (Free alongside ship)**, the price quoted includes the cost of goods up to the nearest dock plus the dock handling charges. The remaining expenses are met by the buyer.
- e) **F.O.B (Free on Board)**, the price quoted include all the above costs plus the loading expenses of the goods on to the ship.
- f) **Cost & Freight**, the price quoted include all the costs until goods are taken off the vessel at the point of destination. This does not include the insurance costs.
- g) **C.I &F (Cost, insurance and freight)**, the price quoted includes the cost of goods, shipping charges and insurance premiums to cover the goods against risks.
- h) **Loaded price**, it includes all costs up to the final port of destination plus the cost of offloading the goods at the port of destination.
- i) **In bond**, it includes all the costs up to the final port of destination plus the storage charges of the goods in the bonded warehouse.
- j) **Duty paid**, this involves all the above charges plus payment of all custom' duties for goods.
- k) **Franco**, the importer incurs all the expenses up to the buyer' physical address or premises. This is the highest price charged by the importer.

- (ii) **Advalorem tax** is a form of tax that is imposed according to the value of goods imported where as a **specific tax** is a tax that is imposed according to the weight and quantity of goods imported or exported.

34. (a) **What is sole proprietorship?**
(b) **Why is sole proprietorship the most common form of business ownership in Uganda?**
(c) **What are the disadvantages of sole proprietorship?**

Solution;

- (a) **Sole proprietorship** refers to a business owned by one person who controls it and provides the necessary capital alone. He is sometimes assisted by family members or a few shop attendants but he remains the final authority on all the business affairs.
- (b) **Sole proprietorship is the commonest form of business ownership in Uganda because of the following reasons;**
 - It requires limited capital resources to start this kind of business hence many people find it convenient to operate it.
 - It involves quick implementation of decisions since the owner is the final authority over the affairs of the business.
 - It is very easy to supervise and control the business since it is small which may not be the case of large scale operations.
 - It involves minimum establishment costs since it does not call for lengthy registration procedures and documentation.
 - It promotes personal initiative which motivates hard work since the owner enjoys all the profits alone.
 - It gives one freedom to conduct business at his own pace since he is accountable to himself.
 - It is flexible hence the owner can easily change from one line of business to another to meet the consumer's tastes and preferences.
 - It is not subjected to high taxes which large scale operations are subjected to hence preferred by many people.
 - It involves direct personal contacts with the customers hence enabling the owner to meet the individual needs of his customers.

COMMERCE MADE EASY.

- It involves enjoyment of top secrecy since it is not a legal requirement for the owner to disclose his accounts to the public.
- It requires little space to establish since it is small hence convenient in most areas.
- It is the best form of business for provision of direct services like teaching since it involves direct contact between the two parties.
- It enables provision of employment opportunities to the family members and the relatives since the owner is the final decision maker.
- It involves less risks and losses due to the small size of the business which is not the case of large scale firms.
- It promotes creativity and innovativeness since the owner is independent in implementing his own plans.

(c) The disadvantages of sole proprietorship include;

- ❖ The owner suffers all the losses alone since this is a one man's business.
- ❖ It may be difficult for a sole trader to get financial assistance from banks due to lack of enough collateral securities.
- ❖ It involves bearing all the risks of the business alone since it is a one man's business.
- ❖ The owner suffers unlimited liability since his personal belongings may be claimed to settle the debts of the firm.
- ❖ It may take long to expand the business since one person may not be in position to raise adequate capital to invest in it.
- ❖ The owner is always over worked since he does most of the activities alone.
- ❖ The business lacks continuity since the death of the owner may lead to the collapse of the business.
- ❖ The owner enjoys limited profits since insufficient capital is invested in the business.
- ❖ There is no proper accounting system in this form of business hence leading to mismanagement of the firm.
- ❖ The owner has limited capacity to expand his business operations since he does not appeal to the public for funds.
- ❖ The prices charged from the customers are relatively higher than those charged by large scale firms hence limiting their turn over.
- ❖ It may involve stocking a limited range of products hence limiting consumer's choice due to inadequate capital invested.

35(a) what is the difference between a partnership and a partner?

(b) What is the difference between the following types of partners?

- i. General partner and limited partner*
- ii. Active partner and dormant (sleeping) partner.*
- iii. Real partner and quasi(nominal) partner*
- iv. Minor partner and major partner*

(c) What is the meaning of the following forms of partnership?

- i. Permanent partnership*
- ii. Temporary partnership*
- iii. General partnership*
- iv. Limited partnership*

Solution;

- a) A partnership** refers to a relationship that subsist between two or more persons carrying on business in common with an aim of making profits where as a **partner** is one of the members that constitute a partnership.
- b) Differences between the following types of partners;**

COMMERCE MADE EASY.

- i. A **general partner** is one whose liability to the firm's debts is unlimited hence liable to meet the firm's debts from his personal property in case the firm fails to meet them where as a **limited partner** is one whose liability to the firm's debts is limited hence its restricted to his capital contribution.
- ii. An **active partner** is a partner who contributes capital to the business, shares profits, responsible for all losses and debts incurred by the firm. He is actively involved in the management affairs of the business where as a **dormant partner** is a partner who contributes capital to the firm, shares profits and losses incurred, responsible for the debts of the firm but does not take an active part in the day to day running of the business management affairs.
- iii. A **real partner** is one who contributes towards the firm's capital, shares profits and losses and he is also liable for the debts of the firm where as a **quasi partner** is one who does not contribute towards the capital of the firm, doesn't share profits and losses, does not take any active part in the management affairs of the business but only allows the business to use his name as a partner due to his reputation and conduct.
- iv. A **minor partner** is one who has not attained majority age i.e. below 18 years. He is not liable for the debts of the firm where as a **major partner** is one who has attained a majority age i.e. above 18 years of age. He can take part in the management affairs of the business and is liable for the debts incurred by the firm.

c) Meaning of the following forms of partnership;

- i. **Permanent partnership** is one formed with an intention of performing its activities indefinitely i.e. its end cannot be told at the time of formation.
- ii. **Temporary partnership** is one formed for either a specific period of time or to serve a specific purpose such that at the expiry of a given period of time or achievement of a specific purpose, it is dissolved.
- iii. **General partnership (ordinary partnership)** is one where all members share in the management of the business affairs hence they have unlimited liability. This implies that they are answerable to the debts of the firm up to the extent of selling off their personal belongings.
- iv. **Limited partnership** is one whose membership is comprised of at least one general partner and the majority (limited partners) with unlimited liability. The limited partners do not participate in the management of the firm's activities.

36(a) what are the advantages and disadvantages of partnership?

(b) What are the features of partnerships?

Solution;

The advantages of partnership include;

- The formation of partnership is simple because it does not require many legal documents.
- The possibility of joint consultations among the members results into wise decisions.
- There is a possibility of specialization due to the big number of members hence each partner can take on a given task in which he has the greatest advantage.
- The workload is spread amongst many members due to division of labor hence partners are not overworked.
- There is a possibility of having access to financial assistance from money lenders because the number of collateral securities that the members can raise.
- The combination of talents from the various partners can promote efficiency in the management of the affairs of the firm.
- It's possible to improve on the capital base of the business by simply admitting new partners.
- The absence of one partner does not affect the operation of the firm's activities like in the case of sole trade.
- It's possible for the partnership to enjoy economies of scale due to the large capital invested in the business compared to sole trade.
- The losses made by the business are shared by all the members hence each partner feels a small impact.

COMMERCE MADE EASY.

- The partners can keep the secrets of the firm amongst themselves as laid down in the provisions of partnership.

The disadvantages of partnership include;

- ✓ The decision making process tend to be slow due to joint consultations amongst members.
- ✓ In case of ordinary partnership, the members suffer from unlimited liability since their personal belongings can be sold in case of a debt.
- ✓ The progress of the firm may come to a stand still in case of death, insanity or bankruptcy of an active partner.
- ✓ A mistake made by one partner may affect the whole firm.
- ✓ The sharing of profits among the members discourages the hardworking members.
- ✓ Some partners are not willing to surrender their properties on behalf of the business as security for bank loans. This may limit the progress of the firm.
- ✓ Partnership is not recognized as a separate legal entity hence it can't sue or be sued in its own name.
- ✓ Partnership may not be in position to raise more capital resources compared to public limited companies due to the restrictions in membership.
- ✓ Disagreements amongst members on important issues may affect the progress of the firm.
- ✓ Some partners may lack confidence in each other and this may hinder the success of the business.

(c) The features of partnerships include;

- ❖ It's formed when 2-20 members pool resources (capital) to carry on business.
- ❖ The liability of the ordinary members of the firm is unlimited to the firm's debts.
- ❖ Each of the partners is personally responsible for all debts of the firm.
- ❖ Each partner acts as an agent to the firm with authority to enter into contracts on behalf of the business except a limited partner.
- ❖ The responsibilities of the firm, profits and losses are shared in an agreed way.
- ❖ A partnership has limited life hence it may be dissolved by death, bankruptcy or insanity of an active member.
- ❖ Like sole proprietorship, partnership has also got unlimited liability except limited partnership.
- ❖ Transfer of shares is not allowed without the consent and knowledge of all the members.
- ❖ The major decisions of the firm are made by the majority through joint consultations.
- ❖ The partnership results from a contractual agreement or mutual agreement amongst the members.
- ❖ The partners are to act with utmost good faith with each other.
- ❖ The capital to the firm is contributed by the partners on an agreed basis hence no subscription is allowed from the public for extra capital.
- ❖ Any agreement made by a partner with in the scope of normal operations of the business binds all the partners.

37(a) what is the meaning of the term 'dissolution of partnership'?

(b) Under what circumstances may partnership be dissolved?

(c) What are the rights and duties of partners?

Solution;

- Dissolution of partnership** refers to the bringing of partnership to an end or it is the act of terminating partnership.
- The circumstances that may lead to the dissolution of partnership include;**
 - When the partnership operates at a loss continuously.
 - When the agreed period of the partnership has expired in case of a temporary partnership.

COMMERCE MADE EASY.

- If a partner with an intention to dissolve the firm notifies the others in writing.
- When an active partner dies, becomes insane or bankrupt.
- When a partner damages the interest of the firm or acts centrally to the provisions of the partnership.
- If all members voluntarily consent to dissolve the firm or when a situation prevails that makes it fair and just to dissolve the firm.
- When an event occurs that makes it unlawful for the business to continue.
- In case a law is enacted by the court that bans the activities of such a partnership.
- When partnership lacks sufficient funds to carry on its activities.
- When the partnership has achieved the purpose for which it was formed.
- When the partnership does not conform to the regulations of its formation for instance when it's formed with less than two members or more than twenty members.
- If there are disputes among the partners which have failed to be resolved.

(c) **The rights and duties of partners include;**

- ✓ Every partner has a right to share the profits made by the firm.
- ✓ Every partner has a right to air out his opinions on matters concerning the firm.
- ✓ A partner has a right to participate in any competing business after retirement; however, he has no right to use the firm's name.
- ✓ Every partner has a right to inspect the firm's books of accounts, documents of the firm e.t.c
- ✓ Every partner has a right to receive interest on capital if specified in the deed.
- ✓ Every partner has a right to participate in the management affairs of the business.
- ✓ Every partner has a right to use the firm's property for the purpose of the partnership business.
- ✓ Every partner has a duty to act in a just and faithful manar towards each other.
- ✓ Every partner has a right to act on behalf of the business except a limited partner.
- ✓ Every partner is personally liable for the debts of the firm.
- ✓ No partner has a right to sell shares to an outsider without the consent of other partners.
- ✓ No partner is allowed to participate in any business that competes with that of the firm. If one conducts a private venture that competes with partnership, all profits made by him should be surrendered to the partnership.
- ✓ A partner has a right to be indemnified for any liability incurred by him in the conduct of the business.
- ✓ Every partner has a right to access the firm's funds and has to render utmost good faith in displaying accounts.
- ✓ Every partner should work within the limits of his authority or else he will be made to compensate the firm for the loss as a result of his negligence.
- ✓ Every partner must do whatever it takes to protect the firm from making losses. In case a loss is made out of one's negligence, he will be called upon to make good such a loss.

38(a) what is a partnership deed?

(b)What are the contents of a partnership deed?

(c)Outline the provisions of the partnership act of 1934 cap 29 that will apply in the absence of the partnership deed.

Solution;

- a) **A partnership deed** is a written agreement prepared by partners before entering into a partnership. It outlines the terms and conditions under which the business would be conducted hence acting as a reference in case of any mis understandings that may arise at a future date.
- b) **The contents of a partnership deed include;**
 - ✓ The name of the firm and location

COMMERCE MADE EASY.

- ✓ The name, address and occupation of each partner
- ✓ The type of each partner
- ✓ The capital contributed by each partner
- ✓ The ratio in which profits and losses are to be shared
- ✓ The rights and duties of partners
- ✓ The procedures adopted at the time of dissolution of the partnership
- ✓ The duration of the partnership
- ✓ The procedure in which the books of accounts would be kept
- ✓ The purpose for which partnership is formed
- ✓ The method of settling disputes among partners
- ✓ The conditions for admission of new partners and removal of old partners from the firm.
- ✓ The salary allowed to the active partners if any

(c) The provisions of the partnership act of 1890 that will apply in the absence of a partnership deed include;

- All profits and losses are to be shared equally by the partners
- No interest is to be allowed on any capital contributed by a partner
- No salary is to be allowed to any partner
- Any partner who advances a loan to the firm is entitled to an interest at a rate of 5% per annum.
- Each partner has a right to inspect the accounting books of the firm
- Any differences arising amongst the partners should be resolved by the decisions made by the majority members.
- Each partner has a right to participate in the conduct of the business
- No change may be made in the nature of the business without the consent of all the partners.

39(a) what is a joint stock company?

(b) What are the features of a private limited company?

(c) What are the features of a public limited company?

Solution;

(a) A joint stock company is a corporate body which has a legal existence of its own and formed to perform specific functions. It may also be defined as an artificial person created under law and having an entity of its own quite separate from the members that comprise it.

(b) The features of a private limited company include;

- Membership is between 2-50 excluding employees.
- The shares are not freely transferable.
- It's formed with an intention of making profits.
- The liability of members is limited to their capital contributions.
- It's not a legal requirement to publish their annual accounts.
- It can start business after receiving a certificate of incorporation.
- The promoters must prepare both the memorandum of association and articles of association.
- It is not allowed to offer shares to the public for subscription.
- It has a separate legal existence.
- A private limited company requires a quorum of 2 members at a general meeting for any valid business of the meeting to be conducted.
- It should have at least one director to commence business.

N.B. The companies act defines a private limited company as a company which by its articles restricts the right to transfer shares of the company. I.e. a person can not freely sell off his shares as he may wish like a public company but must seek consent of the directors of the company.

COMMERCE MADE EASY.

(c) The features of a public limited company include;

- ✓ Membership ranges from 7 to infinity i.e. there is no maximum limit to membership.
- ✓ The liability of the shareholders is limited to their capital contributions.
- ✓ It has a legal entity of its own separate from the members that comprise it.
- ✓ The shares are freely transferable.
- ✓ It can start business after receiving a certificate of trading.
- ✓ It is a legal requirement for them to publish their annual accounts.
- ✓ It issues a prospectus to the public encouraging them to buy its shares.
- ✓ Its capital is raised through issue of shares to the public and the capital raised is called share capital.
- ✓ The owners of the company are called share holders.
- ✓ The quorum at the general meetings for this company is 3 members.
- ✓ A public limited company requires a minimum of 2 directors to operate legally.

40. What are the advantages and disadvantages of joint stock companies?

Solution;

The advantages of joint stock companies include;

- ✓ They are in position to raise more capital due to the large number of share holders involved.
- ✓ They are in position to get financial assistance from banks since they can raise enough collateral securities.
- ✓ They are efficient since they are in position to employ specialists in the various departments.
- ✓ They are assured of a continued existence since death, bankruptcy or insanity of one member does not lead to the dissolution of the company.
- ✓ The freedom to transfer shares in a public limited company acts as an incentive to the share holders who may wish to convert their shares into cash at any time they wish.
- ✓ The employees may be allowed and encouraged to buy shares in the company. This motivates them to work hard.
- ✓ The risks are not heavily felt in joint stock companies since they are spread amongst many shareholders which is not the case of sole trade.
- ✓ The share holders enjoy limited liabilities hence their personal belongings are not confiscated in case of a debt.
- ✓ The publishing of accounts in public limited companies helps to safeguard the shareholders against fraud.
- ✓ The large amount of capital contributed enables the company to produce on large scale hence lowering the cost of production and increasing the profit margin of the firm.
- ✓ The joint stock company is recognized as a legal entity i.e. can enter into contracts, can sue, can own property e.t.c

The disadvantages of joint stock companies include;

- The formation of a company is an expensive process which requires several formal procedures like preparation of the memorandum of association, articles of association e.t.c.
- The share holders have little control over the affairs of the company since control is in hands of the board of directors.
- There is too much bureaucracy in these companies hence a delay in decision making due to extensive consultations.
- There is lack of confidentiality in joint stock companies due to the public declaration of profits annually.
- They are subjected to diseconomies of scale due to over production.
- There is lack of personal initiative in these companies compared to sole trade since profits are shared amongst many share holders.
- There is lack of flexibility since it is not easy to change from one line of business to another.

COMMERCE MADE EASY.

- The directors of the company may have their own interests which may conflict with those of the share holders hence affecting the progress of the company.
- Conflicts are very common amongst the share holders hence affecting the company' activities.

41(a) Define and give the contents of;

- i. Memorandum of association
- ii. Articles of association

b) Give the meaning of the following documents as used in the company formation;

- i. Certificate of incorporation
- ii. Prospectus
- iii. Certificate of trading

Solution;

- i. **Memorandum of association** is a document that lays down and defines the powers and limitations of the company. It governs the relationship of the company with the outside world. It lays out the various activities or nature of businesses the company has been formed to engage in. The contents of the memorandum of association include;
 - **Name clause**, where the name of the company is indicated ending with the word 'limited' implying that the liability of the share holders is limited to their capital contributions.
 - **Situation/location clause**, which shows the company' registered office and address to which correspondences are to be sent.
 - **Objective clause**, which lays down and outlines the aims and objectives for which the company was formed.
 - **Capital clause**, which shows the amount of capital that the company expects to raise through issue of shares.
 - **Liability clause**, which shows that the liability of the share holders is limited to their capital contribution.
 - **Declaration clause**, which is signed by at least 7 members in case of a public limited company and a minimum of 2 members in case of a private limited company showing their willingness to form themselves into a company.
- ii. **Articles of association**; It is a document that lays down the rules and regulations that govern the internal affairs, conduct and management of the company. It acts as a constitution for the company. It contains matters relating to;
 - ✓ Qualification of directors
 - ✓ Rights and powers of share holders
 - ✓ Appointment and powers of directors
 - ✓ Procedures of transferring shares
 - ✓ Methods of sharing profits
 - ✓ Procedures of book keeping and auditing
 - ✓ Procedures of conducting general meetings
 - ✓ Dismissal of employees
 - ✓ Method of sharing profits
 - ✓ Procedures of electing the management committee.e.tc

(b)Meaning of the following documents;

COMMERCE MADE EASY.

- i. ***Certificate of incorporation*** is a document that gives a company a legal existence as an artificial legal person created by law. It is a document that marks the birth of a company. A private limited company can start its activities after receiving the certificate of incorporation.
- ii. ***Prospectus*** is a document prepared by the promoters of the company inviting the public to subscribe for the shares. It is any notice or advertisement offered to the public to subscribe for the shares of the company.
- iii. ***Certificate of trading*** is a document issued by the registra of companies that empowers a public limited company to commence business.

42. Distinguish between the following;

- i. **Equity shares and preference shares.**
- ii. **Cumulative preference shares and non-cumulative preference shares.**
- iii. **Redeemable preference shares and irredeemable preference shares.**
- iv. **Participating preference shares and deferred shares.**

Solution;

- i. ***Equity/ordinary shares*** refers to shares which do not carry a fixed rate of return, owned by founders of the company, carry voting rights, entitled to dividends after preference shares and are generally irredeemable where as ***preference shares*** are shares where the holders have a first right on the sharing of dividends and are entitled to a fixed rate of dividends.
- ii. ***Cumulative preference shares*** are shares that are entitled to a fixed rate of dividends irrespective of whether the company has declared profits or incurred losses in the year. The holders have a right to claim for the arrears of the dividends until when they are paid hence dividends keep on accumulating till they are cleared where as ***Non-cumulative preference shares*** refers to those shares where the holders are entitled to a fixed rate of dividends but only for the years in which dividends were declared hence arrears are not carried forward to the subsequent years.
- iii. ***Redeemable preference shares*** refer to shares that can be bought back by the company from the share holders after a given period of time. These shares are normally issued when the company needs funds temporarily where as ***irredeemable preference shares*** refer to shares which are not bought back by the company from the holders hence if a member wants to convert his shares into physical cash, he can sell them to any member of the public.
- iv. ***Participating preference shares*** are shares where the holders in addition to a fixed rate of dividends are entitled to any extra profit that after the ordinary share holders have been paid where as ***deferred shares*** refer to those shares whose dividends can be postponed to some future period. They are held by founders of the company.

N.B - A Share is defined as a unit of capital of a joint stock company which has a face value.

43(a) What is a debenture?

- (b) **Explain the different types of debentures.**
- (c) **What are the differences between shares and debentures?**
- (d) **Outline the grounds that may justify the winding up of a company.**

Solution;

- (a) **A debenture** is a loan certificate or document that evidences that a company has borrowed a specified sum of money from a person named on its face and the company undertakes to pay a fixed rate of interest.
- (b) **The different types of debentures include;**
 - ❖ **Mortgage/secured debentures;** these are debentures which have a security attached to them or some property pledged against them. These debentures are fully backed up by some company assets.

COMMERCE MADE EASY.

- ❖ **Naked/un secured debentures;** these are debentures which have no security attached to them hence in case of failure of the company to pay, the debenture holder has no right to sell the company's property to recover his money.
- ❖ **Redeemable debentures;** these are debentures that are bought back by the company after a given period of time and the debenture holder is given interest for the period held.
- ❖ **Irredeemable debentures;** these are debentures that are not bought back by the company hence the money borrowed remains owing until the company is dissolved.

(c) The differences between shares and debentures include;

- Shares are usually irredeemable whereas debentures are redeemable.
- A share is a unit of capital whereas a debenture is a unit of loan.
- Share holders are paid dividends while debenture holders are paid interest.
- A share holder is one of the owners of the company while a debenture holder is a creditor.
- Share holders have voting rights on the affairs of the company while debenture holders do not have any voting right since they are not the owners of the company.
- Share holders may not get dividends if the company makes losses but the debenture holders are entitled to their interest whether the company makes profits or losses.

(d) The grounds that may justify the winding up of a company include;

- Where the number of share holders have fallen below the statutory minimum i.e. less than 2 in case of a private limited company and less than 7 in case of a public limited company.
- When the company does not commence its operations in the year of incorporation.
- Where the company is formed as a public limited company but has not been issued with a certificate of trading.
- Where there is a justifiable lack of confidence in the management.
- When the company has failed to achieve its objective.
- When the court finds out that the company is insolvent and its continued existence would only further accumulation of debts.
- Where the company was formed for an illegal purpose.
- Where the members decide to voluntarily liquidate the company.

44. What are the differences between a partnership and a company?

Solution;

The differences between a partnership and a company include;

- The maximum number of members that constitute a partnership is 20 whereas for a company (private limited) is 50 while a public limited company has got no maximum limit.
- In a partnership, members can engage in many business activities while a company can only engage in the activity stipulated in the memorandum of association hence a partnership is not affected by ultravires rule.
- In a partnership, members can not sell their shares without the consent of all partners whereas in a public limited company, share holders can sell their shares without any restrictions.
- A partnership is not recognized as a separate legal entity whereas an incorporated company is recognized as a legal entity which can sue or be sued in its own name.
- The liability of partners to the debts of the firm is unlimited except in case of limited partnership while the liability of shareholders in a company is limited to the debts of the firm.
- In a partnership, every partner has a right to manage the activities of the firm whereas in a company, management is in hands of the board of directors elected by the shareholders.
- The formation of a partnership is by mutual agreement which may be written or not whereas a company is formed by registration following the procedures in the company Act.

COMMERCE MADE EASY.

45(a) What is a cooperative society?

(b) Explain the principles of cooperatives.

(c) Give reasons why cooperatives have failed to succeed in Uganda.

Solution;

- a) A **cooperative society** is an association of individuals (producers or consumers) that have agreed to come together, share responsibility and carry out activities to achieve a common goal/ objective.
- b) The principles of cooperatives include;
- **Open and voluntary membership;** entry is free for any interested member who can comply with the rules of the association.
 - **Democratic control/administration;** the affairs of the cooperative society are conducted in a democratic way basing on the principle of 'one man one vote' irrespective of the shares held by an individual in the cooperative society.
 - **Dividend repayment;** the profits made by the society are distributed among the members in form of dividends according to an individuals contribution to the society.
 - **Interest on share capital;** members get interest from the society depending on their capital contribution. The rate of interest is fixed at a given rate which should be known by all the members.
 - **Cooperation;** cooperatives must cooperate with other cooperatives at local, national and international levels since they have a lot to share in common and learn from each other.
 - **Capital contribution;** the capital to the society is supposed to be contributed by the members.
 - **Neutrality;** cooperative societies are not supposed to discriminate amongst members basing on tribe, religion, politics e.t.c
 - **Educational promotion;** cooperative societies provide education to the members on successful business techniques.

(c) The reasons why cooperatives have failed to succeed in Uganda include;

- ✓ Poor transport network in some parts of the country limit the movement of farmers produce to the marketing centers.
- ✓ Lack of adequate storage facilities to absorb the farmers produce results into wastages.
- ✓ Excessive government interference in the affairs of cooperatives where by even some officials are politically appointed undermines the principle of democratic control.
- ✓ Lack of competent leader's leads to mismanagement hence undermining the success of the society.
- ✓ Lack of adequate capital due to poverty amongst the members makes it difficult for the society to purchase modern equipments hence affecting their success.
- ✓ Some members are reluctant to pay their subscriptions in time which results into shortage of funds to efficiently manage the activities of the society.
- ✓ Corruption and embezzlement of the cooperative funds by the top officials makes the society unable to purchase the required farm in puts and meeting other overhead costs.
- ✓ Most farmers are conservative hence reluctant to adjust to the modern methods of production.
- ✓ The problem of price fluctuations tends to undermine the financial position of the cooperatives especially those engaged in agricultural production.
- ✓ Political instabilities in some parts of the country affect the success of cooperatives in such areas.
- ✓ Stiff competition from private traders who are financially strong and offer better prices for the produce limits their market.
- ✓ Lack of adequate collateral securities makes it hard for these cooperatives to access financial assistance from the money lenders.
- ✓ The scattered nature of the population tends to limit the degree of mobilization of members hence limiting their success.

COMMERCE MADE EASY.

- ✓ Discrimination amongst members basing on tribe, politics e.t.c tends to undermine the success of cooperatives.

46(a) What is the meaning of the following;

- i. **Consumers' cooperative society**
- ii. **Producers' cooperative society**
- iii. **Savings and credit cooperative society**

(b)What are the roles of cooperatives in the economic development of Uganda?

Solution;

- (a)**
- i. **A consumer cooperative society** is a voluntary association of consumers who agree to contribute capital to buy goods that they require collectively. It is an organization formed by consumers to retail products they wish to purchase.
 - ii. **A producers' cooperative society** is an association of producers' who agree to come together with an aim of improving production and marketing of their products collectively.
 - iii. **A savings and credit cooperative society** is an association where people join together in order to put their savings into a common pool from which they can get credit when need arises.
- b) The roles of the cooperative societies in the economic development of Uganda include;**
- They provide farmers with transport facilities hence encouraging massive production in the country.
 - They provide financial assistance to the farmers in form of loans hence enabling them afford improved seeds and other farm inputs which helps to improve agricultural production.
 - They provide farm inputs to the farmers like fertilizers and other inputs at subsidized prices hence encouraging massive production.
 - They provide marketing facilities to the farmers output through setting up buying centers near the farmers hence improving on their incomes.
 - They have helped to change the economy from subsistence sector to a monetary sector through buying the farmers produce.
 - They eliminate wasteful competition and exploitation of farmers by some middle men who underpay them by giving farmers a fair price.
 - They negotiate for better prices for the farmers produce since they have a high bargaining power than individuals.
 - They provide employment opportunities to the people in certain areas like transport, marketing e.t.c
 - They provide storage facilities to the farmers hence encouraging them to increase output.
 - They help in uniting people from a diversified background which may be condusive for development.
 - They provide banking services to the members hence promoting a saving culture in the economy.

47(i) What are marketing boards?

(ii) Explain the various types of marketing boards.

Solution;

- i. **Marketing boards** are trading organizations set up by the government or private individuals to buy agricultural produce from the farmers and sell it to the consumers or processors.
- ii. **The various types of marketing boards include;**
 - **Commodity marketing board**, this is a marketing board set up to handle the production and marketing of one type of agricultural output for instance coffee marketing board for coffee and lint marketing board for cotton.

COMMERCE MADE EASY.

- **Produce marketing board**, this is a marketing board established to handle the production, purchasing and marketing of a wide range of agricultural output for instance the Uganda produce marketing board. It handles output like maize, millet, beans e.t.c
- **Advisory marketing board**, It is a marketing board set up to carry out research into better methods of production and pass on the findings in form of advisory services to the farmers.
- **Export marketing board**, It is a marketing board established to promote the marketing one or a wide range of products to the foreign markets.
- **Voluntary marketing board**, It is a marketing board set up by producers and registered as a corporate body. Its powers and areas of operation are defined by the memorandum of association and articles of association.
- **Statutory marketing board**, It is a marketing board formed by the act of parliament and its powers, area of operation, functions and status are defined by the act that created it.

48(i) What are the functions of marketing boards?

(ii) What problems do marketing boards face in Uganda?

Solution;

i. The functions of marketing boards include;

- ✓ They buy farmers produce at the best price possible through their buying channels and agents.
- ✓ They collect the farmers produce right from the gardens which save them from the transportation costs.
- ✓ They provide storage facilities to the farmers produce hence saving the farmers from possible losses.
- ✓ They assist farmers in various ways for instance providing farm inputs like tools, fertilizers, bags e.t.c at subsidized prices.
- ✓ They carry out research into better methods of production and pass on their research findings to the farmers.
- ✓ They control the supply of agricultural output by fixing quotas to avoid over production.
- ✓ They help in keeping the prices of farmers produce stable through the stabilization fund and buffer stocks.
- ✓ They advance loans to the farmers which helps them to procure the required agricultural inputs.
- ✓ They sell farmers produce to both local and foreign markets.

(ii) The problems that are faced by marketing boards in Uganda include;

- ❖ Poor state of most roads makes transportation of the farmers produce to the marketing centers difficult.
- ❖ Poor quality output due to lack of grading facilities results into losses to the board.
- ❖ Over production especially where farmers produce in excess of the stipulated quota leads to price fluctuations.
- ❖ It is difficult to fix prices of the produce due to changes in demand on the world market.
- ❖ The supply of agricultural output is dictated by nature hence bad weather conditions may affect the operations of the marketing boards.
- ❖ They lack enough funds to pay farmers and finance research hence affecting their operations.
- ❖ They lack adequate storage facilities hence leading to wastages in times of over production.
- ❖ The problem of corruption and embezzlement of funds by top officials affects the operation of the marketing boards.
- ❖ Lack of qualified administrator's leads to mismanagement of the organization's funds.
- ❖ Political intervention in terms of management affects their performance.
- ❖ Conservativeness of some farmers makes attempts made by the board to advice them fruitless.
- ❖ Political instabilities in some parts of the country affect the operation of marketing boards in such areas.

COMMERCE MADE EASY.

49(a) Define the term public sector and explain what constitutes it.

(b) How does the government participate in business?

Solution;

a) **Public sector** refers to establishments that are owned by the government and participate in offering commercial activities. The public sector constitutes of the following establishments;- public corporations, local authorities and parastatals.

- **Public corporations** refer to establishments where the government holds either all the share capital or the majority of it. These establishments are created by the act of parliament and their main aim is to provide essential services to the citizens of the country at subsidized prices e.g. National water and Sewerage Corporation.
- **Local authorities** refer to establishments put in place by the government to provide certain essential services that are undermined by the private sector as being unprofitable. Such services may include:- garbage collection, street cleaning e.t.c
- **Parastatals** refer to establishments set up by the government to perform specific function which are developmental in the economy e.g. marketing boards, Uganda development bank e.t.c

b) The government participates in business in the following ways;

- ✓ Through setting up public corporations that operate on commercial lines to provide essential services at reduced prices.
- ✓ Through setting up parastatals which provide developmental functions in the economy.
- ✓ Through setting up local authorities which provide essential services that seem unprofitable to the private sector.
- ✓ Through setting up laws that aims at safe guarding consumers from being exploited by the business world.
- ✓ Through influencing the location of certain firms in the country in order to achieve a fair distribution of industries in the country.
- ✓ Through imposing tariffs by the Uganda Revenue Authority which is used to finance public services.
- ✓ By setting up necessary infrastructures e.g. roads that can promote commercial activities in the economy.
- ✓ Through organizing trade fairs or participating in them to enable the public know what is produced in the country.
- ✓ Through engaging in price controls where the government fixes minimum and maximum prices for certain essential goods.
- ✓ Through organizing trade missions to expose to the foreign markets what a country produces and also negotiate for best terms of sale.
- ✓ Through regulating foreign trade by use of measures like fixing quotas, total ban, devaluation e.t.c
- ✓ By ensuring political stability which can promote commercial activities in the country.

N.B. The government participates in trade directly through establishment of public corporations, parastatals, local authorities among others and participates in commerce indirectly through controlling the activities of the private sector for instance through price controls, by issuing licenses, by influencing the location of industries among others.

50(a) What are the reasons for government participation in commercial activities?

(b) What are the disadvantages associated with public enterprises?

Solution;

a) **The reasons for government participation in commercial activities include;**

- To provide essential services like water to the public at subsidized prices which would be unaffordable if left in hands of the private sector.

COMMERCE MADE EASY.

- To undertake ventures which require large capital outlay that private people can not afford e.g. railway construction.
- To minimize wasteful competition and duplication of services through creation of state monopolies like Uganda Railways Corporation.
- To protect the consumers against consumption of dangerous products through the formation of Uganda National Beaural of Standards.
- To control risky ventures like production of fire arms which would be dangerous if left in hands of the private sector.
- To provide services which the private sector undermines for being non-prestigious like garbage collection.
- To ensure balanced development through government participation in the allocation of firms in the country.
- To boost competition between the public and private sector hence improving on the quality of goods and services.
- To increase government revenue since some state enterprises operate on commercial lines and earn profits.
- To ensure that the government implements its plans efficiently. This would be difficult if the greatest part of the economy is controlled by the private sector.
- To create employment opportunities to the general population.
- To curb down capital outflow through the government nationalizing some of the foreign owned firms.

b) The disadvantages of associated with public enterprises include;

- ❖ They are associated with high rate of corruption due to employment of some dishonest officials.
- ❖ Decision making is slow because a lot of bureaucracy is practiced in these enterprises.
- ❖ There is too much inefficiency in these enterprises due lack of profit motive and personal initiative.
- ❖ Public enterprises are very large hence they are subjected to diseconomies of scale.
- ❖ Most of these enterprises depend mainly on foreign expatriates hence leaving the local population unemployed.
- ❖ It is too costly to run these enterprises hence these costs are passed onto the public in form of high taxes.
- ❖ Some of these enterprises operate as statutory monopolies which lack competition hence they end up producing inferior products.
- ❖ Some of these enterprises are mismanaged by politicians who may have limited skills on how to run the enterprise.
- ❖ Some of these enterprises compete with the private sector which may discourage the private sector from providing certain services.

51(a) What is the meaning of the term public revenue?

(b) What are the various sources of government revenue?

Solution;

a) **Public revenue** refers to the total income of the country tax and non tax sources.

b) The various sources of government revenue include;

- ✓ Through taxes imposed on imports, exports e.t.c
- ✓ Through imposing court fines from law breakers.
- ✓ Through privatization where the government sells off its assets to private individuals.
- ✓ Through compulsory saving schemes e.g. NSSF where the government sets up a law which requires all working people to make compulsory savings.
- ✓ Through license fees charged for permission to carry out a service.
- ✓ Through gifts and donations to the government from well wishers.

COMMERCE MADE EASY.

- ✓ Through lawful gambling activities like National lotteries.
- ✓ Through internal borrowing from individuals in the country and external borrowing from World bank, IMF e.t.c
- ✓ Through trading activities where the government exports its products abroad like coffee.
- ✓ Through rates or rent paid by individuals for using government property.
- ✓ Through market dues from traders involved in trading activities in a given market.
- ✓ Through tourism where the government receives funds from people coming from various countries to visit the different unique features in the country.
- ✓ Through profits earned by the state enterprises.

52(a) Why does the government impose taxes?

(b) What are the canons/principles of taxation?

Solution;

a) **The following are the reasons why the government impose taxes;**

- ❖ To raise revenue that can be used to finance public services like road construction.
- ❖ To protect home industries against competition from imported products through levying high taxes on imported goods.
- ❖ To ensure a fair distribution of income by taxing the rich more than the poor hence checking on income inequality.
- ❖ To reduce monopoly power in the country through imposing heavy taxes on the profits made by the monopoly firms.
- ❖ To discourage dumping which affects the growth of the local industries.
- ❖ To discourage the consumption of harmful products like cocaine by imposing high taxes on them.
- ❖ To check on inflation by charging high taxes on personal incomes.
- ❖ To correct the balance of payment deficit of a country through imposing high taxes on imported goods.
- ❖ To encourage investments in the country through the government giving tax holidays to the investors.
- ❖ To encourage hard work and creativity since people will work harder to get money to pay tax.

(b) **The following are the canons of taxation;**

- **Convenience**, the timing for payment of tax should be appropriate to the tax payer for instance the farmer should pay after harvesting.
- **Flexibility/elasticity**, the tax levied from the tax payers should change according to the changes in the prevailing economic conditions in the country.
- **Certainty**, the tax payer should know when he is supposed to pay, how much and where he is supposed to pay the tax.
- **Economical**, the cost of collection and administration of the tax should be lower than the expected revenue.
- **Productivity**, the taxes levied should generate enough revenue to the government and should not affect the economic activities of the country.
- **Simplicity**, the tax should be easy to understand by the tax payer and tax collector.
- **Equity**, taxes should be assessed with fairness to enable the tax payers meet their obligations.
- **Diversity**, various taxes should be levied to enable the government raise up enough revenue.
- **Neutrality**, the tax imposed should not discriminate amongst tax payers basing on religion, tribe and any other social or political considerations.
- **Political acceptability**, the tax levied from the tax payers should not cause political unrest in the country.

53(a) What is the meaning of the following terms;

i. *Privatization*

COMMERCE MADE EASY.

ii. Nationalization

iii. Divestiture

iv. Contracting privatization

(b) What are the reasons for privatization?

(c) What are the shortcomings of privatization?

Solution;

- i) *Privatization*** refers to the transfer of ownership and control of state enterprises to private individuals.
- ii) *Nationalization*** refers to the act of the government taking over control of certain enterprises owned by the private sector.
- iii) *Divestiture*** refers to the act where the government sells part or all of its shares in the state enterprise to the private sector. In case part of its shares are sold to the private sector, it is termed as **partial privatization** where as **full privatization** is one where the government sells off all its shares held in an enterprise to the private sector.
- iv) *Contracting privatization*** is a form of privatization where the government makes contracts with the private venture to manage it for a specified period of time.

b) The reasons for privatization include;

- To encourage efficient management of the enterprise based on skill and merit.
- To reduce bureaucratic tendencies which are common in the public sector.
- To encourage capital inflow through foreign investors who usually buy these firms.
- To encourage competition between the public and private sector leading to quality production.
- To reduce corruption and embezzlement of funds which is common in state firms.
- To create employment opportunities since the private sector employs many people.
- To increase government revenue through the taxes levied from the private firms.
- To reduce government expenditure on the inefficient state enterprises.
- To boost the export sector since most private firms produce for export hence reducing on the balance of payment problem.
- To act as a basis for the government to seek for financial assistance from lending institutions like the World Bank.
- To attract foreign technology in case the enterprise is bought by foreigners.
- To control inflation since privatization will increase production of goods in the country hence a reduction in their prices.
- To encourage hard work and creativity since private firms are profit motivated.

c) The disadvantages associated with privatization include;

- ✓ It promotes income inequality where the rich become richer and the poor become poorer.
- ✓ Some private firms tend to exploit the public through overcharging them in form of high prices.
- ✓ It is difficult for the private sector to effectively control certain social services like roads, defence e.t.c
- ✓ It leads to capital outflow or profit repatriation in case the firm is owned by foreigners.
- ✓ It leads to over exploitation of resources at the expense of the public without considering the social costs.
- ✓ It brings about inappropriate technology e.g. capital intensive technology which is not appropriate in a country with many people like Uganda.
- ✓ It leads to unemployment since the private firms tend to retrench some workers basing on tribe, religion e.t.c
- ✓ It is dangerous for the private sector to control enterprises which are related to security.
- ✓ It leads to loss of economic independence in case most of the economy is in hands of the private sector.
- ✓ Private enterprises tend to avoid socially vital but unprofitable sectors of the economy e.g. garbage collection.

COMMERCE MADE EASY.

- ✓ It leads to regional imbalance since private enterprises tend to concentrate in urban centers where they can earn more profits.

54(a) What is the meaning of the term private sector?

(b) What is the role of the private sector in the development of Uganda?

(c) How can the government of Uganda promote the private sector?

(d) How can the government control the private sector?

Solutions;

a) Private sector refers to the part of the economy that is not state controlled but run by individuals and companies for profit. It consists of firms privately owned by people singly or as a group. These include sole proprietorship, partnerships, joint stock companies' e.t.c

b) The role of the private sector in the development of Uganda includes;

- ✓ It promotes the development of infrastructures like schools, hospitals, banks e.t.c which are instrumental in the development of a country.
- ✓ It increases government revenue through taxes levied from the various establishments to finance public services.
- ✓ It acts as a training ground for the local people to acquire the required skills hence development of an entrepreneurial class of people in the country.
- ✓ It promotes efficiency in production due to employment of manpower on merit hence development.
- ✓ It promotes hard work and effective utilization of resources since the sector is profit motivated.
- ✓ It promotes production of quality output due to the high level of competition in the sector hence an improvement in the people' standard of living.
- ✓ It promotes massive production which lowers the cost of production hence lowering the prices of the goods and services which lowers people' cost of living.
- ✓ It increases employment opportunities to the people hence improving on their incomes.
- ✓ It promotes exploitation of idle resources in the country to produce the needed goods and services hence development.
- ✓ It leads to the attraction of foreign capital from foreigners who invest in the country.
- ✓ It promotes the export sector since most private individuals produce for export hence solving the country' balance of payment problems.

c) The government of Uganda can promote the private sector in the following ways;

- Through development of infrastructures like roads, power generation stations, communication facilities to boost business activities.
- By ensuring political harmony to promote business activities.
- Through lobbying for markets domestically and internationally for the goods produced by the private sector.
- Through formation of business associations like Kampala city traders association where the traders can channel their grievances to the government.
- By encouraging the financial sector to provide low interest loans to the private sector to enhance their trading activities.
- Through provision of tax holidays to the private sector in order to keep their cost of production very low.
- By removing rigid regulations which affect the performance of the private sector like price controls and statutory monopolies.
- Through provision of training workshops and business tours to enable them get the basic business information.

COMMERCE MADE EASY.

- By promoting trade liberalization hence giving freedom to people to start up as many business activities as possible.
- Through protecting the domestic infant industries from external competition hence enabling them to grow.

d) The government can control the private sector in the following ways;

- Through enacting various laws to safe guard consumers against exploitation by traders e.g. Trade description Act, Food and drugs Act e.t.c
- Through price controls where the government fixes maximum prices so that the consumers are not overcharged by some private firms.
- Through trade licensing system where by only the genuine traders are given licenses to operate various businesses.
- Through putting in place the national bureau of standards to set the standards that the producers and importers are supposed to meet.
- By establishing state enterprises to compete with private firms by producing similar goods and services.
- Through nationalization of some private firms.
- Through the government encouraging the formation of consumer associations which are established with an aim of protecting their interests.
- Through use of financial control measures like credit control, import restrictions e.t.c

55(a) what is consumer protection?

(b) Why do consumers need protection?

(c) How can the consumers be protected against exploitation?

Solutions;

a) Consumer protection refers to a policy taken up by law to safeguard consumers from being exploited by the business world.

b) Consumers need protection because of the following reasons;

- To protect consumers against exploitation by traders especially the monopolists who overcharge them in form of high prices.
- To protect consumers against consumption of poor quality, expired and harmful products.
- To protect consumers against consumption of dumped goods that may harm them.
- To protect consumers against traders who use misleading and persuasive advertisements that makes inferior products look superior.
- To protect consumers who are ignorant about the market conditions against unfaithful traders.
- To safeguard consumers against traders who indicate false descriptions on their products and end up misleading them.
- To protect consumers against traders who use wrong weights and measures to make them earn more profits.
- To safeguard consumers against consumption of substandard or duplicated products which do not measure up to the expected standard.

c) The consumers can be protected against exploitation in the following ways.

- ✓ Through the inaction of the price control Act where a maximum price for an essential product is set such that it becomes illegal for traders to sell above the set price.
- ✓ Through the establishment of the Foods and drugs Act/public health Act which lays down several regulations intended to ensure that the hygiene of places where food is served is recommendable.
- ✓ Through the inaction of the Trade and Description Act which ensures that the goods sold to the consumers bear proper and right descriptions such that consumers are not misled by the false descriptions.

COMMERCE MADE EASY.

- ✓ Through the inaction of the weights and measures Act by the government which ensures that traders use appropriate weights and measures hence making consumers get rightful quantities.
- ✓ Through the establishment of the national bureau of standards which sets standards for quality of various products such that consumers get that meet their expectations.
- ✓ Through the inaction of the advertising Act which discourages traders from using persuasive advertisements which may mislead consumers to buy inferior products.
- ✓ Through imposing trade restrictions in order to discourage dumped and harmful products which may endanger the citizens from entering the country.
- ✓ Through the government establishing parastatals to reduce the monopoly power of the private sector by selling products to the consumers at reduced prices.
- ✓ Through the government withdrawing licenses from unscrupulous traders and giving them to faithful traders.
- ✓ Through the establishment of the department of veterinary services which sends out officials to examine the animals before they are slaughtered for meat.
- ✓ Through nationalization of essential services to enable the consumers access these services at reduced prices.
- ✓ Through the government ensuring construction and rehabilitation of roads that connects places of plenty to places of scarcity to avoid overcharging of the consumers in form of high prices.
- ✓ Through formation of consumers associations which are aimed at safeguarding their interests by carrying out investigations regarding quality, prices of certain products in order to avoid being exploited.
- ✓ Through formation of consumer cooperative societies which buys goods directly from the producers hence avoiding the high cost middlemen.
- ✓ Through formation of business associations like the Uganda manufacturers association to ensure that quality goods are produced.
- ✓ By producers fixing the prices on their products through a system known as Resale price maintenance so that consumers are not overcharged by the traders.

56(a) **What is sales promotion?**

(b) **Explain the various forms of sales promotion used in Uganda.**

Solution;

- a) **Sales promotion** refers to a collection of marketing activities that are aimed at persuading consumers to buy goods and services available or it refers to an intensive campaign which is aimed at boosting the sales of a particular product or service.
- b) **The various forms of sales promotion used in Uganda include;**
 - ❖ **Advertising**, this involves publishing information through various media to potential customers to make them aware of the products on the market.
 - ❖ **Discounts**, this involves selling goods to the consumers at reduced prices.
 - ❖ **Gifts**, this involves giving free gifts to the consumers to encourage them buy more goods.
 - ❖ **Credit facilities**, this involves extending credit facilities to the trustworthy customers.
 - ❖ **Personal selling**, this involves use of sales persons who delivers goods to the door steps of the customers.
 - ❖ **Samples**, this involves giving free samples and sales portfolios to prospective customers to encourage them buy more goods.
 - ❖ **Attractive packaging**, this involves wrapping products in well designed packets to attract the customers' eyes hence inducing them to buy the product later.
 - ❖ **Branding**, this involves giving an attractive name to a finished product to distinguish it from other related products of different producers.

COMMERCE MADE EASY.

- ❖ **Competitions**, this involves producers organizing competitions and giving prizes to the winners. This encourages customers to buy more products with a hope of winning hence increasing sales.
- ❖ **Provision of after sales services**, this involves giving free transport, free transport, free advice to the customers. This encourages them to buy more goods hence increasing sales.
- ❖ **Loss leaders**, this involves traders selling some goods at low prices in order to persuade consumers to enter the shop and buy even other goods.
- ❖ **Salesmanship**, this involves the general approach of the sellers towards the prospective customers. A good approach attracts customers hence increasing sales where as a rude approach scares away the customers.
- ❖ **Non-productive value methods**, traders can increase their sales through non productive methods like providing free and convenient parking space or providing sales guides to the customers.
- ❖ **Window display**, this involves proper arrangement of products inside the shops to enable the customer to easily identify the products that they need.
- ❖ **Renovation of premises**, this involves making the business premises look more attractive for instance hotels, dance halls e.t.c. This attracts many customers hence increasing sales.
- ❖ **Display of goods outside the business premises**, this involves placing the products outside the shops neatly arranged in order to attract the customers attention who pass-by and influence their choice.
- ❖ **Sponsorship of programmes**, some traders sponsor certain programs like games where most people are involved in order to attract their attention. In the course of these games, there are certain intervals at which the commodities are talked about and advertised to the public.

57(a) Define the following;

- i. **Informative advertising**
- ii. **Persuasive advertising**
- iii. **Direct advertising**
- iv. **Indirect advertising**

(b) What are the advantages of advertising to the

- i. **Producers**
- ii. **consumers**

(c) What are the disadvantages of advertising?

Solution;

- i. **Informative advertising** is a type of advertising which does not influence the consumers' choice but only educates the consumers about the products by stating facts and opinions regarding particular goods and services.
- ii. **Persuasive advertising** is a type of advertising which influences the consumers' choice by convincing him that one product is better than the other.
- iii. **Direct advertising** is a type of advertising where information published about a particular product appeals to a limited class of people e.g. advertising in the press in a given local language.
- iv. **Indirect advertising** is a type of advertising where the information published does not appeal to any particular class but to the whole audience e.g. advertising using banners.

b (i) The advantages of advertising to the producers include;

- It enables producers to increase their sales hence earning more profits which enable the firm to produce goods continuously.
- It helps the producer to keep in touch with his customers' hence widening market for his products.
- It helps to keep the producer in continuous employment as a result of a continuous demand for his products.
- It encourages more frequent use of a product through constantly reminding consumers and explaining the use of a given product hence retaining market for the producer' product.

COMMERCE MADE EASY.

- It helps to create brand loyalty and preference which helps the producer to out compete his competitors hence retaining his market.
- It helps to remind the existing customers of a given product and boosts sales in areas of declining demand hence advantageous to the producer.
- It helps to protect the good image of the producer which enables him to get more customers.
- It discourages other mushrooming firms from investing in the same business hence enabling the producer to retain his market.
- It helps producers to inform the new customers about the availability of given products hence widening the market for his products.

(ii) The advantages of advertising to the consumers include;

- ✓ It enables consumers to get quality products since producers maintain the quality of their products to retain market.
- ✓ It enables consumers to buy commodities at low prices due to massive production.
- ✓ It enables consumers to quickly get what they want and buy it quickly.
- ✓ It enables a consumer to be informed on how to use a given product, its value and where to find it.
- ✓ It enables the consumer to compare various brands of products advertised on the market hence facilitating him to make a wise choice.
- ✓ It increases the consumers' ambition to acquire a given product being advertised hence encouraging him to work harder to obtain such a product.
- ✓ It improves on the standard of living of the consumer as a result of being exposed to a variety of products advertised and of quality.

c) The disadvantages of advertising include;

- It is costly to advertise and this cost increases the final price of goods hence consumers end up buying the products expensively.
- Consumers are misled through persuasive advertisements to buy products of inferior quality.
- Intensive advertisements create monopolies which results into consumer exploitation in form of high prices and poor quality products.
- It creates competition amongst firms and the inefficient firms will be kicked out of production which causes unemployment.
- It points out only to the positive aspects of a given product and the negative ones are left out. This may further mislead the consumers.
- It makes consumers extravagant since they end up buying commodities which may not even help them.
- Persuasive advertising may make it difficult for the consumers to make genuine choice.
- Some advertisements may have negative effects on the morals of the society.

58. Define the term advertising media and explain at least six advertising media available in Uganda.

Solution;

Advertising media refers to the various channels through which advertisements are passed on to the public.

The various advertising media used in Uganda include;

- i. Through the press,** this mainly involves use of Newspapers and Magazines which are normally published daily, weekly or monthly and are circulated into the market.
- ii. Through radio,** this involves broadcasting advertisements from a radio station which may either be a public or private radio station.

COMMERCE MADE EASY.

- iii. **Through television**, this involves advertisements brought to the attention of the audience on a screen which creates a visual and audio impression to the public.
- iv. **Through window display**, this involves an artistic display of products in glass windows or shelves to attract the customers' attention which may later encourage him to buy.
- v. **Through trade fairs**, this involves various manufacturers gathering in one place and displaying their products to the prospective customers hence attracting them to buy the products. Trade fairs are organized at Lugogo show ground by the Uganda Manufacturers Association.
- vi. **Through direct mail**, this involves suppliers sending catalogues to convey the advertising message to the customers which will enable the prospective buyers make a selection from the variety of goods offered by the supplier.
- vii. **Through outdoor advertising medium**, this involves conveying the advertising message to the audience using posters, neon lights, bill boards, sign posts and banners. The advertising message is written and displayed in a strategic place where it can be read by the public.

59. What are the advantages and disadvantages using;

- i. Radios
- ii. Televisions
- iii. Press

Solution;

i. The following are some of the advantages of using a radio to advertise;

- ✓ Advertisements are normally repeated which enables many people to get the information.
- ✓ It is cheaper to advertise using a radio compared to a television
- ✓ It covers a wide geographical area since many people can afford radios
- ✓ It is a fast medium since messages can reach the intended audience in a shorter period of time.
- ✓ It is a good audio aid with music played in the background which may induce consumers to buy certain products.
- ✓ It caters for the blind since it involves listening.

The disadvantages of using a radio to advertise include;

- Messages can only be sent to people with radios
- It is not an effective medium for advertising technical goods due to lack of provision for pictures and demonstrations.
- There is limited usage of different languages over the radio during advertisement hence limiting the audience.
- Some information advertised over the radio tends to be exaggerated hence misleading the public to consume inferior products.
- It is not an effective medium to the youth since they are not interested in commercial programmes.
- The costs involved in advertising may be high due to repetitions.

(ii) The advantages of using a Television to advertise include;

- It is an effective medium for technical goods which requires demonstrations like machinery.
- It provides first hand information since messages can be received visually.
- The provision for colour makes the message appear more attractive.
- It is a fast medium since the time taken to send the message to the intended audience is short.
- The messages can be presented both audially and visually which makes them clear to the intended audience.

COMMERCE MADE EASY.

The disadvantages of using a Television include;

- It is expensive to advertise using a television.
- It takes long to prepare the films hence the message may take long to reach the intended audience.
- It appeals to a limited audience since few people can afford television sets.
- It has a limited geographical coverage since television waves are limited to a particular geographical area.
- It does not provide room for reference hence not effective where a record for reference is required.
- It is some times ineffective since the information given is inadequate and sketchy.

(iii) The advantages of advertising through the press include;

- It is effective since it allows inclusion of necessary details, pictures and illustrations for a given product.
- Newspapers permit a high degree of geographical coverage since most of them are written in local languages.
- It provides a high degree of circulation since a single Newspaper or Magazine can be read by many people.
- It provides room for reference since the advertisements in the press can be stored for future use.
- The press offers a wide coverage of the product being advertised since it reaches most parts of the country.

The disadvantages of advertising through the press include;

- ❖ It is only effective for literate markets hence the majority population in developing countries is neglected.
- ❖ Advertisements in the press appeal mainly to urban population since the degree of circulation is high compared to the rural areas.
- ❖ Few people can afford to buy Newspapers and Magazines especially in poor societies hence appealing to a limited population.
- ❖ Advertisements in the press do not cater for the blind population since they cannot see what has been written.
- ❖ Many people in developing countries view reading Newspaper advertisements as wastage of time.
- ❖ Newspapers and Magazines are found in limited languages hence a certain fraction of the population in the country may be neglected.
- ❖ Some advertisements in the press tend to be more persuasive than informative hence misleading the public to consume substandard products.

60(a) What are the advantages of Trade fairs to;

- i. **Producers**
- ii. **Business men**

(b) What are the disadvantages of Trade fairs?

(c) Distinguish between a Trade fair and an Exhibition.

Solutions;

i. The advantages of a Trade a trade fair to the producers include;

- ✓ It exposes the producers' products to many people hence widening his market and increasing his sales.
- ✓ It makes it possible for the producers' to answer the consumers' complaints regarding the prices and quality of the products hence promoting sales.
- ✓ It enables producers to carry out market research and estimate their market share hence supplying appropriate quantities in the market.
- ✓ It enables the producers to improve on the quality of their products due to the exchange of ideas amongst themselves.

COMMERCE MADE EASY.

- ✓ It enables producers to establish close contacts with the prospective customers hence persuading them to buy which promotes their sales.

ii. The advantages of a Trade fair to the Businessmen include;

- It enables businessmen to see the goods physically and also get information on how they are produced.
- It enables them to be exposed to a variety of goods displayed by the various manufacturers hence enabling them to make a wise choice.
- It enables businessmen to pass over their complaints to the producers which may facilitate quality improvement.
- It enables businessmen to buy goods cheaply at factory price hence enabling them make profits.
- It enables traders to increase their sales due to the increased number of people both local and foreigners who attend the trade fair.

(b) The disadvantages of Trade fairs include;

- ✓ They are costly to organize since it involves construction of ground structures and transportation of goods to the show ground.
- ✓ They are restricted to major town centers hence rural areas in the country are neglected.
- ✓ They tend to be seasonal hence cannot generate incomes to traders throughout the year since they are normally organized once or twice a year.
- ✓ They are not free of charge since the people are charged a certain fee at the entrance.
- ✓ The blind are not catered for since they cannot see the products displayed.
- ✓ They may be wasteful if few customers attend the trade fair since sales may not be increased.

(c) The differences between a Trade fair and an Exhibition include;

- Trade fairs are held once or twice a year by numerous producers where as exhibitions are held more frequently by few traders.
- Trade fairs covers a variety of goods and services where as exhibitions covers a few selected goods and services.
- Trade fairs are organized on a national and international basis where as an exhibition may not be international in nature.

61(a) What are the advantages of Trade fairs to the consumers?

(b) Explain the factors that are considered when choosing a medium for advertising.

Solutions;

(a) The advantages of Trade fairs to the consumers include;

- ❖ The consumers are able to see and touch the products displayed and also ask questions and get immediate answers regarding the products.
- ❖ The consumers are some times given free samples which encourages them to buy more goods.
- ❖ Some products are sold to the consumers at a factory price hence consumers end up buying the products cheaply.
- ❖ The consumers are able to compare various brands displayed by different producers hence enabling them to make the best choice.
- ❖ The consumers are given free education and technical advice regarding the use of certain products which is advantageous to them.

(b) The factors that are considered when choosing a medium for advertising include;

COMMERCE MADE EASY.

- **The social class to which the medium appeals,** Newspapers and posters mainly appeal to the ordinary people while Televisions appeal to the better off people.
- **The cost of the medium,** expensive products are economically advertised using a costly medium like Televisions while cheap products can be advertised using a cheap medium like wall posters.
- **The age group to which the medium appeals,** Televisions and Magazines mainly appeal to the teenagers while Newspapers and Radios appeal to the mature class.
- **The nature of the product being advertised,** Goods that require demonstrations should effectively be advertised using a Television while the products which do not require demonstrations can be advertised using any other medium.
- **The economic class to which the medium appeals,** Goods which are not of interest to the ordinary people like machinery should be advertised through specialized journals like medical journals for medical appliances.
- **Speed and urgency;** Goods which are urgently needed in the market should be advertised using a fast medium like Newspapers and Radios while those goods which are not urgently required in the market should be advertised using any other medium.
- **The number of people reached by the medium,** if the trader wants to appeal to a large audience, it is better to use radios and newspapers but not televisions since few people can afford them.
- **The availability and reliability of the medium,** the medium chosen should at all times be reliable and available to transfer information at the right time and right place.
- **The geographical area covered by the medium,** Newspapers, Radios and Magazines appeal to the whole country while posters appeals mainly to the local people.

62(a) What is transport?

(b)What is the role of transport in the development of trade in Uganda?

Solutions;

(a) Transport refers to the transfer of goods and services from one place to another. It can also be defined as an activity which makes goods and services available to the consumers in the right place at the same time.

(b) The role of transport in the development of trade in Uganda include;

- It eases the movement of raw materials to the production centers and finished products to the markets hence promoting trade.
- It bridges the gap between the producers and consumers hence facilitating direct contact between both parties.
- It encourages specialization and exchange of products among different regions in the country hence promoting trade.
- It promotes international trade since it facilitates easy movement of goods from one country to another hence widening market for the country' products.
- It increases value of the products through enabling easy movement of these products to areas of high demand.
- It facilitates easy exploitation of new and distant resources like forests, minerals e.t.c
- It helps to stabilize the prices of goods through easy movement of goods from areas where they are produced in plenty and cheap to areas where they are scarce and expensive.
- It facilitates easy movement of factors of production like labour from one place to another hence promoting trade in the country.
- It helps to open up new areas to development since transport provides a way through which resources move from one place to another.
- It encourages commercial farming since it facilitates easy movement of goods to the marketing centers.
- It facilitates communication by making it easy for letters to be moved from one place to another.

63(a) Mention and explain what is involved in the phrase “elements of transport”.

COMMERCE MADE EASY.

(b) What are the advantages and disadvantages of road transport?

Solutions;

(a) *Elements of transport* are the things that are essential if transport is to exist. These include;

- *The way*, it refers to something on which goods move e.g. land, water or air.
- *Unit of carriage*, it refers to the instrument in which goods are loaded e.g. vehicles, trains, aircrafts e.t.c
- *Method of propulsion*, it is a force which is used to drive a unit of carriage e.g. petrol engine, human power e.t.c
- *Terminals*, this refers to the points where the goods are loaded and offloaded. E.g. air port, bus park e.t.c

(b) The advantages of road transport include;

- ✓ It is flexible since goods can be delivered from door to door yet still switching from one route to another is possible.
- ✓ It requires less establishment costs compared to railway or air transport.
- ✓ It is cheaper and faster than railway transport over short distances.
- ✓ It co-ordinates other modes of transport since it is a feeder to and from major terminals.
- ✓ It is not restricted to a regular time table hence less delays are experienced.
- ✓ It is effective in advertising goods since advertisements can be placed on taxis or buses for the public.
- ✓ Insurance charges are low since it involves minimum handling and damage to the goods.
- ✓ It is suitable and economical for small consignments unlike railway transport which requires large cargo to make profits.
- ✓ It is economical in terms of employment of labour for instance one driver can supervise the goods unlike railway transport which requires many conductors.
- ✓ Selling and collection of goods along routes is possible with road transport which is not the case with other modes of transport.

The disadvantages of road transport include;

- It is expensive over long distances compared to railway transport.
- It may not be possible to arrange a return cargo since road transport does not follow a time table.
- It is seriously affected by extreme weather conditions e.g. movement of goods may not be easy during rainy seasons.
- High way robberies are common in this mode of transport especially in isolated areas.
- Road accidents are very common which causes serious losses to the traders.
- Traffic congestion may cause delays in the delivery of goods.
- It is not cost effective for bulky cargo due to the limited carrying capacity.
- Heavy Lorries and trailers are slow especially over long distances hence not effective for urgent deliveries.

64(a) Why is railway transport preferred by some businessmen?

(b) What are the disadvantages of railway transport?

Solution;

(a) **Railway transport is preferred by some businessmen because of the following reasons;**

- It is suitable and convenient for carrying bulky cargo over long distances.
- It is less affected by weather extremes as compared to other modes of transport.
- It is possible to arrange a return cargo since trains follow a regular time table.

COMMERCE MADE EASY.

- It is the most convenient mode of transport for carrying containers.
- It is a cheaper mode for transportation of cargo over long distances.
- It is not affected by traffic congestion as compared to road transport.
- It tends to be cheaper to the businessmen since it is not profit motivated.
- It does not require preparation of many legal formalities compared to air transport.
- Special wagons can be constructed to carry specific goods and people.

(b) The disadvantages of railway transport include;

- ✓ It only serves towns that have railway stations hence those towns which are far away from the railway lines may not benefit.
- ✓ It is a slow mode of transport compared to road transport hence not convenient for transportation of perishable products.
- ✓ It is an expensive mode of transport over short distances.
- ✓ It requires large capital to establish this mode of transport as compared to road transport.
- ✓ There is a possibility of damage to the goods and increased chances of pilferage due to increased handling involved.
- ✓ It is not a flexible mode of transport hence switching on from one route to another is not possible.
- ✓ Trains tend to delay at particular stop-overs due to the time table schedules hence causing further delays in the delivery of goods.
- ✓ It tends to be inefficient in the delivery of services due to lack of profit motive.

65(a) What is the meaning of each of the following?

- i. *Ocean liners*
- ii. *Tramp steamers*
- iii. *Roll on-Roll off*
- iv. *Oil tankers*
- v. *Shipping conferences*

(b) What are the advantages and disadvantages of water transport?

Solution;

- i. **Ocean liners** refer to ships which follow regular time tables and routes. These are classified into *cargo liners* and *passenger liners*. The former are specifically designed for carrying cargo while the latter are specifically designed for carrying passengers.
- ii. **Tramp steamers** are ships which do not follow regular time tables and routes but they serve wherever they find business. Whoever wishes to hire a ship for business signs an agreement between him and the ship owner which specifies the place of destination, cargo carried, freight charges, loading and off loading time e.t.c. This agreement is termed as a *charter party*.
- iii. **Roll on-Roll off** refer to large ferries used to carry vehicles and passengers. The vehicles carried are driven on the ferry and again driven off when the final destination is reached.
- iv. **Oil tankers** are ships owned by large companies and they are designed for bulk transportation of petroleum products.
- v. **Shipping conferences** are organizations which allocate the ships the routes to operate on, freight charges and the timetable to follow.

(b) The advantages of water transport include;

- It is a cheap mode for transporting bulky goods e.g. timber.
- There is limited traffic congestion since the way is wide.
- Large ships can be constructed to increase the carrying capacity hence reducing the transportation costs.
- Special vessels can be constructed to carry particular cargo e.g. perishables.

COMMERCE MADE EASY.

- It is suitable for transportation of fragile items like glass since the way is fairly flat compared to road transport.
- It is the best mode for international trade since it facilitates handling of large cargo via containerization.
- The sea maintenance charges are relatively low compared to road transport.
- It is possible to arrange a return cargo since the ocean liners follow a regular time table.
- There are no expenses incurred in constructing the routes since it is provided by nature.
- It facilitates containerization which reduces cases of theft and damage to the goods.

The disadvantages of water transport include;

- It is a slow mode of transport hence not suitable for carrying perishable and urgently needed goods.
- Fierce storms and water disturbances may lead to loss of cargo, people and the vessel.
- Some water bodies tend to freeze during winter seasons hence making navigation on these water bodies impossible.
- It is only limited to those areas with access to water bodies.
- Port congestion some times lead to delays in the delivery of goods to their final destinations.
- Some water bodies are shallow hence not suitable for heavy ships.
- Some water bodies are affected by the water hyacinth/vegetation covering which disrupts movement of the vessels.
- It is not a flexible mode of transport hence door to door delivery services are not possible.

66(a) Mention some of the products that can be moved by pipeline transport.

(b) What are the advantages and disadvantages of pipeline transport?

Solutions;

(a) Some of the products that can be moved by pipeline transport include;- *petrol, diesel, kerosene, oil, gas, water, sewerage disposals e.t.c*

(b) The advantages of pipeline transport include;

- ✓ It is a safe and convenient mode for the transportation of risky products like petroleum.
- ✓ It reduces on the number of accidents on road since products are moved through underground pipes hence leaving the roads with a minimum number of oil tankers.
- ✓ It is not affected by extreme weather conditions since pipes pass underground.
- ✓ Large volumes of products can be moved within a short period of time by increasing the surface area of pipes.
- ✓ Pipelines are flexible since extensions can be made to serve various areas.
- ✓ The running costs of pipes are relatively low since it does not call for washing, fueling e.t.c
- ✓ It is a reliable mode since products always reach their final destinations in case there are no breakages to the pipes.

The disadvantages of pipeline transport include;

- The initial costs are relatively high especially where long distances are involved.
- In case of any leakage, heavy losses will be made.
- Limited products can be moved through this mode of transport e.g. liquids and gasses.
- Repairs tend to be costly and difficult to locate.
- Soil erosion may expose the underground pipes hence subjecting them to atmospheric conditions.
- Natural disturbances like earthquakes may break the pipes.
- Some times the pipes rust hence end up contaminating the products.

67(a) What is the meaning of the following terms?

- i. Stevedores*
- ii. Dry port*
- iii. Demurrage*
- iv. Consignor*
- v. Consignee*

COMMERCE MADE EASY.

vi. Consignment

(b) Explain the factors that are considered when choosing a mode of transport.

Solution;

- i. **Stevedores** refer to people employed at the dock to load and unload cargo from ships.
- ii. **Dry port** refers to a container terminal where exporters who are located up country towns away from the main town can take their cargo to be parked and sealed in the container.
- iii. **Demurrage** refers to the fee paid by the hirer of the vessel for unreasonable delay at the port loading or offloading his cargo.
- iv. **Consignor** refers to the party sending the goods to another.
- v. **Consignee** refers to the person to whom the goods are being sent.
- vi. **Consignment** refers to the cargo being sent.

(b) The factors that are considered when choosing a mode of transport include;

- **Flexibility of the means**, in cases where sales are to be made enroute and where switching off from one point to another is to be done, road transport is preferred.
- **Speed and urgency**, if goods are urgently needed in a particular area, a fast mode of transport should be used e.g. road transport instead of railway.
- **Nature of the goods**, perishable and fragile goods which require special care and handling requires a more comfortable mode of transport like air or water transport.
- **Cost of transport or freight charges**, the mode of transport chosen should be reasonably cheap compared to the value of goods to enable the traders maximize profits.
- **The distance to be covered**, for shorter distances, road transport is the best because it is cheap and convenient relative to railway transport.
- **Value of the goods**, valuable goods like gold, diamond e.t.c. requires a fast and comfortable mode of transport like air transport.
- **Weight/volume of the goods**, heavy goods may economically be sent through slower modes of transport for instance railway and water transport are the best for bulk cargo.
- **Availability of the means**, the mode of transport to be chosen should be reliable and readily available for instance road transport is commonly used in Uganda because it is readily available.
- **Accessibility to terminals**, if any mode of transport is to be chosen, their must be appropriate terminals considered for loading and unloading the goods.
- **Risks involved**, in case the time involved in transit is shorter and handling is minimal like in air and road transport, less risks of loss will be expected hence less insurance premiums will be paid.

68(a) What is containerization?

(b) What are the advantages and disadvantages of containerization?

Solution;

(a) Containerization is a system where goods are packed in special standardized boxes which may either be metallic or wooden for easy transfer from one mode of transport to another.

(b) The advantages of containerization include;

- ✓ It reduces the time spent on loading and unloading goods since it involves use of automatic cranes.
- ✓ Containerization facilitates easy transfer of goods from one mode of transport to another.
- ✓ It reduces risks of theft and damage made on the goods since goods are well sealed in the containers.
- ✓ It is possible to construct special containers to carry special goods like drugs.
- ✓ It reduces on the insurance premiums to be paid since goods are exposed to less risks of loss.
- ✓ The durable containers can be put to some other purposes after goods have been removed.
- ✓ Goods in containers are not affected by atmospheric conditions since they are sealed intact in the container.
- ✓ It minimizes the need to construct large ware houses for keeping goods since goods can be kept in the container.

COMMERCE MADE EASY.

The disadvantages of containerization include;

- The containers are very costly hence making the cost of goods expensive.
- Loading and unloading of goods may be difficult without using the automatic cranes.
- Containers are not suitable for carrying living things.
- The system of containerization may create unemployment in the long run as machines replace manual power.
- Containers are not suitable for carrying irregular products.
- It is uneconomical to use containers when transporting small quantities of goods.
- The special machines used for loading and unloading may not be used for some other purposes.

69(a) What is barter trade?

(b) What are the advantages and disadvantages of barter trade?

Solutions;

(a) **Barter trade** refers to the exchange of goods for goods and goods for services. It operates on the principle of *double coincidence of wants* where each party involved in the transaction has exactly what the other one wants.

(b) The advantages of barter trade include;

- It does not involve a lot of documents hence businessmen wastes limited time.
- It solves the problem of unfavorable terms of trade since only commodities are involved in the exchange.
- It promotes social understanding amongst the parties that are involved in the transaction.
- It helps a country to get rid of surplus products by exchanging them with other countries and getting what a country does not produce.
- It helps to fight inflation since it reduces the circulation of money in the business.
- It eliminates the problem of price fluctuations since bargaining is in terms of physical quantities.
- It reduces the problem of foreign exchange differences since it does not involve payment for goods and services.
- It solves the problem of balance of payment deficit since it does not involve receipts for exports and payments for imports.
- It encourages exploitation of idle resources since a big market is created.

The disadvantages/problems associated with Barter trade include;

- *Lacks of double coincidence of wants, people's wants are* not related hence it is difficult to find two parties where each party has a product which exactly the other one wants.
- *Indivisibility of certain items*, some items are large and indivisible hence making it difficult to settle small debts.
- *Valuation problem*, it is difficult to determine the relative value of a commodity in terms of another.
- *Problem of bulkiness*, some commodities are very heavy hence making it difficult to transport them from one place to another.
- *Lack of standard measure for deferred payments*, it discourages traders to carry out transactions where the payments are to be effected at a future date since one cannot determine whether the same value will be returned or not.
- *Problem of perishability*, it is difficult to store the value of certain commodities like perishables yet exchange sometimes takes long.

70(a) What are the functions of money?

(b) What are the qualities of good money?

Solution;

a) The functions of money include;

- It acts as a *medium of exchange* hence facilitating easy exchange of goods and services.
- It acts as a *unit of account* since business transactions are recorded in monetary terms.

COMMERCE MADE EASY.

- It acts as a *store of value* since it can be kept for a long period of time than real commodities.
- It acts as a *measure of value* since it reflects the relative values/quality of goods to be exchanged in the market.
- It acts as a *store of wealth* since it can be invested in assets which may not easily lose value.
- It acts as a *standard measure for deferred payments* since money can be used to settle payments postponed in the future.

b) The qualities of good money include;

- **Acceptability**, it should generally be accepted by the society as a medium of exchange in settling payments of any kind
- **Portability**, it shouldn't be bulky hence easy to carry from one place to another.
- **Divisibility**, it should be divisible into a range of denominations in order to effect even the smallest transactions.
- **Durability**, it should last for a long period of time without losing value.
- **Scarcity**, it should relatively be scarce in order to maintain its value.
- **Homogeneity**, all units of the same denomination should be identical.
- **Difficult to forge**, it should not easily be imitated by the public.
- **Recognisability**, it should easily be identified hence the public should be able to distinguish genuine money from counterfeit.
- **Stability**, it should maintain its value for a long period of time such that people do not lose confidence in it.
- It should be *cheap and convenient to mint by the printing authority* but difficult for private individuals to forge it.

71(a) What is a Bank?

(b) What services do commercial banks render to the community?

Solutions;

a) A **bank** is a financial establishment that accepts deposits from the public for custody lend money to the customers at interest and effect payments of money to its true owners.

b) The services rendered by commercial banks to the community include;

- They accept and safeguard deposits from the people, businesses and other institutions on various accounts.
- They help to collect money on behalf of their customers through the credit transfer system and standing order system.
- They discount bills of exchange and promissory notes before their maturity date.
- They advance loans and bank overdrafts to people who are in need of financial assistance.
- They assist traders in international trade by helping them to obtain foreign exchange, issuing letters of credit e.t.c
- They provide custody for valuable documents like land titles, business contracts and other important documents.
- They act as referees for their clients who may wish to apply for credit from new suppliers by giving details of their customers' financial position.
- They provide night safe banking facilities which help their clients to carry out banking activities after the closing time of the bank through providing automated teller machines.
- They provide an excellent means of effecting payments through issuing cheques.
- They help in supplying bank notes and coins issued by the central bank to the community.
- They provide advice to their customers regarding financial and investment matters hence promoting trade.

72(a) What is the meaning of the following terms as used in banking?

i. *Bank overdraft*

ii. *Bank draft*

COMMERCE MADE EASY.

- iii. Credit transfer*
- iv. Standing order*
- v. Travelers cheque*
- vi. Bank loan*
- vii. Credit card*

- b) What are the differences between a bank loan and a bank overdraft?
- c) What are the advantages of a bank draft?

Solutions;

- i. **Bank overdraft** refers to the money lent out to the bank customer which is in excess of the available balance on his/her current account.
 - ii. **Bank draft** refers to a cheque drawn by the bank itself and it is drawn after a person requesting for it has deposited money in the bank.
 - iii. **Credit transfer** is a service which enables a person to settle many debts using one cheque leaf at a time. It is mainly used by employers when effecting payments to their employees through the bank.
 - iv. **Standing order** refers to an instruction by the account holder to his bank to pay a specified amount of money to a named person or organization at regular intervals for a specified period of time.
 - v. **Travelers' cheque** refers to a cheque issued by the bank in fixed denominations (either in local or foreign currency) for use mainly by traders who travel long distances as they pay in various currencies abroad.
 - vi. **Bank loan** refers to a large sum of money lent out by the bank to its customers for a fixed period at a fixed rate of interest and usually backed up by a collateral security.
 - vii. **A credit card** is a card given by the bank to a person which gives him the authority to buy goods and services which he requires from specific shops chosen by the issuing bank up to an agreed amount without paying cash. The supplier presents the bill to the bank which issued the credit card and he is paid the amount due.
- b) **The differences between a bank loan and a bank overdraft include;**
- ✓ A bank loan is a long term liability where as a bank overdraft is a short term liability.
 - ✓ Interest on the bank loan is charged on the whole amount of money advanced where as for a bank over draft, interest is only charged on the amount overdrawn.
 - ✓ Security for a bank loan is any tangible asset pledged for credit where as for a bank over draft, the security is that the applicant must have a current account.
 - ✓ A bank loan can be given to anybody regardless of whether he is a bank customer or not as long as he can present a collateral security but for a bank overdraft, it can only be given to bank customers holding current accounts.
- c) **The advantages of a bank draft include;**
- It is easily accepted in international trade since it is offered by a bank which guarantees payment against it.
 - It is difficult for this cheque to be dishonored since the bank guarantees payment against it.
 - It is difficult to forge it since it is drawn by the bank itself.
 - It minimizes the risks of handling large sums of money in form of cash.

73(a) **Mention the procedures for opening an account.**

(b) **What are the features of a current account?**

(c) **What factors do bank managers consider before giving out loans?**

Solution

a) **The procedures for opening up an account are;**

- The individual introduces him/her self to the bank.
- A hand written application by the applicant is presented to the bank showing his name, address, occupation and stating the type of account he/she intends to operate.

COMMERCE MADE EASY.

- The applicant presents a reference letter from his/her employer if employed or a letter from the local council in case one is unemployed or a letter from the head teacher in case the applicant is a student.
- Presenting at least two referees who are already customers of the same bank offering the account to guarantee the applicant by signing on his/her application form.
- Presenting at least three pass port photos to the bank.
- Preparing a signature card where a specimen signature of the applicant is signed which is to appear on all transactions carried out with the bank.
- Issuing of an account to the applicant and a cheque book issued in case of a current account.
- The account holder starts transacting with his account.

b) The features of a current account include;

- ✓ A minimum initial deposit is required when opening the account.
- ✓ No minimum balance is required to be maintained on the account.
- ✓ Deposits can be made of any amount any time and in any form for instance cheques, cash, drafts e.t.c
- ✓ The account holder can withdraw any amount of money at any time on demand.
- ✓ Cheque book facilities are provided to the account holder.
- ✓ The account holder can be given a monthly bank statement in case he/she requests for it.
- ✓ No interest is paid on the deposits since money is payable on demand.
- ✓ The account holder can apply for bank overdraft facilities but interest is paid on the amount overdrawn.
- ✓ Money is deposited by use of a pay in slip/bank slip and withdrawn by use of a cheque.
- ✓ The bank charges a fee for maintaining the account.

c) The factors that Bank managers consider before advancing loans include;

- The personal integrity and creditworthiness of the borrower.
- The purpose for which the loan is required.
- The viability or profitability of the business.
- The value and marketability of the collateral security.
- The prevailing government policy on credit control.
- The amount of loan required by the customer.
- The risks involved in the proposed business.
- The length of the credit period.
- The level of interest expected on the loan.
- The general level of business activity in the country.
- The age of the borrower.

74. Define the meaning of the following terms;

- i. *A cheque*
- ii. *Drawer*
- iii. *Drawee*
- iv. *Payee*
- v. *Endorser*
- vi. *Endorsee*
- vii. *Counterfoil*
- viii. *Cheque leaf*
- ix. *Endorsing a cheque*
- x. *Dishonored cheque*

Solution;

COMMERCE MADE EASY.

- i. **A cheque** refers to a written order from the account holder instructing his bank to pay a specific amount of money to a named person or bearer on demand.
- ii. **Drawer** refers to the person who writes and signs a cheque instructing his bank to pay a certain amount of money indicated on the face of the cheque to a third party.
- iii. **Drawee** refers to the bank to which the cheque is addressed to effect payment.
- iv. **Payee** refers to the person to whom money is to be paid.
- v. **Endorser** refers to the person (payee) to whom the cheque has been written out but countersigns it at the back to transfer it to another person.
- vi. **Endorsee** refers to the person who finally receives the payment against the cheque that has been endorsed.
- vii. **Counterfoil (cheque stub)** refers to part of the cheque that is left in the cheque book for reference purposes.
- viii. **Cheque leaf** refers to that part of the cheque that is sent to the bank for payment
- ix. **Endorsing a cheque** refers to the act of the original payee signing at the back of the cheque transferring his right to receive money against the cheque to another person.
- x. **Dishonored cheque** refers to a cheque which the bank has refused to pay due to some reasons.

75(a) What is the meaning of the following terms;

- i. **Open cheques**
- ii. **Crossed cheques**

(b) What are the advantages and disadvantages of using a cheque as a means of payment?

Solution;

- i. **Open cheques** are cheques which are payable across the counter to anybody holding the cheque or to a named person or to his order. An open cheque can either be a bearer's cheque or an order cheque.
 - **A bearer's cheque** is one where no payee is named. It can be addressed as 'pay cash' or 'pay bearer'. It can be presented for payment across the counter by anybody. It is very risky since whoever presents it to the bank can succeed in getting money. This cheque does not require endorsement.
 - **An order cheque** is one which is payable to a named person or his order. This cheque can be endorsed.
- ii. **Crossed cheques** are cheques which bears two parallel lines drawn across their face with or without additional words between them. A crossed cheque cannot be cashed at the counter but must be deposited into the bank account of the payee. Crossings are either General or Special crossings.
 - **General crossings** are cheques which bear two parallel lines drawn across their face and the lines may take any of the following forms;
 - o Two parallel lines without words
 - o Two parallel lines with words '&co''
 - o Two parallel lines with words 'Not negotiable''
 - o Two parallel lines with words 'A/c payee only''
 - **Special crossings** refer to cheques which bear two parallel lines with the name of the bank and branch indicated between them. It implies that such a cheque can only be presented for payment through the bank branch named between the parallel lines. Sometimes the maximum amount payable is indicated between the crossings as an additional precaution against falsification of figures in the cheque.

b) The advantages of using a cheque as a means of payment include;

- It is less tiresome to write a cheque than counting large sums of money.
- It ensures accuracy of payment since mistakes made in counting large sums of money are avoided.
- It is a safe method of payment since it cannot readily be stolen and used by a thief more so when it is specially crossed.
- It acts as a record of payment since the details of payment are recorded in the counterfoil for future reference.
- It acts as a proof of payment because when payment has been effected by the bank, it is cancelled to evidence that payment has been done.

COMMERCE MADE EASY.

- It is easier to carry a cheque than carrying large sums of bank notes and coins.
- It can be used to pay many employees at once by using one cheque through credit transfer system.
- A crossed cheque can be sent safely through the post office compared to cash hence debts can be cleared by posting a crossed cheque to a creditor.
- It can conveniently be used to effect deferred payments by issuing a post dated cheque to a creditor.
- It is easier to store a cheque than cash since cheques take a small space.
- Payments can be stopped where fraud is discovered by the drawer instructing his bank not to pay.

The disadvantages of using a cheque as a means of payment include;

- ✓ A cheque is not a legal tender hence a creditor may easily reject it as a means of payment.
- ✓ Most people are illiterate and ignorant concerning the use of cheques.
- ✓ Many people prefer operating savings accounts which does not involve use of cheques.
- ✓ Some people have lost confidence in banks and prefer keeping their money at home hence limiting the use of cheques.
- ✓ Banks are mainly located in urban centers hence limiting the use of cheques only to these areas.
- ✓ Most people carry out small transactions which do not effectively require using cheques.
- ✓ Cheques are sometimes dishonored by the bank hence some people are reluctant to accept it as a means of payment.
- ✓ Cheques sometimes take long to mature hence some people may not prefer using them as a means of payment.

76(a) Distinguish between a stale cheque and a post dated cheque.

(b) Under what circumstances may a cheque be dishonored by the bank?

Solution;

(a) A stale cheque is one which has stayed for six months and above without being presented for payment where as a **post dated cheque** is a cheque which is presented to the bank for payment before its maturity date.

(b) The bank may dishonor a cheque under the following circumstances;

- ✓ When there are insufficient funds on the drawer's, the cheque will be marked 'R/D' or 'I/F'. I.e. refer to drawer or insufficient funds.
- ✓ When the drawer instructs his bank not to honor a given cheque.
- ✓ When the amount of money in words differs from the amount of money in figures.
- ✓ When the cheque is stale i.e. presented six months after the date on the cheque.
- ✓ When the cheque is post-dated i.e. presented before its maturity date.
- ✓ When the drawers signature is different from the specimen signature provided at the time of the account opening.
- ✓ When the drawers account has been closed.
- ✓ When one of the signatories fails to sign in case of a joint account.
- ✓ When the cheque has no date
- ✓ If the cheque is defaced or damaged.
- ✓ When the drawer is dead or declared bankrupt and the bank is aware of it.
- ✓ When the bank suspects any forgery in the cheque.

77 (a) What are the advantages of crossing a cheque?

(b) What precautions should a drawer undertake to ensure safety of the cheque?

Solution;

(a) The advantages of crossing a cheque includes;

- It is safe since payment cannot be effected to any person who has no account with the named bank.
- Depositing the cheque into the account of the payee enables the bank to trace the payee in case need arises.

COMMERCE MADE EASY.

- It helps to reduce falsification of figures on the cheque since some times the maximum amount is indicated between the parallel lines.

(b) The precautions the drawer should undertake to ensure safety of the cheque include;

- He should cross it such that it is not cashed across the counter.
- He should not leave unnecessary gaps between words and figures when filling it.
- He should avoid signing blank cheques.
- He should not expose his signature since it may be forged.
- He should keep the cheque under key and lock.
- He should report loss of the cheque to the police or bank.

78 (a) What are the functions of Bank of Uganda?

(b) Mention and explain the tools used by the central bank to control money supply.

Solutions;

(a) The functions of Bank of Uganda include;

- **Issuing currency**, it is the one responsible for issuing currency in the country.
- **Lender of last resort**, when commercial banks run short of money, the bank of Uganda advance them with short term loans to meet the demands of their customers.
- **Government bank**, it acts as a government bank since the government keeps its accounts in this bank.
- **Bankers bank**, it acts as a bank to all commercial banks since all commercial banks keep an account with the bank of Uganda.
- **Government's financial agent**, it deals with other external financial institutions on behalf of the government e.g. World bank
- **Advisor to the government**, it advises the government on important economic issues like inflation, taxation e.t.c
- **Controller of money in circulation**, it regulates the amount of money in circulation through its monetary tools like bank rate, open market operations e.t.c
- **Controller of all financial institutions**, it supervises and licenses all financial institutions in the country.
- **Controller of exchange rates**, it controls the exchange rates in the country.
- **Agent of payment to the government**, it effects payments on behalf of the government ministries.
- **Bank to international agencies**, it acts as a bank to international agencies like World Food Programme, World Health Organization e.t.c

(b) The following are some of the tools used by the central bank to control the amount of money in circulation.

- ✓ **Bank rate**, this is the rate of interest at which the central bank advances loans to commercial banks. Raising the bank rate forces the commercial banks to increase the interest rate charged from the public, this discourages borrowers hence reducing the amount of money in circulation.
- ✓ **Open market operations**, the government deals in buying and selling securities e.g. Treasury bills and bonds. Selling securities to the public reduces money in circulation while buying of securities from the public increases money in circulation.
- ✓ **Selective credit control**, the commercial banks are requested to advance loans to only priority sectors of the economy and restrict lending to other sectors. This reduces the amount of money in circulation.
- ✓ **Cash ratio**, it is the fraction of the total bank deposits that must be retained in cash form to meet the daily needs of the customers. Increasing the cash ratio reduces the loanable funds available with commercial banks hence reducing the amount of money in circulation while reducing the cash ratio enables the commercial banks to have more funds for lending hence increasing the amount of money in circulation.
- ✓ **Moral suasion**, the central bank persuades the commercial banks to regulate on their lending capacity.
- ✓ **Legal reserve requirement**, commercial banks are required by law to keep a fraction of their total deposits with the central bank. Increasing the reserve requirement reduces the funds available for lending hence reducing the amount of money in circulation and the reverse is equally true.

COMMERCE MADE EASY.

- ✓ *Special deposits*, commercial banks may be called upon to make special deposits with the central bank over and above the legal reserve requirement. This reduces the amount of funds available for lending hence reducing the amount of money in circulation.

79(a) What is warehousing?

(b) What are the importances of warehousing?

Solution;

- **Ware housing** refers to the storage of goods and raw materials awaiting for demand, clearance or processing.

(b)The importances of ware housing include;

- It provides storage facilities for the goods hence guarding them against damage, loss e.t.c
- It provides room for continuous production since whatever is produced can be disposed off.
- It enables traders to look for market for their products since they are kept safely in the ware houses.
- It provides temporary accommodation to goods for those producers who lack enough room to keep the products at their own premises.
- It reduces taxes for importers especially those dealing in products which lose weight and are charged according to the weight of the products.
- It enables the government to check on undesirable products imported as they are checked before released from the bonded ware house.
- It enables the traders to prepare their products for sale while in the ware house for instance packaging and blending can be carried out while goods are in the ware house.
- It enables the government to earn revenue since goods are not released from the bonded ware house without clearing the customs duties.
- It reduces congestion at the terminals since goods are easily removed from the terminals and stored in the ware houses.
- It encourages production on large scale since producers are assured of enough storage facilities.
- It enables goods with seasonal demand like success cards to be stored until they are required in the market.
- It facilitates a steady supply of goods throughout the year since it enables storage of surplus products in periods of plenty.
- It enables stabilization of prices in the market through checking on the supply of goods.
- It facilitates entrepot trade since goods are kept safely in the ware house in preparation for re-export.

80(a) What is the meaning of the following;

- public ware house**
- wholesaler's ware house**
- producer's ware house**
- bonded ware house**

(b)What are the characteristics of a good ware house?

Solution;

- A public ware house** is one which is established with a primary activity of providing storage facilities on rental basis. It is open to the public for hiring or renting. Public ware houses are usually found near terminals like air ports, sea ports e.t.c for use by businessmen without their own storage facilities.
- A wholesaler's ware house** is one which is owned by a wholesaler to provide storage facilities for the goods which he buys in bulky from different manufacturers.
- A producer's ware house** is one which is owned by a manufacturer/producer to store raw materials and finished goods. It is normally located near the factory and relatively small in size since wholesalers collect finished goods from them immediately they are produced.
- A bonded ware house** is one where goods on which tax is to be levied are kept. Goods are not released from this ware house without a release warrant from the customs department showing that tax has been paid.

COMMERCE MADE EASY.

(b)The characteristics of a good ware house include;

- It should have proper handling equipment to ensure efficiency in loading and unloading the products.
- It should have an ideal location which is accessible to good means of transport for easy movement of goods.
- It should have a well trained staff for effective handling of the ware house records.
- It should have proper preservation facilities especially when the goods handled are perishable to avoid wastage.
- It should have adequate security to safeguard the products against theft.
- It should not leak to avoid damaging the products.
- It should be spacious enough to enable storage of large quantities of goods.
- It should be well planned with appropriate departments for its effective operation.
- It should be free from pests which damages the products.
- It should be located in an area where goods are produced in large quantities hence requiring ware housing services.

81(a) What is communication?

(b)What is the role of communication in the development of trade?

Solution;

(a) Communication refers to the activity of conveying information through the exchange of thoughts, messages by speech, visuals, signals, writing, or behavior. It may also refer to the exchange of information between the sender and the receiver through a channel.

(b) The role of communication in the development of trade include,

- ✓ Communication especially in written form facilitates evidence of contracts made in business hence providing room for reference in case need arises.
- ✓ It enables producers to get information regarding the consumer's tastes and preferences which makes the producers to adjust accordingly.
- ✓ It helps traders to save time and money that would be wasted through moving from place to place.
- ✓ It helps to keep suppliers in close contact with their customers hence maintaining regular supplies.
- ✓ It helps to link various markets hence shortages in one market can be solved by transfer of supplies from markets with plenty.
- ✓ It enables buyers to compare products advertised in terms of price, quality, quantity e.t.c hence making better decisions.
- ✓ Good communication between customers and suppliers enables the business to establish a good name hence boosting sales.
- ✓ It enables producers to widen their market through carrying out market research.
- ✓ Efficient, speedy and accurate communication helps to reduce losses and accidents hence saving lives and damages to the products.
- ✓ It helps to keep the public in touch with current affairs for instance on foreign exchange rates.
- ✓ It enables the public to be informed about the various products available in the market.
- ✓ It promotes good understanding between the employers and employees which provides a conducive environment for production.

82(a) Explain the various categories of communication.

(b)Mention the advantages and disadvantages of the following;

- Letters**
- Telephones**

Solutions;

(a) The various categories of communication include;

COMMERCE MADE EASY.

- **Written communication**, this involves sending a message from one person to another through writing using a pen and ink. It includes use of letters, telegrams, e-mails, magazines e.t.c
- **Spoken/verbal/oral communication**, this involves a direct communication by word of mouth or face to face between two or more parties. It includes use of telephones, face-to-face, radio, television e.t.c
- **Non-verbal communication**, this involves use of bodily expressions without use of words. It includes gestures, how we dress or act, our scent e.t.c
- **Visual communication**, this involves use of diagrams or pictures without using words to convey messages. It includes use of graphs, charts, maps, logos, films or other media to convey messages.

(b) The advantages of using letters include;

- ✓ It provides a record for future reference hence the reader can keep the message and refer to it at a future date.
- ✓ Messages can be delivered in the absence of the recipient and gets it any time he comes back.
- ✓ It allows sending detailed information which may not be possible with other modes of communication.
- ✓ It is cheaper to send messages using letters than using telephone calls or telegrams.
- ✓ Illustrations and pictures can be by letters
- ✓ Confidential information can be sent to the recipient if the letter is properly sealed.
- ✓ Information can be planned before sending it.

The disadvantages of using letters include;

- Messages take long to reach the recipients hence immediate feedback cannot be received.
- It only targets literate markets hence the illiterates are neglected.
- Letters may be intercepted and read by unauthorized persons hence affecting the confidentiality of some vital messages.
- It is applicable to people with access to post office box numbers.
- It is not suitable for urgent messages since messages take long to reach the intended destination.
- It is time consuming to read letters hence some people may not be bothered to read all the details involved.

(ii) The advantages of telephones include;

- It is suitable for urgent messages since it is a fast means of communication.
- It enables the sender to emphasize the point through talking.
- It eliminates physical movement of people from one place to another to convey information hence reducing the risks that may be encountered on the way.
- The feedback is immediate since it is a fast means of communication.
- It is possible to hide emotions since facial expressions are not seen as compared to face to face communication.

The disadvantages of telephones include;

- ✓ It is expensive when one wishes to send detailed information
- ✓ Some people cannot afford telephones hence making communication between parties difficult.
- ✓ Limited words may be used to minimize the costs hence the intended message may not be delivered.
- ✓ Absence of face to face contact between the sender and the recipient makes it difficult for one to emphasize his point.
- ✓ It does not provide a facility for permanent record of reference.
- ✓ The information may not be delivered accurately due to poor network in certain areas.
- ✓ There is lack of privacy when communicating using a telephone.
- ✓ Maintenance costs are high if a telephone is not handled properly.

COMMERCE MADE EASY.

83(a) What is the meaning of the following;

- i. **Private branch exchange (P.B.X)**
- ii. **Private automatic branch exchange(P.A.B.X)**
- iii. **Private manual branch exchange(P.M.B.X)**
- iv. **Subscriber trunk dialing(S.T.D)**

(b)What is the role of the post office in Uganda?

Solutions;

- i. **Private branch exchange** is an internal telephone system that connects various extensions of the same firm through the switch board operator.
- ii. **Private automatic branch exchange** is an internal telephone system that provides both internal and external calls without the help of the switch board operator.
- iii. **Private manual branch exchange** is a system that provides both internal and external calls through a switch board operator who connects both the incoming and outgoing calls manually.
- iv. **Subscriber trunk dialing** is a system that enables a call to be dialed directly to the receiver without going through the post office telephone operator.

(b)The role of the post office in Uganda includes;

- It receives and carries business letters, catalogues and other kinds of mail on behalf of their customers.
- It provides recorded delivery services by providing a customer with a receipt which acts as a proof of delivery.
- It provides post restante services to the travelers who wish to stay in certain areas temporarily and do not have post office boxes.
- It acts as a bank to small scale savers by safe guarding money on their savings accounts.
- It provides registered mail services by ensuring that mail is registered hence the post office undertakes to compensate the sender in case the letter is lost.
- It provides expedited mail services (E.M.S) to their customers hence ensuring quick delivery of mail to the true owners.
- It offers remittance services in form of postal orders, money orders e.t.c
- It prints and distributes post office directory which gives telephone numbers and addresses of subscribers.
- It provides transport services to the community through the post bus.
- It provides telecommunication services e.g. radio calls, telephones, telegrams e.t.c
- It provides private post boxes to the interested members of the public.

84(a) What factors influences the choice of the communication means?

(b)What are the barriers to effective communication?

Solutions;

a. The factors that influence the choice of the communication means include;

- ✓ ***Urgency of the message***, messages that are urgently needed should be sent by a fast means for instance telephones are preferred to letters.
- ✓ ***Distance involved in conveying the message***, telephones should be used when the distance involved is long and face to face communication is preferred when the distance involved is short.
- ✓ ***Confidentiality of the message***, confidential messages can best be sent using letters since other media like telephones may not favor secrecy.
- ✓ ***Need for record of reference***, written communication is preferred in case one needs to provide proof for future reference.
- ✓ ***Cost of sending the message***, letters are cheaper compared to telephones yet face to face communication is the cheapest compared to all.

COMMERCE MADE EASY.

- ✓ *Availability of the means to the parties' involved*, effective communication may sometimes require both the sender and the recipient to access similar communication media for instance communication using a telephone requires both parties to access the telephone equipment.
- ✓ *Need for detailed information*, messages requiring detailed information may best be sent using letters since illustrations, diagrams and many others can be sent through written communication.

(b) The barriers to effective communication include;

- ✓ *Language problems*; where the parties involved speak different languages and could not understand each other.
- ✓ *Use of unfamiliar terminologies* which are hard to understand by one of the parties can act as a barrier to effective communication.
- ✓ *Information overload*, where too much technical data is given to an individual in a short period of time.
- ✓ *Lack of interest* in the subject matter discussed by one of the parties is a barrier to effective communication.
- ✓ *Cultural differences* in terms of attitude, tribe, religion e.t.c may cause one of the parties to interpret the message wrongly.
- ✓ *Poor personality* in terms of dressing, mannerism e.t.c may act as a distruster to effective communication.
- ✓ *Lack of trust in the sender*, where the recipient does not trust the sender, he will not take the message seriously hence hindering effective communication.
- ✓ *Poor planning* by the sender of the message may act as a barrier to the recipient to understand the message.
- ✓ *Wrong address* for instance when a letter is wrongly addressed, it may not reach the intended destination.
- ✓ *Contradictory non-verbal messages*, where the person sending the message says one thing but the body language gestures something else acts as a barrier to effective communication.
- ✓ *Increased taxes on communication facilities* like airtime may limit the information to be sent hence the recipient may not get all the detailed information as intended by the sender.

85(a) What is market research?

(b) Why do producers/businessmen carry out market research?

Solution;

- a. *Market research* is a process of collecting data using various sources and analyzing it with an aim of identifying market opportunities and problems or finding out people' opinions regarding a particular good or service.
- b. **Producers/businessmen carry out market research because of the following reasons;**
 - To find out whether there is market for the products to be produced.
 - To identify the features of a product e.g. colour, size and many others which customers need.
 - To find out the consumers tastes and preferences for a given product or service.
 - To establish the appropriate method of promoting the product and the channels of distribution for a given product.
 - To establish the methods used by the competitors to attract the attention of the customers and coming up with strategies of out competing them.
 - To determine the appropriate price at which consumers can afford to buy the product.
 - To enable producers match their products to the needs of the customers.
 - To establish the quantity of goods which customers are willing and able to buy.

86(a) Explain the methods used in carrying out market research.

(b) Mention the problems encountered in carrying out market research.

COMMERCE MADE EASY.

Solution;

a. The methods used to carry out market research include;

- **Observation method;** this involves the producer watching certain aspects as regards the consumers response to a given product in order to arrive at a wise decision about the market.
 - **Experimental method;** this involves producers to first produce in small quantities/carry out test marketing in a small selected area before carrying out national distribution.
 - **Contact method;** this involves producers designing questionnaires which are given out to the prospective customers to answer them. The data collected from the respondents will enable the researcher to come up with an informed decision. This method will also involve the researcher interviewing the customers orally either face to face or on telephone.
- ✚ **N.B.** Data can be obtained either from secondary or primary sources. The data obtained from secondary sources involves information obtained from the internal records of the firm or data collected from external sources like libraries, business journals e.t.c.
- ✚ Primary data sources involve the researcher getting first hand information directly from the consumers through field research.

87(a) Outline the information that producers look for when carrying out market research.

(b) What problems do market researchers encounter in carrying out their activity?

Solution;

a. The information that producers look for when carrying out market research include;

- ✓ The target market population.
- ✓ The quantity of goods the consumers are willing to buy.
- ✓ The price which the buyers can afford to pay for the goods.
- ✓ The salient features of the product that consumers expect in terms of shape, colour e.t.c.
- ✓ The number of competitors in the market.
- ✓ The period when the buyers need the product.
- ✓ The promotional techniques used by the competitors e.t.c

(e) The problems that market researchers encounter in the process of carrying out their work include;

- Poor transport net work which makes it difficult to reach various parts of the country.
- Diversity of languages makes it costly to get information since it requires hiring interpreters.
- Hostility of some members of the public makes it difficult for the researchers to access data from certain areas.
- Inadequate storage facilities of information make it difficult for the researcher to get a clear picture regarding the consumers 'opinions.
- Insecurities in some parts of the country affect the activities of the researcher.
- Illiteracy of some of the respondents makes it difficult to collect data using questionnaires.
- Reluctancy of the respondents to give correct answers makes the researcher to come up with biased results.
- It is a time consuming activity which requires a lot of patience on the side of the researcher.
- Poor selection of the sample which may not represent the entire population makes the researcher get biased results.

88(a) What is insurance?

(b) Give the meaning of the following terms as used in insurance.

- i. *Premium*
- ii. *Insurer*
- iii. *Insured*
- iv. *Risk*
- v. *loss*

COMMERCE MADE EASY.

- vi. A Policy*
- vii. Actuary*
- viii. An Assessor*
- ix. A pool*
- x. Sum insured*
- xi. Under insurance*
- xii. Over insurance*
- xiii. Surrender value*
- xiv. Co-insurance*
- xv. Re-insurance*
- xvi. Proposal form*
- xvii. Insurable risks*
- xviii. Non-insurable risks*

Solution;

- **Insurance** is defined as a fund into which individuals or firms which are subjected to certain risks pay a carefully calculated contribution from which the unfortunate few who may suffer loss from a stated risk are compensated.
- (b)
- i. Premium** refers to the amount of money paid by the insured to the insurer as a consideration for the insurance cover by the insurer in case of a loss.
 - ii. Insurer** refers to the insurance company that accepts the responsibility of protecting those who have suffered losses from the contributions made.
 - iii. Insured** refers to the person or firm taking out an insurance policy to be compensated in case of a loss.
 - iv. Risk** refers to an event against which an insurance policy is undertaken by the insured e.g. fire, accident e.t.c
 - v. Loss** refers to the occurrence of the event against which an insurance policy was taken out.
 - vi. A policy** refers to a document drawn up by the insurance company setting out the terms and conditions of the contract between the insured and insurer.
 - vii. Actuary** refers to a highly skilled insurance official who calculates the premium involved in the risk being insured against.
 - viii. An assessor** refers to an insurance official whose duty is to calculate the extent of the damage in order to establish the compensation made to the insured.
 - ix. A pool** refers to a collection of money contributed by the interested persons or firms from which the unfortunate few who suffer losses are compensated.
 - x. Sum insured** refers to the value of the property insured as stated by the owner at the time of applying for an insurance policy. The premium to be paid depends on the sum insured.
 - xi. Under insurance** refers to the situation when the insured understates the value of his property at the time of applying for an insurance cover.
 - xii. Over insurance** refers to a situation where the insured overstates the value of the property at the time of taking out an insurance policy.
 - xiii. Surrender value** refers to the amount of money paid back to the insured when he decides to cancel out his insurance contract before its maturity period.
 - xiv. Co-insurance** refers to a situation where an article is insured against similar risks in two or more insurance companies. In the event of loss, the various companies contribute towards the total sum insured.

COMMERCE MADE EASY.

- xv. **Re-insurance** refers to a situation where an insurance company insures a risk with another insurance company. This is common with properties like ships, earoplanes among others which are too expensive to be handled by one insurer or when the original insurer does not offer a particular insurance policy.
- xvi. A **proposal form** refers to an application form which the insured fills when applying for an insurance cover.
- xvii. **Insurable risks** refer to those risks whose probability of occurrence can be forecast and the loss easily calculated with fair accuracy in terms of premiums and compensation.
- xviii. **Non-insurable risks** are risks whose probability of occurrence cannot be accurately determined by statistical information e.g. loss as a result of war, earthquakes e.t.c

89(a) Explain the principles/doctrines of insurance.

(b) Outline five instances that may cause the insurer to dishonor one' claim for compensation

Solution;

(a) The principles of insurance are the regulations governing the insurance business. These include;

- **Principle of utmost good faith (*uberrima fides*).** This principle requires the insured to disclose all the relevant material facts concerning the subject matter of insurance. In case any information is concealed, it may lead to the closure of the policy and the insured will be denied compensation. This doctrine helps the insurer to assess the suitability for insurance and accurately calculate the premiums.
- **Principle of indemnity,** this principle requires that the insured does not benefit/profit out of his policy but should only be compensated or restored to his original financial position he was in immediately before the occurrence of the loss.
- **Principle of insurable interest,** this doctrine requires the insured to insure his own property or life where he stands to suffer a financial loss in case of its destruction.
- **Principle of proximate cause,** this principle requires that there must be a fairly close relationship between the cause of the loss and the actual risk insured against to enable the insured claim for compensation.
- **Principle of subrogation,** it states that in the event of a total loss when the insurer has fully settled the claim of the insured, the insurer acquires full rights that the insured had in the property destroyed. The insured is required to surrender the remains of the destroyed property (scrap) if any.

b) The instances that may cause the insurance company to dishonor one' claim include;

- ✓ When there is no close relationship between the cause of the loss and the risk insured against.
- ✓ When the insured wishes to go with the wreck after full compensation.
- ✓ When the insured has no insurable interest in the subject matter of insurance.
- ✓ When a mistake was made by the insured at the time of filling in a proposal form.
- ✓ When the insured fails to declare all the relevant material facts concerning the property insured.
- ✓ When the insured fails to effect payment of premiums to the insurer.
- ✓ When the insured fails to report the occurrence of the loss in time.
- ✓ When co-insurance was undertaken and the insured wants full compensation from each insurer.

90(a) Mention the steps followed when taking out an insurance policy.

(b) Explain the factors that are considered when determining the premiums.

Solution;

(a) The steps followed when taking out an insurance policy include;

- ✓ The prospective applicant introduces himself to the insurer or introduced through an insurance agent to make inquiries on how to cover him against certain risks.
- ✓ A proposal form is given to the applicant which he fills declaring all the relevant material facts concerning the subject matter of insurance.
- ✓ The insurer sends an actuary who inspects the property and calculates the premiums to be paid.

COMMERCE MADE EASY.

- ✓ A cover note or binder is given to the insured after effecting payment of the premiums. It serves as a temporary receipt and it's valid for 30days after which a policy will be issued.
- ✓ The policy will be issued within 30days of the issue of the cover note. This is the main document of the insurance company as it constitutes a contract between the insured and the insurer where the terms and conditions of insurance are spelt.

N.B; The following steps are followed when claiming for compensation;

- ✚ *Reporting the occurrence of the loss to the insurance company through producing a police report where necessary.*
- ✚ *The insured fills a claim form showing full details of the loss.*
- ✚ *The insurer sends an assessor to inspect the destroyed property and calculates the magnitude of the loss.*
- ✚ *After receiving a survey report from the assessor, the insurer pays the due compensation.*

(b)The factors considered when determining the premiums include;

- **The nature of the property being insured**, properties which handle highly inflammable items like petrol stations are subjected to pay higher premiums in case of a fire policy.
- **The number of applicants exposed to the same risk**, the higher the number of applicants for the same policy, the lower the premiums since the spread of the risk is larger than when the number is small.
- **The precautions undertaken by the insured to reduce the risk**, in case of any precaution undertaken to reduce the loss, lower premiums will be paid. The installation of fire extinguishers by the insured in case of a fire policy reduces the premiums to be paid.
- **Type of policy required**, the more valuable the policy, the more premiums paid e.g. those applying for aviation policies pay higher premiums compared to those applying for motor accident policies.
- **Age of the property/person**, a property which has stayed for a long period of time is likely to get damaged soon hence subjected to higher premiums compared to a new property. Likewise, in case of life assurance, old people pay higher premiums than young ones since under normal circumstances; old people are faced with high chances of dying soon compared to young ones.
- **The sum insured**, the higher the value of the property, the higher the premiums paid and the lower the value of the property, the lower the premiums paid.
- **The frequency of the risk being insured**, the more frequent the risk being insured, the higher the premiums paid and the lower the frequency of occurrence, the lower will be the premiums paid.

91(a) What is the difference between *insurance* and *assurance*?

(b)What is the role of insurance companies in the development of the country?

Solution;

- (a) *Insurance*** refers to covers against events that may or may not occur e.g. accident policies while ***assurance*** refers to covers against events that are bound to occur, the only uncertainty being time e.g. life policies.
- (b) The role of insurance companies in the development of the country include;**
- They safeguard the property of businessmen against various risks which gives them confidence to undertake large scale ventures.
 - They contribute to national development through investing the accumulated funds into viable projects hence leading to economic growth.

COMMERCE MADE EASY.

- Some policies offered by the insurers like the endowment policy acts as a saving scheme to the insured when he retires hence improving his standard of living.
- Insurance companies contribute to a country's invisible export thus earning foreign exchange for the country.
- Some insurance companies give out loans to businessmen from the accumulated premiums hence promoting economic growth.
- Insurance companies provide employment opportunities to the public like actuaries, insurance brokers among others which improve on their standard of living.
- They reduce government expenditure on costs of social services since they help victims involved in motor accidents, meeting hospital charges of the insured e.t.c
- Some compulsory policies like third party policy are a source of revenue to the government.
- They promote international trade since they cover businessmen against many risks and ensure compensation in case of loss.
- The insurance policy can act as security for traders who would wish to obtain loans from financial institutions hence promoting business activities.
- They improve on the social life of the public through sponsoring recreational activities like motor racing, foot ball matches e.t.c
- They conduct certain functions which are educative like campaigns on safety and health care.

92(a) What is gambling?

(b) What are the differences between *insurance* and *gambling*?

Solution;

(a) Gambling refers to the risking of money in hope of getting greater profits. It is a risky matter or act where people work on probability or chance.

(b) The differences between insurance and gambling include;

- Insurance aims at compensating the unfortunate person to gain back his original financial position before the occurrence of the loss while gambling places a person to a better financial status.
- In insurance, the risk insured against may either occur or not while under gambling, the event speculated must occur in order to determine the winner.
- Under insurance, one must insure a property in which he has insurable interest while in gambling, such a condition does not exist.
- Insurance has got certain principles governing it while gambling does not have governing doctrines.
- Insurance is a legal business recognized by the state while some gambling activities are illegal.
- In insurance one has to show utmost good faith while under gambling, one has to be dishonest and crafty in order to win.
- Insurance is considered as a blessing to the business community while gambling is a curse to the society.

N.B. Insurance is said to be similar to gambling in the following ways;

- *At least two parties are involved in both cases.*
- *In both cases, the participants contribute funds towards a common pool.*
- *There is an element of probability or chance in both cases.*
- *Membership is voluntary/out of free will in both cases.*

93(a) What is the meaning of the term life insurance?

(b) Give some of the policies offered under life insurance.

Solution;

(a) Life insurance is commonly referred to as *life assurance*. It is a class of insurance that covers insurance of human life. '*Assurance*' in this case confirms that the event insured against must take place. An individual

COMMERCE MADE EASY.

can only insure a life in which he has insurable interest for instance his own life, life of a spouse, life of a business partner, life of a debtor to the extent of the debt e.t.c

(b) Some of the policies that are involved under life assurance include;

- ✓ **Endowment policy;** this policy requires payment of premiums for a specific period of time and the sum assured payable at the expiry of such a period or at death whichever comes first. This policy is actually a saving scheme for the assured which assists him after retirement or during his old age.
- ✓ **Whole life policy;** this policy requires payment of premiums by the assured throughout his life or for a specified period of time but the sum assured is specifically payable only at the death of the life assured. This policy is meant to assist the beneficiaries after the death of the bread earner.
- ✓ **Group life policy;** this is a policy undertaken by employers to provide pensions to their employees so that they can demand for compensation after their retirement from service.
- ✓ **Sickness policy;** this covers the assured against a specified curable disease whereby the insurer meets the medical bills of the assured depending on the contract.

94(a) What is the meaning of the term ‘general insurance’?

(b) Mention some of the policies covered under the accident department.

Solution;

(a) General insurance is a class of insurance which covers the insurance of property. It is divided into three departments. These include; Accident department, Fire department and Marine department.

(b) The accident department undertakes to safeguard property against accidental losses. Some of the policies covered under the accident department include;

- **Motor vehicle policy;** it covers risks that may occur to vehicles especially damage or loss due to crashing or head on collision.
- **Third party policy;** this policy is compulsory to all vehicle owners in Uganda. This policy essentially covers the following other than the owner;
 - ✚ Passengers travelling in the vehicle insured.
 - ✚ People injured as a result of the accident.
 - ✚ Any other property damaged as a result of the accident.
- **Comprehensive policy;** this policy covers all possible losses as a result of the accident. It covers damage made on the vehicle, passengers, the driver, pedestrian affected and any other person or property involved in the accident.
- **Fidelity guarantee policy;** this policy is undertaken by employers to guard them against the dishonesty of particular employees or the entire staff. It protects the employer against mismanagement of funds by employees like banking officers, cashiers and accountants who handle large sums of money.
- **Personal accident policy;** it is undertaken by individuals to guard them against accidental losses which may affect them due to vehicle crashing or over turning.
- **Employer’s liability policy (workers’ compensation policy);** this policy covers employers against liabilities for injuries sustained by workers while performing their duties.
- **Machine break down and consequential loss policy;** the machine break down policy covers damages caused to machines and the consequential loss policy covers later losses as repairs are being done to the machines.
- **Public liability policy;** this covers any possible claims for damage from the public as a result of the public being injured by faulty goods or negligence of the producer.
- **Bad debts policy;** this covers traders against losses caused by failure of their customers to pay off their debts.
- **Aviation and aviation hull policy;** this covers damage made to the air craft and damage made to the cargo due to air craft crashes.
- **Glass plate;** this policy covers members of staff or customers of the business against serious injury from broken pieces of glass.

COMMERCE MADE EASY.

95. Explain the various policies that are covered under the;

- (a) Marine department
- (b) Fire department

Solution;

(a) **The marine department** is one that deals with risks related to water or claims related to loss at sea which may involve capsizing of the vessel with all its cargo and passengers. The department is sub divided into two sections which include; **marine hull section** and **marine cargo section**.

✚ **The marine hull section** covers damage made to the *ship/vessel* due to fierce storms, fire, collision or any other sea hazard while the **marine cargo section** covers losses made to the *goods* in the vessel when on transit.

The following are some of the policies offered under the marine department;

- ❖ **Voyage policy;** this policy covers losses made to the ship or cargo for a specific journey.
- ❖ **Time policy;** it covers losses made to the ship or goods for a specified period of time e.g. from March to June.
- ❖ **Mixed policy;** this policy combines both voyage and the time policy e.g. from Nairobi to Kampala for 4 months (Feb-May).
- ❖ **Open policy or floating policy;** this covers against any risk that may occur to the vessel on any journey at any time.
- ❖ **Fleet policy;** this policy covers a specified number of vessels belonging to a particular organization and are insured under one insurance policy.
- ❖ **Ship owners' liability policy;** this policy covers people's lives and cargo against damage or injury resulting from negligence in navigating the vessel.

(b) **Fire department** is one which insures property against fire related risks. Some of the policies that are covered under the fire department include;

- **House hold risk policy;** this covers house hold property against damage or loss e.g. house hold furniture, kitchen utensils e.t.c
- **Fire and consequential loss policy;** the fire policy covers the damage caused to properties by fire and the consequential policy covers the losses incurred as repairs are being made to the fire damaged property.
- **Burglary and theft policy;** this policy is mainly taken by landlords, businessmen, banks among others to cover them against losses caused by thieves and robbers.

96(a) What is stock exchange?

(b) Give the meaning of the following in relation to stock exchange;

- i. *Stock brokers.*
- ii. *Stock jobbers.*

(c) Differentiate between the following;

- i. *Market value of shares and par value of share.*
- ii. *Quoted companies and unquoted companies.*
- iii. *Gilt-edged securities and Blue chips.*
- iv. *Dividends and portfolio.*

(d) What is the meaning of the term 'go public'?

Solution;

(a) **Stock exchange** is an organized financial market where shares, bonds and stocks are bought and sold.

(b) **Meaning of the following terms;**

COMMERCE MADE EASY.

- i. **Stock brokers** refer to agents in a stock exchange market who connect buyers to sellers of shares. A stock broker is given a commission for the services rendered termed as a **Brokerage**.
- ii. **Stock jobbers** are agents in a stock exchange market who buy and sell shares on their own account. They buy shares through brokers when the price is relatively low and sell them when the price increases. There are various types of stock jobbers which include;
 - **Bears**; These are jobbers who sell shares when their prices are high hoping that the prices will fall in future and they buy them back at a lower price.
 - **Bulls**; These are jobbers who buy shares when the prices are low anticipating that the prices will increase hence selling them at a higher price. This makes them earn a profit termed as a **jobber's profit or jobber's turn** which is the difference between the selling price and cost price of the shares.
 - **Stags**; These are jobbers who deal in new issues (shares). These are always contacted by new companies that wish to sell their new shares to the public.

(c) Differences between the following;

- i. **Market value of shares** refers to the price at which a share is quoted at a stock exchange while **par value of share** is the face value of a share or the amount written on the face of the share.
- ii. **Quoted companies** refer to such companies which are authorized by the stock exchange council to transact their shares on the stock exchange market while **unquoted companies** are those companies whose shares are not traded on a stock exchange market.
- iii. **Gilt-edged securities** refer to bonds issued by the government to raise revenue while **Blue chips** refer to first class securities/shares of a public limited company with a sound reputation.
- iv. **Dividends** refer to profits which are distributed to the shareholders and these depend on the number of shares held by the shareholder while **portfolio** refer to a group of several securities handled by one investor whose aim is to make high profits.

- (d) The term '**Go public**' refer to a situation when a private limited company wants to expand its level of production and converts to a public limited company to enable it sell its shares on the stock exchange market hence increasing its capital base.

97(a) What are the functions of stock exchange?

(b) Mention at least five limitations of stock exchange operations in your country.

Solution;

(a) The functions of stock exchange include;

- It encourages people to invest their savings in shares because of the assurance of quick conversion of their shares into cash any time one wishes.
- It facilitates easy transfer of shares by linking people who would like to buy or sell their shares.
- It acts as an attraction to the foreign and local investors since it publishes useful data concerning the price of shares.
- It protects the public against exploitation since it watches over all financial affairs of every company in the market.
- It is an important source for long term funds for the borrowers and an outlet for lenders of such funds.
- It creates employment opportunities to people like the stock brokers and jobbers who are involved in the affairs of the stock exchange.
- It is a platform for a new public limited company to advertise its shares to the public for subscription.
- It acts as a barometer to determine the level of a country's economic progress through analyzing the performance of stock exchange.
- It helps companies to raise more capital through inviting members of the public to subscribe for shares.

COMMERCE MADE EASY.

- It helps in setting up the prices for shares and securities for quoted companies.

(b)The limitations of stock exchange operations in Uganda include;

- Some in the country ignorant as regards the issue of stock exchange hence affecting their operations.
- There is lack of competent/skilled manpower to work in stock exchange.
- Most people in the country are low income earners which affects their level of savings and investments.
- The banks are not evenly distributed in the country which makes it difficult for the public to mobilize savings to be invested later.
- Political instabilities in some parts of the country tend to limit the operations of stock exchange in such areas.
- High level of inflation in the country affects the level of savings and investments in the country.
- Poor investment climate in the country tend to discourage investors as the existing investments are not very profitable.

98(a) What is the importance of keeping proper business records?

(b)Give the meaning of the following terms as used in business calculations.

- i. Purchases*
- ii. Returns outwards/purchases returns*
- iii. Returns inwards/sales returns*
- iv. stock*
- v. Opening stock*
- vi. Closing stock*
- vii. Stock taking*
- viii. Stock valuation*
- ix. Carriage inwards/carriage on purchases*
- x. Carriage outwards/carriage on sales*

Solution;

(a) The importance of keeping proper business records include;

- ✚ To enable the trader know whether he has made profits or losses.
- ✚ To enable the trader know the amount of capital invested in the business.
- ✚ To enable the trader know the financial position of his business as at a given date.
- ✚ To enable the trader know whether his business is progressing or declining through comparing the accounting records of the present period and the records of the previous accounting period.
- ✚ To enable the trader anticipate fairly the future demand for his products thus enabling him to stock accordingly.
- ✚ To enable the trader control the costs effectively hence maximizing profits.
- ✚ To enable the trader keep a track record of his debtors and creditors.
- ✚ To guide management in developing future financial plans and policies for the business.
- ✚ To provide accurate data to the investors who may wish to know the financial status of the firm before making a decision to purchase it.

(b) Meaning of the following terms as used in business calculations;

- i. Purchases;** This refers to the value of goods bought in the business for resale during the year.
- ii. Returns outwards;** It refers to the goods purchased by the business for resale in a given trading period but later returned to the suppliers before selling them.
- iii. Returns inwards;** It refers to the value/part of goods sold to customers but later returned to the business.
- iv. Stock;** It refers the goods unsold in a given period of time.

COMMERCE MADE EASY.

- v. **Opening stock;** It refers to the goods that a business starts with at the commencement of the financial period.
- vi. **Closing stock;** It refers to the goods or items that remain unsold at the end of the financial period.
- vii. **Stock taking;** It refers to the act of making a list of goods available in the business.
- viii. **Stock valuation;** It is the act of attaching values on all the goods held in the business.
- ix. **Carriage inwards;** This refers to the transport charges of goods purchased. It constitutes part of the cost of buying goods hence added on the value of purchases.
- x. **Carriage outwards;** This refers to the transport charges for goods sold. It is a charge that the business incurs on transporting goods of its customers hence treated as a business expense.

99(a) Distinguish between Gross profit and Net profit.

(b) How can a trader increase the profits of his business?

(c) Give the meaning of the following terms as used in business calculations;

- i. *Net purchases*
- ii. *Net sales/turn over/sales.*
- iii. *Cost of goods available for sale*
- iv. *Cost of sales*
- v. *Average stock*
- vi. *Rate of stock turn*
- vii. *Margin (Gross profit margin)*
- viii. *Mark up (Gross profit mark up)*
- ix. *Net profit ratio*
- x. *Rate of return on capital*

Solution;

- a. **Gross profit** refers to the excess of net sales over cost of sales where as **Net profit** is the final profit got after deducting all expenses from gross profit and after all other incomes have been added.

N.B;

- **Gross profit = Net sales (turn over) - Cost of sales.**
OR
- **Gross profit = Mark up x cost of sales.**
OR
- **Gross profit = Margin x turn over.**
- **Net profit = Gross profit - Expenses (Overheads)**

b. A trader can increase on the profit of his business in the following ways;

- ✓ *Through engaging in sales promotional activities e.g. Trade fairs and exhibitions, providing customer care services among others.*
- ✓ *Through acquiring low interest loans from the money lenders to increase on the amount of capital employed in the business.*
- ✓ *Through taking advantage of suppliers who offer better terms of sale.*
- ✓ *Through employing in the business some techniques that can cut down the costs of the firm for instance introducing self service system.*
- ✓ *Through ensuring proper book-keeping and tight supervision of the firm to reduce unnecessary losses.*
- ✓ *Through expanding business operations in various areas by opening up additional branches to serve many customers.*
- ✓ *Through stocking a wide range of products to cater for customers with different tastes and preferences.*

COMMERCE MADE EASY.

c. Meaning of the terms below as used in business calculations;

i. **Net purchases;** It refers to the difference between the value of goods bought in a given trading season and the value of goods returned to the suppliers.

- **Net purchases = Purchases – Returns outwards.**

ii. **Net sales;** It refers to the difference between the value of goods sold in a given trading period and the value of goods returned by the buyers to the firm.

- **Net sales = Sales – Returns inwards.**

iii. **Goods available for sale;** It is the sum of opening stock and net purchases in a given trading period.

- **Cost of goods available for sale = Opening stock + Net purchases.**

iv. **Cost of sales;** It refers to the value at which the goods in the business were purchased. This value includes all expenses incurred on these goods until they reach the business premises of the trader (buyer).

- **Cost of sales = Opening stock + Net purchases – Closing stock.**

OR

- **Cost of sales = Cost of goods available for sale – Closing stock.**

OR

- **Cost of sales = Net sales – Gross profit.**

v. **Average stock;** This is the average of opening and closing stocks. It is calculated by getting the sum of opening and closing stock and dividing it by two.

- **Average stock = $\frac{\text{Opening stock} + \text{Closing stock}}{2}$**

vi. **Rate of stock turn;** It is the number of times the stock held in the business has to be sold and replaced in a given trading period. It can be calculated using two formulas;

- **Rate of stock turn = $\frac{\text{Cost of sales}}{\text{Average stock at cost price}}$**

OR

- **Rate of stock turn = $\frac{\text{Turn over(Net sales)}}{\text{Average stock at selling price}}$**

✚ **The units for rate of turnover are either turns or times.**

✚ **If the question is silent about the base in which average stock was valued, apply the first formula where it is valued at cost price.**

vii. **Margin;** It refers to gross profit expressed as a percentage of sales (turn over).

- **Margin = $\frac{\text{Gross profit}}{\text{Turn over}} \times 100$**

N.B- The same formula is applied when calculating Gross profit ratio.

COMMERCE MADE EASY.

- viii. **Mark up;** It refers to gross profit expressed as a percentage of cost of sales.
- $\text{Mark up} = \frac{\text{Gross profit} \times 100}{\text{Cost of sales}}$
- ix. **Net profit ratio;** This is the ratio of net profit to sales expressed as a percentage.
- $\text{Net profit ratio} = \frac{\text{Net profit} \times 100}{\text{Turnover}}$
- x. **Rate of return on capital;** It is net profit expressed as a percentage of capital invested.
- $\text{Rate of return on capital} = \frac{\text{Net profit} \times 100}{\text{Capital invested}}$

100. Given the details below for the year ended 31/12/2010 from JM traders;

<i>Particulars</i>	<i>Ushs</i>
Sales -----	400,500,000
Stock (1/1/2010) -----	20,800,000
Returns outwards-----	2,400,000
Expenses-----	1,000,000
Purchases-----	300,000,000
Returns inwards-----	280,000
Stock (31/12/2010) -----	500,000
Capital-----	162,640,000

REQUIRED; Calculate

- i. *Net purchases*
- ii. *Net sales*
- iii. *Cost of goods available for sale*
- iv. *Cost of goods sold*
- v. *Gross profit*
- vi. *Net profit*
- vii. *Mark up*
- viii. *Margin*
- ix. *Average stock*
- x. *Rate of stock turn*
- xi. *Net profit ratio*
- xii. *Rate of return on capital*

Solution;

- i. $\text{Net purchases} = \text{Purchases} - \text{Returns outwards}$
 $= 300,000,000 - 2,400,000$
 $= \underline{\text{Shs.297, 600,000/=}}$

- ii. $\text{Net sales} = \text{Sales} - \text{Returns in wards}$
 $= 400,500,000 - 280,000$
 $= \underline{\text{Shs.400, 220,000/=}}$

COMMERCE MADE EASY.

iii. Cost of goods available for sale = *Opening stock + Net purchases*
= 20,800,000 + 297,600,000
= Shs.318,400,000/=

iv. Cost of sales = *Opening stock + Net purchases – Closing stock*
= 20,800,000 + 297,600,000 - 500,000
= 318,400,000 - 500,000
= Shs.317,900,000/=

v. Gross profit = *Net sales – cost of sales*
= 400,220,000 - 317,900,000
= Shs.82, 320,000/=

vi. Net profit = *Gross profit – Expenses*
= 82,320,000 - 1000,000
= Shs.81, 320,000/=

vii. Mark up = $\frac{\text{Gross profit} \times 100}{\text{Cost of sales}}$
= $\frac{82,320,000 \times 100}{317,900,000}$
= 25.9%

viii. Margin = $\frac{\text{Gross profit} \times 100}{\text{Turn over}}$
= $\frac{82,320,000 \times 100}{400,220,000}$
= 20.6%

ix. Average stock = $\frac{\text{Opening stock} + \text{Closing stock}}{2}$
= $\frac{20,800,000 + 500,000}{2}$
= $\frac{21,300,000}{2}$
= Shs.10, 650,000/=

x. Rate of stock turn = $\frac{\text{Cost of sales}}{\text{Average stock}}$
= $\frac{317,900,000}{10,650,000}$
= 29.8 turns

COMMERCE MADE EASY.

$$\begin{aligned} \text{xi. Net profit ratio} &= \frac{\text{Net profit}}{\text{Turnover}} \times 100 \\ &= \frac{81,320,000}{400,220,000} \times 100 \\ &= \underline{20.3\%} \end{aligned}$$

$$\begin{aligned} \text{xii. Rate of return on capital} &= \frac{\text{Net profit}}{\text{Capital invested}} \times 100 \\ &= \frac{81,320,000}{162,640,000} \times 100 \\ &= \underline{50\%} \end{aligned}$$

101(a) Distinguish between a *Balance sheet* and an *income statement*.

(b) Give the meaning of the following terms;

- i. *Assets*
- ii. *Fixed assets*
- iii. *Current assets*
- iv. *Liabilities*
- v. *Long term liabilities*
- vi. *Short term/current liabilities*
- vii. *Capital*
- viii. *Debtors*
- ix. *Creditors*
- x. *Liquid capital*

(c) Define and state the formula for calculating each of the following;

- i. *Capital owned/Owner's equity/Net worth*
- ii. *Working capital*
- iii. *Capital employed*
- iv. *Borrowed capital*

Solution;

(a) A *balance sheet (statement of financial position)* is a financial statement prepared to show the Assets, Liabilities and Capital of a business as at a given date while an *income statement (Trading, Profit & Loss account)* is a financial statement prepared to determine the amount of profit or loss made at the end of a given trading period.

(b) *The meaning of the terms below;*

- i. *Assets* refer to economic resources owned by the business which may either be fixed or current.
- ii. *Fixed assets* refer to properties which are permanent in nature and are owned by the business or person for continuous use. Examples of fixed assets include; Buildings, Land, Furniture, Computers and others. The total value of fixed assets constitutes the *fixed capital (illiquid capital)* of the business since these resources cannot easily be converted into cash.
- iii. *Current assets refer* to resources owned by the business or individual and stay in the business for a short period of time (less than a year) and can easily be converted into cash. Examples of current assets include; stock, debtors, cash at bank, cash at hand e.t.c

COMMERCE MADE EASY.

- iv. **Liabilities** refer to debts which a business or trader owes to another person or organization or obligations that a business or person is supposed to pay. Liabilities are either long term or short term.
- v. **Long term liabilities** refer to debts which are to be discharged by the business after a long period of time (after 1 year and above). Examples include; Bank loans, Debentures, Bonds and others.
- vi. **Current liabilities** refer to debts that are payable within a short period of time usually less than a year. Examples include; Creditors, Bank overdrafts, Treasury bills and others.
- vii. **Capital** refers to the total resources contributed by the owner at the commencement of the business. It may also refer to the amount of money or physical assets invested in the business with the aim of making profits.
- viii. **Debtors** refer to persons or organizations that owe money to the business.
- ix. **Creditors** refer to persons or organizations to whom the business owes money.
- x. **Liquid capital** refer to the value of business assets which can easily be converted into cash for instance cash at hand, cash at bank and debtors.

c) **Definition and formula for each of the following;**

- i. **Capital owned** is the amount of money that a business owes to the owner. It can be calculated using either of the formulae below;
 - o $Capital\ owned = Total\ assets - Total\ liabilities$
 - OR
 - o $Capital\ owned = capital\ at\ start + Net\ profit - Drawings$
- ii. **Working capital** refers to the amount of money required for the daily running of the business activities e.g. purchasing stock, paying wages and others. It may also be defined as the excess of current assets over current liabilities.
 - $Working\ capital = Current\ assets - Current\ liabilities$
- iii. **Capital employed** refers to the total value of all assets used in the business. Capital employed is either *Gross or Net capital employed*.
 - o $Gross\ capital\ employed = Fixed\ assets + Current\ assets$
 - o $Net\ capital\ employed = Fixed\ assets + Working\ capital$
 - ✚ **If the question is not specific about the form of capital employed, apply the second formula for Net capital employed.**
- iv. **Borrowed capital** refers to the amount of money borrowed by the owner of the business from other people or organizations.
 - o $Borrowed\ capital = Long\ term\ liabilities + Current\ liabilities$

102. The information below was extracted from the books of Misha as at 31/12/2000

<i>Particulars</i>	<i>Ushs</i>
Capital-----	24,000,000
Creditors-----	5,100,000
Debentures-----	8,000,000
Equipment-----	6,600,000
Bank loan (2yrs) -----	4,000,000
Motor van-----	7,000,000

COMMERCE MADE EASY.

Drawings-----	3,000,000
Furniture-----	2,000,000
Net profit for the year-----	6,000,000
Cash at hand-----	5,500,000
Bank overdraft-----	500,000
Cash at Bank-----	7,200,000
Debtors-----	5,400,000

Calculate

- i. *Fixed capital*
- ii. *Owner's equity*
- iii. *Borrowed capital*
- iv. *Liquid capital*
- v. *Working capital*
- vi. *Capital employed*

Solution

- i. *Fixed capital = Total value of all fixed assets*

$$= \text{Equipment} + \text{Motor van} + \text{Furniture}$$

$$= 6,600,000 + 7,000,000 + 2,000,000$$

$$= \underline{\text{Shs.15, 600,000/=}}$$

- ii. *Owner's equity = Capital + Net profit – Drawings*

$$= 24,000,000 + 6,000,000 - 3,000,000$$

$$= 30,000,000 - 3,000,000$$

$$= \underline{\text{shs.27, 000,000/=}}$$

- iii. *Borrowed capital = Long term liabilities + Current liabilities*

$$= \text{Debentures} + \text{Bank loan} + \text{Creditors} + \text{B.O.D}$$

$$= 8,000,000 + 4,000,000 + 5,100,000 + 500,000$$

$$= \underline{\text{Shs. 17,600,000/=}}$$

- iv. *Liquid capital = Cash at hand + cash at bank + Debtors*

$$= 5,500,000 + 7,200,000 + 5,400,000$$

$$= \underline{\text{Shs.18, 100,000/=}}$$

- v. *Working capital = Current assets – Current liabilities*

But	C.A	$= \text{Debtors} + \text{Cash at bank} + \text{Cash at hand}$
		$= 5,400,000 + 7,200,000 + 5,500,000$
		$= \text{Shs.18, 100,000/=}$
	While	C.L
		$= \text{Creditors} + \text{Bank overdraft}$
		$= 5,100,000 + 500,000$
		$= \text{Shs.5, 600,000/=}$
	Hence	W.K
		$= 18,100,000 - 5,600,000$
		$= \underline{\text{Shs.12, 500,000/=}}$

- vi. *Capital employed = Fixed assets + Working capital*

$$= 15,600,000 + 12,500,000$$

COMMERCE MADE EASY.

= Shs.28, 100,000/=