**MARKING GUIDE**

**800/1**

**COMMERCE**

Paper 1

**Jul/Aug. 2016**

2½ hours



**UGANDA TEACHERS’ EDUCATION CONSULT (UTEC)**

**Uganda Certificate of Education**

COMMERCE

**Paper 1**

2 hours 30 minutes

**INSTRUCTIONS TO CANDIDATES:**

*This paper consists of two Sections* ***A*** *and* ***B****.*

*Answer* **all** *questions in section* ***A*** *and any* **four** *questions from sections* ***B****.*

*All questions in section B carry equal marks.*

*You will lose marks for untidy work.*

*Answers to the questions must be written on the answer sheet provided.*

**SECTION A: (20 MARKS)**

1. A builder employed in a construction company who constructs a house for his own use is engaged in;

**D**

1. Indirect service
2. Indirect production
3. Direct service
4. Direct production

1. The most essential characteristic of money is;

**A**

1. Acceptability
2. Durability
3. Portability
4. Divisibility

1. A debit note is issued to correct;
2. An undercharge on an invoice

**A**

1. An overcharge on an invoice
2. An undercharge on a statement
3. An overcharge on a statement

1. Which one of the following reasons does not justify the existence of parastatal enterprises?

**C**

1. To provide goods and services not being provided by the private sector.
2. To enable the government control the distribution of certain commodities.
3. To enable the government effectively control the profits earned by the private enterprises.
4. To provide goods and services at relatively fair prices.

1. The retailers who move on foot while carrying goods for sale from door to door are called;
2. Hawkers

**C**

1. Mobile shops
2. Peddlers
3. Market vendors
4. Which one of the following is the safest means of payment?
5. Cash

**B**

1. Crossed cheque
2. Bearer cheque
3. Order cheque
4. Apio sold goods to Musa on credit, a bill of exchange was sent to Musa. Which term refers to Musa?
5. Drawer

**C**

1. Payee
2. Drawee
3. Creditor

1. Goods were invoiced by the seller at shs. 270,000 but some items valued at shs. 130,000 were omitted. A seller corrects this error by preparing a;
2. Credit note of shs. 140,000
3. Debit note of shs. 140,000
4. Debit note of shs. 400,000
5. Credit note of shs. 400,000
6. None
7. Stock, cash, debtors, bank balance in a business constitute;
8. Working capital

**C**

1. Current liabilities
2. Current assets
3. Fixed assets

1. Land and capital are two factors of production. Which of the following would provide a third factor?
2. Staff

**A**

1. Machinery
2. Premises
3. Vehicles

1. The practice of selling some goods in supermarkets below the cost price in order to attract customers to buy other goods as well is termed as;
2. Loss – leader policy

**A**

1. Discounting policy
2. Resale price maintenance policy
3. Pre – pricing policy
4. A refund of import tax earlier paid on raw materials which were used to produce goods that are being exported is called;
5. tax holiday

**C**

1. subsidy
2. customs draw – back
3. commission

1. What form of integration is created when a University joins a secondary school and a primary school to operate as one entity?
2. Forward vertical integration

**B**

1. Backward vertical integration
2. Vertical integration
3. Horizontal integration

1. In foreign trade the term F.O.B means that;
2. The quotation includes all transport and insurance costs up to loading on board
3. The exporter is a fellow of the organization of brokers
4. The price includes freight charges on board
5. The importer has freedom of buying for 1 month at the quoted price.
6. None

1. A trader’s net profit is 10% of the sales, while the gross profit is 20% of the cost of goods **SOLD.** If the cost of goods sold is shs. 150,000, what would be his expenses?
2. Shs. 180,000

**D**

1. Shs. 30,000
2. Shs. 18,000
3. Shs. 12,000
4. Which of the following is a method the government uses to protect consumers?
5. Fixing minimum prices
6. Fixing maximum prices

**B**

1. Fixing minimum profit trader can earn
2. Fixing maximum profits traders can earn

1. A retailer bought a collection of goods and paid shs. 160,000 after considering 20% trade discount. What was the price of goods before the discount?
2. Shs. 200,000

**A**

1. Shs. 32,000
2. Shs. 320,000
3. Shs. 20,000
4. Which one of the following is a means of sending funds to other people through the post office?
5. Standing order

**D**

1. Credit transfer
2. Mobile money
3. Money order

1. In business, a loss arising from irrecoverable debt is called;
2. Dead stock

**B**

1. Bad debt
2. Insolvency
3. Dead weight debt

1. A document whose ownership can be transferred to another person by endorsement is called a;
2. Delivery note

**D**

1. Transfer letter
2. Bill of exchange
3. Negotiable instrument

***20 x 1 = 20 marks***

**SECTION B (80 MARKS)**

1. (a) Define the following documents as used in international trade;
2. Indent  *(02 marks)*

*Indent is an international order for goods. It can be an open indent or a closed indent.*

1. Consular invoice  *(02 marks)*

*Consular invoice is an invoice that has been seen and signed by the consulate or embassy of the country to which goods are being exported.*

1. Proforma invoice  *(02 marks)*

*Proforma invoice. This is an invoice sent to the buyer when payment is to be made before the delivery of goods to enable the buyer process the customs formalities.*

1. Letter of credit  *(02 marks)*

*Letter of credit is issued by the importer’s bank to the suppler (exporter) giving guarantee that the importer can be allowed goods on credit and therefore has the ability to pay.* ***02 marks***

(b) Why do countries allow foreign trade?  *(08 marks)*

1. *To enable them have what they cannot produce.*
2. *To enable them dispose off their surplus goods and services*
3. *To enable citizens of a country get a variety of goods and services*
4. *To be able to practice specialization*
5. *To promote peace and unity through dependence*
6. *To create international understanding as people share ideas*
7. *To earn revenue through taxation*
8. *To create employment opportunities*
9. *To promote healthy competition among local and foreign producers.*

***Any 6 x 2 = 12 marks***

1. (a) Give six differences between a partnership business and a public limited

company. *(12 marks)*

***Differences between a partnership and a public limited company.***

1. *A partnership may take any name unless it is registered while a public limited company must use only the registered name.*
2. *A partnership is formed by mutual agreement which may or may not be written while a public limited company is formed by registration*
3. *A partnership does not have a separate legal entity while a public limited company has a separate legal entity.*
4. *Every partner has the right to manage the firm while in a public limited company management is done by the board of directors elected by share holders.*
5. *Membership of a partnership ranges from 2 – 20 for ordinary partnership, 2 – 50 for professional partnerships while membership of public liability companies ranges from 7 to infinity*
6. *Partners are jointly and severely liable for the debts of the firm to no limit apart from limited partners while in a public limited company, share holders are limited to the capital they contributed.*
7. *Transfer of ownership or capital in a partnership is by consent of all partners while in a public limited company, shares are freely transferable*
8. *In partnerships, if an active partner dies, retires, the firm dissolves while in a public limited company, there is continuity.*
9. *Members are invited to subscribe for shares through a prospects under public limited companies un like for a partnership.*
10. *Public limited companies are required by law to publish their accounts whereas partnerships are not.*

***Any 6 x 2 = 12 marks***

**(b) Explain why partnership business is not common in Uganda. *(08 marks)***

1. *Liability of partners is unlimited except for limited partners.*
2. *Mistakes made by any partner are binding to all*
3. *Profits are shared by all*
4. *Retirement or bankruptcy or death or insanity of any partner leads to dissolution*
5. *Disputes or disagreements among partners may wreck the firm*
6. *Limited expansion due to limited capital*
7. *Slow decision making*

***Any 4 x 2 = 8 marks***

1. (a) Explain four types of integration of firms.  *(08 marks)*
2. ***Consolidation or complete amalgamation.*** *Is the one that involves the dissolution of the business firms intending to combine and the cration of an entirely new company.*  ***(02 marks)***
3. ***Absorption or take over.*** *This is where one firm takes over the assests and business of another which loses its indentity in favour of the one which has taken over control.*  ***(02 marks)***
4. ***Holding company.***  *This is where one company acquires majority shares in other companies.* ***(02 marks)***
5. ***Cartel.*** *This is an arrangement where various firms dealing in similar products agree to sell their products at an agreed price through the central selling agency.* ***(02 marks)***
6. ***Consortium.***  *This is where two or more firms form a temporary joint venture for the purpose of undertaking a complex task, after which the arrangement is dissolved.*  ***(02 marks)***

**(b) State six reasons why firms integrate?  *(08 marks)***

1. *To raise more capital*
2. *To withstand stiff competition*
3. *To practice specialization*
4. *Staff welfare improvement*
5. *Better use of modern equipment*
6. *To increase production and maximize profits*
7. *To widen their market*
8. *To diversify their business activities*
9. *To obtain raw materials cheaply*
10. *To enjoy discounts on a large scale.*

***Any 6 x 2 = 12 marks***

1. **(a) Distinguish between demand and supply. *(04 marks)***

*Demand is the desire backed by the ability of a consumer to buy a given commodity at a given price in a given period of time.* ***(02 marks)***

***While***

*Supply is the willingness and ability of a producer to sell or offer to the market a given commodity at a given price in a given period of time.* ***(02 marks)***

(b) Give eight factors that influence the supply of a given commodity. *(16 marks)*

1. *Price of the commodity*
2. *Cost of production*
3. *Demand or size of the market or population*
4. *Number of producers*
5. *Price of other commodities*
6. *Gestation period*
7. *Natural factors*
8. *Government policy*
9. *Political environment*
10. *Level of technology*
11. *Objectives of the producer or firm*
12. *Working conditions or environment*
13. *Expectations of future price changes*

***Any 8 x 2 = 16 marks***

1. **(a) Under what circumstances may a cheque be honoured by a drawee?**
2. *When the drawer has enough funds on his or her account*
3. *When the cheque is valid i.e. before six months from the date it was written*
4. *When the signature of the drawer is the same as the specimen signature*
5. *When the amount in words is the same as the amount in figures*
6. *When the cheque is not mutilated or defaced.*

***Any 4 x 2 = 8 marks***

**(b) Explain the problems faced by commercial banks in Uganda.**

1. *Low deposits, few people use banking services*
2. *Bad debts. Debtors are reluctant to pay loans*
3. *Political instability, some parts are not accessible by banks*
4. *High rates of inflation which eats away the value of deposits*
5. *High interest rates which discourage the would be borrowers*
6. *Forgery and theft by bank employees which results in massive loss of money*
7. *High level of conservatism and poor saving habit among Ugandans.*

***Any 6 x 2 = 12 marks***

1. (a) Mention five principles of cooperatives.  *(10 marks)*
2. *Open and voluntary membership, memberships is open to all those who can fulfill the by - laws of the society*
3. *Democratic administration, one man, one vote*
4. *Dividend payments; payment of dividends depends on each member’s sales to the cooperative not how much capital contributed*
5. *Limited interest on share capital no interest is paid on members’ capital contribution*
6. *Service motive, established primarily to render services to its members general public not for profit motive.*
7. *Cooperation with other cooperatives*
8. *Education*

***Any 5 x 2 = 10 marks***

**(b) State five functions of cooperatives societies.**

1. *Enables people establish their own retail from which they buy items cheaply*
2. *Profits earned are shared among members*
3. *Members are trained in skills of managing and running the business*
4. *Provides loans to individual members at reasonable rate of interest*
5. *Storage of produce*
6. *Provision of tools, seeds, fertilizers for produces cooperatives*
7. *Marketing farmers produce.*

***Any 5 x 2 = 10 marks***

1. (a) Explain the principles of insurance companies.  *(10 marks)*
2. *Utmost good faith*
3. *Indemnity*
4. *Doctrine of proximate cause*
5. *Subrogation*
6. *Insurable interest*

***5 x 2 = 10 marks well explained***

(b) State five problems faced by insurance companies in Uganda. *(10 marks)*

1. *Many people are not well sensitized about insurance business*
2. *Loss of confidence in insurance companies by many people because of reluctance to compensate the insured in case of a loss*
3. *High rate of inflation in the country which reduces the value of money over time hence making indemnity meaningless*
4. *Limited market for insurance policies due to wide spread poverty in the country*
5. *Insufficient capital by insurance companies to cover big losses or risks*
6. *The scope of insurance business is narrow i.e. policies offered are normally non – life*
7. *The benefits of insurance are invisible i.e. they can only be realized when there’s a loss.*

***Any 5 x 2 = 10 marks***

1. **(a) Define an income statement as used in Commerce.  *(04 marks)***

*An income statement is a document which shows the gross profit or gross loss, net profit or net loss of a business at a given period of time.*

(b) The following information was extracted from the books of OB traders Limited;

Turn over shs. 984,000/=

Margin 25%

Expenses shs. 49,200/=

Calculate the business’s

1. Total cost of sales.  *(04 marks)*

*Cost of sales - turn over - Gross profit* ***(01 mark)***

*Cost of sales = 984000 – (25% of turnover)*

*Cost of sales = 984000 – 0.25 turnover*

*Cost of sales = 984000 – (0.25 x 984000)*  ***(01 mark)***

*Cost of sales = 984000 – 246000*  ***(01 mark)***

*Therefore, cost of sales = 738,000 shillings*  ***(01 mark)***

1. Gross profit

*Gross profit = sales – cost of sales* ***(02 marks)***

*Gross profit = 984000 – 738000*  ***(01 mark)***

*Therefore, Gross profit = 246,000 shillings*  ***(01 mark)***

1. Net profit

*Net profit = Gross profit – Expenses* ***(02 marks)***

*Net profit = 246000 – 49200*  ***(01 mark)***

*Net profit = Shs.196,800*  ***(01 mark)***

1. Net profit as a percentage of turnover.  *(04 marks)*

*= * ***(02 marks)***

*= * ***(01 marks)***

= ***Therefore, net profit = 20%*** ***(01 mark)***

**END**