THE UNITED REPUBLIC OF TANZANIA

NATIONAL EXAMINATIONS COUNCIL OF TANZANIA

ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

052/2 **COMMERCE 2**

(For Both School and Private Candidates)

Time: 3 Hours **ANSWERS** **Year: 2011**

Instructions

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

1. (a) State four important features of Sole Proprietorship.

A sole proprietorship is a business that is owned and managed by one individual. One key feature of a sole proprietorship is single ownership, meaning the owner is responsible for all business operations, decision-making, and financial commitments. This type of business does not have shareholders or partners, giving the owner full control over the direction and management of the enterprise.

Another important feature is unlimited liability, which means that the owner is personally responsible for any debts or losses incurred by the business. If the business fails or faces financial difficulties, the owner's personal assets, such as savings or property, can be used to settle business obligations. This creates a higher financial risk for the sole proprietor compared to other business structures like corporations or partnerships.

A sole proprietorship also has direct control, allowing the owner to make quick business decisions without consulting others. This enables the business to adapt to market changes, respond to customer needs promptly, and implement new strategies efficiently. The simplicity in management and decision-making is one of the key reasons many individuals prefer this form of business.

Lastly, a sole proprietorship has a limited lifespan, meaning its existence depends entirely on the owner. If the owner retires, falls ill, or passes away, the business may cease to operate unless arrangements are made for someone else to take over. Unlike corporations that continue existing regardless of ownership changes, sole proprietorships are closely tied to the individual running them.

(b) Explain five sources of capital available to a sole trader.

A sole trader can raise capital through personal savings, which is one of the most common and convenient sources of business funding. Many sole proprietors start their businesses using their personal savings, as it does not require borrowing or paying interest. This method is risk-free and allows the owner to have complete control over the business without financial obligations to lenders. However, personal savings may be limited, restricting the business's ability to expand.

Another source of capital is borrowing from family and friends. This is often a flexible and low-cost option since loans from relatives or friends usually come with minimal or no interest. The repayment terms can also be negotiated informally, reducing financial pressure on the business. However, this method can sometimes strain personal relationships if repayment becomes difficult or expectations are not met.

Bank loans are also a common source of capital for sole traders. Financial institutions provide business loans based on the borrower's creditworthiness, business viability, and ability to repay. Bank loans allow the sole trader to access larger amounts of capital for expansion, equipment purchases, or operational expenses. However, they often require collateral and interest payments, making them a more challenging option for new or small businesses.

Trade credit is another financing method where suppliers allow a sole trader to purchase goods and pay later. This is beneficial because it enables the business to operate without immediate cash flow while

continuing to sell products and generate revenue. Trade credit is usually extended based on the trader's reputation and business relationship with suppliers. However, failure to make timely payments can damage the business's credibility and affect future supplies.

Microfinance institutions also provide capital to sole traders, particularly those who cannot access traditional bank loans. These institutions offer small loans, often with more flexible terms and lower collateral requirements. They are especially helpful for small-scale entrepreneurs who need working capital for daily operations. However, interest rates may be higher than those of commercial banks, increasing the cost of borrowing.

(c) State five advantages and five disadvantages of sole trade.

A sole proprietorship is easy to establish and operate since it does not require complex legal procedures, registrations, or large capital investments. The owner has full control over decision-making, allowing for quick adjustments to business strategies and market changes. This flexibility enables the business to remain competitive and responsive to customer needs.

Another advantage of a sole proprietorship is that the owner enjoys all the profits generated by the business. Unlike partnerships or corporations, where profits are shared among multiple owners or shareholders, a sole trader keeps all earnings, providing a strong financial incentive to grow the business. Additionally, the business has greater privacy, as the owner is not required to disclose financial records or management decisions to the public or external stakeholders.
The simplicity in management is another key benefit, as the owner does not have to deal with complex structures or administrative challenges. Sole traders can make operational decisions quickly, implement new ideas, and focus on customer satisfaction without delays caused by organizational bureaucracy. This also allows for a personal connection with customers, leading to strong relationships and brand loyalty.

However, a major disadvantage of sole trade is the issue of unlimited liability. The owner is personally responsible for all debts and losses, meaning their personal assets can be used to cover business obligations. This financial risk makes sole proprietorships less secure compared to limited liability companies, where business assets and personal assets are separate.

Another disadvantage is limited capital, as sole traders rely on personal savings, loans, or credit from suppliers. Unlike corporations that can issue shares to raise funds, sole proprietors often struggle to secure large investments, which can limit business expansion. Without enough capital, the business may face difficulties in purchasing modern equipment, increasing inventory, or hiring employees.

The workload and stress of managing all business activities alone can also be overwhelming. A sole trader handles multiple responsibilities, including finance, marketing, customer service, and inventory management, leading to exhaustion and burnout. This can affect decision-making and business efficiency in the long run.

Another challenge is the lack of continuity. If the owner becomes ill, retires, or dies, the business may close, as there is no legal distinction between the owner and the business entity. Unlike corporations that have perpetual existence, sole proprietorships are highly dependent on the owner's presence and capabilities.

Lastly, sole traders face tough competition, especially from larger businesses with more resources, better marketing strategies, and advanced technology. Competing with well-established firms can be difficult due to limited financial resources, making it challenging to attract customers and sustain long-term growth.

2. (a) Enumerate the functions of an office.

An office serves as the central hub for communication within a business. It facilitates interactions between employees, customers, suppliers, and management through emails, phone calls, and meetings. Effective communication ensures smooth business operations and helps in decision-making.

The office also plays a crucial role in record-keeping by maintaining important documents such as invoices, contracts, employee records, and financial statements. Organized record-keeping ensures easy retrieval of information when needed and helps in compliance with legal and tax regulations.

Coordination of business operations is another essential function of an office. It ensures that different departments work together efficiently to achieve company goals. The office manages schedules, workflow, and internal processes, improving overall business performance.

An office also acts as a center for decision-making. Managers use office reports, financial data, and market research to make informed business strategies. Without a functional office, business decisions may be disorganized, leading to inefficiencies and poor performance.

Customer service is another key office function, as it serves as the point where clients can make inquiries, provide feedback, and resolve complaints. A well-organized office ensures prompt responses to customers, improving business reputation and customer satisfaction.

(b) Explain the principles of a good tax system.

A good tax system must be equitable, meaning it should distribute the tax burden fairly based on an individual's ability to pay. Higher-income earners should contribute more, while lower-income individuals should pay less to ensure social justice.

The tax system should also be convenient for taxpayers, ensuring that payment procedures are straightforward and not overly complicated. Simplified tax collection encourages compliance and reduces the cost of administration.

Certainty is another essential principle, meaning that taxpayers should clearly understand the tax rates, due dates, and legal obligations. A tax system with unclear rules can create confusion and lead to unintentional tax evasion.

Efficiency in tax collection is also important, ensuring that the cost of collecting taxes does not exceed the revenue generated. A good tax system should be designed to minimize administrative expenses while maximizing government revenue.

Lastly, a tax system must be flexible, allowing adjustments based on economic conditions. Governments should be able to modify tax policies to respond to inflation, recession, or changing business environments to ensure stability.

6. (a) Briefly explain the term marketing research.

Marketing research is the process of gathering, analyzing, and interpreting data related to market trends, consumer behavior, competitors, and business opportunities. It helps businesses understand customer needs, evaluate demand for products, and make informed decisions regarding production, pricing, and promotional strategies. By conducting market research, companies can reduce risks, identify emerging trends, and improve customer satisfaction. Effective research also allows businesses to anticipate changes in the market and adjust their strategies accordingly, ensuring continued success and competitiveness.

(b) Describe six marketing research processes.

The first step in marketing research is problem identification, where businesses define the specific issue they want to address. This could be declining sales, customer dissatisfaction, or identifying new market opportunities. Clearly defining the research problem helps in setting objectives and selecting the right research methods.

The second step is developing a research plan, which involves deciding on the research approach, data sources, and sampling techniques. Businesses determine whether to use primary data (gathered directly from consumers) or secondary data (obtained from existing reports, industry statistics, or government publications). The research plan ensures that the study is well-structured and cost-effective.

The third step is data collection, where researchers gather information through surveys, interviews, focus groups, observations, or online tracking. This step is crucial in obtaining accurate and relevant information that reflects the current market conditions. The reliability of marketing research largely depends on the quality of data collected.

The fourth step is data analysis, where collected information is processed and examined to identify trends, patterns, and relationships. Businesses use statistical tools, charts, and software to interpret the data and draw meaningful conclusions that can guide decision-making. Proper data analysis helps in identifying strengths, weaknesses, opportunities, and threats in the market.

The fifth step is reporting and presenting findings. After analyzing the data, businesses compile their results into a report that summarizes key insights and recommendations. The report helps management and marketing teams make informed decisions about product improvements, pricing strategies, and promotional campaigns.

The final step is decision-making and implementation. Businesses use the research findings to take action, such as launching a new product, adjusting marketing strategies, or expanding into new markets. Implementing research-driven strategies enhances competitiveness and increases the chances of business success.

(c) Identify three main methods of collecting primary data.

One method is surveys, where businesses distribute questionnaires to potential customers or conduct online polls to gather opinions about their products and services. Surveys provide structured data that helps in understanding customer preferences and expectations.

Another method is observations, where businesses monitor consumer behavior in real-life settings, such as retail stores, online shopping platforms, or social media. By observing purchasing habits and customer interactions, businesses can identify trends and improve their offerings.

A third method is focus groups, where selected individuals participate in discussions about a product, service, or marketing campaign. Focus groups provide detailed insights into consumer perceptions, attitudes, and emotional responses, helping businesses refine their strategies.

7. (a) Analyze five measures to be taken by a nation in order to control imports.

One measure is imposing tariffs, where the government applies taxes on imported goods to make them more expensive than locally produced products. This encourages consumers to buy domestic goods and supports local industries by reducing foreign competition.

Another measure is implementing import quotas, which set a limit on the quantity of specific goods that can be imported within a given period. By restricting the number of imported products, the government helps protect domestic industries and maintain a favorable balance of trade.

A nation can also control imports through subsidizing local industries, where the government provides financial assistance, tax exemptions, or reduced interest loans to domestic producers. This support enables local businesses to compete effectively with imported goods.

Strict quality and safety regulations can also be enforced to control imports. Governments may require imported goods to meet certain health, safety, and environmental standards before they can enter the local market. This discourages low-quality or hazardous products from being sold in the country.

Another measure is currency devaluation, where the government reduces the value of its currency relative to foreign currencies. This makes imports more expensive and exports cheaper, encouraging consumers to buy locally made products and increasing foreign demand for domestic goods.

(b) Elaborate five advantages of international trade.

One advantage is access to a wider variety of goods and services. Through international trade, countries can import products that are not available locally, providing consumers with more choices and improving their standard of living.

Another advantage is economic growth, as international trade generates revenue from exports, attracts foreign investments, and creates job opportunities. Countries that engage in global trade experience faster economic expansion and industrial development.

International trade also promotes technology transfer, where businesses gain access to advanced machinery, production techniques, and innovative processes from other countries. This leads to improved productivity and higher-quality products.

Another key advantage is strengthening diplomatic and economic relationships between countries. Trade agreements and partnerships foster cooperation, stability, and mutual benefits, reducing the likelihood of conflicts and enhancing global relations.

Lastly, international trade increases business competitiveness by exposing companies to global markets. Businesses that compete internationally must maintain high standards, improve efficiency, and adopt cost-effective strategies to succeed in the global marketplace.

8. (a) Briefly explain the term tax.

A tax is a mandatory financial charge imposed by the government on individuals, businesses, and goods to generate revenue for public services. Taxes fund essential sectors such as education, healthcare, infrastructure, and national security. Governments use taxation as an economic tool to regulate income distribution, control inflation, and promote business development. Different types of taxes exist, including income tax, corporate tax, sales tax, and customs duties, each serving specific economic functions.

(b) Explain the objectives for imposing taxes on individuals and firms.

One objective is to raise government revenue. Taxes provide funding for essential public services such as hospitals, schools, roads, and law enforcement, ensuring the smooth functioning of society and economic stability.

Another objective is to reduce income inequality. Progressive taxation ensures that higher-income earners contribute more, helping to redistribute wealth and support social programs for low-income individuals and families. This promotes economic fairness and reduces poverty levels.

Taxation also helps regulate economic activities. Governments impose taxes on harmful goods such as tobacco and alcohol to discourage excessive consumption, while reducing taxes on essential goods to make them more affordable for the population.

Another important objective is to control inflation. By adjusting tax rates, governments can regulate spending and investment levels in the economy. Higher taxes reduce disposable income, slowing down inflationary pressure, while lower taxes encourage spending and economic growth.

Lastly, taxes protect domestic industries. Import duties and tariffs help local businesses compete against foreign products by making imports more expensive. This encourages consumers to buy locally manufactured goods, supporting domestic industries and creating jobs.

(c) State four types of tax administered by Tanzania Revenue Authority (TRA).

One type is income tax, which applies to individuals and businesses based on their earnings. It includes personal income tax for employees and corporate tax for companies. This tax is crucial for funding government operations and social programs.

Another type is value-added tax (VAT), a consumption tax imposed on goods and services at different stages of production and distribution. Businesses collect VAT from consumers and remit it to the government. VAT ensures a continuous revenue stream and broadens the tax base.

Customs and excise duty is another tax administered by TRA, charged on imported and exported goods. This tax helps regulate international trade, protect local industries, and generate foreign exchange revenue for the government.

Lastly, corporate tax is imposed on the profits earned by businesses. Companies are required to pay a percentage of their net income to the government. Corporate tax ensures that businesses contribute to national development while maintaining a fair business environment.