

**MAY/JUNE 2007 COMMERCE (421)**  
**QUESTIONS AND ANSWERS**

**QUESTIONS:**

- 1a. Explain FIVE factors to be considered in setting up a retail trade.
- b. Explain FIVE functions of a retailer to the consumer.

**ANSWERS:**

- 1(a) The factors to be considered in setting up a retail trade are:
- i. **Capital:** - Money is very important for starting a retail business. The amount of capital on hand will determine the size of a retail trade. Adequate arrangements should be made to replenish the capital when it is exhausted or expansion is needed.
  - ii. **Location/Environment:-** The business should be located in a good convenient place where customers can easily have access to it. The nature of goods to be sold and types of consumers will influence the location of retail shop. Infrastructural facilities and market site will also affect the location.
  - iii. **Source of stock:-** A reliable source of supply of the stock of goods to be sold should be considered. This will ensure a steady and reliable source to obtain goods.
  - iv. **Experience or skill or knowledge:** - There is need for a prospective retailer to have insight into the type of retail business he intends to go into. He can acquire such knowledge or skill from apprenticeship.
  - v. **Pricing policy:** - Decision as to whether high profit margin will be introduced or discount will be granted by the retailer. He has to note that high prices which will bring high profit can affect the rate of turn over of stock.
  - vi. **Storage:** - A safe place to keep goods before displaying them in the shop should be considered. This is for security purpose and price stability.
  - vii. **Operating license/Permit:** - If there is any legal requirement to be fulfilled before commencement of operations, it must be obtained.
  - viii. **Employment of assistant:** - This depends on the size of the shop and how busy it is. Whenever the need arises, an assistant may be engaged.
  - ix. **Lay-Out of the shop:** - The plan or design of the shop should be attractive. The retailer must conform to the methods of display of goods adopted by other retailers.
  - x. **Government policy/Regulation:** - The prevailing government policy will influence the type of retail trade to be set up.
  - xi. **Advertising or sales Promotion:** - Decision is to be made if the goods will be advertised, the method or medium to use e.t.c. this is to create awareness for the goods.
  - xii. **Records keeping:-** Keeping the proper records of goods bought and sold, expenses incurred on them e.t.c. This will enable the retailer know if profit or loss is being made.
  - xiii. **The Quality of goods to stock:-** the retailer should consider the location of his store and the quality of the population before deciding on the quality of the goods to stock. A lower class buyer will usually require cheap goods while people in high class area will not go for such goods.

- xiv. **Type or nature of goods to be sold:-** Consideration has to be given on the type or nature of goods to be sold. Some goods such as fresh or frozen goods are of perishable nature and require special handling and storage. Some goods will require considerable technical knowledge on the part of the retailer like radios, television, and video e.t.c.
- xv. **Credit facilities or terms of trade:** - The retailer should consider whether he wants to grant credit facilities to customers or sell strictly on cash basis.
- xvi. **Hours of Business:** - Some goods are mainly sold in the morning period while others are bought mainly in the evening period. The intending trader should consider when to open and close for business in a day of the week.
- xvii. **Means of Transport:** - How to get to the area the shop is sited and means of delivery of goods to consumers should be considered.
- xviii. **Relationship with Customers:-** The intending retailer should consider the methods to adopt to impress, recognize and respect the customer to enable him uphold his patronage. He should not overlook that the customer is the KING and does no wrong.

(b) **FUNCTIONS OF A RETAILER TO THE CONSUMER ARE:**

- i. He stocks variety of goods
- ii. He sells in units
- iii. He brings the goods closer to the customer
- iv. He completes the process of production by weighing, measuring, labeling and packaging.
- v. He advertises the goods to create awareness for the consumer
- vi. He allows credit facilities to the consumer
- vii. He educates, informs, demonstrates and advices the consumer on how to use certain goods especially goods that need technical knowledge.
- viii. He performs after sales service to the consumer like delivery, repairs and installation services.
- ix. He opens at convenient hours for the consumer. He opens very early in the morning and stays till late in the evening everyday including weekends and public holidays.

**QUESTIONS:**

- 2a. What is insurance?
- b. List and explain the basic principles of insurance.

**ANSWERS**

- 2a. Insurance is a contract which one party undertakes to indemnify another against loss, damage or liability arising from an unknown or contingent event.

Or

Insurance is a provision made for the protection of persons or objects against risks.

Or

Insurance is a pool of risks whereby many people who feel that they may suffer one risk or the other contribute money to create a common fund and indemnify any of them that may suffer any of the insurable risks.

Or

Insurance is an agreement whereby a party known as the insurer agrees to indemnify another party known as the insured/assured for the risk that he may likely suffer.

b. **THE BASIC INSURANCE PRINCIPLES ARE:**

1. **INSURABLE INTEREST.**

- A person can insure any property in which he will suffer a physical or financial loss if the event to be insured against occurs.
- A person can only insure any property upon which such a person has a claim or title to.
- However, a business partner can assure the life of a fellow partner and
- A husband can assure the life of his wife or children.

2. **UTMOST GOOD FAITH (Uberrimae fides)**

- A person buying an insurance must disclose to the insurance company, whether asked for or not, all matters concerning the object of insurance which will help the insurer determine whether or not to cover the risk.
- The insurance company is required to disclose the proposer all facts material to the risk to be covered.
- Failure to disclose all the relevant facts void the contract.
- All contracts of insurance depends on the correctness of the details stated on the proposal form

3. **PROXIMATE CAUSE**

- There must be close connection between the loss actually suffered and the risk for which insurance has been taken out.
- The insurance company will not be liable if risks other than those insured are involved.
- Claims must be related to policy.
- No claims arises if the immediate cause of loss is not related to the policy

#### 4 **CONTRIBUTION:**

- If an object is insured with more than one insurance company, the amount claimable from individual insurer will be limited to their individual rate – able proportion of the loss.
- The insured should not make profit from the agreement when he is indemnified
- The insurer who has paid more than his fair share of the loss can recover the difference from the other insurer(s) afterwards
- If the insured recovers a sum greater than his actual loss, he holds the surplus in trust for the benefit of the insurer in proportion to their individual rights.

#### 5. **SUBROGATION**

- It is the right which the insurance company has to stand in a place of the insured and avail itself to certain legal rights and remedies which the insured has against a third party who is liable for the occurrence of a loss.\
- This is the right which the insurance company has over the insured who has been fully indemnified.
- The insurance company reserves the right to take over the rights and remedies of the policy holder after compensating him.

#### 6. **INDEMNITY**

- The principle states that the insured should be restored to his former position before the incident occurred.
- The insurer should be indemnified to the limit of the amount covered by the policy.
- The insured should not make profits out of the insurance.
- The principle of indemnity, however, does not apply to the life and personal accidents insurance.

#### 7. **POOLING OF RISKS**

Compensation should be paid to those who suffer losses from the contribution made into a common fund by a number of insurers.

#### QUESTIONS

- 3a. Explain FIVE media of advertising.
- b. Enumerate the importance of advertising.

#### ANSWERS

- 3a. The media of advertising are:-
  - I. **RADIO**
    - It is a method of verbal advertising
    - It is carried in different languages

- It has a wider coverage
- It is flexible because it has the ability to change message quickly.
- Radio announcement only appeals to the ear, the picture is not seen
- It is not good for product demonstration
- It is relatively cheap

## **II. TELEVISION**

- Advertising through the television appeals to the senses of sight and hearing.
- It easily captures the attention of the audience
- The viewers are able to understand simply and quickly
- It has a wider coverage
- It is an expensive medium of advertising
- The pictures and impressions of a television are too brief

## **III. NEWSPAPERS**

- It is a printed medium of advertising
- It has a wider coverage
- It has a relatively long life because it can be stored
- Advertisement can be read as many times as possible
- Only those who are literate can read printed advertisements
- Newspaper advertisements is expensive

## **IV. MAGAZINES AND JOURNALS**

- Pictures of products are colorful, hence captivating to the readers
- It can be stored
- It can be read as many times as possible
- Information such as uses of products, where obtainable and price can be copied down
- It can be read only by those who are literates
- Cost of advertising is high
- Magazines and journals are periodicals

## **V. HOARDING OR POSTERS OR BILL BOARDS**

- It is a method of advertising goods on large posters pasted on very large boards in conspicuous postings along major roads.
- The pictures are bold and bright to capture attention very easily
- Words describing the advertising are bold, few and easy to read and understand
- Hoarding is found mainly along the roads, market places, major roundabouts, motor parks, railway stations, inside bus-stop shelters e.t.c.
- The message on hoarding boards are too brief and unable to give full information about the product
- It is expensive to erect

## **VI. CINEMA**

- Advertisement on cinema combines sight and sound
- It is usually focused to a target audience like teenagers

- It adds color and is distinct because of its large screen with magnified images
- Only those in the cinema hall can see the advertisement
- The value of the product can be projected out of proportion by means of electrical and photographic devices
- It is not common in rural areas

#### **VII. CATALOGUES**

- It shows beautiful pictures of goods
- The coloration can appeal and arouse the interest of customers
- It is persuasive in nature
- It is expensive to produce
- Its circulation is limited

#### **VIII. LEAFLETS, HANDBILLS AND CIRCULARS**

- These are lesser than catalogues in terms of cost and contents
- They are single leaf of papers with goods which may or may not be drawn on them
- They are educative and informative
- They have wide coverage in circulation
- They can be easily destroyed if they fall into wrong hands

#### **IX. MOBILE SHOPS AND LOUD SPEAKERS OR BELL**

- These are vans used as mobile shops with loud speakers on top of them for purpose of advertising their products
- These vans go to remote parts of the country advertising goods
- They use melodious music and some dancers to attract customers
- Use of products can be attended to
- Immediate sales can be made
- It involves high overhead cost

#### **X. WINDOW DISPLAY**

- This is a method of displaying goods on the windows, on shelves, in front of houses e.t.c.
- Goods are correctly arranged so that they can attract customers passing in front of them
- It brings about impulsive buying
- It is appealing and persuasive
- It involves high overhead costs

#### **XI. TRADE FAIR AND EXHIBITIONS**

- Goods are displayed in stands of different firms
- Products are displayed, tested and demonstrated
- Orders can be taken at trade fairs and exhibitions
- They attract international and local producers and customers
- They are very expensive to organize.

## **XII. FREE SAMPLES**

- Newly made products are distributed to consumers free of charge
- Consumers are able to test the products
- Impressions and images of such products are printed on samples
- Samples should be singlet, pens, pencils, caps, etc.
- Recipients of these gifts go about with them and thereby help to advertise the goods.

## **XIII. MECHANICAL DEVICES OR NEON SIGNS**

- Bright lights are used to project the products
- Products are made to make certain movement which projects the nature and image of such products.
- It makes use of electrical devices or techniques which easily capture the attention of the public.

(b) The importance of advertising is:-

- i. Advertising makes the goods and services known to the public.
- ii. It creates demand (market) for the product or service
- iii. It informs and educates the public on how to make use of the product or service
- iv. It increases sales
- v. It leads to large scale production
- vi. It provides employment opportunities for people
- vii. It results to high profit making
- viii. It enables competitors increase the quality of their goods
- ix. It helps to create taste for goods and services, which were disliked
- x. Advertising helps people to maintain product or service loyalty
- xi. It increases the alternative choices of consumers by making them aware of the various goods and services available or it helps to increase consumer freedom of choice by making them aware of the existence of many different products
- xii. It helps consumers (public) to know the usefulness of various goods or services
- xiii. It informs the public of any changes in commodity like its name, uses etc.
- xiv. It also aims at influencing wholesalers and retailers to stock variety of commodities in their shops
- xv. It leads to cheaper prices of goods
- xvi. Advertising helps to subsidize the cost of news to the people through the provision of more revenue to the mass media
- xvii. In a bid to advertise their products to greater number of people, firms sponsor , selected radio and television programmes to the benefit of the people

## **QUESTIONS:**

4. Write short notes on the following:
  - (i) Central bank
  - (ii) Mortgage bank
  - (iii) Commercial bank
  - (iv) Current account
  - (v) Savings account

## ANSWERS:

### I. **CENTRAL BANK**

- It is a bank that coordinates and controls the operations of the financial system of the country
- There is only one central bank in each country
- It acts as the government banker
- The central bank is an apex bank
- It makes advances of money to the government and advises the government on monetary matters
- It formulates needed banking regulations to be followed by all other banks
- It issues the arrangements and distribution of currency through the commercial banks
- It maintains accounts for all the other banks in the country
- It acts as lender of the last resort to the banking system
- It is the banker to central bank of other countries
- It controls the flow of cash in circulation

### II. **MORTGAGE BANK**

- It is a financial institution established for the acceptance of fixed deposits from members of the public
- It has the aim of encouraging the public members to build their own houses by offering them long term loans
- Mortgage banks could also be called building societies
- They construct and provide houses for the low income group
- They provide social amenities to the low income earners
- Members of the public are encouraged by mortgage banks to save their money

### III. **COMMERCIAL BANKS**

- This is a financial institution set up for keeping and lending money to people. It is owned by individuals, organizations or governments for the main purpose of making profits
- Commercial banks accept deposits
- They provide safe custody of other valuables like gold, jewelries, wills, deeds etc.
- They lend money to industrialist, business men and other public members in form of loans and overdraft
- They act as agents of employment to customers
- They provide agency services through standing or banker's order
- They issue traveler's cheques
- They provide foreign exchange services
- They discount, purchase and sell bonds, securities etc. on behalf of their customers/brokerage services
- They render credit transfer services
- They act as referees for customers
- They offer advice to customers
- They provide overseas intelligence reports for their customers



#### IV. **CURRENT ACCOUNT**

- It is a type of account operated with the use of cheques
- It does not attract interest but charges to the bank for its services
- Money deposited into this account can be withdrawn at any time and as many times as possible in a month.
- Current account holders enjoy overdrafts
- An application is made to the bank to open it
- Referees are provided to the bank
- Specimen signature card and other forms are completed by prospective customer
- It is mostly used by business men for transactions
- Initial deposit is made
- Account number and cheque book are given

#### V. **SAVINGS ACCOUNT**

- Saving accounts are operated aiming at attracting small deposits from share holders
- They are operated to encourage savings among customers
- Holders of these accounts enjoy interest from the bank
- Low income earners, students etc. always operate this type of account
- Little amount could be used to open this type of account

#### QUESTIONS:

- 5a. Explain the necessary factors considered in choosing a means of transport for a given commodity.
- b. Explain FIVE distinguishing features between tramps and liners

#### ANSWERS:

- 5(a) The necessary features to be considered in choosing means of transport for a given commodity are:-
- i. Distance/location- the location where the goods are needed will help to determine the choice of transport. Where the place is far, air may be chosen.
  - ii. Unit value of goods- valuable goods like minerals need to be carried as quickly as possible to avoid pilfering
  - iii. The nature of the goods- Perishable items need to be carried quickly to minimize spoilage while bulky goods are carried by rail or road
  - iv. Urgency/speed/time with which the goods are needed- Fast means of transport is needed to convey goods needed urgently e.g. drugs
  - v. Available means- The means of transport available where the goods are located is what is used
  - vi. Safety of the goods- a means of transport that will ensure safety movement of the good is also a factor to consider
  - vii. Cost of transport- a trader will prefer a cheaper means of transport
  - viii. Customer's preference- the choice of the customer will also influence the choice of transport.

- ix. Destination- there is such places that have no other means of transport than by road
- x. Volume or quantity of goods will also determine the choice of transport for a given commodity i.e. the space to occupy.
- xi. The weight of goods e.g. light or heavy

(b) The distinguishing features between tramps and liners

<b>TRAMPS</b>	<b>LINERS</b>
i. They have no fixed routes	They have fixed routes
ii. They have no fixed time for movement	They have fixed time for movement
iii. They are usually owned by individuals	They are owned by organizations or firms or shipping line
iv. They are often chartered by traders for a given or particular voyage	They are not often chartered
v. They operate as sea taxis.	They don't operate as sea taxis
vi. Their charges are not fixed	They have fixed charges
vii. They carry general cargo to wherever there is demand	They carry bulky cargoes along high seas and oceans
viii. They are similar in sizes than liners	They are bigger than tramps
ix. They carry cargos	They carry cargos and passengers
x. They are less costly	They are costly

- 6 (a) Explain the importance of commerce to the Nigeria Economy.  
 (b) With the aid of a diagram, explain the forms of production.

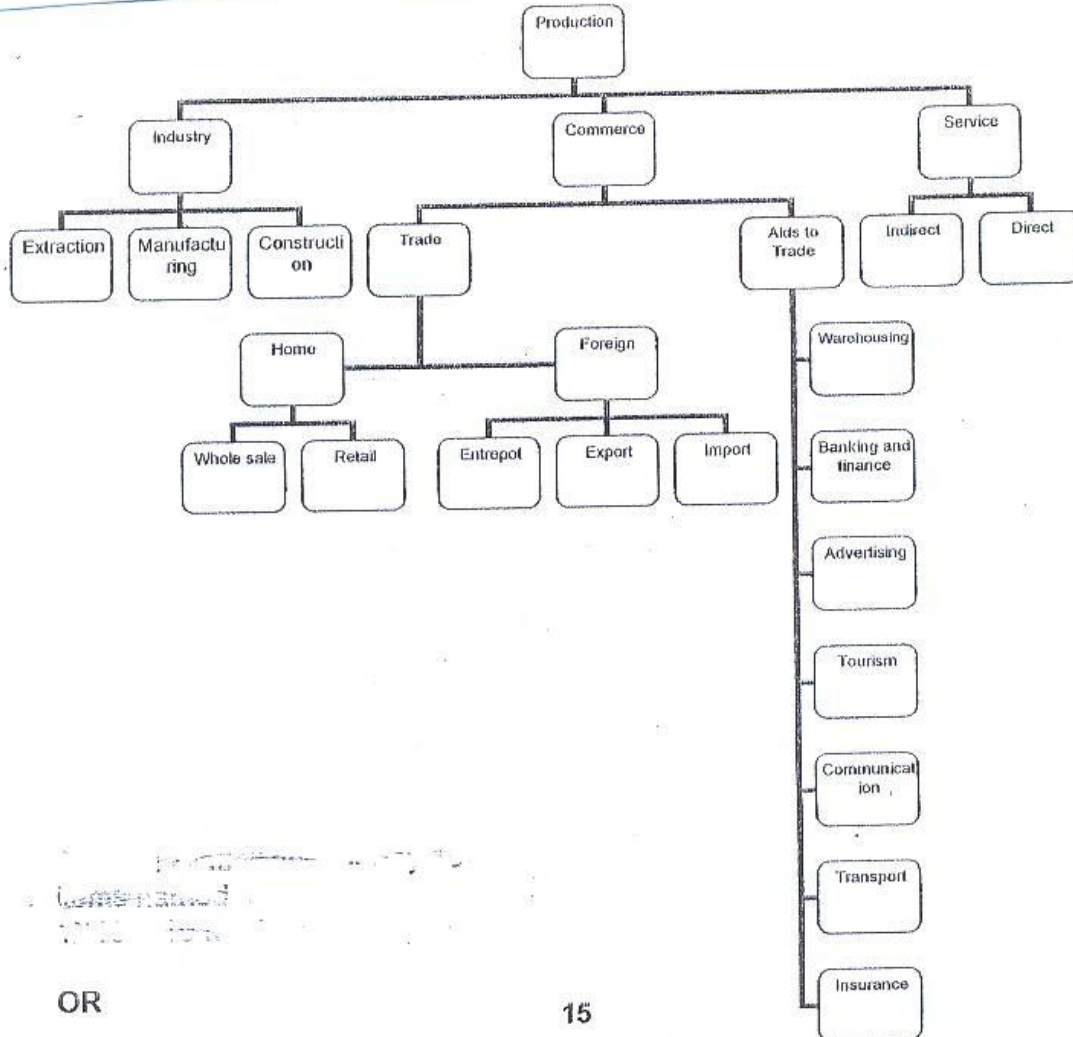
**ANSWERS**

6(a) The importance of Commerce to the Nigeria Economy.

- (i) Commerce facilitates the exchange of goods and services through trading.
- (ii) It makes storage possible through the ware housing facilities.
- (iii) Commerce provides employment opportunities for a lot of people.
- (iv) It increases the standard of living of the people through provision of variety of goods.
- (v) Commerce helps to finance businesses by giving out loans through banks to businessmen.
- (vi) it is an aid to movement of goods from area of abundance to the area of scarcity through transportation.
- (vii) Commerce provides a cover against business risks through various types of insurance.
- (viii) Commerce enhances cooperation both internally and externally.
- (ix) It helps to develop the infrastructural facilities of the nation.
- (x) It generates revenue for the nation by way of import and excise duties, rates on market stalls, licences and other forms of taxes.

- (x) It promotes the rapid transfer of both oral and written information through the use of courier services, telephone, telex messages, etc.

6(b)



OR

7. (a) **Define Communication**  
(b) **Explain the importance of communication to a businessman.**

#### ANSWERS

- 7 (a) Communication is the transfer of information whether written or oral between two parties.  
Communication is not complete until the receiver understands the information passed.  
Feedback is necessary in communication (or response).

(b) The importance of communication to a businessman are:

- i. Communication enables orders, messages and information to be passed quickly and accurately between businessmen.
- ii. It links the whole world businessmen and commercial activities are promoted.
- iii. Feedback is obtained from the consumers and passed on through the channel to the manufacturer and thus ensures improvement of products standard.
- iv. It makes possible contact among people of different nations and thus widens the scope of distribution and trade.
- v. It makes new and useful products know, thus increasing demand.
- vi. It enhances mail order business, or cash on delivery.
- vii. It is a form of proper interaction and cooperation between employers i.e. businessmen and the employees.
- viii. It facilitates payment through the post office services of postal order, money order and telegraphic money order.
- ix. It enhances information on government economic and commercial policies to get to the people which will help the businessmen on the long run.
- x. It reduces the risk and cost in travelling for business and other transactions.
- xi. It supplies information about products.
- xii. It provides relevant information for decision making in business.
- xiii. It aids on the job training and development.
- xiv. It reduces the cost of staff movement.
- xv. It facilitates the advertisement of goods and services.

8. (a) **Outline the disadvantages of partnership**  
(b) **Explain the procedures involved in dissolving a partnership.**

#### ANSWERS

8(a) The disadvantages of partnership are:-

- i. Disagreements on some issues can affect the smooth running of the business.
- ii. The death of a general partner could dissolve the partnership.
- iii. There is unlimited liability because where the business is bankrupt, partners will lose capital contributed and personal properties.
- iv. In general partnership, the misconduct of a partner will affect all others.

- v. A partner cannot make secret profit.
- vi. There is limited capital when compared with companies.
- vii. Introduction of a new partner may end the business.
- viii. There is always a slow decision making process.
- ix. The partners do not show the type of excitement and enthusiasm a sole proprietor will show to his business. There is therefore a decrease in personal interest.

(b) The procedures involved in dissolving a partnership:

1. Dissolution provided by partnership Act Section 32 of the partnership Act provides for dissolution of partnership as follows:

Subject to whatever terms or agreement between partners in the Articles of partnership, a partnership is dissolved.

- i. If entered into for a fixed term, by the expiration of that term.
  - ii. If entered into a single venture or undertaking by the termination of that venture or understanding.
  - iii. If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership.
  - iv. By the death or bankruptcy of any partner.
  - v. If the object for which the partnership business is carried on becomes illegal.
2. The court can decree dissolution of partnership on an application by a partner in any of the following cases:
    - i. When a partner is adjudged a lunatic by inquisition.
    - ii. When a partner is incapable of performing his part of the partnership contract.
    - iii. When a partner is quilt of conduct regarded by the court as calculated to prejudicially affect the carrying on of the business.
    - iv. When a partner willfully or persistently commits a breach of the partnership agreement.
    - v. When the partnership business can only be carried on at a loss.
    - vi. When circumstances have arisen which in the opinion of the court rendered it just and equitable to dissolve the partnership.
  9. (a) What is Chain of Distribution?  
 (b) Explain the various chains of distribution that are available to manufacturers.

## ANSWERS

- a. Chain of distribution can be defined as the stages which goods or products pass through from the point of production to the point of consumption.

- b. The various chains of distribution that are available to manufacturers are:
- i. Manufacturer → Agent → Wholesaler → Retailer → Consumer
  - ii. Manufacturer → Wholesaler → Retailer → Consumer
  - iii. Manufacturer → Retailer → Consumer
  - iv. Manufacturer → Consumer.
  - v. Manufacturer → Agent → Consumer
  - vi. Manufacturer → Wholesaler → Consumer.
  - vii. Manufacturer → Agent → Retailer → Consumer
  - viii. Manufacturer → Agent → Wholesaler → Consumer

Question: 10 (a) List five documents that are associated with limited liability companies.

- (b) Explain THREE contents each contained in Article of Association, Memorandum of Association and Company prospectus.

Answer 10 (a) The Documents that are Associated with Limited Liability Companies are:

- i. The memorandum of association
- ii. The articles of association
- iii. The prospectus
- iv. The certificate of incorporation
- v. Trading certificate
- vi. The register of shareholders
- vii. Statutory Declaration
- viii. Register of Directors

10 (b) **ARTICLES OF ASSOCIATION**

- i. The method of issue, transfer and forfeiture of the company's shares.
- ii. The right and responsibilities of shareholders.
- iii. The rights and responsibilities of directors
- iv. How directors and other officers may be appointed or elected.
- v. The procedure for accounting and auditing the company's books
- vi. How the remunerations of auditors may be fixed.
- vii. How the minutes of the Annual General Meeting may be recorded and preserved.
- viii. Method of settling disputes that may arise in the company
- ix. How dividends may be fixed and distributed
- x. Procedure for winding up the company in the event of liquidation

## MEMORANDUM OF ASSOCIATION

- i. Name of the company
- ii. Registered office address of the company
- iii. The objectives of the company
- iv. The amount of authorized capital and how it is divided into various classes of shares
- v. A statement to the effect that in all its transactions the company's liability is limited.
- vi. The names of the company promoters, their respective addresses and the amount of shares taken up by each of them.
- vii. The life span of the company
- viii. Conditions under which the memorandum of association may be amended

## COMPANY PROSPECTUS

- i. Names and addresses of all the directors of the company and the promoters too.
- ii. Types of shares available and cost of each share.
- iii. When and how shares may be bought
- iv. Minimum and maximum number of shares a subscriber may apply for
- v. Report of the values of the company property
- vi. Arrangement made with underwriters