

ANSWERS TO EXAMINATION PAPER 2014

SECTION A

Q. 1 Differentiate between mobile banking from Ordinary banking.

Answer:

Mobile banking is a system that allows bank customers to conduct financial transactions electronically using mobile phone. The financial transactions take place on line.

While

Ordinary banking is a system in which bank customers conduct financial transactions directly to the bank premises. It involves going to the bank premises and **face to face** transactions.

Q. 2 Suggest any two benefits of trade between Rwanda and Uganda.

Answer:

Benefits of international trade are as follows:

1. It provides foreign exchange through sale of commodities abroad.
2. Market expansion.
3. It increases production.
4. Generates employment opportunities.
5. Increase international political cooperation.
6. Good relationship between countries.
7. Variety of goods and services.
8. Industrial development.
9. Tax revenue increase.
10. Specialization.
11. Creativity & innovation.
12. Technology transfer.
13. Increase in standards of living.

14. Increase in self-reliance.
15. Development of infrastructures.
16. Political integration / Security.
17. Exchange of culture.
18. Exchange of ideas and information.
19. Exploitation of idle resource between countries.
20. Encourages competition between local and foreign producers.
21. Creates global peace and harmony among countries.

Q. 3 In the past, Rwandans wrote letters to their friends and sent them by post.

Explain why using this method has been minimized in favour of other methods, and identify two of these other methods.

Answer:

It has been minimized because of technological changes. Changes in technology will affect what customers want, what competitions provide and how business operate.

1. It was slow.
2. Not effective.
3. Scarcity of post office.
4. Expensive.
5. Not safe.
6. Advancement of technologies.
7. Does not favor illiterate.
8. Does not favor people with disabilities.
9. Poor hand writing.

Other methods:

1. Mobile communication.
2. Internet base of services (E-mail, Skype, whats apps).

3. Video conference using internet to transfer voice and images, so that people can see and hear each other.
4. SMS using mobile phone.
5. Fax & Telegram.
6. Radio.
7. Television.
8. Personal meeting.
9. Press media.

Q. 4 a) What is meant by "endorsement of a cheque" and what is its purpose?

b) Explain any two reasons for dishonouring a cheque.

Answer:

- a) A **cheque** is written order by an account holder instructing the bank to pay a stated amount of money to a named person.

Endorsement of a cheque is a special mention on the back of the cheque in order to transmit all rights to the beneficiary. You need to sign at the back of the cheque.

The purpose of endorsing the check is to attest that you have transferred all rights to the beneficiary. To confirm that you have transferred all rights to pay a third party on demand and he/she can draw money from that account.

b) A bank can refuse to pay a cheque due to the following reasons:

1. Insufficient money on bank account to pay for the cheque.
2. If the signature on the cheque does not match bank records.
3. If the cheque is not signed by the drawer.
4. The amount in figures and amount in words does not match.
5. When the customer has become insolvent.
6. When the cheque is old and expired (more than two months old).
7. When the drawer has closed his account.

8. When the cheque is damaged and can not be read properly.
9. When it is a post dated cheque.
10. If the drawer is dead or insane and the bank is aware of this.
11. When, the bank has received an order from the court prohibiting payment of the funds belonging to the customer.

Q. 5 Give two reasons why communication is important in business.

Answer:

Reasons why communications important in business:

1. Helps in building the company brand name.
2. Helps to coordinate operations in business.
3. Helps in recruiting and selecting workers for the business.
4. Helps in rational decision making.
5. It is used to advertise the business products.
6. It is used in marketing the business products.
7. Helps to get feedbacks and suggestions from customers.
8. Links entrepreneurs and workers.
9. Helps in problem solving.
10. Is a tool of management.
11. Reducing transport cost.
12. Clients can give their complaints.
13. Helps in negotiating with customers so as to get the best deal.
14. It helps traders to share information in contact with each other.

Q. 8 a) Explain the importance of accounting records.

b) In Rwandan law, how long should accounting records be kept before they are put away in archives?

Answer:

a) Importance of accounting records:

1. Help in recording, summarizing, Classifying, and analyzing financial data.
2. Help in calculating profits or losses made by the enterprise.
3. Facilitate rational decision making.
4. Allows the enterprise to establish the planning.
5. Help to provide information on credit transactions.
6. Help to determine the financial position of the business enterprise.
7. Help entrepreneurs when applying for bank loans.
8. They are used as a basis of tax assessment by the tax authority.
9. Provide information for research.
10. Facilitate proper management.
11. Measures the performance of the business
12. Means of resource control.
13. Provide employment opportunity.
14. Guide investors and shareholders.

Note: The accounting records in business are important to the different parties interested in business operations.

Q. 6 Explain the difference between reports, memos and letters.

Answer:

1. **Report** is a summary of any activity or situation, how it was done and the budget used.

Report is also a document that gives conclusion and recommendations based on investigated facts and situations

2. **Memo** is a written communication used internally to inform the staff about some changes in the company.
3. **Letter** is a written communication used to inform someone or asking someone about anything.

Q. 7 Give two cases where the Rwanda Revenue Authority may use sanctions or penalties against a tax payer.

Answer:

Two cases:

1. When a taxpayer refuses to pay a tax.
2. When a taxpayer did not pay a tax on time.
3. When a taxpayer refuses to do declaration.
4. When taxpayer didn't declare exact tax.
5. When a person refuses to register his business.
6. Loss or damage of registration document.
7. In case of illegal activity e.g smuggling.
8. Failure to collaborate with tax authority.
9. Loss of accounting documents.

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14. Guide investors and shareholders.

Note: The accounting records in business are important to the different parties interested in business operations.

b) In Rwandan law, how long should accounting records be kept before they are put away in archives?

Answer:

10 years.

Q. 9 Give two reasons to explain why Government of Rwanda sensitizes people to create their own small businesses.

Answer:

Reasons of creating their own small business:

1. To create job.
2. Paying taxes in order to help government to build infrastructures like roads, hospitals, schools, etc.
3. To stimulate creativity and innovation.
4. Availability of goods and services needed in life.
5. Increasing standard of living in Rwanda.
6. Increasing income to people.
7. Increasing of Rwanda economy.
8. Widening the tax base.
9. Reducing government expenditure.
10. Encouraging self-reliance.
11. Increasing purchasing power.
12. Eradicate poverty.
13. Reduce insecurity.

Q. 10 Using examples, explain the process of calculating profit.

Answer:

Profit=sales- all costs.

Or Profit= Total revenue (TR)-Total cost (TC).

Example: Kamali bought 10 cupboards on 1,000, 000 Rwf cash and sold them on 150,000Rwf for each. The transport and other charges were 50,000Rwf.

Q=10 Cupboards P=150,000 Rwf.

TC=1,000,000+50,000X10=1,050,000 Rwf

TR=150,000X10=1,500,000 Rwf

Profit= 1,500,000-1,050,000= 450,000Rwf

Other formulas to calculate profit:

Profit = Income - Expenses

Profit = Sales - Expenses

Profit = Turnover - Fixed costs

Profit = Cash inflow - Cash outflow

Profit = Gross profit - Expenses

Profit = Assets - (Capital + Liability)

Q. 11 a) Suggest two reasons why achieving quality can increase revenue and help to reduce costs.

b) Outline any two responsibilities a firm may have to:

i. Its employees

ii. Its customers

iii. The local community

Answer:

1. a) Reasons why achieving quality can increase revenue and help to reduce costs:

1. Good quality of a product attracts many consumers to buy it and then the revenue increases.
2. Some customers sensitize other people to like that quality product.
3. It affects their friends and families to like good quality products.
4. Help to compete business rivals.
5. Building brand loyalty.
6. Reduce wastage of resources.
7. Increasing business image.
8. Increasing marketing skills.

b) i) Responsibilities of a firm to its employees:

1. Paying workers on time.
2. Paying workers fairly.
3. Providing job security to workers.
4. Improving the working life.
5. Respecting its employees.
6. Providing them fringe benefits e.g medical allowance, etc.
7. Health care.
8. Capacity building.
9. Being polite to the employees.
10. Giving them trainings to improve skills.
11. Avoid discrimination among workers based on age, gender, religion, etc.
12. Listening worker's views and complaints.

13. Affiliation of employees in RSSB.

14. Employment contracts to workers.

ii) Responsibilities of a firm to its customers:

1. Good customer care.
2. Deliver good quality products.
3. Being honest to the customers.
4. Being polite to the customers.
5. Tell the truth to the customers.
6. Giving after sales services.
7. Solving the customers' complaints.
8. Using the right measure and weight.
9. Respect for culture.
10. Gifts to the customers.
11. Proper waste disposal.
12. Meet its obligations.
13. Produce products in line with the customers' needs.

iii) Responsibilities a firm to the local community:

1. Protecting peoples' health by indicating time of expiry.
2. Giving employment opportunities.
3. Use raw materials from local community.
4. Help vulnerable people (e.g Orphans, disabled people, etc.)
5. Protecting the environment.
6. Respect for culture.

7. Contribute to the building of infrastructures.
8. Gifts to community.
9. Proper waste disposal.
10. Meet its obligations.
11. Produce products in line with the customers' needs.
12. Use appropriate technology.
13. Paying taxes to the local government.
14. Support community development programs e.g Girinka program.

SECTION B

Q. 12 Advertising creates demand for goods and services by informing and persuading.

- a) State any four methods used in persuading consumers to buy goods and services.
- b) Suggest any dangers of unethical advertising to the customer.
- c) State any three purposes other than increasing sales for which advertising may be used.
- d) Explain any four factors that influence consumption.

Answer:

a) The methods used in persuading consumers to buy goods and services:

1. Publishing in news papers.
2. Publicity on Website.
3. Publicity on the radio.
4. Publicity on the TV.
5. Improving quality.
6. Products show or marketing by showing.
7. Samples of their products.

8. Sales promotion.
9. Use of skilled labour.
10. Renovation of the business premise.
11. Fashion show.
12. Brand name.
13. Offering credits.
14. Providing after sales services.
15. Providing discounts to the customers.
16. Attractive packaging.
17. Installment selling.
18. Being polite to the customers.
19. Use of music, billboard, etc.
20. Giving bonus.

b) Dangers of unethical advertizing to the customer:

1. Poor consumer taste.
2. Conflict between the seller and buyer.
3. Poor quality products lead to loss of customers.
4. High price.
5. Small size which is not conformed to their price.
6. Reducing customer choice.
7. Consumer exploitation.
8. Consumption of harmful products.

c) The purposes other than increasing sales for which advertising may be used:

- ✓ Advertisizing for new product or additional services.
- ✓ Increasing profits.
- ✓ Discourage competition.
- ✓ Promoting business image.
- ✓ Attracting foreign investors.
- ✓ Informing customers about new location of business.

d) The factors that influence consumption:

1. Price: if the price is high, the consumer can reduce on the quantity he/she wanted to buy.
2. Income: if you get low salary you can buy according to your purchasing power.
3. Quality: if a product is poor quality you don't buy it.
4. Climate: if it is ^{cold} hot you drink hot tea.
5. Friends: They can affect you on what you may consume they can like something and influence you to like it.
6. Season e.g if it is in the rain season, a person can buy an umbrella.
7. Culture.
8. Interest rate.
9. Human desires.
10. Population size.
11. Pressure of social groups/Peer group.
12. Anticipation or future expectations.
13. Advertisement.
14. Taste and preference.
15. Level of savings.

Q. 13 a) Write SACCO in full.

b) Explain any three objectives of SACCO.

c) Give any two reasons to explain why Government of Rwanda empowering each of the following SACCOs:

i) Umwalimu SACCO.

ii) Umurenge SACCO.

Answer:

a) SACCO: Saving and Credit Cooperative.

b) Objectives of SACCO:

1. To give members the opportunity to obtain loans.
2. To promote the habit of saving.
3. To disseminate information concerning effective use of loans.
4. To provide members with banking service near to them.

c) Give any two reasons to explain why Government of Rwanda empowering each of the following SACCOs:

i. Umwalimu SACCO.

1. To improve the standard of living of teachers.
2. To contribute to the socio-economic development of the community in which they live.
3. To enables teachers to acquire loans at low interest rate.
4. To promote the saving culture among teachers.
5. To raise the socio-economic welfare of teachers.

ii. Umurenge SACCO.

1. To enhance people with low income for saving and obtain loan in order to improve their socio-economic development and welfare.

2. Promoting the culture of saving among citizens.
3. To avail the local people with loans at law interest rate.
4. Reducing income inequality.
5. Promote saving culture among the local people.
6. To provide banking service near to the local people.

Q. 14. On 21st October 2014, Mukiza, a stationery dealer, bought goods as follows:

- 80 Units ink pads at 26,555Rwf per unity
- 96 Units ribbons at 20,885Rwf per unity
- 110 Units file fasteners at 4,500Rwf per unity
- 152 box files at 3,900 Rwf each

All subject to 15% trade discount;

On 25th October 20214, Mukiza returned 50 ink pads because they were damaged.

- a). Calculate the amount to be paid by Mukiza.
- b) Name the document issued to Mukiza on the following dates.
 - i) 21st October 2014
 - ii) 25th October 2014
 - iii) 2nd November 2014

Answer:

a)

Items	Quantity	Unit price	Total price	15% Trade discount	Total price
Ink pads	80-50=30	26,555	796,650	119,497.5	677,152.5
Ribbons	96	20,885	2,004,960	300,744	1,704,216
Fasteners	110	4,500	495,000	74,250	420,750
Box files	152	3,900	592,800	88,920	503,880
Total			3,889,410	583,411.5	3,305,998.5

Total amount to be paid by Mukiza= 955,740+1,704,216+420,750+503,880= 3,305,998.5

Rwf.

Note: Total price=Q x Unity Price.

15% Trade discount= Total price x 15%

Total amount to be paid for each item= Total price minus 15% trade discount.

Total amount to be paid by Mukiza for all items =
 $955,740+1,704,216+420,750+503,880= 3,305,998.5$ Rwf.

b) i) 21st October 2014: invoice receipt.

ii) 25th October 2014: Returns-inwards note.

iii) 2nd November 2014: Invoice payment.

Q. 15 a) What factors would the insurance company consider when fixing the premium for motor vehicle insurance?

b) Iradukunda's car is involved in an accident eight months after being insured. Explain the procedure for making a claim.

c) The car was valued at 5 million Rwanda Francs. It was insured for 4 million Rwanda francs. After getting involved in an accident, the cost of repairs of the car was estimated at 3 Million. How much did Iradukunda receive in compensation? Give reasons.

Answer:

a) The factors would the insurance company consider when fixing the premium for motor vehicle insurance are the following:

1. Value /price of the motor vehicle.
2. Purpose of the motor vehicle.
3. Origin of the motor vehicle.
4. Availability of spare parts.
5. Length of time it worked.
6. Type of insurance.
7. Model /Mark of the motor vehicle.

8. Insurable interest.
9. Indemnity.
10. Insurable interest
11. Cost of repair.
12. Carrying capacity.
13. Doctrine of proximate cause.
14. Subrogation.
15. Good faith.

b) Basic requirements for making a claim:

1. Police report or letter from the police station.
2. Evidence of ownership and a completed claim form.
3. Receipt of the claim form.
4. The insurance company sends an assessor to determine the loss of the insured.
5. Assessor report.
6. The company then pays the compensation to the insured.

c) IRADUKUNDA received 3,000,000 Rwf in compensation as cost repairing his car because he insured less than the actual value of the motor vehicle and cost of repairs is equal to 3,000,000 Rwf.

Q. 16 Masabo invests 60,000,000 Rwf in a machine that will cost 10,000,000Rwf per year to run and should generate 30,000,000Rwf a year of cash.

The machine is expected to last for five years.

- a) Present this information in a cash flow table and explain the results
- b) Calculate the payback period of this machine.

Answer:

a) CASH FLOW STATEMENT TABLE.

	Cash inflow	Cash outflow	Net cash flow	Cumulative total cash
Now	-	60,000,000	(60,000,000)	(60,000,000)
End of year 1	30,000,000	10,000,000	20,000,000	(40,000,000)
End of year 2	30,000,000	10,000,000	20,000,000	(20,000,000)
End of year 3	30,000,000	10,000,000	20,000,000	0
End of year 4	30,000,000	10,000,000	20,000,000	20,000,000
End of year 5	30,000,000	10,000,000	20,000,000	20,000,000

The table above shows that 60,000,000 Rwf is spent in buying the machine. This amount is the initial investment or initial outlay. It shows also that the investment of 60,000,000 Rwf takes 3 years to get back as it is seen in the right hand column (the cumulative cash total).

b) The payback period is 3 years, if you see on the table.

Or

$$\text{Payback period} = \frac{\text{Cost of project}}{\text{Income} - \text{Expenses}}$$

Or

$$\text{PBP} = \frac{\text{Initial investment}}{\text{Net cashflow per time period}}$$

$$= \frac{60,000,000 \text{ Rwf}}{20,000,000 \text{ Rwf}} = 3 \text{ years}$$

The Payback period of this machine is 3 years.

END