

**Commerce and Finance 3
7020**

CAMEROON GENERAL CERTIFICATE OF EDUCATION BOARD

General Certificate of Education Examination

JUNE 2018

ADVANCED LEVEL

Subject Title	COMMERCE & FINANCE
Paper No.	3
Subject Code No.	7020

Three Hours

Answer any THREE questions. All questions carry equal marks.

You are reminded of the necessity for good English and orderly presentation in your answers.

Candidates are allowed to use calculators and mathematical sets.

Turn Over

THE LLOYD CORPORATION

Insurance is the pooling of risk. The United Kingdom is in the heart of the world's insurance market and was the first to develop a sophisticated insurance industry. The Lloyd Corporation provides numerous insurance covers through underwriters with the mediation of brokers to major companies in the world.

To take out insurance policies at Lloyd is costly and a particular mode of dealing is required. Irrespective of these requirements the basic principles of insurance hold true at the Lloyd Corporation and the global insurance market at large.

- (a) Examine two functions of the following members in the Lloyd Corporation. (4 marks)
 - (i) Lloyd underwrites (4 marks)
 - (ii) Lloyd brokers
 - (b) Discuss how a person can take an insurance cover with an insurance broker. (4 marks)
 - (c) Explain the basic insurance principles that hold true for a valid insurance contract. (8 marks)
- (Total = 20 marks)

FOREIGN EXCHANGE

James a businessman based in Douala deals on cosmetics and fashion wears. He buys most of his goods from China and Italy. During his first trip abroad he took 15,000,000 million FCFA and upon arrival in Italy, he exchanged the money for 3,750,000 US dollars. Returning to Cameroon, he was asked to pay 1,3000,000 FCFA at the point of entry for his goods.

On his second trip, he took the same amount of money but exchanged it for 42,500,000US dollar. Again upon arrival in Cameron, he paid 1,800,000 FCFA at the point of entry. James was angry because this constant payment at the point of entry reduces his profit. The Italian traders were angry for losing some money to Cameroon traders and argued that they will be happy if the exchange rate between the two currencies were fixed.

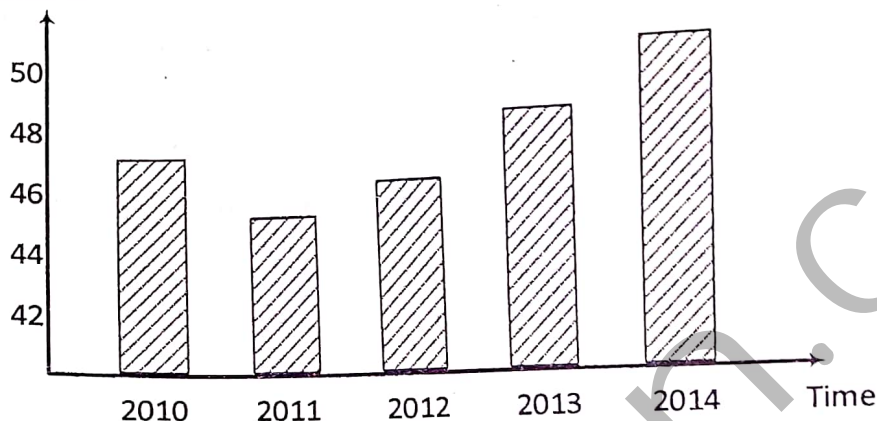
- (a) (i) What name is given to the amount of money paid at the point of entry? (2 marks)
 - (ii) Why is such payment necessary? (4 marks)
 - (b) (i) Calculate the exchange rate between US Dollar and the Franc CFA in James's two trips? (4 marks)
 - (ii) How do you explain what happened in the exchange rate, in James second trip. (2 marks)
 - (c) What will the Italian traders stand to gain if the exchange rate between the two countries were fixed? (4 marks)
 - (d) Discuss two reasons why James needs foreign currencies. (4 marks)
- (Total = 20 marks)

BUSINESS EXPANSION

MANDU PLC Bakers originated from the North West Region of Cameroon. It has grown through internal and external means. It expanded to the rest of the country by taking over other regional bakery chains. By 2010, it had 80 shops across Cameroon. In 2013, it took over a rival business "Baker Oven" Ltd adding 20 more shops.

MANDU opted for the bakers Oven format because many of its shops had in store bakeries. The gross profit of the business is represented by the graph below.

Gross profit
million FCFA



- Comment on the performance of the business based on the gross profit over the years. (4 marks)
 - Determine the growth rate between 2014 and 2015. (3 marks)
 - What is meant by external growth as used in the passage? Justify your answer with respect to the passage. (5 marks)
 - Identify three benefits MANDU will derive from having many more shops. (4 marks)
 - Briefly explain three problems MANDU is likely to face as a consequence of its expansion. (4 marks)
- (Total = 20 marks)

CAPITAL STRUCTURE

Goldsmith Plc, a giant company manufacturing textile products is intended to raise more capital. The accountant reveals the capital structure to the General Manager as:

- 1,000 Debentures of 20,000 FCFA each at 8%
- 16,000 Ordinary Shares of 10,000 FCFA each
- 5,000 Preference Share of 15,000 FCFA each at 10%

Profit for the year ended stood at 17,100,000 FCFA.

- Determine;

 - The interest of Debentures. (9 marks)
 - The dividend to Preference shares. (4 marks)
 - The dividend to Ordinary shares. (1 mark)
- Discuss two advantages of Debentures to the company. (4 marks)

How is the company geared? (2 marks)
- Explain two differences between debentures and ordinary shares. (2 marks)

What would be the hierarchy of payment based on the type of securities above. (Total = 20 marks)

Turn over

BUDGETING

5. Metropolitan Ltd operates a plastic factory. It is considering opening a branch in Tiko. It has opening cash balance of 6,000,000 FCFA at the start of first quarter of 2013. Anticipated quarterly cash revenue and payment of the year stood thus:

- (i) Cash sales 16,000,000 FCFA; 22,000,000 FCFA; 30,000,000 FCFA; and 42,000,000 FCFA respectively.
- (ii) Receipt from leased vehicles 9,000,000 FCFA; 2,000,000 FCFA; 8,000,000 FCFA; and 20,000,000 FCFA.
- (iii) Settlement by trade debtors of outstanding balances 6,000,000 FCFA; 24,000,000 FCFA; 16,000,000 FCFA; and 11,000,000 FCFA.
- (iv) Cash discount in the first and last quarter of the year was 2,000,000 FCFA and 1,500,000 FCFA.
- (v) Cash purchases 2,000,000 FCFA; 10,000,000 FCFA; 4,000,000 FCFA; and 32,000,000 FCFA
- (vi) Vehicles and machines repairs 3,000,000 FCFA; 1,000,000 FCFA; 5,000,000 FCFA; and 3,000,000 FCFA
- (vii) Legal expenses for second and third quarter 4,000,000 FCFA and 3,000,000 FCFA.
- (viii) Monthly salary 2,000,000 FCFA.
- (ix) Tax of 8,000,000 FCFA paid as follows:
30% tax was paid in first quarter and the balance paid in the third quarter.

Required:

- (a) (i) What is a cash budget? (2 marks)
 - (ii) What is the purpose of a cash budget? (4 marks)
 - (b) Explain four reasons why there is a need for careful budgeting. (4 marks)
 - (c) Prepare the cash budget for Metropolitan Plastic Ltd for 2013. (10 marks)
- (Total = 20 marks)