UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

7100 COMMERCE

7100/23 Paper 2 (Written), maximum raw mark 80

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1 (a) One mark for each correct answer:

(i) primary/extractive [1]

(ii) manufacturing/processing [1]

(iii) trade [1]

(b) Any two ways × 1 mark each:

- pressing them/extracting juice
- adding any other ingredients
- packaging them/putting into cartons or bottles
- labelling the packaging
- assembling the cartons into consignments
- storage.

Any other relevant point. [2]

(c) Level 2 (4–6 marks)

Candidate has discussed one/both ways of purchasing and has given a reasoned opinion.

Small-scale retailers tend to buy in small quantities because they operate on a small scale and do not have the premises or the finance to purchase in large quantities. Marabella Juicers may sell directly to retailers but it is likely to deal in large quantities that the small-scale retailer will not want. The wholesaler can offer the small-scale retailer a range of services such as breaking bulk, offering a variety of goods and credit. It takes the risk of buying in large quantities from several manufacturers. It may also offer delivery to the small-scale retailers or offer a cash and carry service. For these reasons it is better for the small-scale retailer to buy from wholesalers. They will buy regularly and not be left with too much unsold stock.

Level 1 (1–3 marks)

Candidate has commented on one or both methods of purchasing with/without an opinion.

Most small-scale retailers buy from wholesalers. Wholesalers sell in small quantities. Wholesalers provide a variety of goods at reasonable prices. They may deliver to the retailer. [6]

(d) (i) Any one function × 1 mark:

The bill/invoice gives details of the transaction/shows the amount owed/provides proof of purchase. [1]

(ii) Any one function × 1 mark:

Gives a summary of transactions/acts as request for payment. [1]

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(iii) Any three points × 1 mark each and up to 2 marks + 1 for a well-developed point.

- wholesalers buy regularly from them and do not want to make individual payments so it assists their cash flow
- they hope to postpone payment until after the juices have been sold to retailers and payment is received from the retailers
- because Marabella Juicers allows them credit.

Any other relevant point. [3]

(e) Any four points × 1 mark or two well-explained points × 2 marks:

- apologise to the wholesaler
- replace the faulty case of orange juice
- issue a new invoice
- inspect other cases of orange juice in the warehouse
- issue credit note to wholesaler for $100
- reduce the amount owed by the wholesaler to Marabella Juicers on the statement of account by $100.

Any other relevant point. [4]

2 (a) Any five points × 1 mark each and up to two marks for a well-explained point:

- BZ Chem would have insurance to protect itself against financial loss.
- In the event of a risk occurring it would receive compensation.
- It would protect itself against claims made by employees – employer's liability insurance – and claims made by members of the public – public liability insurance.
- It would need motor insurance for any vehicles it owned.
- It would need to insure its factory, offices and its machinery against fire, theft.
- It might need cargo insurance to insure its chemicals when moved by ship.
- It would use insurance to share risk of an event happening.

Any other relevant point. [5]

(b) Any five points × 1 mark each and up to 2 marks for a well-explained point:

BZ Chem will need an efficient banking system because:

- it is likely to deal in large sums of money
- and to receive payments from abroad because it exports
- it will need a bank to safeguard its money and provide interest on any savings
- to make payments with one example
- to deposit money
- to pay wages
- to provide finance with one example
- to offer advice e.g. on exporting, expansion.

Any other relevant point. [5]

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(c) (i) Level 2 (4–6 marks)

Candidate has discussed some factors that should be considered and has indicated, with reasons, which are the most important in the context of moving chemicals from factory to port.

BZ Chem should consider several factors when choosing a method of transport to move goods from its factory to a port. It should consider the cost of the transport because this adds to the total costs of production. It should consider the nature of the goods to be transported – in this case a bulk and heavy cargo, so air transport would not be suitable. It should consider the availability of methods of transport – the country in which BZ Chem is based may not have a rail system. It should consider the urgency with which the cargo is required. It is unlikely that chemicals will be required urgently at the port. It should also consider the reliability and flexibility of various methods of transport.

The most important factors that BZ Chem should consider are the cost of methods of transport, because it will need to keep costs down to remain competitive, and also the nature of the goods carried – heavy bulk cargo needs to be carried in transport that can carry large quantities at one time.

Level 1 (1–3 marks)

Candidate has commented on factors to be taken into account when choosing a method of transport.

BZ Chem should consider cost. This is very important. It has to move bulk cargo. Transport must be able to carry this. It may consider how urgent the need is to transport the chemicals. It may consider how much has to be carried at one time. [6]

(ii) Any two services × 1 mark each plus a reason × 1 mark each:

- good transport connections to the seaport and inside the dock area so that the chemicals can be brought into the seaport easily
- wharves – so that ships to take the chemicals can berth easily
- loading equipment/gantries/cranes/hoppers – so that the chemicals can be loaded efficiently
- dock labour – to operate the machinery for loading
- parking area for trucks – if trucks are used for carrying the chemicals from the factory
- clear waterways/pilots/repair services/security/fuel services – allow only one of these in an answer.

Any other relevant services relating to the chemicals. [4]

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3 (a) Any two functions explained × 2 marks:

- storing goods awaiting sale/demand
- buying in bulk from producers to clear production lines
- taking risk by purchasing for resale
- breaking bulk before selling to retailers in small quantities
- giving information on markets to producers
- preparing goods for sale with example
- displaying goods so that retailers can inspect the goods
- operating a cash and carry service – particularly for small-scale retailers
- maintaining supplies and so preventing price fluctuations.

Any other relevant function. [4]

(b) (i) Any two points × 1 mark each:

- capital used to purchase fixed assets
- such as land, vehicles, buildings.

Any other relevant point. [2]

(ii) Any two examples × 1 mark each:

Bank loans/debentures/mortgages. [2]

(c) (i) $5m – $10m (1) = –$5m (1) [2]

(ii) $10m – $5m (1) = $5m (1) [2]

For both sections OFR applies. If correct answers are given without working, award full marks.

(d) Any two reasons × 1 mark or one well-explained reason × 2 marks:

- so that it can meet its day to day expenses with example
- so that it can purchase stock
- so that it can meet unexpected expenditure
- so that it can afford to offer credit to customers and so encourage trade
- so that it can pay creditors/suppliers
- so that it can service its overdraft.

Any other relevant reason. [2]

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(e) Level 2 (4–6 marks)

Candidate has discussed the financial situation of both companies and has given a reasoned opinion as to which company has the better financial position. (If candidate has discussed only one company 4 marks max.)

B & B Produce Ltd has made more sales than Trading Secrets Ltd. It also has more fixed capital and fixed assets. Trading Secrets on the other hand has made more net profit as the result of its sales. This suggests that it may have obtained its supplies more cheaply or it has had fewer expenses. Trading Secrets also has a much better working capital position. It may have an overdraft and will have debtors, i.e. current liabilities, but its current liabilities are considerably lower than those of B & B Produce Ltd. It also owes less money to lenders than B & B Produce Ltd and so will be making fewer interest payments. B & B Products Ltd has insufficient working capital – its current liabilities exceed its current assets and so it may not be able to meet its daily expenses or to meet unexpected bills.

On balance, Trading Secrets Ltd has a better financial position, probably because it has been more efficient. Its net profit in relation to sales is much better, i.e. just over 15% margin compared with 10% for B & B Produce Ltd.

Level 1 (1–3 marks)

Candidate has made some statements about the financial situation of one or both of the companies with/without an opinion.

B & B Produce Ltd has made more sales. It has less net profit. It owes more. Trading Secrets Ltd has more net profit and has borrowed less. It is in a better financial position. [6]

4 (a) Any two advantages × 1 mark each:

- may increase sales
- encourages impulse buying
- saves staffing costs
- can display goods.

Any other relevant point. [2]

(b) Any two reasons explained × 2 marks each:

- enables self-service to take place as customers can recognise goods more easily
- staff do not need specialist knowledge of products as information is printed with brand
- selling is easier as customers come to remember particular branded goods
- most goods are branded so Maximus Ltd has no alternative
- branded goods are packed, weighed etc before leaving the factory and so this saves Maximus Ltd these costs.

Any other relevant point.

N.B. to increase sales = 0 marks. [4]

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(c) Any four points × 1 mark each or two well-explained points × 2 marks each:

- so that it can satisfy a wide range of customers and tastes
- so that it can offer choice to its customers
- so that it does not run out of a lot of its goods
- so that it remains competitive and maintains its market share
- so that if one range of goods is not selling well, losses on that will be made up by profits on other goods
- so that it can sell its goods and so make profits.

Any other relevant point. [4]

(d) Any four points × 1 mark each and up to 2 marks for a well-explained point:

- do nothing/throw them away
- take them back to the supermarket branch
- with the receipt
- give details of the complaint
- ask for a refund
- ask for a replacement packet of sandwiches
- ask to see the manager and request that all the sandwiches should be checked.

Allow one mark for some kind of consumer protection agency.
Allow no marks for sue the supermarket, report to police or government.

Any other relevant point. [4]

(e) Level 2 (4–6 marks)

Candidate has discussed the issue and has given a reasoned opinion showing whether or not customers should be concerned.

It is likely that some stores of both companies will close as it might not be economic to have two stores from the same company in the same town. However, Maximus Ltd may decide to keep both stores open because they serve different sections of the population, e.g. one is in the town centre and one is on the outskirts.

Whether or not there will be higher prices and less choice may depend on the amount of competition for Maximus Ltd. If there are other supermarket chains, the company will have to compete on price and this should mean reasonable prices for customers and also reasonable choice. If, however, there are few other supermarket chains or other alternatives for food shopping, Maximus Ltd may charge higher prices, and with store closures, also offer less choice because it will have a monopoly for shopping in that area.

Customers have a right to be concerned especially if there will be less choice for food shopping in easy reach of them.

Level 1 (1–3 marks)

Candidate has commented on the issue and shown whether or not customers should be concerned.

It is likely that some shops will close. Maximus Ltd may reduce the choice of goods available. If there are no other supermarkets in the area, the company will not have competition. [6]

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5 (a) Level 2 (4–6 marks)

Candidate has given a reasoned opinion, showing why the other option has been rejected. (If a candidate has considered only one form of business organisation, award 5 marks maximum.)

I would recommend setting up a private limited company. The two sisters would become shareholders and so owners of the business and presumably also directors of the business. They would have the protection of limited liability so their personal assets would not be at risk. The business would be set up according to Companies Acts and formally established. It would be a legal entity so that it would stand in its own right. If one of the two sisters wanted to sell her shareholding, the business would continue and not have to close down. A private limited company might be able to raise capital more easily than a partnership if the two sisters wanted to expand the business. They might look for another shareholder known to them or seek a bank loan.

I have rejected the partnership as this is a less formal way of forming a business organisation. A partnership agreement would need to be drawn up otherwise there might be difficulties about sharing profits, workload and providing capital. It is possible that the two sisters might not agree and one might want to leave the partnership thus ending it. The sisters would also be undertaking a riskier form of business venture as they would both have unlimited liability and so their personal assets would be at risk if the business was a failure.

N.B. may argue in favour of a partnership.

Level 1 (1–3 marks)

Candidate has given some advantages of one form of business organisation and may/may not have shown why the other one has been rejected.

The sisters should form a partnership. It is easy to form. They can work together. They both put in capital. They both share the profits. They should not form a private limited company. It is more difficult to do and takes a long time. [6]

(b) Any three factors in context × 2 marks each:

- cost of premises – likely to want cheap premises either to buy or to rent, so that costs are kept down
- type of premises needed – will need premises that offer good storage as well as office accommodation and space for preparing the goods for sale. Will not need space to display the goods
- area – may need premises close to home so that travel time and costs are minimised
- no need to be in town centre but could be in a business park
- good road network – so that deliveries of clothes can be made and so that goods sold can be despatched easily
- security – will need premises that are secure – expensive clothing, computer equipment left on the premises so should not be in a high-risk area
- broadband connection – as the business is based on selling on the Internet, it is essential that the area is good for communication
- government influence – there may be government incentives to locate in particular areas, e.g. areas of high unemployment
- supply of labour – may not be a consideration to start with but may need to employ staff eventually
- personal factors – may want the business at home or close to home as it saves costs.

Any other relevant factor in context. [6]

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(c) Any two factors discussed × 2 marks each:

- The website can be available to consumers 24/7 and so more customers will be attracted, especially those who are unable to go shopping in shopping areas.
- The website can show detailed pictures of what is on offer and facilities to purchase and pay for the goods so attracting many customers who want to study their purchases.
- The website can be accessed by people all over the world so their potential market will be greater.
- Costs can be kept to a minimum compared with opening a shop, e.g. lower rates, lower rents.

Any other relevant point discussed. [4]

(d) Any two services × 1 mark and 1 mark for each reason:

- parcel post – to send the goods within the country
- special delivery – send goods quickly, track their whereabouts and obtain compensation
- airmail – to send goods overseas
- express delivery services, e.g. FastPost, Express Mail Service, Speedpost Islandwide, when goods are required urgently
- letter post – to communicate with customers (but more likely to use email).

Any other suitable service. [4]

6 (a) $800 × 5000 (1) = $4 000 000 (1) [2]

(b) Any two points × 1 mark related to the diagram:

- 5000 retailers pay $800 in premiums each to a central pool
- from this pool claims totalling $500 000 are paid out to the unfortunate.

Any other relevant point. [2]

(c) (i) Any three points × 1 mark each:
- yes it will/he may not be paid
- he has not told the truth (not conformed to the principle of utmost good faith)
- the premium would have been higher because there is more risk of fire.

Any other relevant point. [3]

(ii) To some extent:
- she should not have insured the same risk with two insurance companies
- she will probably be paid
- the two insurance companies will share the claim
- she will not receive two amounts of compensation
- it is against the principle of contribution.

Any other relevant point. [3]

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(d) (i) Any two reasons × 1 mark each or one well-explained reason × 2 marks:

- requires the insurance company to undertake a lot of work handling the cheques
- takes time to clear the cheques
- can computerise other methods of payment more easily
- danger of dishonoured cheques/fraud
- many people do not use cheques so companies would like everyone to use other methods of payment.

Any other relevant reason. [2]

(ii) Any two other methods of payment × 1 mark each:

Credit card, debit card, direct debit, credit transfer. [2]

(e) Level 2 (4–6 marks)

Candidate has discussed the statement and given a reasoned opinion.

Insurance companies are usually very large companies with widespread business interests. They require means of advertising their services to a wide market and efficient means of communication to reach their customers. By establishing a website on the Internet they can give full details of their services, give quotations to individual customers and arrange their insurance online. By giving an email address they can answer customer queries and enquiries. Customers can compare what is offered by insurance companies by checking websites and more and more customers are doing this to arrange their insurance.

The company can also use the Internet to arrange their banking and finances. They can obtain information on competitors. They can order their own supplies on the Internet. They can use their websites to improve their public image by giving details of their mission statement and achievements on their home pages. They can undertake market research using the Internet. They can measure the success of their website by the number of hits on the site. They can advertise on other sites with links to their own site.

Insurance companies, just like other commercial businesses, are making more and more use of the Internet. They need to do so to remain competitive and to keep in touch with the growing number of customers who shop online.

Level 1 (1–3 marks)

Candidate has made some comments on the use of the Internet by insurance companies.

Insurance companies have websites. They use these websites to advertise and promote their insurance services. It is essential to have a website because all the other insurance companies have websites. They may also use the Internet for their banking and to provide information to customers. [6]

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7 (a) (i) One example × 1 mark and two points of explanation × 1 mark each:

ASEAN, EU, SADC, PARTA, CARICOM.

Countries that group together to promote trade freely (without duties) between them and establish a common tariff barrier around them.

Any other relevant point. [3]

(ii) Any two benefits × 1 mark each:

- general encouragement of trade
- more opportunities for countries to export to their neighbours
- wider choice of goods for consumers in the country
- free access to large-scale markets
- less tension between neighbouring countries
- prices may become more competitive.

Any other relevant point. [2]

(b) Level 2 (4–6 marks)

Candidate has discussed the main features of both kinds of warehouse and has indicated, with reasons, which warehouse the importer is more likely to use. (If a candidate has discussed only one kind of warehouse, award 5 marks max.)

A meat importer may use a warehouse if he requires storage of his imported meat. If there is no duty payable on the meat he is likely to use a cold storage warehouse. This will provide him with refrigerated storage, keeping the meat in good condition until he sells it or transports it to a buyer. He will be able to import all the year round and his meat will be protected from deterioration and theft.

On the other hand, if duty is payable on meat imported from a country not part of the trading bloc and he has not yet paid the duty he will have to use a bonded warehouse. This bonded warehouse will have to have refrigeration facilities or the meat will go bad. In the bonded warehouse he can prepare the meat for sale and also look for buyers. He will not be able to remove the meat until the payment of duty.

The meat importer is more likely to use the cold storage warehouse. Wherever the meat is stored it will need to be kept fresh. It all depends on whether there is duty to pay on imported meat.

Level 1 (1–3 marks)

Candidate has commented on some features of one or both kinds of warehouse with/without a choice.

Bonded warehouses are used for keeping dutiable goods on which duty has not yet been paid. The meat importer will need cold storage for his meat. Meat is perishable. He will need to look for buyers. He might like to use a cold storage warehouse. He can store his meat in good condition. [6]

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(c) (i) Any two points × 1 mark each:

A limit imposed on the quantity of particular goods allowed into a country from specific countries.

Any other relevant point. [2]

(ii) Any three ways × 1 mark and up to 2 marks for a well-explained point:

- may mean a reduction in trade with particular countries
- may mean that any excess quantity is refused entry to the importer's country
- may mean that the importer has to trade with countries not subject to quota
- quota may be introduced to protect home industry e.g. meat production
- so the importer may have problems selling the meat he has imported
- may mean that he needs storage at the port/airport of export to store the surplus meat.

Any other relevant point. [3]

(d) Any two functions (other than restrictions on trade) explained x 2 marks each:

- supervision of the loading and unloading of containers so that they can be trans-shipped between countries
- collecting revenue from import duties – for government purposes
- supervision of bonded warehouses – to store dutiable goods on which duty has not yet been paid
- collection of statistics – on imports, exports, countries of origin, volume of trade
- assessing the level of duty – ad valorem or specific duties
- inspection of international trade documents e.g. certificate of origin
- supervising the movement of goods across borders to prevent smuggling
- quarantine regulations concerning the import/export of animals
- enforcement of public health regulations e.g. preventing certain foods entering a country for health reasons.

Accept immigration services.

Any other relevant function. [4]

8 (a) Any two reasons × 1 mark each:

- to sell new products
- to dispose of unwanted stock
- to boost sales
- to counter competition
- to stop falling sales
- to retain customers.

Any other worthwhile reason. [2]

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(b) For each part question award 1 mark for the sales promotion method and 1 mark for the reason.

(i) Free fitting/10% deposit nothing to pay for 6 months/huge discounts/end of season clearance. Carpets need specialist fitting/expensive item/customers attracted by money off. [2]

(ii) 10% deposit nothing to pay for 6 months/huge discounts/end of season clearance. Expensive item/customers attracted by price reductions. [2]

(iii) Huge discounts/buy one, get one free. Shoppers like a bargain/reduces the price of the goods. [2]

(c) Level 2 (4–6 marks)

Many shops have end of season clearance sales. Others do not. Shops that sell fashionable goods, such as department stores, and some multiple chain stores, such as those selling clothes, accessories and shoes, need to dispose of seasonal stock so that they can make room for new stock suitable for a different season. There is little market for summer clothing in the winter season. By holding a sale, the shop attempts to dispose of surplus at low prices, so avoiding a great loss on some of its stock. Some shops such as electrical stores or furniture stores also hold end of season sales. They need to dispose of unsold stock before it deteriorates or becomes dated. The stock is expensive to store. It means that a lot of the shop's capital is tied up in unsold stock. It is better to sell these goods at only a small profit margin.

On the other hand, shops with a low mark-up and high turnover such as supermarkets or hypermarkets will not need to hold end of season sales. They may offer loss leaders or special promotions to dispose of particular goods over a short period of time but they do not hold seasonal sales for a wide range of their goods.

It is therefore very necessary for some shops to hold seasonal sales but for other kinds of shops it is not necessary.

Level 1 (1–3 marks)

Candidate has commented on the need for some shops to hold end of season clearance sales.

Some shops such as department stores hold sales at regular intervals. They want to sell stock that has not been sold before. They sell at reduced prices. They get rid of these goods to make way for new goods. Many of these goods are expensive. [6]

(d) (i) Free fitting. [1]

(ii) Any two points × 1 mark each or one well-explained point × 2 marks:

- to attract customers and to give a competitive edge
- some goods sold are complex and require maintenance or repair e.g. cars
- to retain regular customers and build up goodwill. [2]

(e) $500 + $1500 + $250 (1) = $2250 (1)
10% of $2250 = $225 (1)
OFR applies. If the correct answer is given without working, award full marks. [3]

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