UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

7100 COMMERCE

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

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1 (a) Any four points × 1 mark each including examples:

- buying and selling (both) for profit
- may be home trade or international trade
- retail/wholesale/import/export 2 max for examples.

Any other relevant point. [4]

(b) Any two aids to trade × 1 mark each:

banking/finance, transport, advertising, communication, warehousing, insurance [2]

(c) Level 2 (4–6 marks)

Has shown why aids to trade are an important part of Commerce and has given a reasoned judgement.

Aids to trade are a very important part of Commerce. They assist trade to function and so without them, trade, the other essential element of Commerce would not be able to take place. Transport brings goods from where they are produced to where they are needed. Communication enables buyers and sellers to contact one another. Banking provides services to those involved in commercial activity. Finance is needed for commercial enterprises to be set up or to expand. Insurance is required to provide financial protection and advertising informs and persuades potential consumers. For these reasons, aids to trade are a very important part of Commerce, without which Commerce would not exist.

Level 1 (1–3 marks)

Has suggested some ways in which aids to trade assist Commerce to take place.

Aids to trade help Commerce to function. Businesses need finance. Businesses communicate with one another and goods are transported from one place to another. [6]

(d) (i) Any two points × 1 mark each or one well developed point × 2 marks:

- It consists of commercial services and direct services. (2 marks)
- It is part of production that provides services to the other parts of production such as primary or secondary and without which production could not take place.
- Final/third part of production.

Any other relevant point. [2]

(ii) Any two points including an example × 1 mark each:

- services given directly to the person who receives them example such as nursing, teaching.

Any other relevant point. [2]

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(iii) Any two ways explained × 2 marks each:

- direct services provide services directly to consumers
- teaching provides a skilled workforce that can provide commercial services such as banking
- doctors deal with accidents e.g. a truck driver is involved in a road accident
- police safeguard people carrying out commercial services e.g. advise on warehouse security.

Any other relevant point. [4]

2 (a) (i) Any three points × 1 mark each:

- money used to run a business from day-to-day
- sometimes referred to as net current assets
- calculated as current assets – current liabilities
- used to pay wages/buy stock/buy raw materials/pay expenses (1 mark max).

Any other relevant point. [3]

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

- consumers buy/use the goods
- they pay for the goods
- and this money is used to buy raw materials etc.
- without consumers there would be no business/no profit/no revenue.

Any other relevant point. [2]

(iii) Any two methods × 1 mark each:

- cash/credit transfer/cheque/standing order/direct debit/credit card/bank draft/ electronic transfer. [2]

(iv) Any two ways × 1 mark each:

- assembling goods/adding decorations/adding extras/painting or polishing/packaging/ branding.

Any other relevant way. [2]

(b) Any two points × 1 mark each or one well developed point × 2 marks:

- when goods are not fit for the purpose for which they were sold, e.g. they have broken down, are torn, do not work
- Also accept wrongly described e.g. described as black when it is blue.

Any other relevant point. [2]

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(c) Any three reasons × 1 mark each:

- to enquire about goods
- to give details of prices and descriptions of goods
- to show how much certain goods cost
- to give details of goods requested
- to correct overcharges/undercharges
- to show the balance due for a series of transactions
- to provide a record of a transaction
- to accompany goods
- to enable goods to be checked against a document when delivered
- to prove ownership
- to prove payment.

Any other relevant reason. [3]

(d) Level 2 (4–6 marks)

Has given a reasoned argument showing the benefits and drawbacks to retailers of using Internet banking. (For a one-sided argument award 4 marks max.)

Many retailers use Internet banking because it saves them time. They can conduct much of their banking on their premises using a computer. They have 24-hour access to their accounts. They can pay bills automatically and organise standing orders and direct debits. They can manage their payroll online and view their balances on their accounts when they want to. They are also able to collect payments from customers by direct debit and review their borrowing requirements. They can offer online shopping through their websites with the facility of payment by credit card.

There are, however, drawbacks. Many customers when visiting shops pay using cash and this has to be paid into bank accounts by visiting a bank branch. They will also need change for their tills and this can only be obtained by using a bank branch. There is also the problem of Internet bank fraud – phishing and identity theft. To overcome this, a retailer needs to have a secure website. Banks are also aware of these problems and will prove their identity when contacting customers. Many retailers are small-scale, they may not have access to a computer nor the Internet or feel that Internet banking is worthwhile for them.

It is certainly true that increasing numbers of retailers, especially large-scale retailers, are using Internet banking because it offers direct access to their bank accounts. They still need to visit their bank branches from time to time.

Level 1 (1–3 marks)

Has made some comment for and/or against the use of Internet banking by retailers.

Many retailers use Internet banking because it saves them time. They can look at their bank accounts at any time they like. They can use various bank services. They cannot pay in any cash using the Internet. [6]

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3 (a) (i) Any two advantages explained × 2 marks each:

- may be cheaper as labour costs may be cheaper
- may be able to order the quantities required
- may be no import duty as it is possible that Kanny Kitchens is also in EU
- no need to buy from home manufacturers who may be more expensive and unreliable
- may save labour costs if components are made by Kanny Kitchens
- may be better quality.

Any other relevant point explained. [4]

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

- goods may be subject to duty – customs collect this revenue
- may wish to put some of the goods in a bonded warehouse – customs supervise these
- goods may be subject to quotas – customs supervise these
- may have to present certain documents to customs e.g. certificate of origin
- may have containers of goods inspected by customs at the warehouse
- may have consignment of goods searched looking for prohibited goods.

Any other relevant point. [4]

(b) (i) 30% of $800 = $240 (1 mark)
$800 – $240 (1 mark) = $560 (1 mark)

OFR applies. If the correct answer is given without working, please award full marks. [3]

(ii) Any three points × 1 mark each or up to 2 marks for a well developed point:

- may already be a customer with a good payment record
- means that Kanny Kitchens has guaranteed sales and revenue
- the costs of making a unit are not known but it is likely that Kanny Kitchens is still making a profit
- keeps labour force employed while looking for other sales/setting up showroom
- may lead to other wholesale customers
- can sell in reasonably large quantities leading to economies of scale.

Any other relevant reason. [3]

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(c) Level 2 (4–6 marks)

Has provided a reasoned discussion of the pros and cons of opening a showroom and given a reasoned opinion. (If a candidate has presented only one side of the argument with reasons award 4 marks max.)

Opening a showroom is likely to be costly to set up, staff and advertise. It is likely to locate the showroom on its own premises and there may be problems of space, building or conversion costs and the need for customer parking. However, it would enable Kanny Kitchens to show its merchandise to its best advantage and be able to promote its brand more strongly without the competition of other manufacturers. The profits from sales would belong to Kanny Kitchens and there would be no need to offer trade discount to wholesale or retail customers. It is selling direct to the final customer so it is likely to discover what customers are looking for. Selling the units itself might also lead on to other work such as kitchen fitting or selling appliances.

Opening this showroom is likely to increase sales in the long run, the advantages outweigh the disadvantages and so it is worth considering.

Level 1 (1–3 marks)

Has made some statements for and/or against opening a showroom.

Opening a showroom is likely to cost money. Customers may not come. It will need to advertise. It can display the units attractively. It is likely to increase sales. [6]

4 (a) One mark each for the following:

(i) cash at bank/overdraft/trade credit [1]
(ii) cash at bank/trade credit/overdraft [1]
(iii) hire purchase/retained profits/bank loan [1]
(iv) retained profits/shares/debentures/mortgage. [1]

internal/external finance = 0 marks.

(b) Any four points × 1 mark each that may have discussed shares and/or debentures:

- shares do not have to be repaid
- shares convey ownership, debentures are loan capital
- interest does not have to be paid on shares, fixed interest is paid on debentures
- dividends on shares may fluctuate and may not necessarily be paid, interest on debentures must be paid
- debenture holders are creditors of the company and must be paid whether or not profits are made
- debentures may be mortgaged against company assets which could be at risk.

Any other relevant point. [4]

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(c) Level 2 (4–6 marks)

Has discussed the use of internal sources of finance rather than external sources of finance and has given a reasoned opinion. (Discussion of the benefits of using internal finance = 4 marks max.)

Internal sources of finance can take many forms. Many businesses keep back some of their profits for future use and sell unwanted assets. People wishing to set up small businesses may use their own savings. It is often better to use these internal sources of finance. They do not have to be repaid and no interest is paid on them. They are immediately available and all or part of the finance can be used. It is important, however, to remember the dangers of using internal finance. If an owner's savings are used, the return from the business must be more than would be obtained from investing the savings – otherwise the owner will end up with nothing. It may be important not to use all the retained profits in case some unexpected expenditure arises. Again a good rate of return is important.

Individual circumstances may govern whether or not to use internal or external sources of finance. In many circumstances it is better to use internal sources of finance.

Level 1 (1–3 marks)

Has made some statements about the use of internal sources of finance and/or external sources of finance.

Internal sources of finance are retained profits. They should be used. No interest has to be paid on this finance. There is no repayment. If a business uses external finance such as a loan, interest has to be paid. [6]

(d) Any six points including examples × 1 mark each or three well explained points × 2 marks.

- brings buyers and sellers together e.g. the use of the Internet
- enables contracts, quotations and bills to be sent e.g. letter post
- allows businesses to make contact with banks and other financial institutions e.g. telephone
- enables business meetings of people in different locations worldwide e.g. videoconferencing
- enables businesses to operate on different sites across the world e.g. networks
- provides savings in time and money e.g. teleconferencing
- enables the development of international trading organisations e.g. stock exchanges
- extends markets
- enables trade to take place more quickly – transfer of information quickly.

Any other relevant point or example. [6]

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5 (a) (i) Any four points × 1 mark each which should show the differences:

- supermarket is a large store (accept measurements)
- selling mostly food and household goods
- may be located within a town or on the outskirts of a town
- superstore is a very large store selling a wide variety of goods
- usually located on the outskirts of a town
- with a substantial car parking area.

Any other relevant difference. [4]

(ii) Any two facilities × 1 mark each:

- café/restaurant
- often have satellite shops within the premises independent of the superstore e.g. dry cleaner
- extensive opening hours
- petrol station
- car parking.

Any other relevant facility. [2]

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

- may be supplied by a regional distribution centre – located in a central position and supplying several stores
- has a policy of just in time – daily re-supplying based on computerised stock control
- may be too expensive to allocate storage space instead of selling space – high rents
- many of the goods are supplied direct e.g. bread by the manufacturer and have a short shelf life.

Any other relevant point. [4]

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(c) Level 2 (4–6 marks)

Has given a reasoned answer recommending one of the two sites and has shown why the other site has been rejected. (If a candidate has discussed only one of the two sites award 4 marks max.)

The nationwide supermarket company should look at the competition before deciding on which site to locate its superstore. If it chooses the city centre site, there is adequate parking and plenty of room for the store as well as a large population to draw upon. Some customers may have difficulty accessing the site and suppliers will probably have problems delivering to it because of traffic congestion. If it wishes to expand the business later there is no land for expansion.

If it chooses the out-of-town site it is between centres of population as well as being on the outskirts of a city so there should be plenty of customers. There is room for expansion and for offering other services and with a good road network, supplying the superstore should not be a problem.

On balance I would recommend that the supermarket chain locates its superstore on the out of town site.

Level 1 (1–3 marks)

Has made some comments on one or both sites.

The nationwide supermarket chain should choose the out-of-town site. There is plenty of land. There should be plenty of customers. There are lots of roads. It will be easy to expand.

[6]

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

- city traders may be larger stores e.g. department stores or multiples selling different merchandise
- retailers in surrounding towns may be small-scale and may be selling the same merchandise and so will be affected
- it may be easier for people in the towns to reach the out-of-town site (good road access) than for people in a city where traffic congestion is more likely and so they will patronise the superstore rather than small-scale retailers
- small-scale retailers may go out of business
- small-scale retailers may have to take action to protect their trade + example
- there may be no effect on small-scale retailers as they may offer a specialised service.

Any other relevant point. [4]

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6 (a) (i) Any two benefits × 1 mark each:

- enables the company to expand quickly
- fairly reliable amount of revenue is guaranteed through royalty payments
- does not have to run the individual businesses
- management problems are dealt with by the franchisee so saving staffing
- shares risk with the franchisee
- outlets are likely to look alike so advertise themselves.

Any other benefit. [2]

(ii) Any two benefits × 1 mark each:

- access to a ready-made market
- product or service is tried and tested
- can receive expert assistance and training from franchisor
- reduces risk of failure
- some of initial costs are borne by the franchisor
- may operate in a restricted area so direct competition is avoided.

Any other benefit. [2]

(b) Any four points × 1 mark or two points well developed × 2 marks:

- it is used to inform consumers of new outlets
- it is used to persuade consumers to buy
- it is used to establish Bytezi's brand label and to develop brand loyalty
- it may be used to extend the life of a product
- it is used to combat competition
- it may be used to improve Bytezi's public image
- it may be used to increase sales
- it enables global advertising of the brand.

Any other relevant point. [4]

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

- Bytezi is an international company and the question implies that it has franchises in many parts of the world
- it requires stock in its retail stores and these will be supplied from other countries so its suppliers will export goods and Bytezi will import goods into various countries
- it is likely to buy where supplies are cheap and of good quality and then send them to other countries
- its earnings in royalty payments and capital will move from country to country or from a country to head office.

Any other relevant point. [4]

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(d) Level 2 (3–4 marks)

Has discussed the use of credit cards and given a reasoned opinion as to whether or not the franchisees should be concerned.

Many people now use credit cards for their purchases. They are able to postpone payment and buy when they see the goods they want. The retail stores benefit from this because consumers may buy on impulse and so there will be greater sales. On the other hand these retailers have to wait for payment which is reduced by the deduction of commission. Sometimes they are the victims of credit card fraud. As long as these retailers have procedures in place for checking on credit card users purchasing expensive goods, it is sensible for them to accept credit cards otherwise they are likely to lose sales to competitors.

Level 1 (1–2 marks)

Has commented on the use of credit cards by customers of the franchises.

Many people use credit cards to buy goods. Sales would decline if these retailers did not accept credit cards. They may receive less money. They should not be concerned. [4]

(e) Any four points × 1 mark or two well developed points × 2 marks each:

- supplies may be sent by air transport as they are valuable and lightweight and may be required urgently
- they could be sent by sea in containerised transport that offers protection from theft and damage
- supplies may be moved from the airport/port by container lorry/van to the central warehouses in individual countries
- and then supplied to the individual shops as required and in the quantities required by delivery van or truck.

Any other relevant point. [4]

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7 (a) (i) Proposal/contract. [1]

(ii) Policy/certificate of insurance. [1]

(b) Any three points × 1 mark each or 2 marks for any well developed point:

- the premium is based on the risk involved
- the higher the risk the higher the premium
- assessment of risk is based on the proposal form information
- and also past records/statistical information.

Any other relevant point. [3]

(c) Level 2 (3–4 marks)

Has discussed the use of an insurance broker and/or contact an insurance company directly and has given a reasoned opinion.

An insurance broker will offer independent advice on which company to use. If the proposer has difficulty in obtaining insurance cover, an insurance broker would be able to recommend an insurance company willing to offer insurance. The insurance broker will organise the proposal form and other documentation and arrange for the premium to be paid. The insurance broker would also assist when making a claim.

Contacting insurance companies direct may take time and effort but the proposer will be able to compare what the companies have to offer. Insurance companies offer a range of policies so the proposer might have difficulty deciding on which insurance company to use. For these reasons I recommend using an insurance broker.

Level 1 (1–2 marks)

Has commented on using an insurance broker or contacting insurance companies with or without an opinion.

Insurance brokers offer advice to clients wanting insurance. Brokers arrange insurance. They charge commission. [4]

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(d) (i) Any two points × 1 mark each:

- motor insurance that covers damage not only a third party and that person's property
- but also injuries to the proposer and damage to the proposer's property
- as well as theft from the vehicle and theft of the vehicle.

Any other relevant point. [2]

(ii) Any two points × 1 mark each:

- before the policy is issued
- to provide temporary cover
- and prove that the person is insured.

Any other relevant point. [2]

(iii) Any one insurance principle × 1 mark and 2 marks for explanation:

- utmost good faith – when completing the proposal, must tell the truth and give all relevant facts so that risk can be assessed and premium calculated
- insurable interest – proposer must have a financial interest in what is insured, and stand to lose by damage to what is insured. The proposer cannot insure other people's property in the hope of gain
- indemnity – proposer should insure something for what it is worth, not for more as the proposer is not allowed to make a profit from a loss.

Any other relevant principle explained. [3]

(e) Any four points × 1 mark each:

- check the insurance policy to make sure that it covers what is to be claimed
- contact the insurer as soon as possible
- find witnesses (if applicable)
- contact police (if applicable)
- complete the claim form
- find any supporting documents e.g. receipts
- make sure that you tell the truth
- allow inspection of the loss e.g. wrecked car
- agree a settlement
- receive compensation.

Any other relevant action. [4]

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8 (a) Any two features × 1 mark each:

- very large store usually in city centres/shopping centres on several floors
- offers wide range often regarded as luxury shopping organised in sections
- offers extra services e.g. restaurant, lifts, delivery may sell online
- offers credit facilities to customers.

Any other relevant point. [2]

(b) (i) Any two points × 1 mark each:

- shows income over a particular period
- shows expenditure over a particular period
- shows whether or not the business made a profit or a loss.

Any other relevant point. [2]

(ii) $105 [1]

(iii) Any three comments on **changes** × 1 mark each:

- sales revenue has fallen by 25%/$300m
- although cost of sales has fallen it is a greater proportion of sales revenue
- gross profit has fallen by $135m
- expenses are much higher in relation to sales revenue and to gross profit
- expenses are little changed
- net profit has fallen by approx 43% i.e. $105m.

Any other relevant comment. [3]

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(c) (i) Any two reasons × 1 mark each:

- saves travelling time and expenses
- can browse 24/7
- can compare many brands
- may pay less for the same goods
- goods are delivered
- can postpone payment by the use of credit cards.

Any other relevant point. [2]

(ii) Level 2 (4–6 marks)

Has discussed one or more of the suggested measures, has given a reasoned answer as to the effectiveness of the measures and may/may not have suggested other measures that may be more effective.

It is possible that some of the measures may be effective in bringing more sales revenue and so increase profits but some of them are likely to be expensive to set up. Many department stores have food courts attached to them and these would attract shoppers especially at lunch time. They would require space and would be expensive to set up. However, spaces could be franchised to individuals and so regular payments would be assured.

Loyalty cards could serve two purposes. They would provide Mr Wong with a great deal of consumer information especially about patterns of purchasing. They might also make consumers loyal to that particular department store and so ensure continued sales.

It is important to offer promotions on goods. If the department stores are not doing this, they are not being competitive. Weekly promotions would increase sales of certain goods, help to dispose of slow-moving items and bring additional sales revenue. Increased advertising would be needed and this might drive up costs but the benefits are likely to outweigh the additional expenditure.

It is unlikely, however, that these measures on their own will be effective in increasing profits. Mr Wong will have to consider offering online shopping services if he is not already doing so. He may have to review the profitability of each individual shop and close those that are unprofitable.

Level 1 (1–3 marks)

Has commented on some or all of the suggested measures.

Loyalty cards help to keep consumers loyal to particular stores. Therefore they help to increase sales. Many people like to eat when out shopping. Food courts offering a variety of food are a good idea. Weekly promotions will help to sell more goods. They must be attractive and offer bargains.

I think that all these measures may be effective. [6]

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(d) Any four points × 1 mark each or two well developed points × 2 marks:

- it will enable the business to raise more capital on stock exchanges and to widen the share ownership as there is no upper limit to the number of shareholders.
- it may mean that Mr Wong (and his family) lose control of the business unless he retains the majority of the shares
- it may make the business vulnerable to takeover bids
- with more capital available Mr Wong may be able to take more advantage of economies of scale – bulk buying, employing specialist managers
- there will probably be greater separation of ownership and management.

Any other relevant point. [4]

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