UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

COMMERCE **7100/23**

Paper 2 **May/June 2012**

2 hours

Additional Materials: Answer Booklet/Paper

1460068227

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer any **four** questions.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

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UNIVERSITY of CAMBRIDGE International Examinations

1 Commerce consists of trade and aids to trade.

(a) Giving examples, explain what is meant by *trade*. [4]

(b) State **two** aids to trade. [2]

(c) 'Without aids to trade, commerce could not take place.' Do you agree with this statement? Give reasons for your opinion. [6]

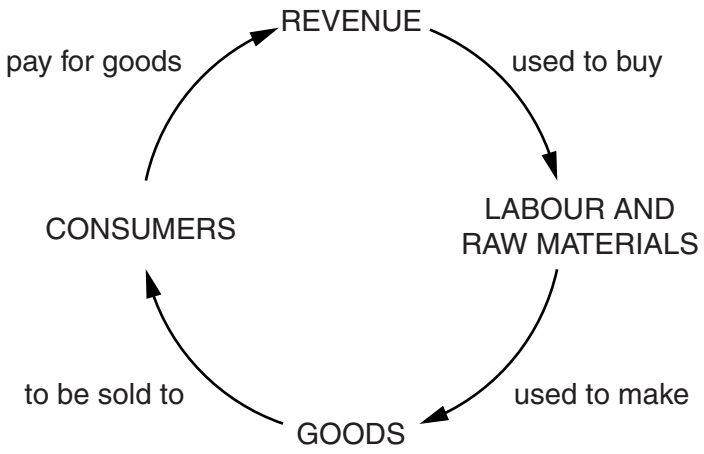
(d) The tertiary sector is part of production.

(i) Explain the term *tertiary sector*. [2]

(ii) Giving an example, explain the term *direct services*. [2]

(iii) Using examples, explain **two** ways in which direct services assist commercial services. [4]

2 The diagram in Fig. 1 shows the working capital cycle.



The working capital cycle

Fig. 1

Use the information given in Fig. 1 to help you to answer the following questions.

(a) **(i)** Explain what is meant by *working capital* and give an example of what it is used for. [3]

(ii) Why are consumers important in the working capital cycle shown in Fig. 1? [2]

(iii) State **two** methods of payment that might be used to pay for goods. [2]

(iv) Suggest **two** ways in which value may be added when making goods. [2]

(b) In what circumstances might goods be returned by a customer to a retailer? [2]

(c) State **three** reasons why commercial documents are used when selling goods to consumers. [3]

(d) More retailers are using the Internet for their banking transactions. Is this beneficial or not to these retailers? Give reasons for your answer. [6]

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3 Kanny Kitchens produces handmade kitchen cupboards and sells them to wholesalers and retailers.

The following suggestions have been made to reduce its expenses and to increase its sales:

- import parts from Japan
- accept a contract with a wholesaler who wants to pay 30% less than the retail price for each cupboard
- open a showroom selling directly to consumers.

(a) (i) Explain **two** possible advantages to Kanny Kitchens of importing parts from Japan. [4]

(ii) Explain how the work of the Customs Authorities might affect Kanny Kitchens when importing parts from Japan. [4]

(b) (i) The average retail price charged to consumers for a cupboard is $800. Calculate how much the wholesaler will pay for each cupboard. Show your working. [3]

(ii) Although the wholesaler will pay less for each cupboard, explain why Kanny Kitchens should still consider selling to this wholesaler. [3]

(c) Discuss the suggestion to open a showroom selling directly to consumers. Is it a good idea? Give reasons for your opinion. [6]

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4 Fig. 2 shows some of the sources of finance available to limited companies.

	Sources of Finance	
	Short-term and medium-term	**Long-term**
Internal finance	cash at the bank	retained profits sale of fixed assets
External finance	overdraft trade credit hire purchase leasing	bank loan mortgage debentures shares

Fig. 2

Use the information in Fig. 2 to help you to answer the following questions.

(a) Identify, from Fig. 2, the most suitable source of finance for each of the following:

(i) to meet daily expenses [1]

(ii) to buy additional stock [1]

(iii) to buy a new truck [1]

(iv) to move part of the business to another country. [1]

(b) What are the advantages to a limited company of issuing shares rather than using debentures? [4]

(c) Discuss whether or not it is better to use internal sources of finance rather than external sources of finance. Give reasons for your opinion. [6]

(d) Many limited companies operate in the global economy. Using examples, explain why communication is important to them when trading both at home and abroad. [6]

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5 A nationwide supermarket company is planning to open a new superstore (hypermarket). There are two possible locations, Site A and Site B:

Site A a city-centre site that provides enough room for the store, with access to a multi-storey car park but with no extra land for expansion

Site B an out-of-town site with plenty of land and good road access to a number of surrounding towns.

(a) (i) What are the differences between a supermarket and a superstore? [4]

(ii) Identify **two** facilities that the superstore might provide for its customers. [2]

(b) Why will the new superstore require only a small storage space attached to the shop rather than a large warehouse on the site? [4]

(c) Which site should the nationwide supermarket choose, Site A or Site B? Give reasons for your choice, showing why you have rejected the other site. [6]

(d) What will be the likely effects on small-scale retailers if the superstore is built? [4]

6 Bytezi Ltd is an international franchisor. It has franchise agreements with retail shops throughout the world. The shops are the franchisees who sell Bytezi computers.

(a) (i) State **two** benefits to Bytezi Ltd of operating franchised retail shops. [2]

(ii) State **two** benefits of being a franchisee of Bytezi Ltd. [2]

(b) Explain why advertising is important to Bytezi Ltd. [4]

(c) Explain how Bytezi Ltd is involved in international trade. [4]

(d) Some of Bytezi Ltd's franchisees are concerned about the amount of goods bought by their customers using credit cards. Should they be concerned? Give reasons for your answer. [4]

(e) Bytezi Ltd sends supplies of computers direct from manufacturers to central warehouses in individual countries and then to the franchised retail shops.

Explain how transport would be used in Bytezi Ltd's chain of distribution. [4]

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7 Fig. 3 shows the steps to follow when taking out insurance cover using the services of a broker.

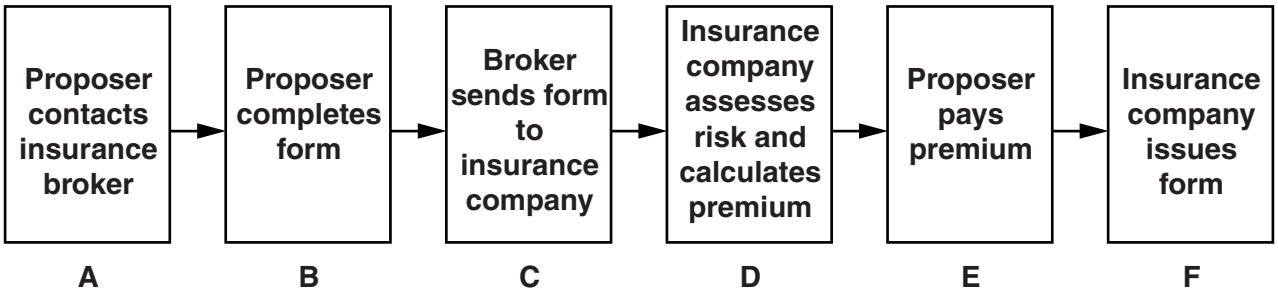


Fig. 3

Use Fig. 3 to help you to answer the following questions.

(a) Identify the names of the forms mentioned in Fig. 3 in:

(i) Box B [1]

(ii) Box F. [1]

(b) Explain the connection in Box D in Fig. 3 between '*assesses risk*' and '*calculating premium*'. [3]

(c) Is it better for the proposer to use an insurance broker rather than to contact an insurance company directly? Give reasons for your opinion. [4]

(d) The proposer is applying for comprehensive motor insurance for her car.

(i) What is meant by the term *comprehensive motor insurance*? [2]

(ii) When would a cover note be issued? [2]

(iii) Name and explain **one** insurance principle that would apply when taking out insurance. [3]

(e) Unfortunately soon after insuring her car, the proposer was involved in a road accident. State **four** actions she should take when making a claim relating to this road accident. [4]

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8 Mr Wong owns a chain of department stores located in several cities in South East Asia. His business is a private limited company.

(a) State **two** features of a department store. [2]

(b) Mr Wong's Profit and Loss Account for the last two years shows the following figures:

	2010 $m	2011 $m
sales revenue	1200	900
cost of sales	840	675
gross profit	360	225
expenses	122	120
net profit	238	**X**

(i) What is the purpose of a Profit and Loss Account? [2]

(ii) Calculate the net profit made in 2011 marked **X**. [1]

(iii) Comment on the **changes** in the figures shown in the Profit and Loss Account between 2010 and 2011. [3]

(c) **(i)** The department stores are not as profitable as they used to be because of the increase in online shopping.

State **two** reasons why people prefer to shop online rather than to visit department stores. [2]

(ii) Mr Wong is going to introduce the following measures to try to increase his profits:

setting up food courts in each of the department stores
introducing loyalty cards
offering weekly promotions on many goods

Is it likely that these measures will be effective in increasing profits? Give reasons for your answer. [6]

(d) Explain how changing from a private limited company to a public limited company might affect Mr Wong's business. [4]

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