**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Ordinary Level**

# MARK SCHEME for the May/June 2013 series

# 7100 COMMERCE

**7100/22** Paper 2 (Written), maximum raw mark 80

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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**1 (a) (i)** Any two reasons × 1 mark each –

so that it can use mass production methods
so that workers become skilled at one part of the process/efficiency
so that output is increased
so that standardised products can be produced
so that mechanisation/technology can be used
so that a uniform quality may be achieved
to save costs
to save time
to save moving people around

any other relevant reason [2]

**(ii)** Any two ways × 1 mark each –

cutting out the cloth
stitching it together
inserting elastic
inserting zippers
adding trim
adding any buttons
adding maker's label
using good quality cloth
waterproofing
adding more pockets
adding hood
putting designs on tracksuits

any other relevant way [2]

**(b)** Any six points × 1 mark each or three well developed points × 2 marks each –

shorter distances are likely to be involved so savings on transport
payments in the same currency would be easier and the methods of payment simpler
documentation is likely to be less complicated
no need for customs clearance and for storage in bonded warehouses
fewer trading restrictions such as quotas
able to sell in smaller quantities and make changes to orders more easily
may be able to communicate more easily with the buyer who might visit the factory
more familiar with the customs/tastes of the home market
there is no language barrier

any other relevant point [6]

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**(c)** Any two reasons explained × 2 marks –

wholesalers deal in larger bulk
by using the wholesalers, the tracksuits may end up being sold through many different outlets in all kinds of shops e.g. small-scale retailers
the large-scale retailers may have been too demanding in terms of price and what they required of the product/wholesalers offer better prices
purchasing by the wholesalers means that production lines are cleared and then wholesaler provides the warehousing for the tracksuits
they may not have produced enough to satisfy the demands of both large-scale retailers and of wholesalers
they may have decided that it would be more profitable to sell abroad than to sell to large-scale retailers
wholesalers provide transport so easier distribution
reducing costs such as administration
any other relevant point [4]

**(d) Level 2 (4–6 marks)**

**Has discussed some of the commercial services (minimum of two) in relation to the sports clothing and has shown whether or not they are necessary for the sports clothing to reach the consumer.**

Commercial services are aids to trade such as communication, banking, transport, advertising, warehousing and insurance. Silin Styles manufactures the sports clothing and in order for these goods to reach the consumer, commercial services are needed.

In order for the clothing to reach the consumer, transport is needed. Transport will be used to bring the sports clothing to the shops where it is on display. Many consumers will use transport such as cars to reach the shops. Communication with potential customers is also essential. Many consumers may buy online. If they require further information, they will contact the retailer before making a decision about their purchases. The sports clothing may need to be stored awaiting sale or transport. It will need to be stored so that it is available when the consumer requires it. Finance relating to the purchase of sports clothing is unlikely to be required by the consumer but payments may be organised through banks or payment made using credit cards.

The clothing may be insured by the retailer so that in the event of loss, compensation will be paid. This would not be essential for the transaction between the retailer and the consumer to take place. But in order for the clothing to be made known to buyers, advertising must be used to inform and persuade potential customers.

It can, therefore, be seen that some of the commercial services are very necessary if the sports clothing is to reach the consumer. Other commercial services help the trade between the retailer and the consumer to take place but are not essential.

**Level 1 (1–3 marks)**

**Has commented on some commercial services in relation to the sports clothing.**

Goods are made in manufacturing industry. So that goods are sold, commercial services are needed. Manufacturers will advertise their goods. Goods will be transported. Goods will be stored before they are sold. Commercial services are needed. [6]

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**2 (a) (i)** Any two points × 1 mark each or one well explained point × 2 marks –
the number of times that the average stock held is sold each year. (2)
it is a measure of how quickly the goods are sold over a period of time
rate of turnover varies from business to business/example
calculated by cost of goods sold divided by average stock at cost price OR
value of sales divided by average stock at selling price

any other relevant point [2]

**(ii)** Any two points × 1 mark each –

the actual profit made by the business
calculated by subtracting expenses from gross profit
tax may be paid out of net profit

any other relevant point [2]

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

negotiate better terms with suppliers so that the cost of goods sold is less
try not to hold too much stock as working capital will be tied up in unsold stock
and this unsold stock may become damaged or out of date
advertise more to sell more stock
purchase souvenirs more carefully so that goods that are likely to sell are stocked

any other relevant point [4]

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

increase turnover by better advertising/offering promotions
improve gross profit by increasing turnover/reducing the cost of goods sold
reduce expenses by reducing wastage/cutting the wage bill/finding cheaper premises
reduce the cost of goods sold by buying in greater bulk/looking for cheaper suppliers
increase prices and so possibly increase revenue
decrease prices in order to sell more

any other relevant point [4]

**(c)** Any two points × 1 mark each or one well explained point × 2 marks –

because she is likely to have many financial transactions
and needs to be able to check on her financial position
and see how much she is paying out and receiving
and see her up-to-date financial position

any other relevant point [2]

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**(d) Level 2 (4–6 marks)**

**Has discussed both Internet banking and using a bank branch in relating to Azrina's business and has given a reasoned opinion.**
**(If a candidate discussing only Internet banking, award 4 marks max.)**

Azrina probably uses Internet banking because it saves her time and she can use it at any time she likes. She is able to carry out a variety of functions such as making payments, transferring money between accounts and obtaining up-to-date information about the balances in her accounts. She is able to do this when it suits her, perhaps when her shop is closed, rather than going to the bank during opening hours.

On the other hand, Azrina is not able to carry out all her banking requirements using the Internet. She will have her takings from the shop – probably quite a lot of cash as she is selling to tourists and this will need to be paid in at the bank branch. She also needs to have a float in cash of small denominations and this she can obtain at the bank. She may be able to apply for loans and overdrafts online but if she wants to have detailed advice on finance and investment, she is probably better advised to meet a bank official at her local branch.

Azrina already has an Internet bank account so she must be finding this better than going to the bank branch at frequent intervals. She will, however, need to use the bank branch for certain functions that cannot be done online.

**Level 1 (1–3 marks)**

**Has commented on Internet banking and/or using a bank branch with/without an opinion.**

Internet banking provides banking services 24/7. Customers can pay bills and make transfers. They cannot get cash from their computers. They can find out how much they have in their bank accounts. They cannot pay in money. [6]

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**3 (a)** Any four features × 1 mark each –

very large shop (floor area of over 5000 sq m) (larger than a supermarket)
selling a wide variety of goods/everything under one roof
on an out of town site
with large car parks
sell fast moving lines
competitive prices
located in populated areas/between centres of population
long opening hours
often have satellite shops within the premises
restaurants, crèche, petrol station
everything on one floor

any other distinctive feature [4]
NB self service, very large shop, home delivery service, store cards = 0 marks

**(b) Level 2 (4–6 marks)**

**Has discussed the advantages of both sites and has given a reasoned response recommending one of the sites.**
**(If a candidate has discussed only one of the sites, award 4 marks max.)**

The hypermarket could choose either Site A or Site B. Both are on the edge of the town from which the bulk of customers are likely to come and both sites look as if there is plenty of land. Both sites are close to the outer ring road but there does not appear to be any access at present from the outer ring road to either site.

Site A is close to a route to the motorway from which it is likely that the hypermarket will be supplied. It is close to a route to a major city with possibly a good road. It is also close to an area where new housing is planned – more potential customers.

Site B is close to a route to several small towns from which customers are likely to come if there is no other hypermarket close by. It is also close to the railway station but customers are unlikely to travel by rail to visit the hypermarket. The proximity to the factories may indicate that there is room to develop. Otherwise the factories are unlikely to make any impact on the location of the hypermarket.

On balance, I would recommend Site A as it is close to the town and to new housing, it would be easy to supply it and customers could use the outer ring road to gain access.

**Level 1 (1–3 marks)**

**Has commented on one or both sites and may/may not have given a recommendation.**

Site B is on the outer ring road. It is close to the town. The railway station is not far away. There are several towns close by. I recommend Site B. [6]

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**(c)** Any four points × 1 mark each or two well explained points × 2 marks in context –

they may have a regional distribution centre close to a motorway that supplies their other hypermarkets
they have their own fleet of delivery trucks so its cheaper
if they used the railway, it would be difficult to deliver the goods from the station to the hypermarket – road transport would be needed
there are good road links to both the sites and one is close to access to a motorway
they have chosen Site A which is not near the railway station
road transport is more flexible
will need refrigerated trucks
many road routes being developed e.g. express routes

any other relevant point [4]

**(d)** Any two sources of long term finance × 1 mark each + 2 marks for comment on each –

bank loan – fixed sum, interest repayable on the whole amount, loan account opened, repaid by instalments, requires collateral security
share issue – not repayable, large capital sum available, dividends paid from profits, transfer of ownership to shareholders
debentures – fixed interest, bought on stock exchanges, may be mortgaged against company assets, holders are creditors of the company
government assistance – if in depressed area may qualify for grant, no interest paid, takes a long time to arrange
venture capital – may be a large sum available, usually suited to high risk projects
retained profit – no interest, no repayment, readily available, may be insufficient for the whole project.

any other relevant source of long-term finance [6]

**4** **(a)** One mark for a correct answer in each of the following part questions –

**(i)** sole trader/partnership [1]

**(ii)** private limited company/public limited company [1]

**(iii)** private limited company/public limited company [1]

**(iv)** sole trader [1]

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**(b)** One mark for the business organisation and 1 mark for the reason in each of the following part questions –

**(i)** partnership – capital needed from the two owners, share work load, as receive share in profits likely to work hard to make these profits, greater expertise
allow private limited company [2]

**(ii)** private limited company – more capital available from family members, protection of limited liability for shareholders, greater expertise from family, shareholding cannot be transferred without consent of other shareholders
allow partnership [2]

any other relevant point

**(c) (i)** Any three points × 1 mark each –

legal document
it sets out the terms and conditions of the business
such as the duties of each partner/how the profits are to be shared/capital contributed by each partner (1 max)
future difficulties/disagreements may be more easily resolved
enables the partnership to run more smoothly

any other relevant point [3]

**(ii)** Any three points × 1 mark each –

it is a valuable/important document
registered post provides proof of posting and proof of delivery
the document can be tracked between posting and delivery
a signature is required when it is delivered
registered post is more secure
compensation
NB accept negative comments about letter post such as it is insecure

any other relevant point [3]

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**(d) Level 2 (4–6 marks)**

**Has discussed whether or not multinational companies should be set up as public limited companies and has given a reasoned opinion.**

Multinational companies are very large companies with branches in many countries and a head office often located where the company originated. Most are public limited companies quoted on stock exchanges. This gives them certain advantages.
They are usually in industries that require large amounts of investment and so they are able to raise the capital needed by issuing shares on stock exchanges. These companies are subject to company legislation and their shareholders have limited liability so their personal possessions are not at risk if the business fails. These shareholders are therefore more likely to invest as they regard multinational companies as a safe investment.

Being public limited companies means that they are a separate legal entity, separate from the owners, the shareholders. They can, therefore, be sued in their own name if something goes wrong. With businesses of such immense size, it is important that continuity is assured. Even if shareholders sell their shares or directors leave the company, the multinational will continue.

As these companies operate in many different countries they may be subject to the company legislation of the countries in which they are located. This may cause some confusion. They employ thousands of people worldwide and seek expansion wherever they can find it. It is important that they are organised in a stable and transparent way as public limited companies so that they can function successfully in the global economy.

(Micro-multinationals have also developed. These are small companies who market their products or services worldwide using the Internet. They are unlikely to be public limited companies but, with expansion, may develop into public limited companies).

**Level 1 (1–3 marks)**

**Has commented on multinational companies with/without comment on them being set up as public limited companies.**

Multinational companies are very large companies. They have a head office in one country and offices or factories in many other countries. They are often set up as public limited companies. They can raise large sums of money on a stock exchange.
Their shareholders have limited liability. [6]

**5 (a) (i)** insuring something for less than its value [1]

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

they may choose to do so to save on the premium
they may not know the value of what they are insuring
they may not be able to afford the premium
they may think (wrongly) that they will be paid the full value of what they have partly insured, make a claim and make a profit
they have made a mistake

any other relevant point [2]

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**(b)** Any six steps × 1 mark each –

contact an insurance company/insurance broker
use comparison websites
study a leaflet/prospectus giving details of the insurance cover offered
complete a proposal form
the insurance company will then assess the risk
the premium is calculated
the premium is paid (so that insurance cover is provided)
a cover note may be issued to give immediate cover
the policy is prepared
giving the terms and conditions of the insurance
it may contain exclusion clauses
the insurer may also set an excess to be paid by the insured

any other relevant point

NB the question does not ask for insurance principles [6]

**(c) Level 2 (4–6 marks)**

**Has discussed the problem and has shown, with reasons, whether or not compensation will be paid. (No mention of jewellery, 4 marks max.)**

You will be covered under Buildings and Contents Insurance for the theft of the laptop as it was stolen from your house.

You have underinsured the laptop by $300. You insured the laptop for 80% of its value, so instead of $1500, you would receive $1200. You did not tell the truth when you insured it so you did not comply with the insurance principle of utmost good faith which requires the insured to tell the truth and give all relevant facts. You tried to make a profit from a loss and so the principle of indemnity applies as you should have been paying premiums to cover the laptop valued at $1500.

As regards the jewellery, this may have been adequately insured. We do not know. If it had been insured for its value, the insurance company would have given compensation of $700 less any excess that might have applied on the policy. If it was not insured, you would have received nothing.

**Level 1 (1–3 marks)**

**Has made some comments about the claim for the laptop computer.**

You will receive some compensation for the theft of the laptop. You will not get $500 in compensation. You should have insured it for more. [6]

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**(d) (i)** Any two circumstances × 1 mark each –

when you have decided to be your own insurer for a particular risk
when the cover required is so large that it is better to put aside money to cover any occurrence
when the premium for insurance would be so high that it is not worth insuring the risk
when the item to be insured is of such little value that it is not worth insuring
when you know that you will be refused insurance e.g. you have convictions for drink-driving
may be a non-insurable risk

any other relevant circumstance [2]

**(ii)** Any three points × 1 mark each and up to 2 marks for a well developed point –

when you have no insurable interest in the house
and so will not suffer financially from its loss
this would apply when you rent the house from someone else
as you do not own the house
no insurance company will insure it e.g. on flood plain/too great a risk

any other relevant point [3]

**(6) (a) (i)** Any two points × 1 mark each –

storage of goods
in low cost building/shed-like building
example such as cold storage/bonded/public
+ one function of warehousing e.g. awaiting sale/awaiting transport

any other relevant point [2]

**(ii)** Any one reason explained × 2 marks in context –

to enable Nomel Concepts to continue producing furniture instead of having to wait until completed furniture is sold
to protect the furniture from theft/damage/deterioration
to have plenty of furniture available to meet orders received online
to enable the furniture to be prepared for despatch – packed, labelled

any other relevant point [2]

**(iii)** Any two points × 1 mark each –

to give details of the furniture sent with the delivery note
to give delivery details for the delivery person to use
so that proof/a signature can be obtained that the furniture has been delivered
so that the customer can check the furniture against the delivery note

any other relevant point [2]

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**(b)** Any two benefits explained × 2 marks –

better corporate image and competitive edge
enables Nomel Concepts to advertise the range of furniture it has for sale and to provide detailed information about each item
enables Nomel Concepts to give its contact details such as address, telephone number and email address
enables Nomel Concepts to answer frequently answered questions or to provide an interactive service
enables Nomel Concepts to receive orders and payments on the Internet
enables Nomel Concepts to be available to its customers 24/7 and so may receive more orders from a wider area/global audience

any other relevant point [4]

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

contact Nomel Concepts
give details of the chair and what has happened
give details of the order e.g. order number, invoice number
ask why the leg fell off
ask for a replacement
ask for a refund
go to another supplier
if no satisfaction is given, mention that the chair is not fit for purpose
do nothing/throw away the chair
any other relevant point
NB no marks for going to the police/suing the company/protection agencies [4]

**(d) Level 2 (4–6 marks)**

**Has discussed the benefits and drawbacks to Nomel Concepts of opening shops and has given a reasoned opinion, mentioning any additional information that might be needed to make a decision.**
**(If a candidate has given a one sided answer, award 4 marks max.)**

If Nomel Concepts opens three shops, it will enable it to widen its customer base to those who do not like using the Internet or who wish to view goods before buying them. It may also attract impulse buying from those people who like to shop in shopping centres. It can also publicise the three shops on its Internet website.

It will still incur delivery costs as most of the furniture is likely to be too bulky to be taken away by the customer. It may need less warehousing at the factory but warehousing will still be required to supply online orders.

It may, however, be quite a risky venture. Furniture is bulky so the company will require quite large premises in each of the three shopping centres. It will have to pay a large amount of rent for premises, pay for the transport of the furniture from the factory and hire staff specialised in selling furniture.

We do not know the size of this company. We do not know what financial resources it has. Nomel Concepts might do better to consider opening a factory shop at its works where it can display the furniture to customers and where the overheads are likely to be much cheaper.

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**Level 1 (1–3 marks)**

**Has commented on the advantages and or disadvantages of opening the three shops and has/has not mentioned any additional information required.**

Nomel Concepts should open the shops because it will sell more furniture.
Shopping centres are very successful. Lots of people visit them. Nomel Concepts will make a lot of profit. It should still sell online. [6]

**7 (a)** Any four points × 1 mark each or two well explained points × 2 marks each –

speed is required + example, fast = 1 mark
goods are urgently required or have a short shelf life
goods are valuable enough to bear the cost of air freight
goods are perishable + example
goods are small and fragile and need careful handling
goods are required in an emergency such as a natural disaster
great distance

any other relevant point [4]

**(b) (i)** Any two points × 1 mark each –

secure method
fast means of payment/immediate payment
making use of computer technology
exchange rates are easily calculated
easy to use as undertaken by the bank
reliable
suitable for transferring money between countries

any other relevant point [2]

**(ii)** Any three points × 1 mark each –

saves carrying cash
acceptable in most places/most countries
can postpone payment
more secure than carrying cash
may obtain a more favourable rate of exchange than for other means of payment
can use it to obtain foreign currency
make payment or example

any other relevant point [3]

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**(c)** Any two ways × 1 mark each –

charge him import duty on goods sent to South-East Asia
enforce quotas limiting the amount of goods allowed into a country
inspect the goods for illegal goods such as drugs
inspect any containerised goods he is sending
delay the importation of goods into countries
supervise bonded warehouses
embargoes

any other relevant point [2]

**(d)** Any three circumstances × 1 mark each and up to 2 marks for a well explained point.

when there is a problem about the goods
when he wants to hold a discussion
when he wants to make emergency changes to an order
when he wants to make a quick decision
when he wants to make personal contact
when the email is not functioning/no email
when he wants the agent to take urgent action

any other relevant circumstance [3]

**(e) Level 2 (4–6 marks)**

**Has shown to what extent distance is a problem when trading between London and South-East Asia and has given a reasoned opinion.**

There is considerable distance between London and South-East Asia. This may present several problems. Goods will need to be transported either by air or by ship. Goods may be containerised to protect them against theft or damage. Goods will need to be well packaged and insurance costs are likely to be greater because of the distance involved.

Although communication has greatly improved, it is possible that there may be communication problems because of different time zones or because of communication breakdown.

A particular type of transport may not be available immediately. Goods will need to be stored and this adds to costs. If they are containerised, the container acts as the storage.

Distance is, therefore, likely to be a problem when trading between London and South-East Asia and is likely to add to the costs of trading.

**Level 1 (1–3 marks)**

**Has commented on distance in relation to trading between London and South-East Asia.**

The distance between London and South-East Asia is great. More transport will be needed. The goods will need to be insured. Storage will be required. Distance will add to costs. [6]

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**8** **(a)** 30c + 40c + 30c (1) = $1 (1) OFR applies
If a candidate gives the correct answer without working, award full marks. [2]

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

the supermarket buys in very large quantities
directly from the manufacturer
and obtains discounts for bulk buying/better trade discounts
some of which is passed on to the consumer
the supermarket sells very large quantities of toothpaste
so it makes up its profit by volume sales
has lots of customers
used as loss leader
using lower cost selling methods e.g. self service

any other relevant point [4]

**(c)** **(i)** 80 000 × 30c (1) = $24 000 (1) OFR applies (NB answer can be in cents)
If a candidate gives the correct answer without working, award full marks. [2]

**(ii)** Any two points × 1 mark or one well explained point × 2 marks –

distribution involves several enterprises
distribution covers the costs of packaging, warehousing and transport
transport costs are expensive as the toothpaste has to be distributed to many different outlets such as wholesalers, chemists, supermarket distribution centres
the manufacturer will be using mass production techniques in the manufacture of toothpaste and so can cut costs by division of labour/more mechanisation

any other relevant reason [2]

**(d)** Any four points × 1 mark or two points explained × 2 marks –

advertising material such as the brand name is placed on the packaging
the packaged toothpaste will be shown using some advertising media to inform and persuade consumers to buy the toothpaste
the packaging may contain details of special promotions to sell the toothpaste
the packaging is made attractive e.g. coloured packaging to increase the appeal of the toothpaste and so assist the advertising

any other relevant point [4]

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**(e) Level 2 (4–6 marks)**

**Has discussed the advertising media available and has recommended one or more advertising media with reasons.**
**(If a candidate has discussed only one advertising medium, award 4 marks max.)**

The manufacturer of toothpaste is likely to use a variety of advertising media to introduce the toothpaste to the market. The manufacturer may use trade magazines to show the trade the new product in order to sell bulk quantities to the retail trade.

The manufacturer is likely to use mass media to advertise the toothpaste. He will have a large advertising budget so can afford to advertise on television where a person showing very white teeth is likely to make an impact. Billboards placed at the sides of roads are likely to make an impact as colour can be used and the pictures can be displayed on a large scale.

Although the manufacturer may have a website to show the range of products offered, a new kind of toothpaste is not likely to be the most popular product that people surfing the net will look at. The Internet will be useful if a worldwide audience is required and detailed information can also be given. People are unlikely to buy quantities of toothpaste online.

The toothpaste manufacturer is unlikely to use leaflets to any great extent except as an insert inside the packaging. Leaflets are a kind of more localised advertising and, although cheap, would not be very effective.

I would recommend that the manufacturer uses mass media advertising such as television and billboards in order to sell in large quantities and also uses trade magazines to introduce the toothpaste to wholesalers and retailers.

**Level 1 (1–3 marks)**

The manufacturer should use television advertising. It has a very large audience. Adverts can be shown in colour. The manufacturer can afford the high costs. The manufacturer might also use the Internet. It is cheap advertising. The adverts can be changed easily. [6]

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