CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2014 series

7100 COMMERCE

7100/23 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.

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1 (a) Any three points × 1 mark each –

first stage of production process
concerned with obtaining natural resources from the earth
and is therefore an extractive industry
it is also an example of a non-exhaustive industry
that takes resources from the ground that are renewed

any other relevant point [3]

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

may be no railway available to the farm and also into the docks at Port X
enables the wheat to be transported in small loads when required
can be sent when the farmer wishes/when sold without waiting for scheduled time
may be transported in the farmer's own transport so saving transport costs

any other relevant point [4]

(c) (i) One mark for bulk carrier/OBO ship (ship = 0 marks) [1]

(ii) Any two services × 2 marks each that **assist the transport of wheat** –

transport facilities to the quay such as roadways / parking bays
loading facilities such as augurs/pipes that move the grain from truck to ship
quays that the ships can dock at in deep water
deep water channels to allow large bulk carrier to dock
refuelling / servicing facilities for bulk carriers
accommodation for customs services
fire / rescue / security services to ensure the safe transport of the wheat
office accommodation for shippers of wheat/shipping companies

any other relevant point [4]

(iii) Any two points × 1 mark each –

there is a river connecting Port Y with the flour mill
wheat can be carried in bulk using a barge
it is easy to unload the wheat from ship to barge
no urgency for the transport of the wheat

any other relevant point [2]

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(d) Level 2 (4–6 marks)

Has discussed whether or not exporting wheat to Country B is of benefit to Country A and has given a reasoned opinion.
(Accept a well argued one-sided argument for full marks.)

Country A exports wheat possibly because there is a surplus of wheat in Country A and Country B is short of foodstuffs. Country A may have the right climate for growing wheat and sufficient land in which to grow wheat in large quantities. Country A may wish to earn foreign currency which it can then use to pay for products that it cannot or does not wish to produce itself.

On the other hand Country A may be exporting wheat that is needed for its own population and so the population will not benefit from its export. It may lack the ability to process the wheat into flour and so may later be importing the processed flour.

On balance, Country A is likely to benefit from the export of wheat, the earnings from which should add to its Balance of Trade.

Level 1 (1–3 marks)

Has commented on Country A exporting wheat to Country B with / without an opinion.

Country A will benefit from exporting wheat. It grows too much wheat. It needs to dispose of surpluses. It can buy other things. [6]

2 (a) Any four points × 1 mark each and up to 2 marks for a well-developed point –

wholesaler buys in large quantities from suppliers and sells in small quantities to retailers and other businesses.
the wholesaler is the connecting link between suppliers and retailers
the wholesaler helps to distribute goods by offering delivery services
the wholesaler assists small-scale retailers who may be widely dispersed
the wholesaler saves the supplier storage costs by providing warehousing
the wholesaler provides a variety of goods so saving on visiting many suppliers

any other relevant point [4]

(b) (i) One mark for unit retailer / mobile shop / self-service store / hawker / street trader / tuck shop / small corner shop [1]

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

to enable them to make a profit
to encourage them to make bulk purchases
to retain their loyalty
to increase sales to these retailers

any other relevant point [2]

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

to maintain their loyalty as customers
to inform them of new lines
to ensure the retailers receive goods when they are required
to find out what retailers think of particular products
to encourage them to buy rather than from competitors

any other relevant point [3]

(ii) Any two methods × 1 mark each and each description × 1 mark –

email – rapid electronic communication, can send attachments
telephone – can discuss orders, hold discussions
visit to shop/face to face/visit to wholesaler – immediate contact, enables discussion of a range of issues to take place
fax – send completed orders as written
computer link – direct contact between wholesaler and retailer

any other relevant method of communication described [4]

(d) Level 2 (4–6 marks)

Has discussed the extent to which the activities of large-scale retailers affect small-scale retailers and has given a reasoned opinion.
(Accept a well argued one-sided argument for full marks.)

Many large-scale retailers are very powerful with huge buying budgets. They are able to achieve economies of scale by buying in bulk and achieving huge discounts that are passed on to consumers in lower prices than small-scale retailers charge. In many towns small shops have closed because of the competition from large-scale retailers who have moved either into the town centre or located on the outskirts where good car parking is available.

On the other hand, small-scale retailers continue to flourish where large-scale retailers are not present and where there is insufficient demand for large-scale shops e.g. islands in the Maldives. The activities of small-scale retailers have often changed. They offer more services to their customers – personal service, delivery, informal credit or they have diversified into other areas, selling what large-scale retailers do not sell or they have improved the quality of what they offer.

There is no doubt that the activities of large-scale retailers have much affected small-scale retailers but they continue to exist in many countries side by side.

Level 1 (1–3 marks)

Has commented on the activities of large-scale retailers and those of small-scale retailers with/without an opinion.

Many shoppers use large-scale retailers. Many small-scale retailers have closed. Some small-scale retailers offer different services. Consumers like the cheap prices often offered by large-scale retailers. Many retailers both large and small are grouped in shopping centres. [6]

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3 (a) (i) One mark for the idea that anyone can own/purchase shares in the company/shares are traded to the public [1]

(ii) Any two points × 1 mark each –

the liability of shareholders for the debts of the company is limited to the amount of their investment
they are not liable for any debts beyond what they have invested so their personal assets are not at risk [2]

(b) Any four points × 1 mark each or 2 well expressed points × 2 marks –

public sector is made up of enterprises that are owned and controlled by the state
private sector is made up of enterprises both large and small that are owned by private individuals or groups of individuals (companies)
the public sector is made up of industries essential to the country and those that require large amounts of capital
the private sector is made up of many types of industries and services
public sector enterprises provide a service and may or may not be profit orientated
private sector enterprises aim to make profits
examples of public sector enterprises are public corporations and government agencies
examples of private sector enterprises are sole traders and public limited companies

any other relevant point [4]

(c) (i) Any four points × 1 mark each and up to 2 marks for a well-developed point –

it is a large public limited company so can afford television advertising
it needs a medium that reaches a mass audience because vacuum cleaners are used by a wide range of people
it needs a medium that can be repeated and that can be targeted at particular market segments
it needs a medium where it can be presented in colour and can show the cleaner being used

any other relevant point [4]

(ii) Any one sales promotion × 1 mark and 1 mark each for two reasons –

a free gift with every cleaner sold – many people like to receive something extra, the gift may be linked with the cleaner e.g. hand-held cleaner
competition – giving people a chance to win a free cleaner / other prize, may not be too costly / easy to advertise
price reductions for a limited period – likely to increase sales during that period, still able to make a profit
special credit terms – expensive product, interest free for a time period may produce increased sales
after-sales service – may give a competitive edge, may produce more income for retailer e.g. maintenance, establishes customer goodwill

any other relevant sales promotion [3]

NB some sales promotion methods e.g. loss leaders, two for the price of one would not be relevant.

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(d) Level 2 (4–6 marks)

Has discussed both options and has made a reasoned recommendation.
(If a candidate discusses only one option, award 4 marks max.)

If the company builds the extension on the factory car park, it should be able to increase its production gradually and it can build to the specification it wants. It may be making use of land that is under-used and will probably incur less cost than moving to the industrial estate. It will not have the problem of disposing of the present site.

On the other hand, the car park may not be large enough. There may not be sufficient space for workers to park and so they will not be pleased. The building work may take some time and the company may be unable to satisfy the demand meanwhile.

If it moves to the industrial estate, it may be able to expand much more quickly. The site must suit their purposes and be large enough for their requirements. The factory must be capable of being expanded or contracted if demand falls. The reactions of the workers need to be taken into account. They may not like it.

The company will have the costs and problems associated with relocating. Although purpose-built, the factory may need alteration to be suitable for making vacuum cleaners. There may be conditions about taking over the premises – leasing for a number of years.

On balance, I would recommend that they build on the factory car park. The decision will depend on cost, the space needed for the extension and the availability of land and finance to undertake the enterprise.

Level 1 (1–3 marks)

Has commented on one or both options with/without a recommendation.

I would move to the industrial estate. It may be easier. The factory is large. They could move straightaway. It may be cheaper. There may be a lot of land. [6]

4 (a) One mark for supermarket/self-service store [1]

(b) (i) Any three advantages × 1 mark each –

customers can take their time shopping
customers can examine the goods before selecting
customers can look at alternatives before choosing
customers may be more satisfied
customers may take less time shopping than queuing to be served
goods are prepared to aid self-selection

any other relevant advantage [3]

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(ii) Any two points × 1 mark each –

bread is a cheaper product than cakes
bread is an essential product so consumers will make an effort to find it
most customers look at eye-level shelves first before looking lower down
bread may be heavier than cakes
cakes may have a lower demand than bread so need to be more visible
cakes may carry a higher profit margin

any other relevant point [2]

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

enables self-service to take place as customers can recognise goods more easily
enables the shopkeeper to advertise the products more easily
makes the task of selling easier as many customers know what they are buying
helps to create brand loyalty leading to more sales
the preparation of the goods takes place in the factory so saving time and costs for the retailer
may be selling own brands which may be cheaper

any other relevant point [4]

(c) Level 2 (4–6 marks)

Has discussed the advantages and disadvantages of the shop providing an online ordering service with home delivery and has given a reasoned opinion.
(If the candidate has discussed only advantages or disadvantages, award 4 marks max.) (If the candidate has discussed only online ordering or home delivery, award 4 marks max.)

If the shop introduces an online ordering service with home delivery, it will need to be set up for all the shops in the chain. It will need to be well resourced e.g. delivery vans, computer terminals and centralised ordering system and this will be costly. It will mean that less people may visit the shops and so there will be less turnover there. This will not cater for people who do not wish to use computers. It must be sure that the technology it uses is up to the task, otherwise there will be dissatisfied customers.

On the other hand, it will enable the supermarket chain to have a competitive edge in relation to shops that do not offer this service. It may have to offer the service because other chains are offering it already. It will enable customers to shop at any time they wish, saving them time and assisting the working housewife and people who are housebound. The shop may, therefore, increase sales.

On balance, the shop should set up this service as well as offer delivery to those who physically visit the shop and cannot carry home their shopping. It is likely to increase sales across the whole supermarket chain.

Level 1 (1–3 marks)

Has commented on an online ordering service with home delivery, with/without an opinion.

The shop should set up an online ordering service with home delivery. Many people like to shop online. It will lose sales if it does not. It allows people to shop 24/7. The number of people shopping online is increasing. [6]

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

the shop is likely to be part of a supermarket chain
it enables the chain to act as its own wholesaler and supply individual shops
enables the chain to buy in large quantities directly from suppliers and so obtain discounts
enables the chain to keep the shop well supplied
enables the shop to save on storage costs

award 2 marks max for general points relating to warehousing such as provides storage, protects the goods and break bulk

any other relevant point [4]

5 (a) Any two characteristics × 1 mark each –

branches in many countries
similar services provided in different countries
money/capital moved very easily between countries
head office in country where originated
provides payment/withdrawal/loan/advice services (1 mark max)

any other relevant point [2]

(b) (i) Any three services × 1 mark each –

making payments
obtaining bank statements
viewing balances and transactions
managing direct debits
transferring money between accounts
requesting borrowing facilities
paying credit card bills
obtaining information/advice
international transfers
creating/amending/cancelling standing orders

any other relevant service [3]

NB purchasing online = 0 marks

(ii) One mark for obtaining cash, paying in cash/cheques, arranging borrowing [1]

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

may need to buy now and pay later
the bank may offer competitive interest rates
the bank may offer a good service
enables customers to purchase online
can be accessed in many countries
may be well publicised
may offer a range of services e.g. credit cards, hire purchase, loan services

any other relevant point [4]

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(c) Level 2 (4–6 marks)

Has discussed whether or not Mel and Bruno will receive the same amount of compensation and has given a reasoned opinion.
(If no insurance principles are mentioned, award 4 marks max.)

Although both Mel and Bruno have insured their houses for $400 000 and they have claimed the same amount, it is unlikely that they will receive the same amount of compensation.

They may have claimed for compensation for different causes. The insurance company may decide that one of them has claimed for more than he or she is entitled to. Therefore the principle of indemnity will apply i.e. the insured cannot make a profit from a loss and so will receive less. It may be found that one of them did not tell the truth when completing the claim form and so the principle of utmost good faith will apply. The claim could be declared null and void.

It is likely that each person may have different exclusion clauses written into their policies and some of the claim of one of them may be excluded. It is also possible that the assessors sent to view the claims may value the loss of each rather differently. Mel and Bruno may also have decided to cover part of their claims for different amounts so making the compensation paid out a different amount.

Level 1 (1–3 marks)

Has commented on whether or not Mel and Bruno will receive the same amount of compensation and may/may not have given an opinion.

Mel and Bruno will not receive the same amount. They may be claiming for different things. They may live in different places. They may have slightly different policies. [6]

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

they are individuals and the banks and insurance companies are very large organisations so their bargaining power is minimal against these businesses
the problem or complaint they may have may be complex and difficult to understand
they may need protection against overcharging e.g. for borrowing without prior consent
they may need protection against insurance policies that are badly worded and misleading
they may need protection when making an insurance claim which the insurance company does not deal with efficiently or refuses
consumers have rights such as the right to be informed – to know the details of what service they are buying so that they can make a more informed choice

any other relevant point [4]

6 (a) (stock + debtors + cash) – (creditors + overdraft)
$1000 + $300 + $300 i.e. $1600 (1 mark) – $400 + $700 i.e. $1100 (1 mark) = $500 (1 mark)
OFR applies. Accept the correct answer without working for full marks. [3]

(b) (i) Assets are owned by the business (may be fixed or current) (1 mark)
Liabilities are the amounts owed to others (current or long-term) (1 mark) [2]

(ii) One mark for debentures [1]

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(iii) Level 2 (4–6 marks)

Has discussed whether or not it is better to raise finance by issuing shares or to obtain long-term loans and has given a reasoned opinion.
(If a candidate has discussed only issuing shares or long-term loans, award 4 marks max.)

Companies often face a choice between issuing shares and so widening the ownership of the company or borrowing from a financial institution such as a bank. Many companies do both.

If a private limited company wishes to issue shares it will have to have the consent of the existing shareholders and certain people will be invited to buy shares. If a public limited company issues shares, these are sold on a stock exchange to anyone who wishes to buy them. Issuing such a share issue takes a long time. Issuing more shares means that the ownership of the company is widened and management control of the company may be weakened. A public limited company may be more open to a takeover bid. The value of the shares may also fall. Dividends will have to be paid, but in poor years very little or no dividend will be paid. On the other hand, these shares do not have to be repaid.

If a company borrows, interest is paid until the borrowing is repaid. This interest needs to be paid or the banks and debenture holders may force the company into liquidation. Security in the form of assets may also be required for a loan and this will be taken if the loan is not repaid. On the other hand, most borrowing is quick to arrange and the company may be in urgent need of funds. There is no loss of control and no extra owners who have to be kept happy.

On balance, it is probably better to do both – issue shares when the company is being set up and borrow from banks and other financial institutions when the need arises without over-committing the company.

Level 1 (1–3 marks)

Has commented on issuing shares and/or borrowing with/without an opinion.

A company should borrow money if it needs it. It will have to pay interest. It is quick to arrange. There may be fixed interest or the interest will vary with the daily amount borrowed. It should not over-borrow. [6]

(c) Any two differences explained × 2 marks each –

private limited companies may be owned by shareholders who are family members (restricted) but the shareholders of a public limited company could be anyone
shares of private limited companies are transferred by agreement amongst the shareholders but public limited company shares are traded on stock exchanges
public limited companies are usually large, private limited companies may be family owned
accounts of public limited companies are published, accounts of private limited companies are available on application
private limited companies are set up by certificate of incorporation but a public limited company must sell its shares and obtain a trading certificate before starting business
may be set up as a way of expanding a sole trader business or partnership

any other relevant point [4]

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

to protect itself against claims made by employees – employer's liability
to protect itself against claims made by customers/the public – public liability
to receive compensation in the event of a risk happening e.g. fire, theft
to insure its vehicles using comprehensive cover
to cover its buildings and machinery/equipment as well as stock against damage, fire, flood
it may also have credit insurance to safeguard itself against its customers not paying their debts

any other relevant point [4]

7 (a) (i) Level 2 (4–6 marks)

Has discussed whether Orient Ltd should find goods itself or continue to use agents and has given a reasoned opinion.
(If a candidate has discussed either finding goods itself or continuing to use agents, award 4 marks max.)

Orient Ltd may consider finding goods itself if the difficulties about quality are considerable and likely to be ongoing. We do not know. It may depend on the kinds and quantities of goods that Orient Ltd imports. It may depend on which countries Orient Ltd imports from.

If Orient Ltd finds goods for itself, this will take time. Orient Ltd may have no experience of importing itself or the regulations involved. It will also add to its costs as buyers may have to be employed. On the other hand, it will be saving the agents' costs and commission and so additional costs may not be a problem.

Agents may speak local languages and they will have expertise in where to find the goods required at the best prices. On the other hand, they may be representing many companies and so may not be working to the best advantage of Orient Ltd hence the poor quality goods.

It is probable that the company should continue to use agents. One solution might be to look for better agents.

Level 1 (1–3 marks)

Has commented on either Orient Ltd finding goods itself or continuing to use agents with/without an opinion.

Orient Ltd should continue to use agents to find goods. It will save the company time. It may save money. Agents are paid commission. Agents may speak the language of the country in which they are doing business. [6]

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

goods may be subject to duty so customs will calculate how much duty is to be paid and collect this duty
dutiable goods that the importer does not want to take into the country may be stored in a bonded warehouse supervised by customs until the duty has been paid
goods may be imported into the country in containers which will be inspected by customs officials
imported goods and their documents will be inspected by customs officials
some of the goods imported may be subject to quotas which will be enforced by customs officials

any other relevant point [4]

(b) Any two circumstances × 1 mark each –

when large-scale retailers purchase direct from suppliers
when branded / well-advertised goods are purchased direct
when perishables, e.g. bread sold
when one-off orders are placed e.g. building a ship
when the manufacturer is his own retailers
when technical goods are sold

any other relevant circumstance [2]

(c) (i) One mark for advertising/banking/insurance/trade/warehousing/transport [1]

(ii) Any two ways explained × 2 marks each –

industry produces goods which require commercial services to help sell them
if industry did not produce goods, there would be no need for commerce
trade enables surplus goods to be exported and goods needed by a country to be imported
commercial services provide finance to enable industry to expand
transport is needed to move raw materials to factories and finished goods to consumers

any other relevant point [4]

(iii) Any three points × 1 mark each –

wholesaling purchases goods from suppliers
wholesaling sells goods to retailers
wholesaling makes a profit by buying at a lower price than it sells
many small suppliers are dependent on wholesalers to buy their products
wholesaling supplies many small-scale retailers with a variety of goods

any other relevant point [3]

8 (a) (i) One mark for 15c [1]

(ii) $\frac{15}{180} \times 100$ (1 mark) = 8.3%/8.4% (1 mark) [2]

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

the retailer may have higher costs e.g. cost of expensive premises OR
the juice processing company may have higher costs e.g. marketing/transport and distribution (NB depends on interpretation of data)
the retailer sells many different products with different mark ups
the retailer sells in very small quantities to consumers
the juice processing company deals in bulk quantities and can take more advantage of economies of scale
the juice processing company may pass on some of the costs to others e.g. distribution costs to a wholesaler

any other relevant point [3]

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

to protect the fruit before it is processed
to hold the processed juice before it is packaged
to await transport when sold
to ensure that there are adequate supplies to meet demand
to hold its products securely and reduce damage
to display the cartons of juice to potential buyers

any other relevant point [4]

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

because it is a liquid
to provide a certain quantity in the carton
to protect the product from damage
to aid the transport of the juice
to enable the cartons to be handled easily
to aid display
to allow the orange juice to be branded
to enable details about the orange juice to be put on the packaging

any other relevant point [4]

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(d) Level 2 (4–6 marks)

Has discussed containerisation in relation to both road transport and to the juice processing company and has given a reasoned opinion.
(If the discussion is not in the context of the juice processing company, award 4 marks max.)

Containerisation is a system of integrating freight transport using standard-sized containers that can be loaded intact from one type of transport to another. The juice processing company may make use of containers when shipping a large quantity of cartons of juice to another country. The cartons would be packed into the container at the factory, transported to a port by road, moved on to a ship, either still on the truck or by container ship and delivered to the destination before container is unpacked. This reduces handling, speeds up the transport of the juice, protects the juice from damage or theft and provides storage for the juice inside the container.

The juice processing company could also move juice in bulk using road tankers, especially if its packaging plant was in a different location from the processing factory. The company is more likely to move its cartons of juice in home market, probably boxed in uniform quantities, in articulated trucks by road, direct to retailers, to regional distribution centres or to wholesalers rather than use containers.

The juice processing company is, therefore, likely to benefit from containerisation when it exports its finished products. It is less likely to use containers when supplying the home market where quantities handled are smaller.

Level 1 (1–3 marks)

Has commented on containerisation with/without mentioning road transport or the juice processing company.

Many goods are carried using containers. Containers protect the goods carried. Containers can be carried easily by road, by rail and by ship. Containers are moved from one type of transport to another using mechanised handling. It makes the transport of goods quicker. It benefits the juice processing company. [6]

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