Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

COMMERCE **7100/22**

Paper 2 **May/June 2017**

2 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An Answer Booklet is provided inside this Question Paper. You should follow the instructions on the front cover of the Answer Booklet. If you need additional answer paper ask the invigilator for a Continuation Booklet.

Answer any **four** questions.

The businesses described in this Question Paper are entirely fictitious.

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

This document consists of **7** printed pages, **1** blank page and **1** Insert.

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CAMBRIDGE
International Examinations

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Answer any **four** questions.

1 S Wholesalers imports high quality food products which it sells to retailers.

(a) Identify **one** type of transport that S Wholesalers might use to deliver goods to retailers. [1]

(b) **(i)** Describe **two** advantages **to a retailer** of purchasing high quality food products from S Wholesalers. [4]

(ii) S Wholesalers is considering opening its own retail shop. Do you think it should do this? Give reasons for your answer. [4]

(c) The products shown in Fig. 1 have been sold to M Retail.

S Wholesalers
INVOICE

Invoice No: 1794
Date: 1 April 2017
Terms: 5% 30 days

To: M Retail

Product Code	Item	Quantity	Unit Price $	Amount $
4476	Duck Pâté	2 boxes	25.00	50.00
8732	Bread Sticks	4 boxes	10.00	40.00
			Amount payable	90.00

Fig. 1

Use Fig. 1 to help you answer the following questions.

(i) Calculate the total amount paid by M Retail if it pays the invoice within 30 days. Show your working. [3]

(ii) Should S Wholesalers offer this discount? [2]

(d) Discuss whether or not wholesalers, such as S Wholesalers, are likely to survive in the future. [6]

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2 O Ltd is a manufacturer of wooden furniture. Its factory is on the outskirts of a town which is a long way from its raw materials. It uses specialisation and adds value when making the furniture.

(a) Identify the sector of production that O Ltd is concerned with. [1]

(b) Explain what is meant by *added value*. Give an example relating to furniture. [3]

(c) State **two** advantages and **two** disadvantages to O Ltd of using specialisation when manufacturing furniture. [4]

(d) Should O Ltd open a new factory in a remote forested area? Give reasons for your answer. [4]

(e) O Ltd wishes to buy a new machine costing $100 000. It has two possible sources of finance available:

Bank loan **Hire purchase**

(i) Discuss these sources and recommend which one might be **better** for O Ltd. Give reasons for your answer. [6]

(ii) Explain **one** reason why O Ltd is **not** using retained profits (retained earnings) to buy the new machine. [2]

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3 Fig. 2 gives a summary of the financial situation of two large-scale retail shop chains.

	Y Shops Ltd	C Retail Ltd
	$ million	$ million
Sales	60	30
Net Profit	7	9
Working Capital	3	4
Long-term Liabilities	12	9
Share Capital and Reserves	28	25

Fig. 2

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

(a) (i) State **one** example of a long-term liability. [1]

(ii) Explain what is meant by *working capital*. [2]

(iii) Why is working capital important to any business? [3]

(b) Compare the financial position of Y Shops Ltd and C Retail Ltd. Which of these two businesses is in a better financial position? Give reasons for your answer. [6]

(c) Both businesses own and manage a number of retail shops. Describe **two** advantages of retailing on a large-scale. [4]

(d) Y Shops Ltd and C Retail Ltd have shops in many towns where there are also small independent retailers. Describe **two** actions a single shop retailer can take to survive this competition. [4]

4 H Ltd is a manufacturer of electronic components. It exports 90% of its products and communicates frequently with its overseas customers.

(a) Define *exports*. [1]

(b) (i) List **three** difficulties likely to be faced by H Ltd when exporting its components. [3]

(ii) Name **two** transport documents that H Ltd will have to use when exporting its components. [2]

(iii) Explain **two** methods of payment that H Ltd might accept from its export customers. [4]

(c) Explain **two** reasons why it is important for H Ltd to have rapid and accurate methods of communication with its overseas customers. [4]

(d) Most of H Ltd's communication is verbal (oral). Discuss whether or not there are situations when written communication might be more suitable. [6]

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5 T Ltd sells high-quality decorated pottery. It has recently received more complaints than usual about the quality of its products.

(a) **(i)** What is meant by *saleable quality*? [1]

(ii) A customer has returned an expensive vase because it is cracked. State **four** actions T Ltd should now take. [4]

(b) T Ltd belongs to a trade association that has a Code of Practice. How will a Code of Practice help a consumer? [2]

(c) T Ltd wants to insure itself against a fall in profits. Would T Ltd be able to obtain this insurance? Give reasons for your answer. [4]

(d) T Ltd operates in a country that is part of a trading bloc.

(i) Explain what a trading bloc is and give an example. [3]

(ii) T Ltd trades with some countries that do not belong to a trading bloc. Discuss whether or not T Ltd should continue to export to these countries. Give reasons for your answer. [6]

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6 J Ltd manufactures paper products that are sold throughout a country. It owns two warehouses, one in Anytown and the other in Sometown, which are 250 km apart by road. It also operates a fleet of six trucks which it uses for all deliveries. Fig. 3 is a map of J Ltd's location.

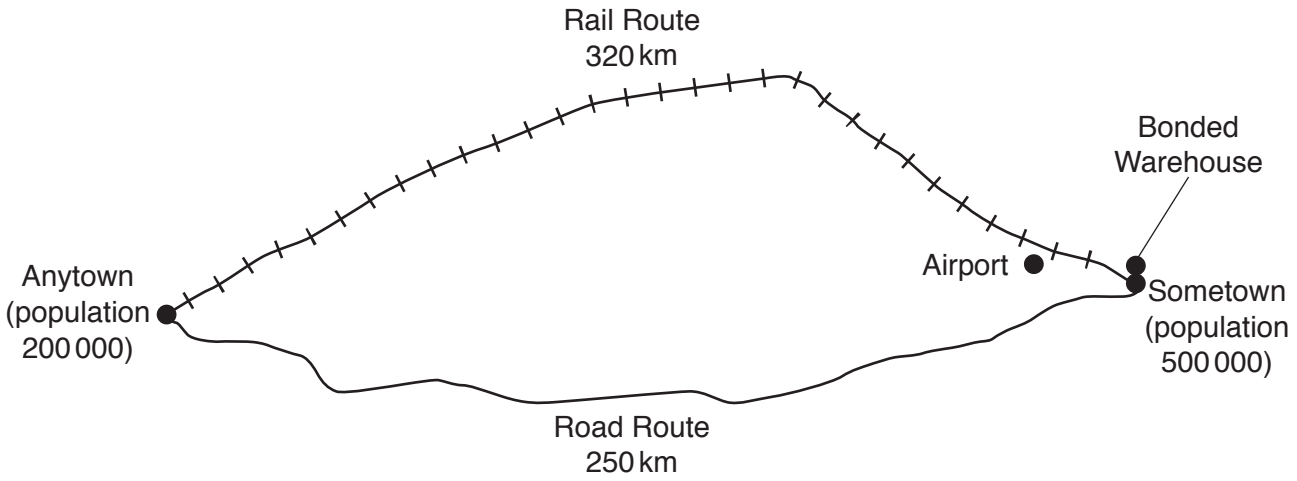


Fig. 3

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

(a) **(i)** State **three** functions of a warehouse. [3]

(ii) Explain **two** advantages of having two warehouses that are 250 km apart. [4]

(b) J Ltd import printing materials from another country, through the airport, and store them in the bonded warehouse in Sometown.

(i) Explain why bonded warehouses are used when importing some goods. [4]

(ii) State **two** services offered at an airport for handling goods. [2]

(c) J Ltd moves its products by road. However, the railway system in this country is being modernised by the government.

(i) In which sector is the railway system of this country? [1]

(ii) Discuss whether or not J Ltd should consider using the rail network to deliver some of its products. Give reasons for your opinion. [6]

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7 X Ltd is a private limited company operating a chain of fifty bookshops throughout a country.

(a) (i) The shareholders of X Ltd have limited liability. Explain what is meant by *limited liability*. [3]

(ii) Explain **two other** features, apart from limited liability, of a private limited company. [4]

(b) (i) State **two** reasons why advertising is necessary for X Ltd. [2]

(ii) Several of X Ltd's shops are in towns with universities. Recommend the **two most** suitable types of advertising media to attract students into its shops. Give reasons for your recommendations. [4]

(iii) Name **one** advertising device that X Ltd could use. [1]

(c) The business is facing increased competition from online bookshops. Discuss the ways X Ltd can compete with the online bookshops. Recommend a suitable course of action. [6]

8 Tom is setting up a new business as a car rental outlet. He has bought twelve cars that are available for rent to the public. He needs insurance and banking services.

(a) (i) What is meant by *public liability insurance*? [1]

(ii) Tom has been advised to insure his business premises against the risk of fire. Explain how an insurance company uses *pooling of risks* when issuing fire insurance policies. [4]

(b) (i) Explain **two** advantages to Tom of opening a current account. [4]

(ii) State **two** purposes of a bank statement. [2]

(c) Should Tom accept credit cards as a method of payment from customers? Give reasons for your answer. [3]

(d) Tom considered buying a franchise from a multinational car rental company. Discuss whether or not he was right to open his own independent business instead of a franchise. Justify your opinion. [6]

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