Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

COMMERCE **7100/23**

Paper 2 Written **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)(i)	**Give <u>two</u> reasons why AA Ltd offers different brands of bottled water for sale.** • To maintain/increase sales/attracts customers • To capture new markets • To increase market share • To survive • To provide customers with a choice • To be able to compete with competitors • To spread the risks involved • Less costly to develop another brand	**2**
1(a)(ii)	**State <u>two</u> advantages of branding goods.** • Brand name is easily recognised/identified • Enables consumers to shop more quickly/builds preference for the branded good • Differentiates one brand from another/competitive edge/gives it a unique image • Brand name is often associated with quality • Prices tend to be fixed on branded goods/less frequent changes on branded goods • Helps build customer/brand loyalty • Helps introduction of new products • Promotes repurchasing/increases sales/attracts customers • Helps advertising • Give legal protection/stops competitors from copying brand name • Customers know who produces the goods	**2**
1(b)	**The water is packaged in plastic bottles.** **Identify <u>one other</u> way of packaging water.** • Glass bottle • Can • Carton • Tub • Paper bag • Jar • Box • Pouch	**1**
1(c)	Water is an example of a human **need.** An example of a renewable energy is **wind.**	**2**

Question	Answer	Marks
1(d)(i)	**Is road the best way to move bottled water? Give reasons for your answer.** **Yes** – road has flexible routes (1) not restricted to any timetable (1) quick over short distances (1) AA Ltd can deliver directly door-to-door (1) without any transhipment time/cost (1) no need for air / sea (1) as delivering around the country (1) not internationally (1) and less costly than air /sea (1). Trucks are large enough to carry water in bulk (1) and can advertise on side of vehicle (1) e.g. telephone number (1) so that people can order the water (1) **No** – road is usually unsuitable for bulk loads (1) and trucks have limited carrying capacity (1) AA Ltd might need a fleet of trucks to carry vast amounts of water (1) which could be very expensive (1) and road is expensive over long distances (1) and slow over long distances (1) especially if stuck in traffic jams (1)	**4**
1(d)(ii)	**Discuss whether or not AA Ltd needs warehousing as part of its business. Give reasons for your answer.** Warehousing provides storage for completed production before products are sold and to protect them from damage/theft/weather. A warehouse is also used for processing such as packing products into different size packs and finishing such as branding/labelling. AA Ltd could use a warehouse to meet unexpected demand, for example, if a lot of water is demanded during hot weather. AA Ltd uses its own trucks to transport water to customers so to some extent the truck can become a warehouse as well, especially if the trucks carry the water in large containers. The cost of warehousing would be less if AA's water is moved from production directly to these containers and it would be more secure for onward delivery to the customer. **Example of Evaluation:** *Warehousing is important for AA Ltd so that it can store its water before selling/delivering to its customers but it's even more important so that it can be sure to meet the demand of its customers, to sell more and earn more profit to expand in the future.*	**6**

Question	Answer	Mark
2(a)(i)	**A coffee shop had total sales of $65000. Total expenses were $8000 and the cost of goods sold was $20000.** **Gross profit** = $45 000 (2) Method $65 000 – 20 000 (1)	**2**
2(a)(ii)	**Net profit** = $37 000 (2) Method $45 000 – $8 000 (1)	**2**
2(b)	**Explain <u>two</u> ways in which this coffee shop could increase its sales revenue.** • Wider choice of men (1) offer food / to attract more customers / to compete with other coffee shops (1) • Improve flavour of coffee (1) to attract more customers / to compete with other coffee shops (1) • Extend opening hours (1) to attract more customers / to compete with other coffee shops (1) • Social network (1) so customers can share their experience (1) • Review on social media (1) so customers can rate their experience (1) • Loyalty rewards /membership scheme (1) to gain repeat customers/business (1) • Special offers (1) e.g. for groups/parties (1) • Product-bundle offers (1) so customers think it's a good deal (1) • Host events (1) e.g. music evening to attract more customers (1) • Advertise (1) e.g. on social media (1) • Increase/lower prices (1) as long as it does not impact on sales (1) • Improving customer comfort (1) better seating (1) • Improve the customer experience (1) e.g. better seating / decoration (1) • Give out free samples (1) so customers can taste what the coffee (1) • Offer credit card / contactless card payments / multiple payments (1) for customers without cash (1)	**4**
2(c)	**Explain <u>one</u> reason why many coffee shops are located in town centres**. • High footfall / lots of people (1) who are likely to want to rest / want to take a break / where people work / more tourists / people are already visiting other shops / passing trade / compared to rural areas / can target higher income groups (1) • Convenience (1) usually has parking and public transport nearby (1) • Good transport links (1) easier for customers to travel to (1) • Increasing social trend (1) of people meeting/socialising over coffee (1)	**2**

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Question	Answer	Mark
2(d)	**The coffee shop owner is renewing the shop insurance and is considering using an insurance broker rather than going directly to an insurance company. Discuss whether the shop owner should use an insurance broker to renew the shop insurance. Give reasons for your answer.** An insurance broker should offer the owner independent advice about which insurance company/policy would best suit the coffee shop's business. Whereas each individual insurance company asked will offer slightly different policies with different premiums to pay requiring the owner to choose which is best. However, because brokers earn commission paid to them by the insurance companies whose policy's they will sell on to the coffee shop's owner, they may suggest a policy they will sell on to the coffee shop owner, which pays them the highest commission rather than the one that is best for the coffee shop. **Evaluation:** Brokers offer expertise based on individual needs, so suggest the right cover for the circumstances saving the owner time/money because they will not have to contact a number of insurance companies for comparison, or risk making the wrong choice. Although what they in time/money may be outweighed by an increased premium – to pay the broker's commission. In reality, the owner may use a price comparison website.	**6**

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Question	Answer	Mark
3(a)	**Complete the invoice in Fig. 3.1 by entering (i) Trade Discount and (ii) Invoice Total.**	**2**
3(a)(i)	$1008	
3(a)(ii)	$4032	
3(b)	**Explain what is meant by 'Terms: 5% 21 Days'.** 5% (1) of the Invoice Total is deducted / taken as discount (1) if paid within 21 days (1)	**3**
3(c)	**Explain <u>one</u> difference between an order and an invoice.** • An order is sent from the buyer to seller (1) whereas an invoice is sent from the seller to buyer (1) • An order is a request for goods to be supplied (1) whereas an invoice gives details of goods sold / requests payment (1) • An order does not include the total cost (1) whereas an invoice shows the amount due (1) • Purchase order has a number (1) invoice also has a number but it also shows the purchase order number that it relates too as well (1) • An order lists the quantity and delivery/due date of goods being bought (1) an invoice has the price of goods that have been delivered/sold (1)	**2**

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Question	Answer	Mark
3(d)	**Discuss whether retailers should buy their stock from a wholesaler or buy directly from manufacturers. Which would you recommend? Give reasons for your answer.** **Wholesaler:** Expertise – buys goods and resells them quickly Economies of scale – buys in bulk from manufacturers at low prices so keeps prices stable for retailers Breaks bulk – supplies to retailer in smaller quantities required Sales/promotion – regular promotions/offers for retailers Credit facility – especially useful for small-scale retailers Warehousing – saves retailers money/space **Manufacturer:** Cost savings – wholesaler function increases selling price so manufacturer can offer lower prices that retailers to pass on to customers Product more likely to be in better condition / fresh / less expired stock – as it is not passing through a long supply chain Bulk quantities – requires large orders to be placed that many small-scale retailers will not have space to store or be able to afford Delivery – retailers are often located throughout a country so it is not easy for manufacturers to deliver so it would have to increase prices to the retailer **Evaluation:** It all depends on the size of the retailer. Without wholesalers, retailers would have to purchase stock in bulk and store it in warehouses to keep up with customer demand and small-scale retailers cannot afford these costs. Large-scale retailers are very cost conscious and want to buy direct from a manufacturer to keep prices low, but because of its size it can perform both wholesaling and retailing functions by delivering to its shops via RDCs. So large-scale retailers should buy direct from manufacturers whereas small-scale retailers might be better off using wholesalers	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4(a)</td><td>Banks provide a number of services to their customers.
Which of these statements about banking are TRUE and which are FALSE?
Tick TRUE or FALSE in the correct column
<table>
<tr><th></th><th>TRUE</th><th>FALSE</th></tr>
<tr><td>A deposit account allows a customer to have an overdraft limit</td><td></td><td>✓</td></tr>
<tr><td>ATMs can be used at any time</td><td>✓</td><td></td></tr>
<tr><td>Internet banking has led to the closure of some bank branches</td><td>✓</td><td></td></tr>
</table></td><td>3</td></tr>
<tr><td>4(b)</td><td>Is it a good idea for bank customers to use mobile banking? Give reasons for your answer.

Yes – easy access / anywhere (1) 24/7 (1) because it can save time / money (1) instead of going into / queuing in a bank (1) safer than carrying cash to a bank (1) you can check account balances (1) receive alerts (1) schedule and make payments / transfer money (1) no need for internet connection (1) safer than internet banking (1) and normally free to use (1)

No – only available by using a smartphone (1) which can be expensive to buy/contract a smartphone (1) issue if phone battery runs out (1) you will not be able to access your account (1) There is the risk of hacking/fraud (1) if phone is lost /stolen (1)</td><td>4</td></tr>
</table>

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Question	Answer	Mark
4(c)	**Discuss whether it is better for a customer to pay for an expensive TV with a debit card or a credit card. Give reasons for your answer.** **Debit card:** No bank charges /no interest to be paid – money is taken from customer's current account at the time of transaction i.e. when the customer uses the debit card in the shop to pay for an expensive TV. No debt / Control of spending – impulsive spenders avoid the temptation of credit. A customer cannot access credit with a debit card so it limits them to only spending what they have in their current account. **Credit card:** Credit period – when a customer pays with a credit card, the retailer/shop is paid by the credit card company and the customer borrows the amount from the credit card company, up to a predetermined limit. If the customer does not repay the amount to the credit card company on time (usually one month) they will be charged interest so their original purchase will become more expensive. Rewards – Credit card users can receive cash, discounts, travel points and other perks unavailable to debit card holders. Warranties – Credit cards often provide additional warranties or insurance for items purchased that may exceed those of the retailer. **Evaluation:** If you don't have the discipline to only spend what you can pay off completely each month, only use a debit card. If you cannot afford the TV outright, it would be better to buy it with a credit card to achieve a period of credit while already using the TV. The credit card company may well extend the warranty for an expensive item, in case it breaks down in the future, and you would gain a high level of rewards for such an expensive purchase.	**6**

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Question	Answer	Mark
5(a)	**What is the main function of a freight forwarder?** To transport/move/send goods	**1**
5(b)(i)	**Identify <u>two</u> examples from the advertisement that make it informative.** • UK based • Provides air and sea freight services • For over 25 years • Customs authorities' experience • Telephone number +44 (0) 2312115689 • Click here to complete our online enquiry form	**2**
5(b)(ii)	**Suggest <u>two</u> ways DD Freight Forwarders (UK) might make this advertisement more persuasive?** • Change the font / size / make words stand out • Add colour • Use pictures/images • Add some persuasive wording, e.g. can transport goods very quickly • Offer incentives/promotion • Make competitive advertisement	**2**
5(c)	**The online advertisement mentions telephone and completing an enquiry form. Describe <u>one other</u> method of communication that an international company might use in its operations.** • Teleconferencing (1) linking people in different locations by sound (1) • Videoconferencing/videocall (1) linking people in different locations by sound and vision (1) • Fax (1) sending a copy of a document via a fax machine (1) • Email (1) emailing a message via the internet (1)	**2**
5(d)	**Describe <u>two</u> ways that customs authorities can restrict the amount of goods imported into a country.** Collecting duties/tariffs (1) charging extra on top of price of imported goods (1) Enforcing quotas (1) such as restricting the amount/number imported (1) Enforcing embargoes (1) such as bans on firearms (1)	**4**

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Question	Answer	Mark
5(e)	**Discuss whether DD Freight Forwarders (UK) should use air or sea transport for the delivery of machinery from London to Tokyo. Which method of transport would you recommend? Give reasons for your answer.** In commercial situations it is important to know which option which will be quickest, and which will cost least. When it comes to speed, air is much faster which can make up for the higher cost. However, air transport is more often used for carrying perishable goods which require quick delivery and lightweight goods of high value, such as diamonds. Machinery is heavy so shipping by sea will be cheaper than shipping by air. However, sea shipments can take weeks or months to arrive but, because DD is exporting, they are likely to arrange proof of payment through a letter of credit agreement. **Evaluation:** DD could use air because it will get its products to its customers more quickly, the customers will pay more quickly, and be satisfied with the service so buy from DD again and DD will sell more / make more profit. But, more likely: DD should use sea because machinery is too heavy and expensive for air shipment and its customers will understand that, so DD can use cheaper sea shipment to keep its costs low and make more profit, and it could borrow against the letter of credit in the short term.	**8**

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