CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 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 points × 1 mark each:

the third stage of production
involving the provision of services
such as commercial services
and direct services

any other relevant point [2]

(ii) One mark for either primary (extractive) or secondary production [1]

(b) (i) any one advantage explained × 2 marks:

Ismail may become more skilled so can offer a better service to customers
Ismail may be able to repair more computers and so may be able to reduce prices
Ismail may be able to offer a service not offered elsewhere + example

any other relevant advantage [2]

(ii) Any one advantage explained × 2 marks:

Sari may be able to offer a better level of customer service so more customers will come to the shop
Sari may get to know individual customers and so offer them personal service
customers may have greater satisfaction and recommend the shop to others
better service may lead to increased sales revenue and possibly greater profits

any other relevant advantage [2]

(c) (i) $12 000 + $44 000 (1 mark) = $56 000 (1 mark)
OFR applies. Accept correct answer without working for full marks. [2]

(ii) $56 000 – $25 000 (1 mark) = $31 000 (1 mark)
OFR applies especially from **(c)(i)**.
Accept correct answer without working for full marks. [2]

(iii) One mark for expenses/overheads [1]

(iv) Any one reason explained × 2 marks:

so that they do not go out of business and lose the money they have invested in the business
so that they can use the profit to provide themselves with an income
so that they can use the profit to pay back any loans they may have and also to pay the interest
so that they have money to reinvest in the business in order to improve/expand it
so that they do not need to borrow money to keep going

any other relevant point [2]

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(d) Level 2 (4–6 marks)

Has discussed whether or not Ismail should stop specialising in repairs and help Sari with sales and, using the figures, has given a reasoned judgement.
(If no figures are considered, award 4 marks max.)

The income from repairs is certainly less than the income from computer sales. It should, however, be remembered that the gross profit from computer sales is $19 000 i.e. $44 000 – $28 000 so there is only $7000 difference. We do not know what expenses are incurred when undertaking the repairs. The overall expenses of the business are also not given.

By offering the repair service, the business is offering an after-sales service. Customers who buy computers will expect to be able to return to the shop if they experience problems. Other people who have bought computers elsewhere will also be able to use the shop and so this should bring additional business. If Ismail offers a good level of service, it is likely that income from repairs will increase. It may also be the case that Ismail is no good at selling and prefers to work in the background. If the repair service was not offered, he might not have enough work.

On the other hand, Sari may be overworked and needs some help. We do not know. If Ismail helped her, they might sell other products. If he does not, they might need to employ another person.

However, this is only the first year of trading. A more informed judgement may be made when the business has been going for longer but, on balance, Ismail should continue to repair computers.

Level 1 (1–3 marks)

Has commented on whether or not Ismail should stop repairing computers with/ without mentioning any of the figures.

The business is making less from repairing computers than from selling them. Repairs costs less than a new computer. Repairing computers brings more business. Ismail should continue. [6]

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

large self-service store (184+ sq metres and 3+ checkouts)
selling mostly food and household goods
they combine the trades of butcher, baker, grocer, florist, greengrocer, stationer, chemist
they encourage one-stop shopping
they rely on high volume with low profit margin on each item (SPQR)
trollies and baskets are provided
customers pay at checkouts and may use automatic checkouts
many supermarkets offer purchasing online with a delivery service
may provide additional services + example such as snack bar
may have large car park
usually accept credit cards
often offer a loyalty scheme

any other relevant point [4]

(b) Any two reasons explained × 2 marks –

Site Y has very good road communication at a motorway junction with two major roads
deliveries can be made very easily because of good road communication
it is likely to be a bigger site than Site × and so a large car park can be provided
it is not too far out of Ishi with good roads connecting to it
it is between Ishi and Vanu, both centres of population

any other relevant point [4]

(c) Any example of a large-scale retailer such as multiple chain store/variety chain store/ discount store/department store × 1 mark + one reason for choice × 1 mark such as –

in the middle of a centre of population so customers are close by
may not need such large premises
close to some roads
customers may come by rail

any other relevant point [2]

(d) Any two advantages explained × 2 marks –

can keep all its supermarkets supplied when stocks are required
can operate regional warehouses centred between several supermarkets
goods are under the direct supervision of drivers so less chance of theft/damage
advertising for Busybuy Stores can be put on the sides of the vehicles
saves hiring transport from transport companies and so may save costs
vehicles can be refrigerated to carry goods that need cold storage
vehicles can be used to deliver goods to customers using online shopping

any other relevant advantage [4]

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(e) Level 2 (4–6 marks)

Has discussed whether Busybuy Stores should develop its online shopping service rather than build new supermarkets and has given a reasoned opinion.
(If a candidate has given a one-sided answer, award 4 marks max.)

Busybuy Stores offers an online shopping service because many customers are now doing most of their shopping online and this trend is likely to continue. Other supermarket chains are also offering online shopping so it needs to compete in the market. Customers who use the Internet for online food shopping tend to spend more than customers visiting the stores. If Busybuy is making money from its online shopping service, it should certainly try to develop it and also try to improve it.

At the same time, it is important for Busybuy Stores to continue to expand its operations by building new supermarkets where it can identify a gap in the provision of supermarkets. Other supermarket chains are likely to continue opening new stores so it needs to compete. The programme of building may slow. Busybuy Stores may have insufficient capital to build a large number of new supermarkets. We do not know. Busybuy Stores needs to expand both its online shopping service and also the number of its supermarkets.

Level 1 (1–3 marks)

Has commented on the development of online shopping and/or building new supermarkets with/without an opinion.

Busybuy Stores offers online shopping. Many people have computers. They work for long hours and like to surf the net. They like to buy online. Many other people still go supermarket shopping. To cater for their needs, Busybuy needs to build supermarkets. [6]

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

storing (1 mark) of the fizzy drinks
awaiting sale/delivery to its customers (wholesalers/large-scale retailers)
(storage) of the raw materials needed to make the fizzy drinks
enables Takunda Ltd to maintain continuous production
ensures Takunda Ltd has sufficient supplies to fulfil demand
protects the fizzy drinks against theft/damage/deterioration

any other relevant point [3]

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

provides financial advice
offers finance with loans/overdrafts
offers various methods of payment + an example
enables Takunda Ltd to save money and earn interest
enables Takunda Ltd to deposit money
arranges payment of wages to workers

any other relevant point [3]

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(b) Level 2 (4–6 marks)

Has discussed the statement and has shown whether or not it is true with reasons. (If a candidate has discussed only branding or packaging award 4 marks max.)

Fizzy drinks need to be packaged in bottles as they are in liquid form. Otherwise they could not be sold. Packaging makes it easier to transport the fizzy drinks and also to display them. It makes it easier for customers to handle the fizzy drinks.

Fizzy drinks need to be given a brand name to identify them in the market and to distinguish them from the fizzy drinks of other manufacturers. Branding enables customers to recognise them so that they will buy the same brand again. Branding gives an indication of the quality the customer associates with the brand. It is, therefore, essential that the fizzy drinks are both branded and packaged.

Level 1 (1–3 marks)

Has commented on some elements of the statement with/without an opinion.

Packaging is needed to protect the fizzy drinks. The brand name helps to advertise the products. The brand name is put on the packaging. They are both essential. [6]

(c) (i) splitting purchases into small quantities for retailers to purchase [1]

(ii) it saves the retailer the expense of buying large quantities
it saves the retailer keeping large quantities before sale that might become unsaleable or for which there may be no demand
it saves the expense of large storage space at the retailer's premises
many small-scale retailers require only small quantities as the demand from their customers is small
money spent by a retailer on purchasing in bulk can be spent on other goods

any other relevant point [3]

(iii) Any two services **to retailers** explained × 2 marks each –

providing a variety of goods from many manufacturers
providing advice to retailers especially about new products
displaying goods so that retailers may be able to examine them
providing cash and carry services to retailers who pay cash/carry good away
providing delivery services so that retailers do not run out of goods
offering trade discount so that retailers can make a profit on goods sold
providing a reservoir of goods so that retailers can obtain goods to sell

any other relevant service [4]

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4 (a) (i) Any two characteristics × 1 mark each –

shares sold on stock exchanges
anyone may be a shareholder
shares are freely transferable
minimum number of directors is two
minimum share capital required to start business
must obtain a trading certificate before starting business
set up to raise large amounts of capital from the public
has Plc/Sa/Bhd after its name

any other relevant difference [2]

(ii) Any two characteristics × 1 mark each –

may be a small family business
ownership of shares is restricted
shares not transferable without consent of the other shareholders
minimum number of directors is one
may be set up as a way of expanding from a sole trader/partnership
has Pte/Pvt/Pty/Ltd after its name

any other relevant difference [2]

NB Answers must be distinct differences, not negatives of the other type of limited company.

(b) Any three points × 1 mark each –

responsibility for the debts of the business is limited to the amount of money they have invested
this protection means that potential shareholders are not deterred from investing as their personal property is not at risk even if losses amount to millions of dollars
they are therefore more willing to invest in limited companies rather than use their money for other purposes

any other relevant point [3]

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

can earn increased revenue which may lead to greater profits
if one market is not doing well, this may be compensated for by other markets
enables the company to spread the risk of failure to sell its goods/obtain payment
may enable the company to sell particular toys in some markets and other toys in other markets as consumer tastes may vary
enables them to earn foreign currency that can be used to pay for imported components
may be able to take advantage of economies of scale + example

any other relevant point [4]

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(d) (i) Any three reasons × 1 mark –

expenses may have been lower than in previous years (any distinct examples e.g. lower wage costs – max 2 marks)
cost of goods sold may have been lower than in previous years
some of their products may have been sold better than in previous years
some of their markets may have been more profitable
they may be selling in new markets which are profitable
they may be selling new electronic toys very successfully
some of the sales offices they already have, have performed well

any other relevant reason [3]

(ii) Level 2 (4–6 marks)

Has considered some of the three options, may have considered other options, and has given a reasoned recommendation.
(If a candidate has given a reasoned recommendation relating to only one option, award 4 marks max.)

In order to maintain the rise in profits Makore Ltd should consider offering more products. Electronic toys will go out of date very quickly as technology advances. In order to remain competitive, Makore Ltd will have to develop new products. These toys will have to be advertised if they are to sell. Otherwise consumers will not know about them. Mass media is likely to be used as the toys appeal to a mass market. When a new toy is introduced, it is likely that a sales promotion will be used e.g. a free gift, to encourage sales. Whether or not opening sales offices in more countries is likely to help them maintain profits is debatable. There will be significant expenses incurred in setting up new sales offices and they would have to be very successful to cover the costs. Makore Ltd should also keep a watchful eye on the level of expenses. It may increase sales revenue but if expenses rise more sharply, it will experience a fall in profits.

Level 1 (1–3 marks)

Has commented on one or more of the options with/without a recommendation.

Makore Ltd should introduce new toys. Everyone wants the latest toy. It will maintain its profits. The toys must be well made and appeal to many people. [6]

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5 (a) (i) One mark for European Union [1]

(ii) $\frac{25}{100} \times \$180\text{m}$ (1 mark) = \$45m (1 mark) OFR applies
(Accept correct answer without working for full marks) [2]

(iii) \$210m – \$180m (1 mark) = \$30m (1 mark) OFR applies
(Accept correct answer without working for full marks) [2]

(b) Any two points × 1 mark each (including one mark max for definition) –

Balance of Trade is the difference between exported goods and imported goods
Tresum Ltd exports motor vehicle parts so adds to the total exported goods of the country

any other relevant point [2]

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

quotas are limits on the quantity of a particular product allowed into a country (1 mark)
it may have no effect as Tresum Ltd may not be exporting enough to that particular country
it may mean a loss of sales for Tresum Ltd as it cannot sell as many motor vehicle parts as it has done to that country
it may mean that Tresum Ltd has to look at other markets to sell motor vehicle parts

any other relevant point [3]

(d) Any two benefits explained × 2 marks –

the motor vehicle parts can be grouped together in one container so avoiding many packages
the container offers protection against damage/theft/deterioration/weather
the container can be packed at the factory, cleared for customs and not unpacked until it reaches its destination
the container can act as a storage facility for the parts until they are required
the container can be transhipped between kinds of transport without being unpacked
using containers reduces handling and transport costs
the parts are likely to be shipped more quickly as mechanised handling can be used

any other relevant benefit [4]

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(e) Level 2 (4–6 marks)

Has given a reasoned opinion looking at both methods of finding buyers.
(If a candidate has considered only one of the methods of finding buyers, award 4 marks maximum.)

Finding overseas buyers may have been successful in the past but the company now wants to expand into other markets. Finding overseas buyers is time consuming and can be difficult – problems of language, different currencies, different methods of payment, distance. By using intermediaries such as factors and brokers, the company is able to concentrate on other aspects of the business. Factors and brokers bring buyers and sellers together. Factors take possession of the goods. Brokers do not. These intermediaries are experts in foreign trade and should be able to find buyers for the motor vehicle parts.

Using intermediaries may, however, have drawbacks. These intermediaries may not be as interested in the success of the business as people in the company are. They will charge commission for their services. They will need to be monitored.

On balance it may be better to use intermediaries who know particular markets but also to continue to sell direct to buyers the company has dealt with in the past.

Level 1 (1–3 marks)

Has commented on finding overseas buyers itself and/or using intermediaries with/ without an opinion.

It may be a good thing to sell through intermediaries. There will be less work. They charge commission. They may cheat the company. They may help to solve some of the company's problems. [6]

6 (a) Any two commercial documents × 1 mark each + their use × 1 mark each –

quotation – in response to an enquiry, when a request is made for prices
advice note – when the goods have been despatched
delivery note – to accompany the goods sent to the retailer
invoice – to give the retailer details of the furniture sent and the total bill
credit note – when the retailer has been overcharged/returned damaged furniture
statement – to show the total amount owed for a series of transactions
receipt – sent to prove that payment has been made

any other relevant document [4]

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(b) (i) Any two risks described × 2 marks each –

public liability – to cover third party claims because of faulty furniture
employer's liability – to cover claims made by employees because of the manufacturer's negligence
product liability – to cover claims because of faulty furniture
fire – to cover destruction of factory because of fire
buildings – to cover manufacturer's premises against fire, theft, flood
fidelity bond – to cover fraud by an employee
consequential loss – to cover loss of profits resulting from the business not being able to function
motor/vehicle – to cover the manufacturer's vehicles – comprehensive/third party
theft – to cover stolen goods/money
key person – to cover the life of a person important to the business

any other relevant business risk [4]

(ii) Any two documents × 1 mark each –

prospectus, proposal form, policy, cover note [2]

(c) Level 2 (4–6 marks)

Has discussed each of the three methods of transport available and has given a reasoned recommendation.
(If a candidate has given a reasoned recommendation without discussing the other two means of transport, award 4 marks max.)

The manufacturer wishes to move the large consignment of furniture 450 km. I would recommend using road transport. The manufacturer may have his own transport and so there should be a saving in transport costs. The distance is not too far. The furniture can be loaded at the factory and delivered directly to the retailer's premises. The furniture would be under the supervision of the driver for the journey and so would be less likely to be stolen or damaged. If there was too much furniture for one load, perhaps two trucks could be used or the same vehicle could make two journeys.

I would not use air transport because it is a large consignment and the furniture is likely to be too heavy. I would not use railway unless the furniture was sent in a container. Goods train is not suitable as the furniture might be damaged. Railway is slow and there would need to be some form of road transport to and from the railway yard.

Level 1 (1–3 marks)

Has commented on the most suitable method of transport to move the consignment of furniture.

I would use rail. The furniture is a bulk cargo. It could go in a container. It would be cheap. I would not use road transport as it is slow for long journeys. [6]

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

the manufacturer would need to use a fast means of communication
the manufacturer could telephone the retailer to explain the reasons for the delay
to discuss arrangements for the delivery and give details of when the retailer might expect the consignment
using the telephone would be more personal and the manufacturer could apologise
the manufacturer could email the retailer (giving reasons and details) thus providing a written record of the message and back-up to the telephone call
email might be useful if the manufacturer cannot contact the retailer by phone or if it is after opening hours

any other relevant point [4]

7 **(a)** For each part question any two points × 1 mark each or one well explained point × 2 marks –

(i) immediate ownership
may be given discount
it is legal tender so has to be accepted [2]

(ii) can postpone payment
accepted by many retailers
safer to carry than a large amount of cash
offers free credit for at least a month [2]

(iii) can use the home cinema system before she has paid for it
can budget for this expensive item over a period of time
may receive better after-sales service from retailer
can return it if unable to keep up the payments [2]

any other relevant point

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

the amount to be paid – the cinema system is very expensive and the total amount may not be available
whether or not Mrs Ho has a credit card and the credit card limit
how credit worthy Mrs Ho is – may be refused hire purchase
additional costs involved – interest will be paid using hire purchase, interest will be charged if the debt is not paid off by the due date using the credit card
safety and security – cash is a riskier means of payment
acceptability of the means of payment to the retailer – may not offer hire purchase
how quickly Mrs Ho wants to purchase the cinema system

any other relevant factor [4]

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(c) Level 2 (4–6 marks)

Has discussed both the loan and overdraft and has made a reasoned recommendation.
(If a candidate has discussed only one source of finance, award 4 marks max.)

Mr Bin might take a loan to buy the car because a bank loan is suitable for a set purpose and the vehicle could be used as collateral against the loan. A loan is a formal method of borrowing and the interest is fixed so Mr Bin will know how much he has to repay. He is likely to repay monthly from his current account and a loan account will be opened.

Mr Bin could use an overdraft to fund the purchase of the car. He obviously has a current account and an overdraft facility on this account. Interest at a variable rate would be charged on the overdrawn amount so an overdraft would be suitable if Mr Bin knew that he was likely to receive a large sum of money at a later date. The overdraft may be riskier because it could be recalled by the bank at very short notice.

I would recommend that Mr Bin uses the bank loan. The car is likely to be expensive and so he may find the cost of borrowing cheaper than using an overdraft. His overdraft limit may not be sufficient to pay for the car or he may need to use an overdraft for some emergency expenditure.

Level 1 (1–3 marks)

Has commented on the use of a loan and/or an overdraft with/without a recommendation.

I would recommend that Mr Bin uses an overdraft. An overdraft is on a current account. Mr Bin has a current account. The interest paid varies. Sometimes Mr Bin may be overdrawn. Sometimes he may be in credit. It will be easy to buy the car. [6]

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

payment is guaranteed and there would be no bad debts
receives immediate payment so the money can be used for other purposes/buying stock
saves handling other means of payment e.g. cheques or credit cards
can offer a cash-back scheme to customers
saves having large amounts of cash on the premises so less danger of theft

any other relevant point

NB may attract more customers = 0 marks [4]

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8 (a) (i) One mark for 7 for the price of 5/$1 instead of $1.50 [1]

(ii) One mark for 'Food you can Trust'/Delicious cakes topped… [1]

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

there is no mention of a group of organisations in the same trade in the advert
a particular kind of biscuit is being advertised not an overall product such as biscuits
there is no attempt to stimulate demand for the product in general
there is a company name/brand name on the packaging

any other relevant point [2]

(c) Any two functions × 1 mark each –

to give information about the product
to enable the label to be screened at the check-out
to speed up the process of payment at the check-out
to save pricing goods individually
to enable information to be passed by computer about flow of sales
and checks on stock levels
and so activate re-order levels

any other relevant function [2]

(d) Any four points × 1 mark each –

find the receipt
take back the packet and receipt to the shop
ask for a replacement
ask for a refund
eat the biscuits/do nothing
ask the shop to check on the rest of the stock
phone the telephone number on the packaging

any other relevant point

0 marks for sue the shop/go to the police/go to a consumer organisation [4]

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(e) Any three points × 1 mark each and 1 mark for an example –

advertising techniques
to associate a product with something that the consumer can relate to
concerned with how the advert is presented to the consumer
devices may be concerned with the content of the advert
or the tone of the advert
or the sound effects used in the advert

examples such as colour/cartoons/emotional appeal/affluence/romance/physical attraction/ fear/cleanliness/ambition/hero worship/music

any other relevant point [4]

(f) Level 2 (4–6 marks)

Has discussed the statement and has given a reasoned opinion.
(If a candidate has presented a one-sided argument, award 4 marks max.)

Advertising is part of promotion. Advertising of goods is often necessary so that consumers will recognise the products. Advertising informs consumers about products and persuades them to buy. Advertising and promotion are often needed in a competitive market to maintain sales of a particular product. They may be used to launch a new product, to establish a brand name and to develop brand loyalty. They may be used to remind consumers of an existing product and to counter the advertising of a competitor.

Advertising is very expensive and can be wasteful of resources if used unwisely. There are some markets where products sell themselves or where there are few producers. In the market for petrol, the demand for petrol is governed by the use of motor vehicles. Advertising has little influence on increasing demand for petrol.

Many small businesses cannot afford to spend much on advertising and promotion. They have to rely on word of mouth and the loyalty of customers to sell their products. They still survive so it is not always necessary to advertise in order to sell.

Level 1 (1–3 marks)

Has commented on advertising and/or promoting goods with/without an opinion.

Advertising aims to inform and persuade people to buy. If there were no advertising, many goods would not be sold. People would not know about these goods. It is necessary to advertise and promote in order to sell. [6]

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