CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

7101 COMMERCIAL STUDIES

7101/12 Paper 1 (Elements of Commerce), maximum raw mark 100

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Section A

1 **(a)** **(i)** Trade in a country (1) involving retailers (1) and wholesalers (1)

Any 2 × 1 marks [2]

(ii) Trade between countries (1) involving exporters (1) and importers (1)

Any 2 × 1 marks [2]

(b) **(i)** Advice note (1) to inform retailer that goods are on their way (1)
Invoice (1) acts as a bill (1)
Delivery note (1) gives details of goods delivered/acts as proof of delivery (1)
Credit note (1) used when goods have been overcharged/it can also be used when goods are returned/or are not the goods ordered (1)
Debit note (1) used when goods have been undercharged (1)
Statement of account (1) shows all the transactions/balance owing/acting as a request for payment (1)
Receipt (1) shows/proof that payment has been made (1)

Any 2 × 1 (1 + 1) marks [4]

(ii) Telephone/mobile phone/cellphone (1) verbal conversation can take place (1)
Teleconferencing (1) people linked in different locations linked by telephone (1)
Fax (1) written messages sent (1)
Email (1) information sent from one email address to another (1)
Internet (1) can find goods in stock (1)
Telex (1) typewritten messages sent (1)
Text (1) a message sent between phones (1)
Skype (1) face-to-face (1)
Videoconferencing (1) linked in different locations by screens (1)

Any 2 × 1 (1 + 1) marks [4]

(c) **(i)** Act as an advice note (1) showing all the information of goods carried (1)
Act as contract of carriage (1) showing proof that goods are accepted (1)
Act as a receipt (1) as proof of goods carried (1)
It gives information (1) such as description of goods/freight charges (1)

Any 4 × 1 marks [4]

(ii) Keeping statistics (1) of imports/exports (1)
Collecting duties/tariffs (1) on imported goods (1)
Preventing smuggling (1) such as cigarettes (1)
Inspecting cargoes/documents (1) such as air waybills (1)
Enforcing embargoes (1) such as bans on firearms (1)
Control bonded warehouses (1) where dutiable goods are kept (1)
Enforcing quotas (1) such as the amount of TVs imported (1)
Enforce immigration regulations (1) controlling entry to a country (1)
Enforcing quarantine regulations (1) relating to animals (1)
Enforcing public health regulations (1) preventing certain foods being imported (1)

Any 2 × (1 + 1) marks [4]

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2 **(a)** One owner (1)
Controlled by the owner/own boss (1)
Usually family help running of business (1)
Small amount of capital needed to start business (1)
Unlimited liability (1)
All profits to owner (1)
No publication of accounts (1)
Personal attention given to customers (1)
Takes all decisions (1)

Any 2 × 1 marks [2]

(b) Chance of bargains (1) with possible haggling/bargaining on prices (1)
Pleasant way of shopping (1) colourful environment (1) possible entertainment (1)
Goods may be fresh (1) straight from grower/farmer (1) and goods that are not available elsewhere (1) allow example (1)
May be near customers' homes (1) cuts down on expenses of travelling into town (1) traders may be known to customers (1) convenient to walk there (1) no need to park (1)
Flexible opening hours (1) can be open early/late at night (1)

Any 2 × 2 (1 + 1) marks [4]

(c) **(i)** Cannot afford to buy in bulk (1) as not enough capital (1)
Cannot pass on low prices/loss leaders (1) due to not receiving discounts from suppliers (1)
Cannot compete on range of goods/brands (1) giving less consumer choice (1)
Increased car ownership (1) making it difficult to park in some urban areas (1) easier to park in a supermarket (1) where there are many car spaces available (1) and car parking is free (1)
Cannot provide decorated surroundings (1) with well displayed goods (1)
Cannot accept credit cards (1) allowing shoppers to delay payment (1)
Decreasing sales (1) leading to decreasing profits (1)

Any 2 × (1 + 1) marks [4]

(ii) They might offer better customer service (1) e.g. cleaner premises (1) clearer displays (1)
They could possibly use a voluntary chain (1) gaining discounts from bulk buying (1) that can be passed on to the customers in lower prices (1) and special offers (1)
They may offer more flexible hours (1) opening when the supermarket is shut (1)
Could offer extra services (1) such as delivery (1) and informal credit (1)
Advertise more (1) such as by local newspaper (1)
Provide a greater variety of goods (1) such as flowers (1)

Any 6 × 1 marks [6]

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(d) Persuasive advertising persuades customers to buy Sam's goods (1) it will be used by supermarkets, so Sam should use it to compete with them (1).
Informative advertising seeks to give relevant information (1) about the new goods (1) making this important as customers can have more information on which to base their buying decisions (1) and if Sam did not provide such information customers would buy from the supermarket (1).

Any 4 × 1 marks [4]

3 (a) Premium is payment/for insurance cover (1)
Compensation is payment received/from an insurance claim (1) [2]

(b) (i) 1000 × \$400 (1) = \$400 000 (1)

(2 marks for the correct answer) [2]

(ii) Value of motor (1)
Age of motor (1)
Type of motor (1)
Cost of repairs (1)
Districts where driven (1)
Personal information of driver (1)
Past record of driver (1)
Previous claims made (1)
Length of cover (1)
Amount of cover required/sum to be insured (1)
Amount of excess (1)
Insurance company used (1)
Size of insurance pool (1)
Amount of risk involved (1)

Any 2 × 1 marks [2]

(c) Each company must have a direct/legal interest/own the motor (1) suffer the loss (1) it cannot insure something it does not own (1) not have any financial interest in the asset being insured (1) this makes the principle very important (1). If they did not, the company could simply profit from the loss (1) and might be tempted to cause the loss (1) and profit from something they were not affected by (1) allow an example (1)

Any 4 × 1 marks [4]

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(d) Find out how the accident happened (1)
Check to see if the accident is covered by the policy (1)
Have evidence of insurance policy (1)
Contact the insurer (1)
Try to find any witnesses (1)
Inform the police (1)
Take photographs (1)
Have documents/proof of car value (1)
Find out the cost of damage (1)
Obtain invoice/receipt from garage (1)
Check if the loss is covered by policy (1)
Check the excess to be paid (1)
Complete a claim form (1) in utmost good faith (1)
Use of assessors/loss adjusters (1)

Any 4 × 1 marks [4]

(e) Cost (1) with charges tending to decrease with distance (1) road cheaper on short distances (1)
Quantity of goods carried (1) bulk goods can be carried by sea (1) but might overload an aircraft (1)
Urgency/speed (1) e.g. spare parts needed today ten miles away would use road transport (1) because goods are needed quickly to continue production (1)
Security (1) for expensive goods are more likely to be transported by road/air (1) with better supervision of goods (1)
Safety (1) fragile goods need careful handling (1) which road transport would provide (1)
Convenience (1) if you have your own road vehicle this would be the easiest one to use (1) and can be sent at anytime (1)
Need for more than one method of transport (1) e.g. if goods arrive at a port, there will be a need to be a vehicle to take them away (1) otherwise, they may deteriorate/be stolen (1)
Geographical location (1) in some areas, such as mountainous regions, they might not be reached by road (1) so aircraft may have to be used (1)
Reliability of carrier (1) it is essential that goods arrive on time (1) and in good condition (1)
Distance (1) longer distances cost more (1) using more fuel (1)

Any 2 × 3 (1 mark for each factor plus 2 marks for each development) marks [6]

4 (a) (i) Customers are small-scale retailers/traders (1)
Self-service (1)
Payment in cash (1)
Customers carry their own goods away (1)
Goods stocked in small bulk (1)
Goods displayed (1)
Variety of goods (1)

Any 3 × 1 marks [3]

(ii) Being on a main road route provides easy access for deliveries into the warehouse (1) as many town centres are congested (1) and often have narrow streets (1) making delivery difficult (1)
Easier for wholesalers to deliver goods (1) reducing travel time (1) of attempting to leave busy town area (1)
Can occupy a larger space (1) as greater availability of land available (1)

Any 2 × (1 + 1) marks [4]

(b) Lower prices (1) as reduced costs borne by wholesaler (1)
Ability to purchase when necessary (1) can use the cash and carry as a stockroom (1)
Time saved with dealing with sales representatives (1) e.g. checking goods/invoices (1)
Greater contact with the wholesaler (1) on what is available/information given (1)
Variety of goods (1) from food to computers (1)

Any 3 × 1 marks [3]

(c) Storage (1) e.g. finished goods/tools (1)
Protect goods (1) from damage/theft/weather (1)
Break bulk (1) split goods into smaller quantities (1)
To help in stock-piling (1) act as a reservoir for production ahead of demand (1)
Place for processing to be carried out (1) packaging/grading/labelling (1)
Even out supply (1) so prices are kept stable (1)
Offer special facilities (1) e.g. cold storage (1)
Provide a place for buyers to inspect goods (1) and order goods (1)
Enables production ahead of demand (1) somewhere to store goods until required (1)
To meet unexpected demand (1) e.g. ice cream sales in the summer (1)

Any 2 × (1 + 1) marks [4]

(d) (i) 20 × \$15= \$300 (1) – \$60 = \$240 (1) – \$12 (1) = \$228 (1)

4 marks for the correct answer (allow OFR) [4]

(ii) The retailer does not have sufficient funds/cash flow (1) to pay for the goods promptly/in a short period (1) and might want to use his money better elsewhere (1) as the cash discount being offered is not much (1) and low compared to the trade discount (1)

Any 2 × 1 marks [2]

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5 **(a)** To make goods attractive (1)
To enable brand/information such as prices/ingredients to be put on packaging (1)
To be able to recognise/identify the product (1)
To enable goods to be advertised (1)
To encourage impulse buying (1)
To protect goods (1)
To enable self-service retailing to be used (1)
To prolong the shelf life of goods/keep goods fresh (1)
To create value in the goods or example (1)
To enable goods to be grouped together (1)
For ease of distribution (1)
Enables products to be easier to handle/carry (1)
For ease of distribution/transport (1)

Any 3 × 1 marks [3]

(b) Owned by shareholders (1)
Minimum of 2/7 shareholders/No maximum of shareholders (1)
Minimum of 50 000 to be set up (1)
Controlled by Board of Directors (1)
Directors elected by shareholders (1)
Shareholders can attend the AGM (1)
Minimum number of directors is 2 (1)
Shares sold on Stock Exchange (1)
Public can buy shares (1)
Shares freely transferable (1)
Limited liability (1)
Needs trading certificate to start business (1)
Legal entity/can sue in its own name (1)
There is continuity of existence (1)

Any 3 × 1 marks [3]

(c) **(i)** Public limited companies will find it easier to raise finance/raise larger capital (1) as they are considered less of a risk (1)
Due to their size, they are more likely to take advantage of economies of scale (1) such as national advertising/technical/managerial/purchasing (1)
Stock exchange approval (1) means more protection for investors/more willing to invest (1)
Shares open to the public (1) making it easier for them to invest (1)

Any 2 × (1 + 1) marks [4]

(ii) Registration/AGM is costly (1) and time-consuming (1) with more documentation/paperwork (1)
Due to its larger size (1) can be more difficult to manage (1)
Threat of takeover (1) anyone with 51% of shares can control the company (1)

Any 1 × (1 + 1) marks [2]

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(d) (i) Amount of finance needed (1) machinery can be more costly (1)
Interest rates charged (1) whether to go for fixed or variable rates of interest (1)
Speed of finance (1) how quickly can the funds be given to start the work (1)
Security/collateral required (1) e.g. property (1)
Purpose of finance (1) how risky is it (1)
Availability of source of finance (1) the company may want to use retained profits but has none (1)
Length of time required (1) e.g. debentures can be spread over a longer time (1)

Any 2 × (1 + 1) marks [4]

(ii) Overdraft is short-term finance (1) usually only for a small amount of money (1) with interest charged on the amount overdrawn (1) at a variable rate (1) which could work out more expensive than a fixed rate of interest loan (1) and requires a current account (1)
Used primarily to pay bills (1) rather than for long-term projects (1) which require a large amount of money (1) as they are classed as current liabilities (1) which can be called in at short notice (1)

Any 4 × 1 marks [4]

6 (a) (i) Country 2 (1) [1]

(ii) Country 3 (1) [1]

(iii) Country 3 (1) [1]

(iv) Country 3 (1) [1]

(b) Visible: value of goods (1)
One example such as cars (1)
Invisible: value of services (1)
One example such as banking (1)

Any 2 × (1 + 1 example) marks [4]

(c) (i) As a tax (1) on imported goods (1) it will make them more expensive (1) [2]

(ii) It will put a limit (1) on the number/value/certain goods (1) that is allowed into a country (1) [2]

(iii) A ban (1) on the import of some goods (1) preventing trade with a good or a country (1) [2]

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(d) Provides foreign currency (1) to pay for imports (1) e.g. to build schools/hospitals (1)
Creates jobs (1) to cut unemployment figures (1)
Friendship/political reasons (1) example (1)
Maintains balance of payments (1) avoids deficit (1)
National income will increase (1) the economy will grow (1) increasing standard of living (1)
Enables wider markets (1) for companies' products to sell in more countries (1)
To dispose of surpluses (1) of goods over-produced in home market (1)

Any 6 × 1 marks [6]

7 (a) (i) National bank (1) [1]

(ii) $35 × 12 (1) = $420 (1)

(2 marks for the correct answer) [2]

(iii) Looking at bank statement/internet account [1]

(b) (i) Standing orders can only be used if the amount remains the same (1) and the payment is on a regular/fixed date (1) but many of a company's suppliers/creditors will have invoices that vary (1) such as heating bills (1). Customer controls set up and registration of S/O instruction with their own bank (1) Company lacks control/is dependent on payers cooperation (1) with any amendment to amount or date of collection requires existing S/O to be cancelled (1) and a new S/O instruction to be registered by the payer (1) making it a slow/inefficient paper based system compared to other electronic means (1) such as internet banking (1)

Any 3 × 1 marks [3]

(ii) Cheque/Credit transfer/Direct debit/credit card (1)

Any 1 × 1 marks [1]

(c) (i) E.g. to pay multiple bills/wages/salaries/single payments (1)
It can be used for people without bank accounts (1) and payee decides the date of payment (1) and does not have to be a regular payment (1) and no problem of forgetting the payment date leading to overdrawing (1)

Any 3 × 1 (2 × 1 + 1 example) marks [3]

(ii) E.g. insurance/gas/electricity/telephone/credit card payments (1)
It can be used for varying amounts (1) on varying dates (1) and the creditor has control over the payment (1) making sure that they receive the money on time (1) reducing bad debts (1)

Any 3 × 1 (2 × 1 + 1 example) marks [3]

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(d) (i) Importer (1) [1]

(ii) Bill of lading (1)
Invoice (1)
Packing note (1)
Consignment note (1)
Charter party (1)
Air waybill (1)
Bank statement (1)
Insurance policy/certificate (1)
Bill of exchange (1)
License (1)

Any 2 × 1 marks [2]

(iii) The purpose of a letter of credit is to ensure successful international business transactions between sellers/exporters and buyers/importers (1) using a safe method (1) Basically making a promise to pay a seller when you receive goods (1) and the seller accepts your promise because the bank issued a letter of credit (1) and guarantees payment (1) with the bank being more trustworthy (1) than if it had been issued by an individual importer (1) It is a bank payment (1)

Any 3 × 1 marks [3]

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