

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE O Level

MARK SCHEME for the May/June 2006 question paper

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| 7100 COMMERCE | | |
| 7100/02 | Paper 2 | maximum raw mark 80 |

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2006 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

| | | | |
|--------|-----------------------------|----------|-------|
| Page 1 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

1 (a) Any three points x 1 mark each and up to 3 marks for a well explained point –

to attract customers and gain competitive edge
to clear stock so that new season goods can be stored
to dispose of slightly damaged goods which are still saleable
to promote other goods e.g. loss leaders
short term to get rid of competition

Any other relevant point [3]

(b) Any two well explained points x 2 marks or four points x 1 mark such as –

he will have to purchase components/raw materials/packaging for the watches so he is involved in trade
he will have to sell his finished products, the watches, either in the home market or export them
if he does not sell them he will not be able to continue in business as he will make no profits

Any other relevant point [4]

(c) Any three points x 1 mark and up to 3 marks for a well explained point –

the consumer is concerned with trade because he has bought something but he is also not involved in trade because he is not purchasing for profit
the retailer who sold the food is selling for profit and so is more involved in trade

Any other relevant point [3]

(d) (i) Any three well developed points x 2 marks or six points x 1 mark each –

many traders will need financial assistance to develop their businesses
traders will deposit their takings in the bank e.g. in a current account
traders will use bank services to pay bills e.g. cheques, direct debit, credit transfer
traders may seek advice from the bank e.g. exporting, expansion
if traders are involved in foreign trade, the bank provides special services e.g. bank draft, electronic transfer, documentary credits
banks will also be trading – they are providing these services in order to make a profit

Any other relevant point [6]

(ii) Any two well developed points x 2 marks or 4 points x 1 mark each –

it helps to inform and persuade potential buyers all over the world
some media are available all over the world e.g. the Internet
it provides information on new products that consumers would not know about
multinational companies advertise to expand their markets

Any other relevant point [4]

| | | | |
|---------------|------------------------------------|-----------------|--------------|
| Page 2 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

2 (a) Any six points x 1 mark each such as –

enables the customer to deposit money/to withdraw money/to pay bills using cheques,
 credit transfers, direct debits, standing orders (any two)
 it may provide an overdraft facility for customers
 it provides bank statements showing the financial position of the customer
 it provides customers with facilities for conducting daily transactions
 may pay a very low rate of interest

Any other relevant point **[6]**

(b) Any four points x 1 mark each such as –

the customer may have spare cash which the customer does not want to use for some
 time
 the customer may wish to save money for a particular purpose/example
 savings account earns interest
 the customer can transfer money between the accounts

Any other relevant point **[4]**

(c) Any four points x 1 mark each –

to enable payments to be made immediately from a person's current account providing
 there are sufficient funds to meet them
 to reduce the number of cheques being used and to reduce the amount of fraud
 retailer receives immediate payment so reducing bad debts e.g. Switch or Connect

Any other relevant point **[4]**

(d) (i) Yes (1 mark) because interest charged on the loan is fixed (1) whereas interest
 charged on the overdraft is on the daily amount overdrawn (1) so the customer may
 be paying more interest at one time and less at another time (1) or be paying no
 interest if in credit. (1)

Any other relevant point **[4]**

(ii) $\$1500 \times 0.8$ (1 mark) = $\$120$ (1 mark) OFR applies
 If the correct answer is given without working, award full marks **[2]**

| | | | |
|---------------|------------------------------------|-----------------|--------------|
| Page 3 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

- 3 (a) (i)** the number of times a firm sells its average stock per year
OR cost of goods sold – cost of average stock **[2]**
- (ii)** Any three points x 1 mark which may be positive, negative or a mixture of both
- Yes – it means that they are not clearing their stock quickly enough and so may be left with out-of-date goods which may not be saleable
may not be achieving sufficient turnover and sales revenue
- No – it applies only to some shops and may be a temporary problem
may mean that the cost of the average stock held has increased
- Any other relevant point **[3]**
- (b) (i)** Any two features x 1 mark each such as –
- small shop/owned by one person/may be in area of population/offers personalised service/easy to set up/often accepts only cash in payment
- Any other relevant point **[2]**
- (ii)** Any three points well explained x 2 marks or 6 points x 1 mark such as –
- Bar-coding enables transactions to be made very quickly/It saves having to price each item individually/It assists stock control so that the retailer knows which goods are in great demand.
- Self-service reduces labour costs/And allows customers to examine goods at their own speed/Customers can shop at their own pace and may find self-service quicker/It may lead to impulse buying – so greater turnover.
- Allow general points such as –
- They have both enabled unit retailers to save cost/become more competitive.
- Any other relevant point **[6]**
- (c) (i)** Any three points x 1 mark each such as –
- A luxury store/usually found in city centres/arranged in departments/on many floors/often gives additional services to customers e.g. restaurant and lifts/usually offers a store card/offers a wide choice/sells expensive goods.
- Any other relevant point **[3]**
- (ii)** Any two points well explained x 2 marks or 4 points x 1 mark such as –
- may be offering the goods consumers want
may be offering an efficient service with reliable delivery service
consumers may find it difficult to visit the department store
more customers are shopping on-line
more customers have a computer and access to the Internet
it has become usual practice so people copy what other people do
- Any other relevant point **[4]**

| | | | |
|---------------|------------------------------------|-----------------|--------------|
| Page 4 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

- 4 (a)** enquiry/order **[1]**
- (b)** Any two reasons x 1 mark each such as –
- it is the main way of interesting consumers in the firm's products
 can display all the goods offered/pictures
 and give details of the goods e.g. price/colour
 it includes methods of ordering and paying **[2]**
- (c)** Any four points x 1 mark each such as –
- Order – request for goods/giving full details of what is required/sent by the buyer
 Invoice – gives full details of goods/including total price/it is the bill for the goods/
 It is prepared for each delivery of goods/sent by the supplier to the customer
- NB for full marks the candidate must score marks for both order and invoice. **[4]**
- (d)** Any four points x 1 mark each –
- she wishes to inspect the goods in her own home
 she may work full-time and not have time for shopping in the town
 she may be disabled
 she likes the 'returns' policy of mail order firms
 she likes having goods delivered to her door
 she wishes to buy on credit
 she likes buying a wide range of goods from one firm
 she likes studying catalogues
- Any other relevant point **[4]**
- (e) (i)** $0.3 \times \$90 = \2.70 (1 mark) $\$90 - \2.70 (1 mark) = $\$87.30$ (1 mark)
 If candidate gives correct answer without working, award full marks. OFR applies **[3]**
- (ii)** Choice = 0 marks
- Any well developed reason up to 3 marks or three reasons x 1 mark such as –
- Cash – reasonably small amount/can send the money by registered mail
 Cheque – can be made out for any amount/easily posted
 Credit card – can postpone payment/acceptable to mail order firm/easy to use
 Credit transfer – form provided by firm/can be paid through bank/saves time if other bills to pay
- Any three points which must cover the other three methods of payment x 1 mark –
- Cash – not acceptable to mail order firm/cannot be posted unless registered/could be stolen/proof of payment may be difficult to obtain
 Cheque – may be dishonoured/may not have a bank account
 Credit card – may not have a credit card/may have exceeded credit limit/may have to pay extra to use credit card to cover commission
 Credit transfer – will need to visit a bank to use this service/could be inconvenient
- Any other relevant point **[6]**

| | | | |
|--------|-----------------------------|----------|-------|
| Page 5 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

- 5 (a) Any four points x 1 mark for each or 2 explained functions x 2 marks such as –

Collect import duties/supervise bonded warehouses/enforce quotas/collect statistics on foreign trade/enforce quarantine and health regulations/prevent smuggling/inspect documents.

Any other relevant point

[4]

- (b) Any two well explained points x 2 marks or 4 points x 1 mark such as –

bonded warehouse stores dutiable goods on which duty has yet to be paid
 other warehouses store any kind of goods
 bonded warehouse is supervised by customs/other warehouses are supervised by their owners
 bonded warehouse – samples of goods may be allowed for potential sale
 other warehouses – goods can be taken when storage charges have been paid

Any other relevant point

NB candidates may answer the question commenting only on bonded warehouses or may comment on both bonded warehouses and other warehouses.

[4]

- (c) Any six points x 1 mark each such as –

By providing deep sea waterways/by securing the port/by providing unloading facilities/e.g. cranes/by providing storage/such as bonded warehouses/by providing good communication out of the port/by providing facilities for trading companies within the port/by providing suitable accommodation for customs officials/by providing facilities for the handling of containers/by operating a Freeport.

Any other relevant point

[6]

- (d) **Level 3 (5-6 marks)**

Has discussed suitable means of communication within the context of the shipping and forwarding agent to contact clients within the country and in several other countries and has given convincing reasons for the choices made.

e.g. The shipping and forwarding agent could use email as it is fast, attachments such as documents can be sent and multiple addresses can be contacted. Fax could also be used as it is suitable for sending documents such as bills of lading, and messages can be sent overnight, thus overcoming the problems of time zones. The telephone could be used for discussion and immediate answers. Letter post may be used to confirm arrangements for shipment as this is reasonably cheap. Couriers may be used for sending small consignments of goods as, although expensive, they will deliver direct and there is less likelihood of damage or theft.

NB The candidate may answer generally or write about each of the two types of client in turn.

- Level 2 (3-4 marks)**

Has discussed two or more means of communication in context with superficial reasoning.

The shipping and forwarding agent might use telephone to talk to clients to discuss a consignment to be sent. He might also send an e-mail to confirm when the goods will arrive and will use a fax to send documents because it is quick and an exact copy of the document is received.

| | | | |
|--------|-----------------------------|----------|-------|
| Page 6 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

Level 1 (1-2 marks)

Has mentioned one or more means of communication with little or no context and little or no reasoning.

Telephone could be used between the agent and the clients. Email would be suitable for long distances as it is speedy and nearly everyone uses it.

Points to consider:

Several means of communication might be mentioned e.g. telephone, mobile phone, fax, email, courier, telex (please allow), postal services, verbal, Internet. Candidates may answer generally or consider each part of the question separately. Means of communication should be given, not advertising media. [6]

6 (a) (i) no interest [1]

(ii) Any well explained point x 3 marks or three points x 1 mark such as –

more customers are likely to use their shops because they are able to postpone payment and have goods when they require them
accepting credit cards may give retailers a competitive edge if other retailers are not accepting them

Any other relevant point [3]

(iii) Any two differences explained x 2 marks such as –

Credit card can be used anywhere/store card can be used only in the stores of the large-scale retailer
Store card is issued to attract customers to the particular shop and to remain loyal to that shop, credit card is issued to increase business for the credit card company
Offering store cards incurs costs of administration to the large-scale retailer, accepting credit cards in payment for goods means that the retailer pays commission to the credit card company

Any other relevant difference [4]

(b) Any four points x 1 mark each such as –

do nothing/mend them!
take the trousers back to the shop
take the receipt
say that they were not fit for the purpose
(mention of a Sale of Goods Act)
ask for a replacement pair of trousers
ask for a refund

Any other relevant point [4]

(c) Any eight points x 1 mark each which should include 2 insurance principles –

contact an insurance company direct/or through an insurance broker
complete a proposal form/which should be completed with **utmost good faith** giving all relevant facts/insurance company will assess the risk/and make sure the insured has **insurable interest** in the risk/and is not overinsuring/against the principle of **indemnity**/the insured should not make a profit from a loss/premium is paid/cover note may be issued/policy is prepared and issued

Any other relevant point [8]

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|---------------|------------------------------------|-----------------|--------------|
| Page 7 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

- 7 (a) (i) (heavy) lorry/truck [1]
- (ii) container ship [1]
- (b) For each question award one mark for correct choice and one mark for a reason such as –
- (i) heavy lorry – one consignment/likely to be a reasonably short distance/consignment under the control of the driver/door to door transport/consignment is protected against damage/theft. [2]
- (ii) container ship – mineral water can be packed into the container at the factory/likely to be a large consignment/long distance. [2]
- (iii) air freight – small consignment/likely to be valuable so can bear the cost of air freight/long distance. [2]
- (c) Any three reasons explained x 2 marks such as –
- (Allow max of 4 marks for stated points)
- larger aircraft which can carry greater loads
more airports capable of handling larger aircraft
growing international trade for many companies
increase in international tourism – demand for goods for them
multinational companies serving global markets
air freight can handle many types of goods + example
more people can afford air freight charges
lower insurance and packing charges
goods less likely to be damaged or stolen compared with sea transport
fast means of transport for goods which are valuable/lightweight/needed urgently
- Any other relevant point [6]
- (d) Any three advantages explained x 2 marks each such as –
- to protect goods/against damage/theft
to aid handling because of mechanical equipment
to allow trans-shipment of goods without unpacking
to provide storage for goods awaiting transport without using warehousing
to allow goods to be packed and cleared for customs at the place of manufacture
to enable the quick turnaround of ships/other forms of transport
to maximise the amount of goods in a given space
to allow different types of goods to be grouped together
to reduce costs + example
to provide refrigeration for perishable products
- Any other relevant point [6]

| | | | |
|--------|-----------------------------|----------|-------|
| Page 8 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

8 (a) Any one feature explained x 2 marks such as –

two or more partners who own the partnership
 partners share the profit either equally or according to partnership deed
 partners share the losses and have unlimited liability
 partners share the work and contribute capital
 partnership is not a legal entity so the partners can be sued as partners
 there may be sleeping partners who contribute capital but do not take part
 any other relevant point

[2]

(b) Level 3 (6-8 marks)

Has discussed all three options and recommended a suitable course of action with reasons.

e.g. if William and Jasmine take a new partner, this should mean additional capital but could also mean disruption of a good working relationship. They might consider taking a sleeping partner in order to gain the additional capital. If they invested money, they might not have any reserves left for an emergency or the bank loan may be insufficient for their needs. They would have to pay interest on the bank loan but not on their investment. They would not have to pay back their investment. If they considered converting to a private limited company, they would have additional capital from shareholders but they could still retain control by being the majority shareholders. They would have the advantage of limited liability.

I would recommend that they convert the business into a private limited company because their personal possessions would be protected by limited liability, they could attract other shareholders who would invest and who would not have to be paid back and they would still be in control of the business.

Level 2 (3-5 marks)

Has discussed one or two of the options with/without a recommendation with/without reasoning.

e.g. Comment such as above but on only one or two of the options and in not so much detail + I would recommend that they invest more money and apply for a bank loan because they would pay interest only on the bank loan and would not have to repay their investment.

Level 1 (1-2 marks)

Has made superficial comments on one or more of the options with/without a recommendation.

e.g. William and Jasmine should take a partner because it will mean less work for them. I would recommend this because it would mean more money for them.

[8]

(c) Any two points explained x 2 marks or four points x 1 mark such as –

It is likely to be a large company with a large number of assets to protect against risk
 Its shareholders have the protection of limited liability so will be prepared to invest
 It is a legal entity so the company will be sued e.g. faulty toys rather than the owners of the business
 If it is a public limited company it can look to the general public for investors
 Risks are not borne by the owners personally but fall on the company itself

Any other relevant point

[4]

| | | | |
|---------------|------------------------------------|-----------------|--------------|
| Page 9 | Mark Scheme | Syllabus | Paper |
| | GCE O Level – May/June 2006 | 7100 | 02 |

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

Allow 1 mark for definition of working capital such as –

current assets – current liabilities OR money available to meet daily expenses

Working capital is important –

to pay bills such as wages, electricity

to be able to take advantage of discounts

to save having to borrow short-term e.g. increasing overdraft

to pay short-term liabilities e.g. for raw materials

Any other relevant point

[4]

(ii) Any two points x 1 mark each such as –

an overdraft is a current liability

so taking an overdraft adds to the total current liabilities

and does not solve the problem of shortage of working capital

it may, however, assist cash flow problems short-term and enable pressing bills to be paid

Any other relevant point

[2]