

Specimen Paper Answers – Paper 2

Cambridge O Level Commerce 7100

For examination from 2018



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Introduction

These specimen answers have been produced by Cambridge to exemplify standards for those teaching Cambridge O Level Commerce 7100. We have selected questions from 2018 Specimen Paper 2. We have not produced a Specimen Paper Answers booklet for Paper 1 as it has multiple-choice questions.

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained.

The specimen materials are available to download from the [School Support Hub](#)

2018 Specimen Paper 02

2018 Specimen Paper Mark Scheme 02

Past exam resources and other teaching and learning resources are available on the [School Support Hub](#)

Details of the assessment

The syllabus for Cambridge O Level Commerce 7100 is available at www.cambridgeinternational.org

Paper 2

This is a compulsory paper consisting of structured questions of varying length.

There are 80 marks available for this component. All questions are compulsory. Candidates answer on the question paper.

The duration of the component is 2 hours.

The component is externally assessed. All questions are based on commercial scenarios and some questions will contain stimulus response material such as numerical, textual and visual information. Some questions will require candidates to perform simple calculations relevant to Commerce using basic numeracy (addition, subtraction, multiplication, and division), percentages and simple ratios.

Question 1

Fig. 1 shows a map of a country that specialises in the production of iron ore for export and for use by industries within the country. The country imports food and manufactured goods from other countries.

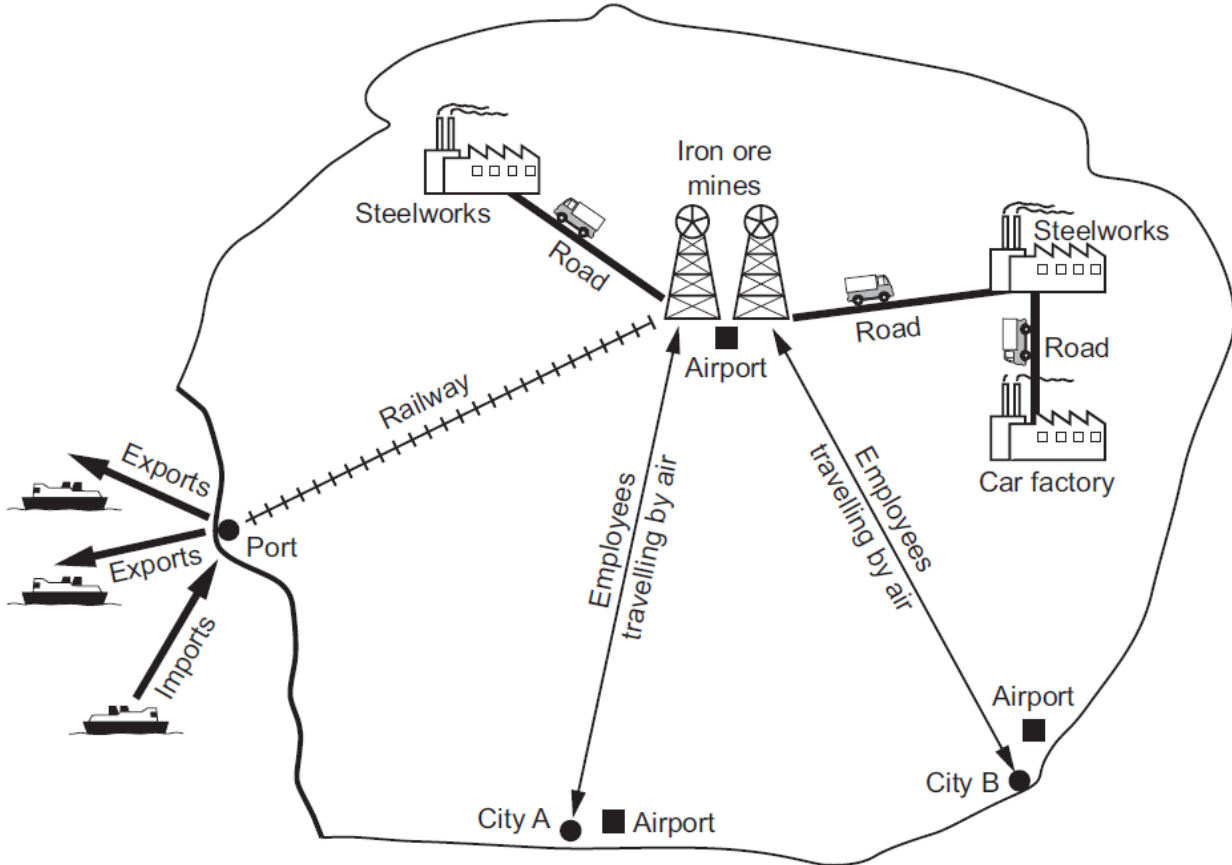


Fig. 1

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

Specimen answers

- (a) (i) Identify, from Fig. 1, **one** example of a primary industry. [1]

Iron ore

- (ii) **Underline** the correct answer to complete each of the following sentences. [1]

A service offered by the Port Authority is

handling containers OR collecting import duties

A service offered by the Airport Authority is

handling bulk cargo OR refuelling services

- (b) Explain **one** benefit to the car factory of specialising in the production of cars. [2]

It can lead to greater efficiency as it makes greater use of automated systems such as robotics in producing cars.

- (c) Using examples from the map in Fig. 1, evaluate how important transport is in the production and distribution of iron ore. [6]

Fig. 1 shows four methods of transport used in the country. For example, road transport is used to move the iron ore to the steelworks whereas rail is used to move the iron ore to the seaport. Sea transport is used to move the iron ore to other countries with air transport used to bring employees to and from the airports to work at the iron ore mines.

Iron ore is a bulky and heavy good and therefore needs to be carried by methods of transport that have the capacity to carry this type of good. Both rail and sea transport have the capacity to carry large volumes of iron ore. Air transport would not be used as it has limited carrying capacity compared to rail and sea transport. It would also be very expensive to carry heavy iron ore by air. Road transport would generally be considered unsuitable for bulky goods over long distances as the carrying capacity is limited. In Fig. 1, road transport seems to be used only for the shorter distances.

Overall, rail and sea transport are the most important transport methods for transporting bulky goods such as iron ore, but road and air transport have parts to play as well.

- (d) Explain **one** way in which the owner of the steelworks, shown in Fig. 1, might try to reduce the impact of the business on the environment. [2]

Encourage employees to recycle paper in the office.

- (e) Evaluate the importance of international trade to the country shown in Fig. 1. Explain the reasons for your answer.

[6]

In Fig. 1, the country exports goods such as iron ore to other countries and imports goods such as food and manufactured items bought from other countries.

By exporting iron ore and other goods the country can earn foreign currency that can be used to buy its imports, to develop the country and to pay off any debts. The country clearly has large resources of iron ore and would benefit from the money and jobs created from this industry.

At the same time, most countries need to import some items from other countries. The benefits of importing food for this country include the fact that it might not have the land area or the right climate to produce all the food items needed for its population, for example, fruit and vegetables. Also, the country may not have the skills, or it might be too expensive, to produce manufactured goods such as motor cars.

Therefore this country finds international trade very important so as to earn revenue and improve its economy by exporting iron ore. Importing food and manufactured goods is also very important in improving the country's standard of living by providing possibly cheaper and better quality goods. Without international trade there would be fewer goods produced and available to this country.

Examiner comment

Question 1(a)(i) and (ii)

The candidate gave the correct answer to part (i).

In answering part (ii), the candidate correctly underlined the service for the Port Authority but incorrectly identified 'handling bulk cargo' instead of 'refuelling services' for the Airport Authority. Both answers needed to be correct for 1 mark.

Mark awarded = 1 out of 2

Question 1(b)

The candidate clearly identified a valid benefit then explained it with a valid point and an example.

Mark awarded = 2 out of 2

Question 1(c)

The candidate was required to apply examples from the source data material in order to evaluate the importance of transport in the production and distribution of iron ore. The candidate did identify all four methods of transport and demonstrated sound understanding of their application to the movement of bulky goods, such as iron ore. There was an attempt to evaluate the question set in the final paragraph. The candidate needed to add further development to gain a second evaluation mark.

Mark awarded = 5 out of 6

Question 1(d)

The candidate clearly identified a valid way of dealing with the impact of the business on the environment, through recycling, but did not explain it. They might have said, for example, that recycling takes less energy than making paper from trees or non-recyclable waste ending up in landfill.

Mark awarded = 1 out of 2

Question 1(e)

The candidate showed good knowledge and understanding in this response. The candidate used information given to help apply their answer to the importance of international trade to the country. The candidate stated and explained the need for both the imports and the exports of the country in the first two paragraphs. They then made judgements about the importance to the country of both its imports and its exports in a well-reasoned and evaluative conclusion.

Mark awarded = 6 out of 6

Total mark awarded = 15 out of 18

Question 2

Specimen answers

Maxilla is a company operating a chain of self-service stores.

[2]

1. *There is no need to wait to be served.*
2. *The customer is encouraged to impulse buy.*

- (b) A customer bought a packet of tomato sandwiches from one of Maxiplus's self-service stores. She later found that the sandwiches were stale.

State **three** actions the customer might take.

[3]

1. *Return the packet to the shop.*
2. *Ask for a replacement.*
3. *Report the problem to the Consumers Association.*

- (c) Which of these statements about a regional distribution centre are TRUE and which are FALSE?

Tick (✓) TRUE or FALSE in the correct column.

[2]

	TRUE	FALSE
A regional distribution centre enables the retailer to benefit from discounts by purchasing in bulk.	✓	
A regional distribution centre provides wholesaling services to small-scale and large-scale retailers.	✓	
A regional distribution centre supplies a number of shops owned by one company.	✓	
A regional distribution centre is located where there is a good road network and easy access.	✓	

- (d) Many retailers provide an online shopping service. Maxiplus is considering providing an online shopping service with home delivery for its customers.

Discuss the advantages and disadvantages to Maxiplus of providing an online shopping service with home delivery. Should Maxiplus offer this service? Give reasons for your answer.

[8]

If Maxiplus introduces an online delivery service it will enable the self-service chain to have a competitive edge in relation to shops that do not offer this service. It may have to offer the service because other chains are offering it already. It will enable customers to shop at any time they wish, saving them time and assisting the working housewife and people who are housebound. The website will have more goods than are stocked in one of their stores. The shop may, therefore, increase sales.

However, there are possible disadvantages for Maxiplus of introducing an online ordering service with home delivery, as it will need to be set up for all the shops in the chain. It will also need to be well resourced, in terms of things like delivery vans, computer terminals and a centralised ordering system, and this will be costly to do. It will mean that fewer people may visit the shops and so there will be less turnover there. This will not cater for people who do not wish to use computers. Maxiplus must be sure that the technology it uses is up to the task, otherwise there will be dissatisfied customers.

On balance, the shop should set up this service as well as offer delivery to those who physically visit the shop and cannot carry home their shopping. It is likely to increase sales across the whole supermarket chain.

Examiner comment

Question 2(a)

The candidate, in their first answer, correctly stated the advantage of the customer not having to wait to be served. However, their second answer regarding impulse buying is an advantage to the retailer and not to the customer.

Mark awarded = 1 out of 2

Question 2(b)

The candidate identified, in their first two answers, appropriate actions that a customer might take when finding out that they had bought a stale sandwich. The third answer suggesting reporting the matter to the Consumers Association is an inappropriate action and so did not receive credit.

Mark awarded = 2 out of 3

Question 2(c)

Statements 1, 2 and 4 were correctly ticked but statement 3 was false.

Mark awarded = 1 out of 2

Question 2(d)

The candidate demonstrated good knowledge of both the advantages and the disadvantages of providing an online shopping service, with home delivery, in paragraphs one and two. The candidate did make a decision that the online delivery service should be offered in paragraph three with some reasoning. The candidate needed to provide more developed reasoning in the final paragraph to score maximum marks.

Mark awarded = 7 out of 8

Total mark awarded = 11 out of 15

Question 3

Fig. 2 shows some financial information for Trigwells Pty Ltd, a building company. Trigwells Pty Ltd operates as a private limited company.

BALANCE SHEET as at 31 December 2017			
LIABILITIES		ASSETS	
	\$000s		\$000s
Ordinary Shares	7000	Buildings	4500
6% Debentures 2020	500	Machinery/Equipment	1500
Trade payables (creditors)	400	Vehicles	1000
Bank overdraft	700	Inventories (stock)	1000
		Trade receivables (debtors)	300
		Cash	300
	\$8600		\$8600

Fig. 2

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

Specimen answers

- (a) Calculate the working capital of Trigwells Pty Ltd. Show your working. [3]

$$\$1000 + \$300 + \$300 = \$1500 - (\$400 + \$700) = \$1100 = \$400$$

$$\text{Working capital} = \$ \underline{400}$$

- (b) (i) Identify **one** item of long-term borrowing given in Fig. 2. [1]

Debentures

- (ii) Trigwells Pty Ltd wishes to invest in new machinery. Discuss whether it would be better for the company to pay for the purchase of this new machinery by issuing more ordinary shares or by taking out a bank loan. Explain the reasons for your answer.

[8]

Machinery is normally financed from long-term sources. So issuing more shares or taking out a bank loan are both suitable as they are treated as long-term finance. However, much depends on factors such as the amount of money needed, the costs involved and how urgently the machinery is required.

Issuing more shares means that the capital is contributed by investors so no capital repayment has to be made, unlike for a loan, and there is no interest to be paid. However, organising the issue of new shares can take time and it widens ownership, which may affect the control of the business and the amount of dividends that have to be paid out of profits.

A bank loan has repayments fixed over a long period of time. It is usually quick to arrange, ownership is maintained as the bank is not entitled to be an equity partner in the business and it can normally be arranged for a few months up to 20 years. There are some disadvantages as the bank charges interest on the total amount of the loan and may require some collateral security. If Trigwells is not able to repay the loan, the collateral will be used to repay the loan and that might be the business premises.

Overall, it depends on the circumstances surrounding Trigwells Pty Ltd. An investor will look to see if the business is making, or is likely to make, a profit so that they will receive a dividend and see a higher share price in the future if they decide to sell their shares. A bank will look at the creditworthiness of the business and its ability to repay the loan. If the investor and bank are not convinced that the business will do well in the future, they will invest or lend elsewhere.

- (c) Trigwells Pty Ltd is a private limited company. Describe **two** characteristics of a private limited company.

[4]

1. A private limited company has limited liability, which means that the owners / shareholders are liable only for the amount of capital invested, so their personal assets are not at risk.
2. A private limited company can issue shares to the public through the Stock Exchange.

- (d) Explain **two** ways in which Trigwells Pty Ltd might need to use insurance.

[4]

1. To insure its building against fire so that the building can be rebuilt from the compensation paid.
2. To cover the business against claims made by members of the public.

Examiner comment**Question 3(a)**

Although the candidate correctly identified the three current assets of stock, debtors and cash, they added them up incorrectly. The total should have been \$1600, not \$1500 as given. The candidate correctly stated the current liabilities, consisting of creditors and the bank overdraft. The candidate then accurately completed the correct method of taking away the amount of current liabilities from the amount of current assets based on the two figures that they had calculated. The marking applied the OFR (own figure rule) as the candidate had made only one mistake.

Mark awarded = 2 out of 3

Question 3(b) (i)

The candidate identified the correct item of long-term finance.

Mark awarded = 1 out of 1

Question 3(b) (ii)

The candidate was required to discuss whether using a bank loan or issuing more shares was the best way to invest in new technology. The candidate identified a number of relevant points such as the advantages and disadvantages of each type of finance, including issues concerning control and collateral security. The advantages and disadvantages were well balanced on either side. The candidate finally gave an overall conclusion, with clear evaluation based upon the evidence presented.

Mark awarded = 8 out of 8

Question 3(c)

The candidate stated and described a valid characteristic of a private limited company in their first answer. However, their second answer was a characteristic of a public limited company and did not score.

Mark awarded = 2 out of 4

Question 3(d)

The candidate identified two valid reasons for insurance. The candidate explained the first reason for maximum marks. They needed to explain the second reason more, to include reference to public liability insurance, to be awarded maximum marks.

Mark awarded = 3 out of 4

Total mark awarded = 16 out of 20

Question 4

Specimen answers

A country has the following Balance of Trade figures for a four-month period, March to June.

	MARCH	APRIL	MAY	JUNE	TOTAL
EXPORTS	\$350m	\$300m	\$300m	\$450m	(a)(i) \$1400m
IMPORTS	\$300m	\$320m	\$340m	(a)(ii) \$400m	\$1360m
AMOUNT	\$50m	-\$20m	(a)(iii) \$40m	\$50m	\$40m
SURPLUS OR DEFICIT	surplus	deficit	(b)(i) deficit	(b)(ii) deficit	surplus

Fig. 3

Use the table shown in Fig. 3 to help you to answer the following questions.

- (a) Calculate the figures labelled **(a)(i)**, **(a)(ii)** and **(a)(iii)** in Fig. 3 and write your answers in the boxes provided in Fig. 3. [3]
- (b) Write your answers in the boxes provided in Fig. 3. [2]
- (i) Is **(b)(i)** a surplus or a deficit?
- (ii) Is **(b)(ii)** a surplus or a deficit?
- (c) The customs authority is involved in the production of Balance of Trade figures. Describe **one** way in which the customs authority is involved. [2]

Customs officers keep records of imported and exported goods and services, which help the government find out about the balance of trade.

- (d) The government of the country wishes to increase exports to other countries. It could use the following media to promote these exports.

internet website newspaper advertisements

Which medium should the government use? Explain **two** reasons for your answer.

[4]

Medium: *Newspaper advertisements*

Reason 1: *Can be used to target particular audiences, for example, an advertisement promoting the export of sports equipment services in the sports/business pages.*

Reason 2: *Can be kept as reference, so that potential exporters may be able to make contact at a later date.*

Examiner comment

Question 4(a)

The candidate correctly calculated the figures for parts (i), (ii) and (iii) but the minus sign was missing for part (iii).

Mark awarded = 2 out of 3

Question 4(b) (i) and (ii)

Although the first box was correct, even though the minus sign had been missed above, the candidate should have completed the second box as a surplus.

Mark awarded = 1 out of 2

Question 4(c)

The candidate stated one valid function of a customs authority, in connection with the balance of trade figures, but gave an insufficient description to gain the second mark. The candidate could have said that knowing about imports and exports would help the country to decide how to improve its trade position.

Mark awarded = 1 out of 2

Question 4(d)

The candidate identified and explained two valid reasons for using newspaper advertisements with relevant and suitable development.

Mark awarded = 4 out of 4

Total mark awarded = 8 out of 11

Question 5

Specimen answers

A retailer sells many types of computers online using an e-shop.

- (a) State **two** characteristics of an e-shop. [2]

1. A website
2. A frequently asked questions (FAQ) section

- (b) The retailer has recently seen the following extract from a newspaper article.

Customers now prefer to use mobile phones rather than desktop computers for online shopping.

Explain **one** way in which the retailer might respond to this extract from the newspaper article. [2]

Develop an app for mobile phone shopping.

- (c) The retailer offers a wide range of options for paying for the computers she sells. She accepts both debit cards and credit cards. She also offers two payment plans:
- PLAN A discount of 10% for cash purchases and debit card purchases
- PLAN B extended credit (deferred payments) with payments spread over two years
- Explain why the retailer should offer such a wide range of options for making payment. [6]

With reference to Plan A, as the retailer offers a discount for payments in cash, she will attract customers who want to save money but pay immediately. This will enable her to purchase more computers with the payments made. A debit card allows customers to make instant payment so she will also receive this money at once, so there are no bad debts. The retailer does need the necessary equipment to process debit cards.

The retailer offers two ways of postponing payment. If the customer uses extended credit, the customer will pay additional interest over a period of two years. This will provide the retailer with additional income. There is, however, always the risk of bad debt if the customer does not keep up the payments. The retailer would then have the task of recovering the debt and may have to go to court to do this. The computer would still be the property of the buyer.

Offering acceptance of credit cards might give the retailer a competitive edge over rivals but will also mean delayed payments minus commission for the credit card company.

On balance it is a good idea to offer several payment options because it will help to attract customers and may mean customers prefer to buy from this retailer rather than from one who does not offer such a variety of payment methods. It has to be remembered that not all customers have ready cash, not all customers have debit cards and not all customers can buy now and pay later. So offering alternative options is necessary if the business wants to secure more sales.

- (d) (i) The retailer is reviewing where she purchases her computers from. She could purchase directly from manufacturers or purchase from a wholesaler. Which should she choose? Explain **two** reasons for your answer. [4]

Choice: Manufacturers

Reason 1: The retailer may require specialised information and assistance from the manufacturers.

Reason 2: The retailer may be a large-scale retailer with the financial resources to purchase direct from the manufacturers, so obtaining their own discount for bulk purchasing.

- (ii) Explain why the retailer might use an enquiry form before purchasing computers. [2]

The retailer would want to know some information about the computers for sale.

Examiner comment

Question 5(a)

The candidate stated two correct characteristics of an e-shop.

Mark awarded = 2 out of 2

Question 5(b)

The candidate made a simple point that an app for mobile phone shopping could be introduced, which gained 1 mark. To achieve the second mark, the candidate might have suggested that the retailer could introduce an app that could be used on a smartphone allowing customers to access and buy their products online.

Mark awarded = 1 out of 2

Question 5(c)

The candidate showed knowledge and understanding of the reasons for accepting debit and credit cards in paragraphs one and three. They identified and explained the advantages and problems of accepting extended credit payments in paragraph two. The candidate gave a conclusion that led to a developed evaluation of why it is useful for the retailer to offer a wide range of options for making payment. This evaluation built upon the evidence provided in the previous paragraphs.

Mark awarded = 6 out of 6

Question 5(d) (i)

The candidate identified two relevant reasons why the retailer should purchase directly from manufacturers. The first answer was not well explained. The candidate might have said that the wholesaler would not be able to provide this specialist information as they deal with so many goods. The candidate did suitably explain the second answer with reference to gaining a bulk-buying discount.

Mark awarded = 3 out of 4

Question 5(d) (ii)

The candidate knew that the enquiry form would provide information but needed to develop their answer with examples or items of information, such as the price and delivery dates, to achieve the second mark available.

Mark awarded = 1 out of 2

Total mark awarded = 13 out of 16

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