Cambridge O Level

Cambridge International Examinations
Cambridge Ordinary Level

COMMERCE **7100/21**

Paper 2 **October/November 2017**

2 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An Answer Booklet is provided inside this Question Paper. You should follow the instructions on the front cover of the Answer Booklet. If you need additional answer paper ask the invigilator for a Continuation Booklet.

Answer any **four** questions.

The businesses described in this Question Paper are entirely fictitious.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages, **2** blank pages and **1** Insert.

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CAMBRIDGE International Examinations

Answer any **four** questions.

1 Arthur is a farmer who owns a herd of beef cattle. Arthur sells his cattle directly to local butchers.

(a) Identify which sector of production Arthur is involved in. [1]

(b) Explain how transport might assist Arthur. [4]

(c) Arthur wants to insure the buildings and machinery on his farm.

(i) Describe **two** risks he could insure against. [4]

(ii) Explain why it is important for Arthur, when applying for insurance, to observe the insurance principle of utmost good faith. [3]

(iii) Arthur has received an insurance policy. State **two** purposes of this document. [2]

(d) A large supermarket chain has offered to buy all the cattle that Arthur produces for the next three years. The contract is at a slightly lower price than he charges the local butchers.

Discuss whether or not he should sell to the supermarket chain. Give reasons for your answer. [6]

2 Lee owns a medium-sized speciality store in a large town, selling electrical supplies. He is considering accepting credit and debit cards as methods of payment from both individual and trade customers. He offers hire purchase for larger items, such as cookers.

(a) What is meant by *speciality store*? [1]

(b) State **one** difference between a credit card and a debit card. [2]

(c) Describe **two** disadvantages to **individual** customers of buying on hire purchase. [4]

(d) Lee has always given 30 days credit to his trade customers but has had some bad debts.

(i) Define the following terms:

- trade credit
- trade discount [4]

(ii) What do you think would be the **best** method of communication for Lee to use with the customers who owe him money? [3]

(iii) Discuss whether or not Lee should continue to allow trade credit. Give reasons for your answer. [6]

3 ZZ Company is a manufacturer of carpets and rugs. 70% of its sales revenue comes from exporting its products.

(a) **(i)** Explain why governments encourage businesses to export their products. [4]

(ii) How important is distance when exporting? [3]

(iii) Identify **one other** problem that ZZ might face when exporting its products. [1]

(b) ZZ Company would like to export to a large South American country. Should it use its own sales staff or appoint agents in the country? Give reasons for your opinion. [6]

(c) **(i)** Explain what is meant by *sales revenue*. [2]

(ii) Describe **two** ways in which ZZ Company could improve their sales revenue. [4]

4 T Toys Ltd makes toys. It has outgrown its factory and is looking for a new one.

(a) Which factor do you think is the **most** important to T Toys Ltd when choosing the location of its new factory? Give reasons for your answer. [3]

(b) Explain **two** sources of long-term finance that would be suitable for the purchase of the new factory. [4]

(c) One of T Toys' best customers is a nationwide multiple chain.

(i) State **two** features of a multiple chain. [2]

Fig. 1 shows four sales promotions used by the multiple chain.

Free gift with every teddy bear purchased	**10% discount for purchases over $100**	**Spend $10 and enter a free prize draw for a holiday**	**Spend $5 and earn 500 loyalty points**

Fig. 1

Use Fig. 1 to help you answer the following question.

(ii) Discuss which **two** sales promotions you think would be the **best** for the multiple chain to use. Give reasons for your choices. [6]

(d) Suggest **one** device that a multiple chain selling toys might use in its advertising. [1]

(e) A customer has returned a faulty toy to one of the stores. Explain how the customer might make a successful complaint. [4]

5 Bepe has recently left college and obtained her first job. Her employer has recommended that she should open a savings account and a current account at a bank.

(a) (i) Explain **two** benefits to Bepe of having a savings account. [4]

(ii) Explain **two** differences between a direct debit and a standing order. [4]

(b) Fig. 2 shows some of the movements of money in and out of a current account.

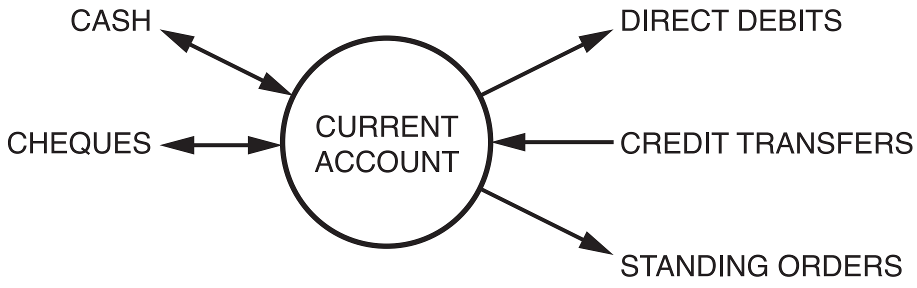

Fig. 2

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

(i) How might Bepe obtain cash when the bank is closed? [1]

(ii) Identify the **best** way for Bepe's employer to pay her. Give reasons for your choice. [3]

(c) Bepe bought an expensive new dress from a mail order company to wear to work.

(i) Explain what is meant by *mail order shopping*. [2]

(ii) Bepe could have bought the same dress from a retail store. Discuss whether or not it would have been better for her to buy the dress from the retail store. Give reasons for your answer. [6]

6 X Trading Ltd (XTL) exports kitchen equipment worldwide. The kitchen equipment is purchased from various manufacturers nationwide and collected in its own transport.

(a) Explain **two** benefits of XTL using its own transport for collections. [4]

(b) Discuss whether or not XTL should use containers to export the kitchen equipment. Give reasons for your answer. [6]

(c) An importer uses a bonded warehouse to store the kitchen equipment.

(i) State **one** form of communication that XTL could use when negotiating a sale with the importer in another country. [1]

(ii) Does the importer benefit from using a bonded warehouse to store the kitchen equipment? Give reasons for your answer. [4]

(d) The importer sells some of the kitchen equipment direct to the public.

(i) Calculate the price of kitchen equipment to the consumer when the cost to the importer is $55 and he needs to make a mark-up of 30%. [3]

(ii) The importer has surplus stock. Suggest **two** ways in which he can dispose of it. [2]

7 B Bus Company plc operates in the private sector. It has recently been given the right to compete with the government-owned State Bus Company on bus routes in a major city.

(a) (i) Name another form of business organisation that operates in the private sector. [1]

(ii) Explain **two** differences between the private and public sectors. [4]

(b) Do you think it is beneficial for the B Bus Company to be a public limited company? Give reasons for your answer. [4]

(c) The State Bus Company is about to have competition from B Bus Company plc. Discuss the best ways in which the State Bus Company can face this competition. [6]

(d) B Bus Company is recruiting some new drivers.

(i) Which postal service might be the **most** suitable for B Bus Company to use to send a contract of employment out to a new driver? Give a reason for your answer. [3]

(ii) Explain **one** circumstance in which a driver might use a telephone to contact B Bus Company. [2]

8 Fig. 3 is a document sent by K Manufacturing Ltd (KML), a manufacturer of sweets that deals directly with many retail stores, to D Stores, an independent sweet shop.

K Manufacturing Ltd

Centennial Estate

Anytown

To: D Stores
Main Street
Anywhere

Date	Transaction Summary	Debit $	Credit $	Balance $
1 March	Previous Balance			300.00
8 March	Invoice 216	170.00		470.00
14 March	Invoice 224	190.00		660.00
22 March	Payment		300.00	360.00
27 March	Credit Note 086		30.00	330.00
31 March	Invoice 251	200.00		

Fig. 3

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

(a) **(i)** Name the document shown in Fig. 3. [1]

(ii) Calculate how much D Stores owed KML at the end of March. Show your working. [2]

(iii) Explain the entry on 27 March. Give **one** reason that may have caused it. [3]

(b) KML has always sold directly to retailers, but has now been approached by W Wholesale Ltd, which wants to become its sole distributor. W Wholesale Ltd is a long established business distributing goods throughout the country.

(i) Should KML now sell exclusively to W Wholesale Ltd? Give reasons for your answer. [6]

(ii) To what extent do you think that warehousing is essential to W Wholesale Ltd? [4]

(c) KML is in the secondary sector of production while W Wholesale Ltd is in the tertiary sector. Explain **two** ways in which businesses in these sectors are interdependent. [4]

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