



Cambridge International Examinations
Cambridge Ordinary Level

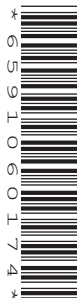
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COMMERCIAL STUDIES

7101/12

Paper 1 Elements of Commerce

October/November 2015

2 hours

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Section A

Answer **three** questions.

Section B

Answer **all** the questions.

The businesses described in this Question Paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

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

This document consists of **19** printed pages and **1** blank page.



SECTION A

Answer **three** questions from this section.

1 Businesses supply goods in home trade and in international trade.

(a) Explain what is meant by:

(i) home trade

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.....[2]

(ii) international trade

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(b) To complete a transaction in home trade, several documents are sent to a customer from the supplier's sales department.

(i) Name and explain the purpose of **two** documents sent by the sales department **after** an order has been made in home trade.

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- (ii) Name and describe **two** electronic methods of communication that the sales department would use to communicate with customers in home trade.

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- (c) Two important documents checked by Customs Authorities in international trade are the air waybill and the bill of lading.

- (i) Describe the ways in which these two documents are similar to each other.

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- (ii) Apart from checking documents, explain **two** functions of Customs Authorities in international trade.

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- 2 Sam, a sole trader, started operating a stall selling fruit and vegetables in the local street market five years ago. However, he thinks that he will find it difficult to survive as a new supermarket is opening nearby.

(a) Identify **two** features of a sole trader business.

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(b) Explain **two** reasons why many customers buy goods from street market stalls.

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(c) (i) Explain **two** problems Sam would have in competing with the supermarket.

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(ii) Discuss the actions Sam might take to survive the competition from the supermarket.

[6]

(d) Explain why the supermarket would use informative and persuasive advertising before opening.

[4]

- 3 Fig. 1 show the pooling of risks in insurance.

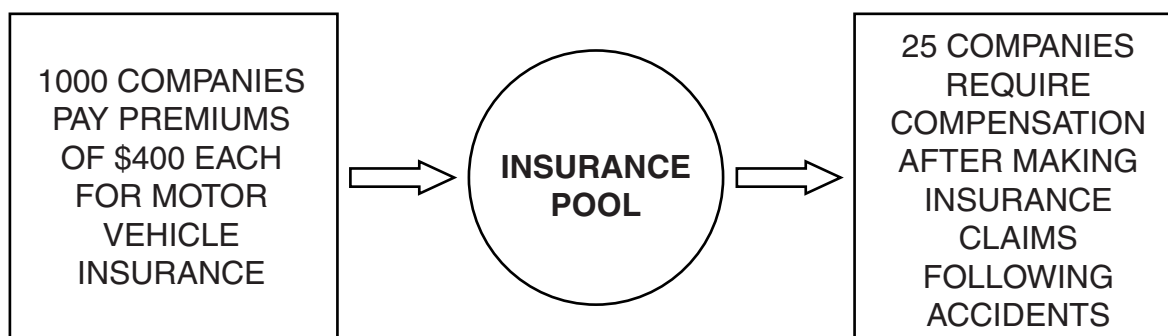


Fig. 1

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

- (a) What is the difference between a premium and compensation?

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- (b) (i) Calculate the total in premiums paid for motor vehicle insurance. Show your working.

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- (ii) State **two** factors an insurance company would take into account when calculating a premium for motor vehicle insurance.

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(c) Why is the principle of insurable interest important to a company buying motor insurance?

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(d) A motor vehicle has been involved in an accident.

Describe how the company owning the motor vehicle would make an insurance claim after the accident.

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- (e)** One factor that affects the choice of method of transporting goods is the type of goods carried.

Using examples, explain **two other** factors that would be considered when choosing a method of transport for goods.

[6]

- 4 Quicklinks is a cash and carry wholesaler which offers a range of electrical goods. Its warehouse is situated on a main road.

(a) (i) State **three** features of a cash and carry wholesaler.

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(ii) Explain **two** advantages for retailers of using cash and carry wholesalers.

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(b) Explain why many wholesalers are situated in the outskirts of towns on main roads.

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(c) Describe **two** functions of a warehouse.

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(d) Wholesalers may offer retailers trade and cash discounts.

(i) Calculate how much a retailer would pay for 20 drills costing \$15 each, with 20% trade discount and 5% cash discount allowed. Show your working.

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(ii) Why might a retailer **not** take advantage of the cash discount offered?

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- 5 Packsup, a food packaging company, needs to raise additional finance so that it can buy new machinery. The company is considering changing from a private limited company to a public limited company.

(a) Give **three** reasons why food might be packaged.

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(b) State **three** features of a public limited company.

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(c) (i) Explain **two** benefits to Packsup of becoming a public limited company.

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- (ii) Explain **one** problem that the owners of Packsup might have if it becomes a public limited company.

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- (d) The owners of Packsup have been considering the choice of finance for buying new machinery.

- (i) State and explain **two** factors which might influence their choice of finance.

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- (ii) Explain why a bank overdraft would **not** be a suitable source of finance for the machinery.

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SECTION B

Answer **both** questions in this section.

- 6 Fig. 2 shows the Balance of Payments in three countries.

Balance of payments (\$ million)				
	Country 1	Country 2	Country 3	
Visible Trade: Exports	6 488	7 376	3 895	
Imports	5 694	6 947	4 459	
Visible Trade Balance	794	429	(564)	
Invisible Trade Balance	425	329	1 817	
Current Balance	369	100	1 253	

Fig. 2

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

- (a) (i) Which country has the most income from selling goods abroad?

.....[1]

- (ii) Which country has a visible trade deficit balance?

.....[1]

- (iii) Which country has the best invisible trade balance?

.....[1]

- (iv) Which country has the most favourable balance of payments?

.....[1]

- (b) Using examples, explain the difference between visibles and invisibles.

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(c) Explain the effects on imported goods of:

(i) imposing tariffs

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(ii) introducing quotas

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(iii) placing embargoes on certain goods

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Use Fig. 3 to help you answer the following questions.

- (a) (i)** Name the bank of the payee.

.....[1]

- (ii)** Calculate the total amount to be paid between 1 November 2015 and 1 October 2016.

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- (iii)** How will the account holder know when the bank has made the monthly payment?

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- (b) (i)** Explain why companies are making less use of standing orders.

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- (ii)** Apart from a standing order, name one other form used as a means of payment in home trade.

.....[1]

(c) Giving examples, explain when using the following banking services would be more appropriate than a standing order:

(i) credit transfer

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(ii) direct debit

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(d) Letters of credit are used as a means of payment in international trade.

(i) Who draws up the letter of credit?

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(ii) Identify **two** documents that the exporter must present if required to by the letter of credit.

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(iii) Explain the purpose of the letter of credit.

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