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**COMMERCE**

**7100/22**

Paper 2 Written

**May/June 2017**

MARK SCHEME

Maximum Mark: 80

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**Published**

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Question	Answer	Marks	Guidance
1(a)	<p><b>Identify <u>one</u> type of transport that S Wholesalers might use to deliver goods to retailers.</b></p> <ul style="list-style-type: none"> <li>• Road</li> <li>• Rail</li> <li>• Sea</li> <li>• Air</li> </ul>	<b>1</b>	Any type of transport or example e.g. van, boat × 1 mark
1(b)(i)	<p><b>Describe <u>two</u> advantages <u>to a retailer</u> of purchasing high quality food products from S Wholesalers.</b></p> <ul style="list-style-type: none"> <li>• Breaking bulk (1) S Wholesalers will split the bulk purchases into smaller quantities (1)</li> <li>• Variety of goods (1) from different manufacturers/saving the retailer contacting many different manufacturers (1)</li> <li>• Advice (1) as they will have knowledge of the market/trends (1)</li> <li>• Credit (1) so that the retailer may be able to sell the goods before payment is due to the wholesaler/thus improving the cash flow of the retailer (1)</li> <li>• Storage (1) saving space/warehouse costs for the retailer (1)</li> <li>• Trade discount (1) enabling the retailer to make a profit (1)</li> <li>• Prepare goods for sale (1) e.g. pre-packed or labelled (1)</li> <li>• Display (1) goods available for inspection (1)</li> <li>• Risk-bearing (1) pay for damaged goods (1)</li> <li>• Delivery (1) so that the retailer can receive goods when they run short / saves transport costs (1)</li> </ul>	<b>4</b>	1 mark for any two advantages stated plus 1 further mark for each description.

Question	Answer	Marks	Guidance
1(b)(ii)	<p><b>S Wholesalers is considering opening its own retail shop. Do you think it should do this? Give reasons for your answer.</b></p> <ul style="list-style-type: none"> <li>• S Wholesalers will not want to compete with their own retail customers (1) the retailer would probably use another wholesaler (1) may lose these customers (1)</li> <li>• Retail selling would need a different type of premises (1) S Wholesalers may not be able to afford/costly to do (1)</li> <li>• Different skills are needed to sell in bulk as a wholesaler, compared with selling single units as a retailer (1) S Wholesalers may need new skills such as customer service (1)</li> <li>• Increase costs (1) as they may need new staff (1)</li> <li>• Increased sales (1) as there are more outlets to sell (1)</li> <li>• Ability to sell surplus stock (1) e.g. promotions for seconds (1)</li> <li>• Many others doing it (1) stay competitive (1)</li> <li>• Bigger mark-up (1) selling direct to consumer (1)</li> </ul>	<b>4</b>	<p>1 mark for each reason stated plus 1 mark for each judgement made.</p> <p>Reasons can be either side.</p>
1(c)(i)	<p><b>Calculate the total amount paid by M Retail if it pays the invoice within 30 days. Show your working.</b></p> <p><math>90 \times 5 / 100 (1) = \\$4.5 (1)</math>    <math>90 - 4.5 = \\$85.5 (1)</math></p>	<b>3</b>	<p>OFR applies.</p> <p>Award full marks for the correct answer without working.</p>
1(c)(ii)	<p><b>Should S Wholesalers offer this discount?</b></p> <p>Yes (1) plus one mark for one point given:</p> <ul style="list-style-type: none"> <li>• Encourages purchaser to pay promptly</li> <li>• Improves cash flow of S Wholesalers</li> <li>• Reduces chance of bad debts</li> <li>• Encourages customer to buy again</li> <li>• Attract customers/increases sales</li> </ul> <p><b>OR</b> No (1) plus one mark for each point given:</p> <ul style="list-style-type: none"> <li>• Less money received</li> </ul>	<b>2</b>	

Question	Answer	Marks	Guidance
1(d)	<p><b>Discuss whether or not wholesalers, such as S Wholesalers, are likely to survive in the future.</b></p> <ul style="list-style-type: none"> <li>• Many manufacturers are by-passing the wholesaler and delivering direct to the retailer</li> <li>• Logistics are becoming more available and efficient, and pre-packed branded goods are sold direct to retailers</li> <li>• On-line selling has meant some manufacturers can easily sell direct to the consumer, thus eliminating both the wholesaler and the retailer</li> <li>• Some retailers now manufacture goods for their own shops or contract manufacturers to produce own-brand goods</li> <li>• Large scale retailers, such as supermarket chains, have the financial resources to buy in bulk directly from the manufacturers</li> <li>• Wholesalers still provide a vital service to small-scale retailers but the volume of trade undertaken by these retailers is declining</li> <li>• The wholesaler may operate in a niche market</li> <li>• Adaptable wholesalers may change, e.g. to cash and carry</li> <li>• Strength of wholesaler’s relationships will be important</li> <li>• Whatever happens the wholesale function has to be done by someone</li> </ul>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed whether or not S Wholesalers are likely to survive and given reasoning (if a candidate has presented a one-sided argument, award 4 marks max).</p> <p><b>Level 1 (1–3 marks)</b> Has commented on the statement.</p>

Question	Answer	Marks	Guidance
2(a)	<p><b>Identify the sector of production that O Ltd is concerned with.</b></p> <ul style="list-style-type: none"> <li>• Secondary</li> </ul>	<b>1</b>	
2(b)	<p><b>Explain what is meant by <i>added value</i>. Give an example relating to furniture.</b></p> <ul style="list-style-type: none"> <li>• Added value is the difference between the value of the business output and the cost of materials and services used to create that output (2)</li> <li>• E.g. cutting wood, gluing wood, varnishing, packaging (1)</li> </ul>	<b>3</b>	<p>1 mark for a relevant example.</p> <p>Up to 2 marks for the explanation.</p>
2(c)	<p><b>State <u>two</u> advantages and <u>two</u> disadvantages to O Ltd of using specialisation when manufacturing furniture.</b></p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Increases output</li> <li>• Enables greater use of technology/machinery</li> <li>• Reduces labour costs/reduces need for labour</li> <li>• Increases efficiency/saves time</li> <li>• Workers need less skills/easier to train/training/workers become more skilled</li> <li>• Can take advantage of economies of scale</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Boredom of workers/lead to mistakes</li> <li>• Industrial unrest/greater divide between managers and workers/strikes may occur</li> <li>• Workers become interdependent/depend on other parts of the process</li> <li>• Less job satisfaction for workers/demotivated workforce</li> <li>• Standardised products/lack of flexibility</li> <li>• Difficulties if machines break down</li> </ul>	<b>4</b>	<p>1 mark for each advantage stated to a maximum of two advantages.</p> <p>1 mark for each disadvantage stated to a maximum of two disadvantages.</p>

Question	Answer	Marks	Guidance
2(d)	<p><b>Should O Ltd open a new factory in a remote forested area? Give reasons for your answer.</b></p> <ul style="list-style-type: none"> <li>• Close to supply of raw materials (1) reduces transport costs (1)</li> <li>• May be an attractive place to work (1) attracts labour force (1)</li> <li>• Availability of local cheap land (1) reduces costs (1)</li> <li>• Lack of infrastructure (1) such as roads/power (1)</li> <li>• As the forest is cut down, location becomes further than source (1) making the location less desirable (1)</li> <li>• Lack of skilled labour (1) cost of relocation (1)</li> <li>• Increased transport/distribution costs (1) of finished goods to consumers (1)</li> <li>• Destruction of the environment (1) loss of trees (1)</li> </ul>	<b>4</b>	<p>1 mark for each reason stated plus 1 mark for each judgement made. Reasons can be either side.</p>
2(e)(i)	<p><b>Discuss these sources and recommend which one might be <u>better</u> for O Ltd. Give reasons for your answer.</b></p> <ul style="list-style-type: none"> <li>• <b>Bank loan</b> – for good customers of the bank. Principal and interest repayable over term of loan which is usually linked to expected life of the machinery. A down payment of 25% of the cost of the machinery from O Ltd’s resources would usually be needed. Collateral may be required</li> <li>• <b>Hire purchase</b> – business makes a small down payment and then rents or hires the machinery over a two or three year period, after which it owns the machinery</li> </ul> <p>The cheaper method would probably be a bank loan, but if the down payment causes cash flow problems then hire purchase would be the better option.</p>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed both sources of finance and has given a reasoned recommendation. (If a candidate has discussed only one option award 4 marks max).</p> <p><b>Level 1 (1–3 marks)</b> Has commented on one or both options with/without recommendation.</p> <p>Accept any other relevant points.</p>

Question	Answer	Marks	Guidance
2(e)(ii)	<p><b>Explain <u>one</u> reason why O Ltd is not using retained profits (retained earnings) to buy the new machine.</b></p> <ul style="list-style-type: none"><li>• No retained profits in the company (1) as used them to pay shareholders (1)</li><li>• May want to keep retained profits (1) for emergencies (1)</li><li>• May want to keep retained profits (1) because they're in a high risk situation (1)</li><li>• Might be operating at a loss (1) therefore no profits to keep (1)</li></ul>	<b>2</b>	Up to 2 marks for an explanation.

Question	Answer	Marks	Guidance
3(a)(i)	<p><b>State <u>one</u> example of a long-term liability.</b></p> <ul style="list-style-type: none"> <li>• Bank loan/loan</li> <li>• Debenture</li> <li>• Mortgage</li> </ul>	1	
3(a)(ii)	<p><b>Explain what is meant by <i>working capital</i>.</b></p> <ul style="list-style-type: none"> <li>• Working capital is the finance used for the day-to-day running of the business (1) e.g. to pay bills (1)</li> <li>• It is calculated as current assets minus current liabilities or net current assets (2)</li> </ul>	2	Up to 2 marks for a full explanation.
3(a)(iii)	<p><b>Why is working capital important to any business?</b></p> <ul style="list-style-type: none"> <li>• It is needed to pay bills (1) so as to maintain positive cash flow (1) and the ability to obtain credit (1)</li> <li>• For unforeseen expenses (1) e.g. repair to a machine (1) so it can continue production (1)</li> <li>• To allow for seasonal fluctuations (1) e.g. in agriculture (1) when some times of the year there are large cash inflows/less cash inflows (1)</li> <li>• To take advantage of discounts (1) by bulk buying (1) if prices are likely to rise (1)</li> <li>• Keep customers satisfied with stock (1) so that do not go elsewhere (1)</li> </ul>	3	Up to 3 marks for a full explanation, or 3 × 1 mark.
3(b)	<p><b>Compare the financial position of Y Shops Ltd and C Retail Ltd. Which of these two businesses is in a better financial position? Give reasons for your answer.</b></p> <ul style="list-style-type: none"> <li>• Y Shop's sales are twice those of C Retail but C Retail makes a greater net profit</li> <li>• Net profit margins are: Y Shop = 11.66%, C Retail = 30%</li> <li>• C Retail has more working capital</li> <li>• C Retail has fewer long-term liabilities</li> <li>• Y Shops has more share capital and reserves</li> <li>• C Retail appears to be in a better financial position with better liquidity and fewer long-term liabilities. Yang has greater sales and more reserves, so the situation could reverse if Y Shop's is able to improve its profitability and leave the improved profits in the business.</li> </ul>	6	<p><b>Level 2 (4–6 marks)</b> Has discussed the statement and evaluated the financial position of both shops.</p> <p><b>Level 1 (1–3 marks)</b> Has commented on the statement Note: No marks for simply restating figures given in Fig. 2.</p>



Question	Answer	Marks	Guidance
3(c)	<p><b>Both businesses own and manage a number of retail shops. Describe <u>two</u> advantages of retailing on a large scale.</b></p> <p>Any economics of scale (1), such as:</p> <ul style="list-style-type: none"> <li>• Can buy in bulk from manufacturers (1) and take advantage of discounts (1)</li> <li>• Can afford specialist employees (1) such as buyers/accountants (1)</li> <li>• Due to bulk buying may charge less to their customers (1) to increase sales/turnover (1)</li> <li>• Easier for larger companies to raise capital (1) as banks more willing to lend (1)</li> </ul>	<b>4</b>	Up to 2 marks for each advantage described.
3(d)	<p><b>Y Shops Ltd and C Retail Ltd have shops in many towns where there are also small independent retailers. Describe <u>two</u> actions a single shop retailer can take to survive this competition.</b></p> <ul style="list-style-type: none"> <li>• Offer a more personal service (1) they will know regular customers and their preferences (1)</li> <li>• May relocate to busier streets/shopping centres (1) where there is increased footfall (1)</li> <li>• Operate flexible hours (1) e.g. late night opening (1)</li> <li>• May offer special services (1) such as informal credit/delivery/act as agent for services such as dry cleaning (1)</li> <li>• May buy from cash and carry warehouses (1) where there are lower prices (1)</li> <li>• They can join a voluntary buying chain (1) enabling them to gain the price advantages from buying in bulk (1)</li> <li>• Develop online selling/website (1) increasing market (1)</li> <li>• Develop specialities (1) to cater for a niche market (1)</li> <li>• Sales promotion/advertising to persuade customers (1)</li> </ul>	<b>4</b>	1 mark for each action given up to a maximum of two actions, plus 1 mark given for a description of each action.

Question	Answer	Marks	Guidance
4(a)	<p><b>Define <i>exports</i>.</b></p> <p>Goods/services sold to other countries</p>	<b>1</b>	
4(b)(i)	<p><b>List <u>three</u> difficulties likely to be faced by H Ltd when exporting its components.</b></p> <ul style="list-style-type: none"> <li>• Distance/communication problems</li> <li>• Language</li> <li>• Different legal systems</li> <li>• Currency</li> <li>• Culture/different customs</li> <li>• Weights/measures</li> <li>• Non-payment/bad debts</li> <li>• Political changes</li> <li>• Exchange controls/tariffs/quotas</li> <li>• Cost of transport</li> <li>• Increased paperwork/documentation</li> </ul>	<b>3</b>	1 mark for each difficulty listed.
4(b)(ii)	<p><b>Name <u>two</u> transport documents that H Ltd will have to use when exporting its components.</b></p> <ul style="list-style-type: none"> <li>• Bill of lading</li> <li>• Air waybill</li> <li>• Certificate of origin</li> <li>• Charter party</li> <li>• Consular invoice</li> <li>• Certificate of insurance</li> <li>• Shipping note</li> <li>• Mate's receipt</li> </ul>	<b>2</b>	1 mark for each document named.

Question	Answer	Marks	Guidance
4(b)(iii)	<p><b>Explain <u>two</u> methods of payment that H Ltd might accept from its export customers.</b></p> <ul style="list-style-type: none"> <li>• Letters of credit/documentary credits (1) letters of undertaking to guarantee payment (1)</li> <li>• Electronic transfer (1) speedy computerised transfer of funds (1)</li> <li>• Bill of exchange (1) unconditional order signed by the person owed the money (1)</li> <li>• Credit card (1) relatively fast method of payment usually for smaller amounts (1)</li> <li>• Debit card (1) instant payment for goods (1)</li> <li>• International bank draft (1) cheque drawn on bank (1)</li> </ul>	<b>4</b>	1 mark for each method up to 2 methods, plus 1 mark for explanation of each method.
4(c)	<p><b>Explain <u>two</u> reasons why it is important for H Ltd to have rapid and accurate methods of communication with its overseas customers.</b></p> <ul style="list-style-type: none"> <li>• Transport services have speeded up (1) so fast, accurate communication is needed to arrange for the transport services that deliver the product to their export customers (1)</li> <li>• Customers can check prices and product information on the internet (1) and then order products on the internet or email (1)</li> <li>• Queries and complaints can be quickly answered (1) by telephone/email (1)</li> </ul>	<b>4</b>	Up to two marks for each reason to a maximum of two reasons
4(d)	<p><b>Most of H Ltd’s communication is verbal (oral). Discuss whether or not there are situations where written communication might be more suitable.</b></p> <ul style="list-style-type: none"> <li>• Clarification of points following a discussion</li> <li>• Feedback can be immediate via email</li> <li>• It is often essential to have a record of an important point being made, e.g. disciplinary proceedings.</li> <li>• It is difficult to give complex instructions solely by oral communication</li> <li>• A measured response is difficult when communication is oral</li> <li>• There is less chance of misunderstanding when written methods used</li> <li>• Protection against fraud</li> <li>• Written evidence is needed as proof – for shareholders, tax, contracts</li> </ul>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed whether or not written communication is, or is not, more suitable in commercial situations than oral communication, and has given a reasoned opinion.</p> <p><b>Level 1 (1–3 marks)</b> Has commented on written communication with/without an opinion.</p>

Question	Answer	Marks	Guidance
5(a)(i)	<b>What is meant by <i>saleable quality</i>?</b>  Goods should be as described / fit for purpose / work properly.	1	
5(a)(ii)	<b>A customer has returned an expensive vase because it is cracked. State <u>four</u> actions T Ltd should now take.</b>  <ul style="list-style-type: none"> <li>• Examine the vase</li> <li>• Check the receipt/ask for proof</li> <li>• Listen to the complaint</li> <li>• Apologise</li> <li>• Record the complaint</li> <li>• Offer a replacement</li> <li>• Offer a refund/credit note</li> <li>• Refer back to manufacturer</li> </ul>	4	1 mark for each action, maximum 4 actions.
5(b)	<b>T Ltd belong to a trade association that has a Code of Practice. How will a Code of Practice help a consumer?</b>  <ul style="list-style-type: none"> <li>• Set of rules / standards</li> <li>• Facility for making complaint</li> <li>• Members must meet certain standards</li> <li>• Members must comply with investigative outcomes</li> <li>• Pay fines / provide compensation if complaint upheld</li> </ul>	2	Up to 2 marks for one point.
5(c)	<b>T Ltd wants to insure itself against a fall in profits. Would T Ltd will be able to obtain this insurance? Give reasons for your answer.</b>  No (1) it is a non-insurable risk (1)  <ul style="list-style-type: none"> <li>• Cannot be calculated</li> <li>• May be caused by owners/bad management</li> <li>• No past records</li> <li>• Probability cannot be assessed</li> <li>• Premium cannot be set</li> </ul>	4	Up to a further 2 marks for valid reasons.

Question	Answer	Marks	Guidance
5(d)(i)	<p><b>T Ltd operates in a country that is part of a trading bloc. Explain what a trading bloc is and give an example.</b></p> <p>A trading bloc is a group of countries (1) who have entered into a free trade agreement/agree on free trade (1) such that no duty is paid on trade between them (1) they also agree on a common external tariff to non-member countries (1) e.g. EU/ASEAN (1)</p>	<b>3</b>	Up to 2 marks for the explanation. 1 mark for the example.
5(d)(ii)	<p><b>T Ltd trades with some countries that do not belong to a trading bloc. Discuss whether or not T Ltd should continue to export to these countries. Give reasons for your answer.</b></p> <ul style="list-style-type: none"> <li>• If duties/tariffs are imposed goods become more expensive so sales may fall due to higher price</li> <li>• Could still be a market at higher price</li> <li>• May have to continue to sell to them if no other market available</li> <li>• Restrictions may be short term so wait for better times</li> <li>• If quotas are imposed then do T Ltd have a large enough quota to make exporting worthwhile</li> <li>• Is the demand in the export country still sufficiently high to make it worthwhile</li> <li>• T Ltd would have to ascertain demand at price with tariffs and/or look for other markets</li> </ul>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed whether or not T Ltd should continue to export to these countries and given reasoning (if a candidate has presented a one-sided argument on home trade, award 4 marks max.).</p> <p><b>Level 1 (1–3 marks)</b> Has commented on the statement.</p>

Question	Answer	Marks	Guidance
6(a)(i)	<p><b>State <u>three</u> functions of a warehouse.</b></p> <ul style="list-style-type: none"> <li>• Storage for raw materials/components/goods</li> <li>• To prevent goods from deteriorating</li> <li>• To prevent goods being damaged</li> <li>• To protect goods from theft/weather</li> <li>• To store goods ahead of demand</li> <li>• To provide a place for packaging/sorting/bulk breaking</li> <li>• To provide a place for collection/distribution</li> <li>• To offer special facilities e.g. cold storage or bonded warehouses</li> <li>• To store seasonal goods</li> </ul>	<b>3</b>	1 mark for each function
6(a)(ii)	<p><b>Explain <u>two</u> advantages of having two warehouses that are 250 km apart.</b></p> <ul style="list-style-type: none"> <li>• They could act like regional distribution centres (1) supply local retailers (1)</li> <li>• The two warehouses will help to minimise transport costs (1) since local deliveries can be carried out by smaller trucks/vans (1)</li> <li>• The two warehouses can be stocked by larger trucks/or by rail (1) whichever is more convenient/cheaper (1)</li> <li>• The stock kept at each warehouse can be geared to the needs of the local market (1) and the needs of consumers (1)</li> <li>• If one warehouse is lacking in supply (1) the other warehouse can cover it (1)</li> </ul>	<b>4</b>	Up to 2 marks for each advantage explained to a maximum of two advantages
6(b)(i)	<p><b>Explain why bonded warehouses are used when importing some goods.</b></p> <ul style="list-style-type: none"> <li>• A bonded warehouse is a warehouse where goods that are subject to import/customs duties are stored (1) before the duty is paid (1)</li> <li>• The importer can store his goods in the bonded warehouse until he has a customer for them (1) This will help his cash flow (1) since he/she does not pay the import duty until the goods are sold (1)</li> <li>• The importer can also import in bulk (1) and then grade/blend/package the goods (1)</li> <li>• The goods may also be re-exported (1) from the bonded warehouse without the duty ever being paid (1) this is known as entrepôt trade (1)</li> </ul>	<b>4</b>	Up to 4 marks for explaining why they are used

Question	Answer	Marks	Guidance
6(b)(ii)	<p><b>State <u>two</u> services offered at an airport for handling goods.</b></p> <ul style="list-style-type: none"> <li>• security</li> <li>• lifting gear</li> <li>• transport/vans</li> <li>• trolleys</li> <li>• customs inspection</li> <li>• outside storage areas/warehousing</li> <li>• bonded warehouses</li> </ul>	<b>2</b>	
6(c)(i)	<p><b>In which sector is the railway system of this country?</b></p> <p>Public sector</p>	<b>1</b>	
6(c)(ii)	<p><b>Discuss whether or not J Ltd should consider using the rail network to deliver some of its products. Give reasons for your opinion.</b></p> <ul style="list-style-type: none"> <li>• It may be able to carry high volume bulk goods for long distances</li> <li>• Need for trans-shipment/distribution</li> <li>• Problems of damage/theft</li> <li>• What happens to the 6 trucks</li> <li>• What is its network range</li> <li>• Easy movement between warehouses and airport</li> <li>• Likely to stay as they but may use rail for one-off/long distance bulk</li> <li>• When is the modernization to happen</li> </ul>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed whether or not J Ltd should consider using the rail network to deliver some of its products and has given a reasoned opinion (if a candidate has presented a one-sided argument, award 4 marks max.).</p> <p><b>Level 1 (1–3 marks)</b> Has commented on J Ltd using the rail network with/without an opinion</p>

Question	Answer	Marks	Guidance
7(a)(i)	<p><b>X Ltd is a private limited company operating a chain of fifty bookshops throughout a country. The shareholders of X Ltd have limited liability. Explain what is meant by <i>limited liability</i>.</b></p> <p>The owners are responsible for losses/debts (1) limited to the amount invested (1) if they fail to pay their debts (1) no personal possessions/assets can be taken (1) if the business goes into liquidation (1)</p>	3	
7(a)(ii)	<p><b>Explain <u>two other</u> features, apart from limited liability, of a private limited company.</b></p> <ul style="list-style-type: none"> <li>• Separate legal entity (1) legally a separate being (1)</li> <li>• Owned (1) by shareholders (1)</li> <li>• Minimum of 2 shareholders (1) no maximum (1)</li> <li>• Controlled/run (1) by directors (1)</li> <li>• No minimum share capital required (1) to start a company (1)</li> <li>• Often a family business (1) been in the same family for generations (1)</li> <li>• Regulated by Companies Acts (1) must register with the Registrar of Companies (1)</li> <li>• Continuity of existence (1) can be passed down to others/does not end on death (1)</li> <li>• Shares not transferrable (1) without consent of other shareholders (1)</li> <li>• Accounts must be published (1) and available on request (1)</li> <li>• Needs to apply for a trading certificate (1) before it can begin trading (1)</li> <li>• Need for an AGM (1) required by law (1)</li> </ul>	4	1 mark for each method up to two methods plus 1 mark for explanation of each method
7(b)(i)	<p><b>State <u>two</u> reasons why advertising is necessary for X Ltd.</b></p> <ul style="list-style-type: none"> <li>• To inform the public about the availability of books</li> <li>• To persuade customers to buy books/increase sales</li> <li>• To remind customers of existing stock</li> <li>• To maintain competitive edge/market share</li> <li>• To inform people about changes in range of stock/opening hours/job vacancies</li> </ul>	2	



Question	Answer	Marks	Guidance
7(b)(ii)	<p><b>Several of X Ltd's shops are in towns with universities. Recommend the <u>two most</u> suitable types of advertising media to attract students into its shops. Give reasons for your recommendations.</b></p> <ul style="list-style-type: none"> <li>• Television (1) reaches a wide audience (1) but is very expensive and would be difficult to aim specifically at students.</li> <li>• Radio (1) can target students/reaches a wide audience/cheaper than television (1)</li> <li>• Cinema (1) could be aimed more specifically at students (1)</li> <li>• Newspapers (1) are cheap (1)</li> <li>• Student magazines (1) would be an ideal way to advertise as there are many aimed at the correct age-group/would be cheap (1)</li> <li>• Leaflets (1) would again be ideal as they are cheap/easy to target students in halls of residence or on campus (1)</li> <li>• Posters (1) on university sites may also be successful if they are bright and informative (1)</li> <li>• Shop window (1) on campus (1)</li> <li>• Computer/Smartphone (1) text/email/apps as students use social media (1)</li> <li>• Facebook/Twitter (1) as students use social media (1)</li> </ul>	<b>4</b>	1 mark for each advertising type plus 1 mark for each reason
7(b)(iii)	<p><b>Name <u>one</u> advertising device that X Ltd could use.</b></p> <ul style="list-style-type: none"> <li>• Status</li> <li>• Colour</li> <li>• Ambition</li> <li>• Wealth</li> <li>• Music</li> <li>• Romance</li> <li>• Social acceptance</li> <li>• Love of a bargain</li> <li>• Hero worship</li> <li>• Humour</li> </ul>	<b>1</b>	

Question	Answer	Marks	Guidance
7(c)	<p><b>The business is facing increased competition from online bookshops. Discuss the ways X Ltd can compete with the online bookshops. Recommend a suitable course of action.</b></p> <ul style="list-style-type: none"> <li>• X Ltd could open their own online operation in order to compete with the online bookshops. However they will also be competing with their own chain of retail stores</li> <li>• One advantage of buying from a retail store is that the book can be examined before the final purchase decision is made</li> <li>• Personal service can be offered by X Ltd and it is essential that their staff is well-trained, knowledgeable and friendly. Online stores cannot compete in the personal service area</li> <li>• Delivery is always a problem for online stores and again X Ltd can offer instant delivery if the required book is in stock</li> <li>• Attractive displays in the shop will be essential so that potential customers can browse. This is particularly important at gift-giving seasons when customers have not got pre-conceived ideas of the books they want to purchase</li> <li>• Could introduce a loyalty points scheme and/or a coffee shop</li> <li>• Bookshops should try to attract customers to enter their premises by opening coffee shops, and making the whole environment of the shop a friendly place</li> <li>• The best ways would probably be to emphasise personal service and make sure that the bookshop is an attractive environment.</li> </ul>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed ways in which X Ltd can compete with online bookshops and given a reasoned recommendation.</p> <p><b>Level 1 (1–3 marks)</b> Has commented on the way(s) of competing with/without a recommendation.</p>

Question	Answer	Marks	Guidance
8(a)(i)	<p><b>What is meant by <i>public liability insurance</i>?</b></p> <p>This is insurance taken out by a business that covers claims made by the public due to the negligence of the business/example such as a customer falling on a slippery floor (1)</p>	1	
8(a)(ii)	<p><b>Tom has been advised to insure his business premises against the risk of fire. Explain how an insurance company uses <i>pooling of risks</i> when issuing fire insurance policies.</b></p> <ul style="list-style-type: none"> <li>• The pooling of risk means that the fortunate, who do not have to make claims for compensation/not everybody suffers loss (1) help the unfortunate who do have to make claims (1)</li> <li>• The premiums paid by Tom (1) will be combined with premiums paid by other businesses (1) for similar fire risks (1)</li> <li>• The premiums are combined into a common fund or pool (1) from where the claims for those who have had a fire are paid out/compensation is given (1)</li> <li>• Administrative costs for the insurance company should also be paid from this pool (1) with</li> <li>• the remaining money left in the pool being the profit of the insurance company (1)</li> </ul>	4	Up to 4 marks for explanation
8(b)(i)	<p><b>Explain <u>two</u> advantages to Tom of opening a current account.</b></p> <ul style="list-style-type: none"> <li>• Current account means Tom could make deposits (1) of cash/cheques into his account (1)</li> <li>• He could withdraw without notice (1) cash/write cheques on his account (1)</li> <li>• He will receive regular bank statements (1) about his monthly transactions (1)</li> <li>• He can also make payments (1) such as standing orders/direct debits/credit transfer from his account (1)</li> <li>• He may be able to arrange an overdraft on his account (1) to pay bills/buy stock (1)</li> <li>• It gives access to other banking services (1) such as ATMs (1)</li> </ul>	4	2 marks for each advantage explained

Question	Answer	Marks	Guidance
8(b)(ii)	<p><b>State <u>two</u> purposes of a bank statement.</b></p> <ul style="list-style-type: none"> <li>• To see details of transactions or example</li> <li>• To check for errors/bank reconciliation</li> <li>• Know current financial situation/see if overdrawn/shows balance</li> <li>• Shows bank charges</li> </ul>	<b>2</b>	1 mark for each purpose
8(c)	<p><b>Should Tom accept credit cards as a method of payment from customers? Give reasons for your answer.</b></p> <p>Yes:</p> <ul style="list-style-type: none"> <li>• Payment is guaranteed (1) so no bad debts (1)</li> <li>• Sales should increase (1) as customers can use credit cards when they have no cash (1)</li> <li>• Chip and pin procedures have led to the automatic decline of bad cards (1) leading to greater security (1)</li> <li>• No cash on premises (1) reduces theft (1)</li> </ul> <p><b>OR</b></p> <p>No:</p> <ul style="list-style-type: none"> <li>• Tom will have to pay a commission (1) a percentage of each transaction (1) to the credit card company (1)</li> <li>• Needs to have necessary equipment (1) to process card payments (1)</li> <li>• Usually a delay in receiving payment from credit card company (1) so could cause cash flow problems (1)</li> <li>• Credit card fraud (1) bad debts (1)</li> </ul>	<b>3</b>	Note: 0 marks for just stating Yes or No, but candidates can combine Yes or No reasons to achieve 3 marks,

Question	Answer	Marks	Guidance
8(d)	<p><b>Tom considered buying a franchise from a multinational car rental company. Discuss whether or not he was right to open his own independent business instead of a franchise. Justify your opinion.</b></p> <p>A franchise is an agreement where a business (the franchisor) sells rights to other businesses (the franchisees) allowing them to sell products or services, developed by the franchisor, and use the company name.</p> <p>A conclusion will be based on analysis of possible points including:</p> <ul style="list-style-type: none"> <li>• Some loss of control</li> <li>• An initial payment to the franchisor and usually a continual payment based on turnover</li> <li>• The franchise cannot be sold without the agreement of the franchisor</li> <li>• Not able to use his own sources of supply</li> <li>• The name will already be well-known and a market established</li> <li>• Expert assistance from the franchisor</li> <li>• Reduces the risk of failure</li> <li>• Franchisor may pay for some advertising</li> <li>• Benefits from economies of scale associated with being part of a large organization</li> </ul>	<b>6</b>	<p><b>Level 2 (4–6 marks)</b> Has discussed whether or not Tom was right to open up his own independent business instead of a franchise and has given a reasoned opinion (if a candidate has presented a one-sided argument, award 4 marks max.).</p> <p><b>Level 1 (1–3 marks)</b> Has made some comments on own independent business and/or franchises with/without an opinion.</p>