

Mark Scheme with Examiners' Report GCE O Level Commerce (7100)

January 2006

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COMMERCE 7100, MARK SCHEME

Section A

1. (a) Consumer (or Customer) (1)
(b) Standard(s) (1)
(c) Money (or Monetary) (1)
(d) Capital (or Assets, or Resources, or Turnover/Sales) (1)

2. Order → Invoice → Statement
1 mark for each correct juxtaposition (1 x 2) (2)

3. Losses fall on taxpayer
Run by a government-appointed board
1 mark for each of two correct features (2)

4.

SERVICE	FINANCE COMPANY	BUILDING SOCIETY
Leasing	✓	
Mortgage loans		✓
Savings account		✓
Factoring	✓	

1 mark for each correct match (4)

5. Repetition develops skill
Worker can specialise in one area
Higher skill gives better quality/higher output
Specialisation gives greater efficiency
Less training needed for tasks
Workers can be switched easily between tasks
Aptitudes can be applied in full (individual skills)
Machinery can be used more widely
Equipment can be used more fully
(Also allow advantages to individual employees)
1 mark for one advantage (1)

6. Advertising (or publicity)
Market(ing) research
1 mark for each element (2)

7. Postal order; money order; telegraphic money order; international money order (electronic transfers/Transcash); debit/credit card; cash on delivery
1 mark for each of two methods (2)

8. To identify which country goods are coming from - different import regulations may apply
 Can be different levels of import duty/tax - e.g. none from other EU countries (free trade area)
 Can be different quotas/embargoes - e.g. beef from UK to France
 Customs need to know which country goods are coming from - in order to deal with them appropriately

*1 mark for each of three points of explanation/development
 (3 x 1, or 2 x 1 + 1)* (3)

9. (a) (i) Identifies the bank/ branch where account held (1)
 (ii) Identifies the particular account holder (customer) (1)
- (b) (i) Automatic (automated) Teller Machine (1 mark) (1)
- (ii) Goes to ATM at a bank/supermarket/airport/station
 Puts card into machine slot
 Enters PIN/code number
 Identifies service required
 Enters amount (£100) required
 Requests receipt (or not)
 Presses 'correct'
 Removes card from machine

1 mark for each stage of process given (up to 3) (3)

- (c) £280.48 credit (allow in range £280.00 to £280.99)

1 mark for correct figure; 1 mark for 'credit' (2)

(d)

Direct debit	Standing order
<ul style="list-style-type: none"> • Each payment can be different • Dates of payment can vary • Creditor actions payment 	<ul style="list-style-type: none"> • Each payment is fixed figure • Same date for payment each time, e.g. monthly • Debtor's bank actions payment

*2 marks for both sides of a difference explained; 1 mark for only one side explained
 (Nil for simple negative of a point and max. 2 marks for only one method correct)* (4)

- (e) (i) The customer owes money to the bank ('into the red')
Has taken out more than the amount in the account
Money borrowed from bank with or without permission

1 mark for each point (2)
- (ii) Because it expects to get money back into account later
Because it can get interest on the amount overdrawn
Because it helps its customer get over a temporary cash shortfall
Because it wants to generate goodwill/trust
Because it wants to keep good customers

1 mark for each of two points of explanation (2)
- (f) Can check its financial (cash flow) position - to see whether it is improving or deteriorating
Can check whether all in-payments have been received - and all out-payments cleared
Can check to see that the bank has not made any incorrect payments - e.g. for another account
Can check what bank charges have been made - e.g. interest
Can check against their cash book - to ensure accuracy

1 mark per point plus 1 mark for development (4)

Total 20 marks

10. (a) (i) £1500 (million)
(ii) £200 (million)

1 mark for each correct answer (2)
- (b) (i) Visible = goods (products or tangible items)
(ii) Invisible = services (non-tangible items)

1 mark for each correct answer (2)
- (c) (i) There was a large deficit (importing more goods than exporting) in the visible balance - but the surplus in the invisible balance was not large enough to cancel it out (2 marks) (2)
- (ii) It is not producing enough goods - which are demanded by other countries
It is not producing the goods wanted by its own population - therefore imported
Its goods are too expensive - because of high value of its currency
It cannot compete on price - because industry is not efficient
Its imports are cheap - because of high value of currency
It is not selling enough services/buying too many services

1 mark per point plus 1 mark for development (2 x 2) (4)

- (d) Cheap imports can damage home industries - possible higher unemployment
Country unable to earn enough from exports - to pay for necessary imports in future
Foreign currency reserves may fall - currency value may fall too far
Not enough foreign currency being earned for investment - to help develop the country

1 mark per point plus one mark for development of each (4)

- (e) Raise (or place) import duties (tariffs) on some goods - to make more expensive for importers - so less bought
Boost exports by offering subsidies - exporters can sell more cheaply - more goods bought
Force down the value of the currency - sell currency on foreign exchange market - cheaper exports/dearer imports
Encourage home production of imported goods - provision of subsidies/cheap loans - fewer goods imported
Introduce quotas/embargoes - to control imports - can be selective
Develop tourist industry - improved facilities/environment - more foreign currency brought in
Help find overseas markets - trade fairs - trade missions

1 mark for each of 2 actions identified, plus 2 marks for 2 points of development of each (6)

Total 20 marks

Section B

11. (a) (i) Goods only on hire and not owned - monthly instalments - until final monthly payment made - option to purchase exercised - additional payment may be needed - can be repossessed if payments not made - cooling-off period after contract signed

1 mark per point of description (2 marks maximum where points not specific to HP)

(3)

(ii) $\begin{array}{l} \text{£8000} \times 25/100 = \text{£2000} \\ \text{£8000} - \text{£2000} = \text{£6000 borrowed} \\ \text{£6000} \times 10/100 \times 2 = \text{£1200 interest} \\ \text{£6000} + \text{£1200} = \text{£7200 owed} \\ \text{£7200} / 24 \text{ months} = \underline{\text{£300}} \text{ per month} \end{array}$

6 marks for correct answer; up to 5 marks for correct workings (own-figure rule to be applied where calculation errors made)

(6)

- (b) May not have cash available - large amount for most
Can have immediate possession of goods - can use while paying over a period from income
May not have discipline to save up to buy - monthly payments have to be made
May have cash but want to keep as reserve - for other possible purposes/contingencies
Inflation may make it cheaper to buy now - can exceed cost of interest payments
More protection if goods faulty - can stop payments if not made good

1 mark per point plus 1 mark for development of each

(5)

- (c) Has a bank account - good record over several years
Has a record of repaying previous loans - good credit-rating
Has a regular income paid into account - enough to pay off the loan/ability to repay
Can provide collateral - e.g. property/ shares for bank to sell if default
Can provide employer's reference - salary/status/length of employment
Can provide a guarantor - willing to repay bank if default
Shows insurance cover for car - comprehensive

1 mark per point plus maximum 2 marks for development of each

(6)

Total 20 marks

12. (a) Manufacturer - secondary
Wholesaler - commercial/commerce (or tertiary)
Retailer - commercial/commerce (or tertiary)

1 mark for each correct branch

(3)

- (b) High costs of delivery - large number of locations throughout the country
 Only small quantities to each small retailer - high cost per unit
 Lower administrative costs - by selling only in bulk
 Need for extra storage space - small retailers cannot stock large amount
 Small retailers may need credit - risk of bad debts
 Small retailers may be late paying - more working capital needed
 Can use wholesaler - to get to small retailers

1 mark per point plus 1 mark for development of each (x 3) (6)

- | (c) | Road | Rail |
|-----|---|---|
| | <ul style="list-style-type: none"> • Door-to-door (direct) delivery • Small units for delivery to different destinations • Can operate own fleet • Less handling therefore less chance of loss/damage • Faster over short distances • Less handling = less damage • Congestion can cause delays over long distances • Can carry only small loads at one time • Can deliver at flexible times | <ul style="list-style-type: none"> • Transfer to road usually needed • Only larger units for larger loads • Users cannot usually operate own services • Transfer between units can cause damage • Generally slow over short distances - transfer needed for delivery • Transfers between road/rail/road can lead to damage/loss • Rail routes are generally clear • Very large consignments carried cheaply on one train • Trains run to fixed schedules |

1 mark per point plus 1 mark for development of each (maximum 2 marks for reference to only road or rail) (No mark for simple negative point) (5)

- (d) Delays can cause loss of business - customers do not return
 Customers needing urgent orders - can be satisfied
 Faster delivery - improves cash flow
 Goods do not get lost- no replacement delay
 Lower prices - mean higher sales/profit
 Lower costs of delivery - can allow prices to be more competitive
 Reduced damage/theft - saves cost of replacement of orders

1 mark per point plus 1 mark for development of each (6)

Total 20 marks

13. (a) Incorporated means that the company has a separate legal existence (legal entity), which can enter into contracts in its own name, quite apart from its owners (the shareholders)

1 mark per point of definition (3)

- (b) Shareholders cannot be sued in their own names - company has to be sued
 Financial liability is limited to value of shares owned in company - market value, not nominal
 Cannot lose more even though company losses may be much greater - personal possessions cannot be taken
 Investors would be much less likely to buy shares without this protection - risk is limited

1 mark per point plus 1 mark for development of each (6)

(c)	Private	Public
	<ul style="list-style-type: none"> • minimum 1 director • 'ltd' after name • no minimum capital needed • shares transferable only with agreement of other holders • shares can be sold only privately • shares cannot be quoted on SE • can start to trade once incorporated • accounts must be lodged with Registrar annually 	<ul style="list-style-type: none"> • minimum 2 directors • 'plc' after name • minimum £50 000 capital to be raised • shares transferable freely on open market • shares can be advertised to general public • shares can be bought/sold on SE • trading certificate needed from Registrar before starting to trade • has to publish accounts as well

1 mark per point plus 1 mark for each contrasting point (not just the 'negative') (5)

- (d) Extra funds needed for expansion - probably externally
 Private company has to obtain funds from existing shareholders - or by finding additional investors privately
 Public company can issue new shares on open market - and obtain additional shareholders
 Can afford to pay higher salaries to managers - better expertise available
 Can attract experienced people as directors - better guidance
 Can get better deals for bank loans - lower interest rates

1 mark per point plus 1 mark for development of each (6)

Total 20 marks

14. (a) Sole proprietor - single owner of business, one person provides basic finance (limited), all profits go to owner, all loss falls on owner, no limited liability for losses, one person controls business, owner makes decisions

1 mark for each of 3 points (3)

- | (b) Franchised Business(franchisee) | Sole Proprietor |
|---|--|
| <ul style="list-style-type: none"> • Operates under the direction of franchisor • Operates under franchisor name • Percentage of profits to franchisor • Uses standard raw materials • Uses production methods formed by franchisor • Training provided by franchisor • Franchisor helps to find suitable site • Sole rights given in an area • Franchisor does national advertising | <ul style="list-style-type: none"> • Has full freedom to make own decisions • Uses own name • Keeps all profits personally • Can buy supplies from anywhere • Can prepare to own specifications • Has to provide own training or learn on-the-job • Has to search on own • Has to compete with all other providers • Will do only local advertising |
| (6) | |
| <i>1 mark per point plus 1 mark for development of each</i> | |

- (c) Young person must have money to pay initial fee - plus financial resources to start operating
 Franchisor may already have too many outlets - in area concerned
 Must show business ability - and reasonable educational background
 Must show good personal qualities - good references
 Must understand risks - and be willing to accept loss
 Must be willing to undertake full training - and pass
 No criminal record - might damage franchisor's image
 Proposed location of premises must be suitable in general - likely sufficient demand
- (5)
- 1 mark per point plus 1 mark for development of each*

- (d) Will receive expert guidance from franchisor - otherwise would have to learn oneself/make mistakes.
 Does not have to build up a reputation - franchisor already has it
 Relieved of wider responsibilities - can focus on day-to-day operations
 Benefits from national advertising by franchisor - very expensive if done independently
 But cannot make own decisions - or develop new ideas
 Has to pay part of earnings to franchisor - less income for self
 Cannot use alternative suppliers - may be cheaper
- (6)
- 1 mark per point plus 1 mark for development of each
 (maximum 4 marks for only points for or against)*

Total 20 marks

COMMERCE 7100, CHIEF EXAMINER'S REPORT

GENERAL COMMENTS

This was the first January Paper under the new syllabus, following the first Paper in May 2005. There was a lower mean mark for the Paper compared with that in May. This was attributable partly to it being rather more demanding in terms of question difficulty and partly due to a fall in the quality of the candidate cohort as reflected in the quality of the scripts. As a result, the grade boundaries were all lowered, but at the same time the percentage pass rate at all the boundaries was also lower.

Reference in this Report is again made to the importance of command words (and other key words) in questions. It is essential that candidates understand what is expected of them by these words, and time needs to be spent in developing this understanding, as well as covering the syllabus content. In particular, candidates are often having trouble in knowing what is required by analytical and evaluative questions. These generally occur in the last one or two parts of the questions in Section B, but occasionally in parts of questions 9 and 10. Examples of this weakness are given in the individual question comments.

In this matter, as noted in the May 2005 examination report, teachers and candidates could usefully look at the syllabus content in terms of the initial word(s) used in relation to each topic. These words include state, outline, describe, calculate, explain, compare, analyse, assess and evaluate. Each of these determines the type of response, on the relevant topic, which can be expected of candidates in a Commerce examination, and also reflects the assessment objectives of the syllabus (*see pages 2/3*).

A further weakness, as noted in the May 2005 examination report, relates to candidates ignoring the **number** of responses required by some questions, e.g. **two** forms, **one** benefit, **three** differences, **two** changes. It should be emphasised to candidates that including more than the prescribed number does not gain any more marks, and in fact it wastes time which could be used elsewhere in the paper to score marks.

Rubric problems were more in evidence in this examination. A small number of candidates answered all four questions in Section B, instead of choosing two out of the four provided, while in Section A many candidates ignored the instruction in Questions 1 a), b), c) and d) to insert only **one** word. A further problem was that a few candidates wrote all their answers to Section A in the separate answer book and not on the examination paper in the spaces provided. Also, some candidates needed to extend their answers to Section A questions by continuing in the separate answer book. This is not good practice, as it indicates that candidates are unable to focus on the key responses required and are wasting time by going into unnecessary detail or irrelevant comment.

The general standard of English used by candidates was good, considering that it is the second language for most, and it did not prove a barrier to the performance of most candidates. As is normal, candidates were not penalised for weaknesses in grammar, punctuation and spelling, providing that examiners could understand what candidates intended.

In addition to candidates' general weaknesses, the examination outcome showed that the following topic areas of the syllabus content need more attention from candidates:

- The correct sequence of the use of commercial documents in trade (Q.2).
- The different services provided by finance companies and by building societies (Q.4).
- Methods of payment available through post offices (Q.7).
- The reasons for needing certificates of origin in international trade (Q.8).
- The purpose of the sort code on bank cheques (Q. 9(a)(i)).
- The differences between direct debits and standing orders (Q.9(d)).
- The importance of bank statements to businesses (Q.9(f)).
- The reasons why countries may experience balance of payments deficits (Q.10(c)(ii)).
- The reasons for governments' concern about balance of payments deficits (Q.10(d)) and the types of corrective action they can take(Q.10(e)).
- The types of business activity covered by each of the branches of production (Q.12(a)).
- The importance of having good methods of transportation for the distribution of goods (Q.12(d)).
- The meaning of 'incorporated' (Q.13(a)).
- The importance of being a public rather than a private company in order to continue to expand (Q.13(d)).

However, candidates tended to perform well in their answers on the following topics:

- The use of ATMs (Q.9(b)(ii)).
- The reasons why car buyers use hire purchase rather than paying cash (Q.11(b)).
- The reasons why manufacturers prefer to distribute to wholesalers and large retail businesses rather than small retail businesses (Q.12(b)).
- The differences between public and private limited companies (Q.13(b)).
- Considerations in deciding whether or not to offer a person a franchise agreement (Q.14(c)).

SECTION A

Question 1

The four parts of this question were generally answered well, even by many of the weaker candidates.

Question 2

A surprising number of candidates could not put the three documents in the correct sequence. This highlights a weak understanding of the nature and purpose of commercial documents.

Question 3

Very many candidates answered this question correctly, but a significant proportion confused public corporations with public companies and gave the wrong answer or a 'crossed' one.

Question 4

It was obvious that many candidates had not studied the role of finance companies and building societies, and there were many wholly incorrect answers.

Question 5

Generally, candidates were able to give an advantage, but a weakness was that some described division of labour rather than giving a benefit.

Question 6

The syllabus content clearly breaks down marketing into three elements, but many candidates could not identify the two other than sales promotion which was given.

Question 7

This was very weakly answered with many candidates unable to identify, for example, postal orders, money orders or telegraphic money orders.

Question 8

Many answers here were also weak. Many candidates could not give any correct explanation, while others could not get beyond saying that certificates of origin were required to identify the country where imported goods had been made. Only a small minority could go on to explain why origin needed to be known in relation to duties, quotas, embargoes and other regulations.

Question 9

Many candidates gave the impression that they had never seen a bank statement before. In part (a), hardly any candidates knew the purpose of the sort code in identifying the bank/branch for clearing purposes, but a larger although still small proportion could state the purpose of the individual account number.

In part (b), while the abbreviation ATM was well known, many candidates did not know the meaning of the letters, and there were many inventive answers, such as Advanced Time Machine! In part (b)(ii), many candidates scored the full three marks, but a common fault was to think that users had to type in their account number or a password, rather than a PIN.

In part (c), all that candidates had to do was to deduct £147.41 from £427.89, but many tried to do all kinds of complex calculations (giving the wrong answer), probably because they did not understand that the balance column is a 'running' figure. Others threw away one mark by not stating 'credit' (or +) as specifically asked by the question.

A disappointing number of candidates did not seem to know what direct debits and standing orders are (part (d)). This is basic knowledge of payment methods. While others could identify the 'variable' and 'fixed' aspects (amounts/dates), few understood that direct debits are paid on the action of the creditor and standing orders on the action of the bank, but full marks could still be scored without this difference.

In part (e)(i), repeating the question that 'D' means that the account was overdrawn does not score any marks, which is what many candidates did, but a large proportion realised that the bank obtained income from interest/charges and/or that it expected to be repaid by a creditworthy customer.

Part (f) was not well answered. Many points written by candidates were purely descriptive and were not used to explain why the content of bank statements is important, for example that it enables the business to check that payments have been received and that direct debits/standing orders have been paid, and to know whether it is in the 'red' or in the 'black'.

Question 10

Many candidates appeared never to have seen a simplified balance of payments table and were confused by the figures. However, there were still many correct answers in part (a).

In part (b), 'things which can be seen' (visibles) and 'things which cannot be seen' (invisibles) were not considered to be adequate statements of meaning. What was needed was simply 'goods' (1 mark) and 'services' (1 mark).

In part (c)(i) and (ii), even though 'figures' and 'reasons' were put in bold, many candidates still repeated in (c)(ii) why the **figures** caused the deficit rather than possible underlying reasons, such as uncompetitive exports because of an overvalued currency.

Confusion in parts (d) and (e) often arose because candidates failed to realise that **businesses** are doing most of the importing and exporting and not the government. There were therefore wrong answers such as 'the government is losing money' and 'the government should export more in order to solve the problem. In part (d), points such as falling foreign currency reserves/currency value and higher unemployment were required, while in part (e) specific **actions** rather than vague generalisations, e.g. 'export more', were required, such as raising import duties and giving subsidies to exporters. Also, simply borrowing to support the deficit is not a way of reducing it in the future.

SECTION B

Question 11

Many candidates were very vague about the specifics of hire purchase in part (a)(i) and could only identify it as an instalment method of borrowing. Ownership only on final payment was the next most frequent point made, but very few candidates mentioned repossession or the right to return the goods.

In part (a)(ii), many candidates scored the full six marks for calculating £300 per month repayments, but common errors were to calculate interest on the full £8000 (including the deposit), to take 10% interest for only **one** year, and/or to divide the debt by 12 rather than 24 months.

In part (b), buying goods on hire purchase so that they can be returned if not needed is **not** a reason for using this method. However, there were many good answers, referring to lack of cash, use of cash for other purposes, forced saving and immediate possession/use of the goods.

In part (c), the conditions to be met in order to obtain a bank loan were not properly understood by some candidates who referred only to features of loans such as interest and length of payment. However, there were also frequent references to credit-rating, regular income, collateral, references and guarantors.

Question 12

A surprising number of candidates were unable to identify manufacturing as part of the secondary branch of production and wholesaling/retailing as part of the tertiary or commercial branch. This should be a fundamental piece of common knowledge for a student of Commerce.

Many candidates scored the full six marks in part b) by referring to and explaining two reasons such as bulk selling, credit/bad debts and many small deliveries, but some strayed out of the context of selling via wholesalers or large retail businesses and referred to manufacturer's own shops and to direct mail order (for nil marks). Such answers could be relevant to some questions, but not this one. Others thought that the manufacturer would have to sell to small retailers at low prices rather than the reverse!

Comparing road and rail transport should have been straightforward in part (c), but many candidates wrote either about the alternatives of air and sea transport or forgot that the context was 'kitchen utensils' and referred, for example, to bulk goods and/or valuable (for nil marks).

In part (d), weaker candidates simply repeated the advantages/disadvantages of road and rail rather than explaining the impact on the business of having a good method of transportation, e.g. lowering costs, meeting customer demands on time, widening markets and increasing sales/profits.

Question 13

In part (a), very few candidates knew the meaning of 'incorporated', which is fundamental to their understanding of the nature of companies.

In part (b), weaker candidates persisted in referring to the **company** having limited liability (not so), rather than the shareholders, while others were able only to define limited liability rather than explaining why it is important in terms of attracting and protecting investors. A further common fault was to imply that there was no risk to shareholders, as though their investment was unimportant compared with other personal possessions.

The differences between private and public companies (part (c)) were quite well understood, but a common mistake was to think that private company accounts are wholly private, whereas in fact they only do not have to **published** as such.

As in other Section B questions, the evaluative part (d) tended to produce only a repeat of the public company features, rather than an assessment of how important these are to the growth of public companies, for example the ability to raise large amounts of capital for investment and expansion.

Question 14

Candidates were generally able, in part (a), to identify one or more key features of the sole proprietor type of business organisation.

However, the part (b) question was misinterpreted by some candidates, who contrasted the **franchisor's** business with that of an independent sole proprietor's business. The introductory information made clear that the alternatives were to operate as a franchisee (franchised business) or as an independent sole proprietor. Candidates must read this information more carefully before launching into their answers. Furthermore, many candidates failed to understand that the franchised business would still be a sole proprietor organisation and seemed to think that it was an integral part of the franchisor's company.

Part (c) was answered much better, and points regarding financial resources, general ability, personal qualities and location were frequently mentioned.

In part (d), as in other evaluative questions, candidates tended to repeat facts about franchises, rather than using these facts to assess the case for operating under a franchise. However, there were some very sound answers, and where candidates occasionally argued for operating as an independent sole proprietor, marks were allowed for a rational case.

SUMMARY COMMENTS

1. The performance of candidates in this second examination under the new syllabus was not as satisfactory as expected, arising from a weaker cohort and a paper less accessible than that of May 2005. As a result, while the grade boundaries were lowered, the pass rate at each of the grade boundaries still fell a little.

2. Some of the candidates' weakness arose not only from difficulties with the application of knowledge and with analysis/evaluation, but also from a lack of fundamental knowledge itself.

3. The outcome of this examination shows that candidates need to:

- study the syllabus content more widely in order to minimise the number of gaps in their knowledge, which is specially important in relation to the compulsory Section A questions.
- understand more clearly what is required of them by the command words and other key words in questions, in particular those relating to assessment objective 4.
- absorb the context of a question and to keep reminding themselves of this context when answering the question parts.
- keep their answers in Section A to the number of lines provided, which is an indicator of the length of response expected.
- read and follow all the rubrics carefully.

COMMERCE 7100, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	61	49	38	33	23

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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