

Edexcel International  
London Examinations  
GCE Ordinary Level

**Mark Scheme with Examiners' Report**

**London Examinations Ordinary Level GCE in  
Commerce (7100)**

January 2002

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Mark Scheme and Chief Examiner's Report  
January 2002

## **COMMERCE 7100**

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### **Mark Scheme**

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### **Grade Boundaries**

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## COMMERCE 7100, MARK SCHEME

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1. (a) Small shop advantages  
Close to home – little time needed  
No travel costs – car not required  
Can stock specific types of goods needed, e.g. cigarette brand  
Convenient opening times – early morning and late evening (or 7 days)  
Useful for small items needed urgently, e.g. milk  
Can provide weekly credit – on the slate (informal)  
Personal attention from proprietor – better / friendly service  
May deliver quantity of goods to home – example  
Specialised provision, e.g. made-to-measure clothing  
Quick decisions possible, proprietor can agree discount  
(1 mark per point plus 1 mark for development of each) **(10)**
- (b) Competition difficulties  
Cannot afford to buy in bulk – higher costs  
Cannot buy direct from manufacturer – wholesale prices  
Cannot pay cash – credit needed for cash flow  
Limited variety of goods in stock – less convenient  
Limited different brands available – less choice  
Cannot compete on price – higher cost price  
Cannot afford to make special offers – limited offset  
Goods may be less fresh – lower rate of turnover  
Many facilities at superstores, e.g. childcare  
Easy access – free parking at superstore  
Lack of capital  
Cannot afford to advertise, e.g. on TV  
No specialist staff e.g. in marketing  
No economics of scale  
Not well known outside local area  
(1 mark per point plus 1 mark for development of each) **(10)**
- Total 20 marks**
2. (a) Insurance principles
- (i) UGF – Proposal form questions must be answered truthfully  
All facts relevant to the insurance must be given  
Insurer must also provide all necessary information accurately
- (ii) II – person can insure only where risk could result in a loss falling on that person  
Cannot insure someone else's possible loss
- (iii) I – insured is placed in same position after loss as before loss. No profit should be made from insurance  
(1 mark per point plus 1 mark for development of each)  
(Max. 2 marks for each definition) **(6)**

- (b) (i) Pooling of risks  
 People always at risk of loss in many ways  
 Future uncertain as to who will actually suffer loss  
 Loss from a risk will occur only for small percentage  
 People therefore willing to pay premium into a central fund  
 Fund for each risk operated by insurance companies  
 Unfortunate who suffer loss are paid out of the fund (pool)  
 Fortunate pay the unfortunate  
 (1 mark per point plus 1 mark for development of each) **(4)**
- (ii) Pooling effectiveness (if principles not followed)  
 Calculations of premiums will be incorrect  
 Assessment of claims will be incorrect  
 Claims may be too high in relation to premiums  
 Insurance companies may lose a large amount of money  
 Insurance companies will become insolvent and close  
 For example UGF – if correct information not given,  
 premiums charged may be too low  
 For example I – if insured has no 'interest', then loss  
 encouraged and profit made  
 For example I – if insurer paid more than amount lost/  
 insured, claims will be higher than amounts estimated  
 against premiums.  
 (1 mark for each of two points)  
 (Example – 1 mark plus 1 mark for development) **(4)**
- (c) Maximum Compensation  
 Not more than value of loss paid, that is, £60,000 **(1)**  
 But business is underinsured by £6,000 **(1)**  
 Insurance company will only pay up to amount insured, that is,  
 £54,000 **(1)**  
 But would apply averaging because not fully insured **(1)**  
 Will pay only 54/60 of £54,000, that is, £48,600 **(2)**

**Total 20 marks**

- 3.** (a) Trade/Ancillaries  
 Trade is buying and selling (exchange) **(2)**  
 Ancillary services are those assisting trade to take place, e.g.  
 banking and transport **(2)**
- (b) Other Branches of Trade  
 Wholesale: selling bulk quantities to retailers  
 Export: arranging for goods to be sold abroad  
 Import: arranging for goods to be brought into the country  
 (1 mark for each of 3 branches named, plus 1 mark for correctly  
 defining each) **(6)**

- (c) Specialisation/Exchange – need for trade branches  
Individuals specialise in jobs – need to buy in other needs  
Countries specialise in certain goods – need to import other goods  
Consumers need a convenient way of obtaining these needs – shops and other retail outlets  
Retailers need help in obtaining goods from producers in right quantities – use of wholesalers to break bulk  
Getting goods from other countries requires help – use of importers to find goods needed  
Selling goods to other countries requires help – use of exporters to find markets (earn foreign currency)  
(1 mark per point plus 1 mark for development of each) **(10)**

**Total 20 marks**

4. (a) S.E. help in share dealing  
Provides a ready market for 'listed' (approved) shares  
Market makers will buy listed (or quoted) shares from shareholders  
Market makers hold quantities of shares which they will sell when offered bid price  
Buyers/sellers are helped by S.E. brokers who deal with the market makers  
Broker goes to several market makers for quotations  
Brokers give advice on which shares to buy and sell  
Brokers obtain the best deal available on the market at time required  
Brokers handle settlement of debt and share transfer  
Share prices are always quoted so investors know what they will receive/have to pay  
(1 mark per point plus 1 mark for development of each) **(10)**
- (b) Support for public companies  
Investors not tied in to shares – can reclaim capital when needed  
Companies do not have to return capital – permanent source  
Public protected by S.E. rules and regulations  
All companies vetted before being listed, e.g. directors' backgrounds  
All companies monitored when listed – to ensure on-going operation within regulations  
Shares suspended from dealings if problems arise  
Investors know what their shares are worth on daily basis – can monitor movements  
Investors more willing to buy new issues of shares if they know they are to be quoted/regulated  
(1 mark per point plus 1 mark for development of each) **(10)**

**Total 20 marks**

5. (a) Building society help with home purchase  
 Provides loans for long periods; e.g. 25 years  
 Loan secured by mortgage on the property  
 Small payments required monthly  
 Interest rate charges – kept as low as possible  
 Repayment method – capital plus interest  
 Interest only method – capital through endowment/PEP/ISA  
 Encourage young people to save for property deposit  
 Provision of necessary property insurance cover  
 (1 mark per point plus 1 mark for explanation of each) **(10)**
- (b) Building society members/bank shareholders  
 Savers and borrowers own the building society  
 Each is a member with one share/one vote  
 All profits are put back into society  
 Bank customers as such do not have shares  
 Separate shareholders own bank/provide capital  
 Shareholders receive dividends based on profits  
 Shareholder votes – one per share held  
 Majority shareholders control the bank  
 (1 mark per point plus 1 mark for development of each) **(6)**
- (c) Reasons for conversion to banks  
 Lack of capital – from small-saver members  
 Funds needed to expand – compete with larger banks  
 Members unable to sell their part of society  
 Capital locked up in society – member pressure to release  
 Wider range of services allowed with bank status  
 (1 mark per point plus 1 mark for development of each) **(4)**

**Total 20 marks**

6. (a) Partnerships/private limited companies  
Partnership – Maximum 20 partners normally allowed by law, owned by parties, no separate legal entity, no limited liability normally, no registration required, capital not divided into shares, no documentation necessary (but deed often made), no continuity on death of partner, partners' actions binding on others normally, income tax paid, parties receive profits based on deed/agreement  
Company – no limit to number of shareholders, incorporated, usually limited liability of shareholders, must have documentation (memorandum and articles), must be registered with Registrar of Companies, capital held in shares, continuity on death of shareholder, Board of Directors determines actions, one shareholder can control if majority of shares held  
 (1 mark for each point which distinguishes each type of organisation, plus 1 mark for development of each point) **(12)**

- (b) Reason for partnership decline  
 Private assets unprotected – L.L. in company  
 No clear control – voting rights in company  
 Partnership needs to be reformed on death of a partner – company has separate legal existence  
 Capital limited for expansion – company can bring in additional shareholders without limit  
 Partnerships not monitored closely – companies controlled by Registrar's rules  
 Partners can sue / be sued only as individuals  
 Economics of scale less achievable  
 Decision making difficult – arguments can result in dissolution  
 (1 mark per point plus 1 mark for explanation of each) **(8)**

**Total 20 marks**

- 7.** (a) Bills of lading  
 Document of title provided for importer to claim goods on arrival at port  
 A receipt to show that goods have been handed over to shipping company  
 A receipt for the freight (carriage) charge paid  
 A document showing the terms of carriage of the shipping contract  
Bills of exchange  
 Method of payment for goods being imported  
 Drawn by exporter, sent to importer. 'Accepted' by importer agreeing to pay the sum on the bill and returned to exporter  
 Sum has to be paid 'on sight' or in future, e.g. three months  
 May be 'discounted', e.g. with a bank, to receive money earlier  
 Documentary bill – has to be accepted before documents released to claim goods  
 (1 mark per point plus 1 mark for development of each) **(12)**
- (b) Need for special documents in international trade  
 Goods need to cross national borders with controls  
 Restrictions mean import licences needed  
 Some exports also controlled – export licence  
 Source of goods needs to be identified for different charges – certificate of origin  
 Value of goods imported needs to be known for charges to be applied – consular invoice  
 Need to identify whether goods are dutiable – Customs entry  
 Letter of credit – to secure payment from bank  
 Certificate of insurance – greater risk in foreign trade  
 Airway bill – used for air transport because of speed of delivery  
 (1 mark for each of three examples)  
 (1 mark for each point of explanation plus 1 mark for development)  
 (Max. 3 marks for any one example given with explanation/development) **(8)**

**Total 20 marks**

- 8.** (a) Cash/trade discount



- (i) Cash – given for early payment of debt – usually smaller than trade discount
- (ii) Trade – given to customers 'in the trade' to provide a profit margin when reselling (2 marks) **(4)**
- (b) (i) Wholesaler benefits  
Cash – improves cash flow, less borrowing needed, reduces bad debts  
Trade – attracts retailers to buy more, competitive price, avoids need to reprint catalogues
- (ii) Retailer benefits  
Cash – obtains good extra discount, improves profits  
Trade – provides margin for profit, allows discounts
- (1 mark for each of 4 benefits given) **(4)**
- (c) (i) Invoice settlement – 15/10/01  

$$£10,000 \times \frac{25}{100} = £2500$$

$$£10,000 - £2500 = £7500$$

$$£7500 \times \frac{5}{100} = £375$$

$$£7500 - £375 = \underline{£7125} \text{ paid}$$
(6 marks for correct answer even without workings)  
(5 marks max. for correct workings only) **(6)**
- (ii) Invoice settlement – 21/11/01  

$$£10,000 \times \frac{25}{100} = £7500$$
£Nil cash discount ∴ £7500 paid  
(2 marks for correct answer even without workings)  
(1 mark max. for correct workings only) **(2)**
- (iii) Preference for delaying payment  
Insufficient cash available – cost of overdraft  
Bank may be unwilling to lend (any more)  
Sale of goods to provide cash before payment  
(1 mark per point plus 1 mark for development of each) **(4)**

**Total 20 marks**

9. (a) (i) Baltic Exchange  
Provides a market place where buyers/sellers meet  
Buyers are merchants seeking ships/shipping space to send cargoes  
Sellers are ship owners seeking to hire out ships/space  
Agents represent the merchants, brokers the shipowners  
Deals are struck at agreed prices on Exchange floor
- (ii) Lloyd's Register of Shipping  
Gives information on ships and their owners  
Classifies ships according to seaworthiness, e.g. A1  
Insurance charges are based on the classification  
Regular surveys of ships undertaken to ensure standards are maintained for class given  
Register is updated annually
- (1 mark per point plus 1 mark for development of each)  
(Max. 8 marks for either (i) or (ii) ) **(12)**
- (b) Importance of imports/exports by sea to island economy  
Great reliance on foreign trade  
Large amounts of imports essential, e.g. food, raw materials  
Large amounts of exports needed to pay for imports – foreign currency  
Exports important to maintaining employment  
Home resources insufficient to maintain living standards  
Only sea/air transport available (excluding Channel Tunnel)  
Sea transport inexpensive compared with cost of air transport  
Sea transport has huge capacity compared with air  
Sea transport can carry very large items – limited by air  
Sea transport can carry bulk loads, e.g. iron ore  
Heavy/ low cost goods – cannot bear air charges  
(1 mark per point plus 1 mark for development of each) **(8)**

**Total 20 marks**

# COMMERCE 7100, CHIEF EXAMINER'S REPORT

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## General Comments

There was an increase of over 20% in the candidate entry compared with the January 2001 examination. However, the vast majority of additional candidates appeared to be at the low end of the performance spectrum, which diluted considerably the overall performance in this examination. At the same time, the examination paper seemed to be slightly less accessible to candidates when compared with January 2001. Although this was taken into account in determining the grade boundaries, the pass rate for all grades was noticeably lower than in January 2001 because of the changed pattern of entries.

Although the examination caters for a very wide range of abilities, there were many candidates who scored extremely low marks. They appeared to have carried out very little if any preparation for the examination, as many answers seemed to have been invented and failed to make sense or to have any relevance to the questions asked. The examination must have been a very negative experience for such candidates.

A further problem was that many other candidates, while scoring reasonable marks on four questions, had difficulty finding a suitable fifth question, which pulled down their average question mark. This indicates a lack of breadth of study of the syllabus, and the unpopularity of questions 5, 7 and 9 suggests that these were areas not studied either at all or adequately.

While the standard of English language has risen considerably over recent years there has been a reversal of this trend from January 2000, and the 2002 examination showed a further decline. This was partly related to the larger cohort of weak candidates, but there seemed also to be a general decline in terms of expression, grammar and vocabulary.

The following were other weaknesses common across many centres:

- Candidates were often unable to apply the knowledge which they had gained. For example, in question 6 many knew well the difference between partnerships and private limited companies, but they were unable to explain **why** partnerships are less popular, that is, limited liability reduces the risk of the loss of assets when a business gets into financial difficulty.
- Candidates were also often unable to develop basic points made. For example, in question 4 candidates may have stated that investors are more willing to buy quoted shares because they can sell them again easily through a stock exchange. This would be worth one mark, but if candidates went on to explain that investors might want cash for other purposes or to switch into a now more attractive share, then an extra one or two marks would have been gained.
- Where candidates are asked to contrast the operation of different organisations, it is important that they give only the differences and not the similarities. For example, in question 1, features attributable to **both** small local shops and large superstores were not relevant to the answer required, and the same point applied to partnerships and private companies in question 6. There is no merit in candidates simply writing down all they know about a type of organisation; the skill is in being able to select relevant points.

In addition to the general weaknesses, the following topics tended to produce poor answers:

1. The pooling of risks and the related importance of the insurance principles (question 2b).
2. The importance of the trade branches in an economy based on specialisation and exchange (question 3 (c)).

3. The importance of stock exchanges to the financing of public companies (question 4(b)).
4. The nature and functions of building societies (question 5).
5. The role of bills of lading, bills of exchange and other international trade documents (question 7).
6. The work of the Baltic Exchange and the role of the Lloyd's Register of Shipping (question 9(a)).

Candidates performed well on the following topics:

1. The competitive advantages and disadvantages of small local shops and out-of-town superstores (question 1).
2. The principles of insurance (question 2(a)).
3. The nature of trade and the ancillary services (question 3(a)).
4. The difference between partnerships and private limited companies (question 6(a)).

## Comments on Individual Questions

### Question 1

While this was a very popular 'starter' question, it was not answered as well as expected.

In part (a), candidates sometimes ignored the reference to 'local' and wrongly assumed that these small shops were in town centres in contrast to the **out-of-town** superstores. Other fundamental errors were to suggest that small local shops had a greater variety of goods and charged lower prices. However, where candidates 'reversed' the question wording and wrote about the **disadvantages** of superstores in part (a), marks were still allowed for correct and relevant points.

In part (b), there was generally a good understanding of the buying and other economies achievable by superstores, but candidates sometimes got side-tracked into issues of ownership, for example unlimited/limited liability, which were not relevant to the question asked. Self-service and after-sales services were also not considered to be specific differences between the two types of shop. However, 'reverse' points were allowed, for example, the advantages of the superstores rather than the difficulties of small shops as stated in the question.

### Question 2

Many candidates scored well on the principles of insurance, with insurable interest being the least well understood. However, in part (b) candidates struggled more with the concept of 'pooling of risks', with many saying little more than compensation being paid out of a pool. The key points of where loss will fall not being known in advance, and that only a small proportion of the insured will suffer loss, were often not stated. In the second part on pooling, candidates were rarely able to explain the importance of the insurance principles to the effectiveness of risk pooling. Few understood that if people over-claimed on compensation or failed to pay a sufficiently high premium, the pool would dry up and the relevant insurance company would become insolvent. In part (c), it was very encouraging that some candidates knew about under-insurance and averaging. While £54 000 was allowed as an answer, extra marks were awarded for the 'averaged' figure of £48 600 and an explanation.

### Question 3

Many candidates scored the full marks for part (a), but there were others who did not even understand the meaning of 'trade', that is, buying and selling.

In part (b), which required the identification of three trade branches other than retailing, many answers were way off target. While wholesaling was generally identified correctly, many candidates thought that 'producers' and 'consumers' were the

other two branches rather than export and import, while others wrote about the branches of production, that is, primary and secondary. This shows a fundamental lack of understanding of the nature of commercial activity.

Part (c) was even more poorly answered, with a large proportion of candidates failing to understand the link between specialisation and exchange and the consequent importance of the branches of trade in the processes of distribution, both home and foreign.

#### Question 4

A large proportion of candidates chose this question, but there were many very weak answers, especially on part (b).

In part (a), some candidates thought that the sellers and buyers of shares visited the stock exchange themselves rather than operating through brokers in the exchange. Also, 'jobbers' rather than 'market makers' were referred to, even though jobbers were superseded some 15 years ago. Few candidates knew fully the process of buying and selling on the exchanges.

In part (b), a frequent error made was that public companies sell their shares directly on the exchange, rather than issuing them first before 'second-hand' trading starts on the exchange for listed shares. References were needed, for example to the importance of share marketability, the daily publication of share prices, the vetting of applications for shares to be listed and the protection of investors.

#### Question 5

This was an unpopular question and often marks were rather low.

In part (a), few candidates could go beyond saying that building societies lend money to members for buying houses and that repayments were by instalments over the long term. There was scant knowledge of different repayment methods or of the concept of mortgaging, and related services were rarely mentioned, for example insurance.

In part (b), the distinction between building society members and bank shareholders was rarely understood even in the most basic terms, while in part (c), correct reasons for conversion to banks were only occasionally given (if any).

#### Question 6

A large proportion of candidates answered this question, and there were some excellent responses, especially to part (a) where the full 12 marks were sometimes scored. Weaker candidates reversed their knowledge of the two types of organisation or confused private companies with public companies and the public sector. More understandable errors and omissions were to do with the way in which partnerships operate internally and the way in which the death of a shareholder is handled within a private company.

Unlimited/limited liability, partnership deeds and company registration were reasonably well understood, but a common failure was for candidates to simply repeat a point in reverse. For example, stating that partners have unlimited liability and shareholders limited liability gave only one mark unless further explanation was given.

In part (b), a frequent problem was that candidates simply repeated points made in part (a) without **applying** them to the question asked. For example, partners have unlimited liability, but **why** does this make partnerships less popular than private companies? Candidates needed to explain the risk to personal assets as well as business assets and to give an example. Capital limitations, continuity problems and lack of clear control were other points that could have been made.

## Question 7

This question did not attract a large number of candidates, and while many of those attempting it had clearly heard of bills of lading and bills of exchange, there was frequent vagueness about their actual use. No marks were awarded for simply describing the content of each type of bill; their *use* had to be stated.

In the case of bills of lading, reference to them being a document of title, a shipping receipt, a freight receipt and a 'terms of carriage' document would have gained four marks even without any further explanation. Weak candidates thought that bills of exchange were concerned with the exchange of goods for goods, and although others knew only that they were a method of payment, there were some excellent answers scoring the full marks available.

Part (b) was often answered in a very general way without reference to specific documents, and few marks if any were therefore scored. Candidates needed to be aware of the special circumstances of international trade which require special documents, for example the certificate of origin to identify the source of imports and the correct duty to be charged.

## Question 8

In both part (a) and part (b) answers, candidates often ignored the context of the question, that is, wholesalers selling to the customers in the retail trade. As a result, in part (a) candidates often referred wrongly to a discount being given for the payment of cash rather than for payment within a specified period of time. While many candidates identified bulk buying in relation to trade discounts, relatively few referred to discounts 'in the trade'.

Again ignoring the context, in part (b) candidates often referred to the discounts being *received* by wholesalers and to retailers giving discounts to **their** customers rather than receiving them from the wholesaler. None of these points gained marks.

There were many fully correct answers to the calculations required in part (c), but there were several common errors. Candidates sometimes deducted cash discount from the gross invoice figure, rather than that net of trade discount, and they often deducted 2½% for settlement on 21 November even though it was outside the 30-day period. Weaker candidates even forgot to deduct the trade discount at all!

## Question 9

This was an unpopular question, and for those candidates who chose it, marks achieved were generally low.

Many candidates had clearly not studied the Baltic Exchange, while even the minority were only able to give a little detail, that is, simply referring to the hiring of cargo space and the chartering of ships through brokers. Lloyd's Register of Shipping was even more of an unknown, and many candidates confused it with Lloyd's insurance or more understandably with Lloyd's List.

More marks were scored in part (b), where the advantages of sea compared with air were reasonably well known, but few candidates referred to the need to trade abroad and some referred to road and rail transport for an island economy (with no reference to tunnels, bridges or ferries).

## Conclusions

1. There was a significant decline in the overall performance of candidates within a substantially larger entry.
2. Many candidates had not prepared properly for the examination, and in particular had not covered the syllabus sufficiently broadly to allow them a good choice of questions.

3. Candidates were unable to **apply** their knowledge where required by particular questions, and this skill needs to be developed.
4. Candidates need to read more widely on the subject, so that they can develop their answers beyond the basics.
5. Candidates need to have an overview of the subject, so that they can see how the various elements are inter-related.
6. The standard of English language showed a significant decline after several years of improvement and was a barrier to performance.

Candidates continue in general to benefit from their study of Commerce which has immediate relevance to their everyday life and to their future working life.

## COMMERCE 7100, GRADE BOUNDARIES

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Grade	A	B	C	D	E
Lowest mark for award of grade	56	46	34	30	25

**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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