



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
Cambridge International Diploma in Business  
Standard Level

**BUSINESS FINANCE**

**5163/01**

Optional Module

**May 2009**

**2 hours plus 15 minutes reading time**

Additional Materials: Answer Booklet/Paper

**READ THESE INSTRUCTIONS FIRST**

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

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

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

Attempt **all** tasks.

Start each task on a new piece of paper.

Please leave a margin on the right and left hand side of each new page.

You may use a calculator.

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

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

This document consists of **4** printed pages.



**You must read the following case study and attempt ALL of the tasks.**

(The case study is fictitious.)

## **PARADISE PROPERTIES**

Kwong Hing, the owner and sole manager of Paradise Properties, was feeling rather pleased with the outcome of recent meetings that he had set up with his bank manager and a prospective investor. The meetings had been called to discuss proposals to further diversify his business, which Kwong thought was necessary due to falling profits in his core business.

Kwong inherited Paradise Properties five years ago and, although he has made some minor changes, it is still mainly a farming business producing vegetables which are sold at local markets. Kwong has managed to persuade a chain of supermarkets to take his produce, but the profit margins on these sales are disappointing. He has recently introduced the production of organic vegetables which can be sold at a premium. However, sales of these have failed to reach their target. 5  
10

Kwong has also converted part of his property into a secure parking area that is used by car hire companies, as his farm is located close to an international airport. The hire companies pay a set monthly fee and a charge for each vehicle movement in or out of the parking area. Although this diversification has helped to maintain the profitability of his business, there are signs that this will not be the case in the future. 15

Kwong has therefore come up with an ambitious plan to convert a major part of his property into a holiday centre that is aimed at foreign tourists. He believes that there is a market for such facilities and that the proposed extension of the airport will mean that the market is likely to expand. Kwong has already obtained permission from the local authorities to build the holiday centre and has employed a firm of architects to draw up plans for the proposal. The proposal will involve a large capital outlay, which is why he organised the meetings with the bank manager and the venture capitalist. 20

Kwong had produced some costings for the new proposal but he is not an accountant and knows very little about the principles of accounting. He has invested in a computerised double entry system for keeping his records. His bank manager has offered to produce a fully-costed business plan for him so that they will have a clearer picture of the likely contribution and profit of the proposal. 25

One issue that Kwong needs to deal with immediately is his cash flow, as the business is running very close to the upper limit of the overdraft set by the bank. He has been collecting information from all the activities of the business and has agreed to monitor the working capital of the business more closely in the future. 30

Kwong has been looking into the ways that he could raise the additional capital that he requires. He has been persuaded that he should form a private limited company.



You must attempt ALL of the following tasks. Where appropriate use information from the case study to support your answer.

- 1 (a) (i) Explain what is meant by the term 'working capital'. [3]  
 (ii) Explain **two** ways of maintaining an adequate level of working capital. [4]  
 (b) Explain what is meant by a premium and why the sales of the organic produce might attract a premium. [4]  
 (c) (i) Identify **two** external factors that are affecting Paradise Properties. [2]  
 (ii) Explain the effects of these **two** factors on Paradise Properties. [2 x 2 = 4]  
 (d) Explain what is meant by a venture capitalist. [3]  
**[Total: 20]**
- 2 (a) Use the information in **Item A** to produce a six month cash budget for the period June – November. [16]  
 (b) Explain **one** advantage and **one** disadvantage to a company of holding large amounts of cash. [4]  
**[Total: 20]**
- 3 (a) Using examples explain what is meant by the term 'double entry bookkeeping'. [10]  
 (b) Using examples explain how **two** recognised accounting principles can be applied to produce accurate accounts. [10]  
**[Total: 20]**
- 4 (a) Distinguish clearly between the terms 'contribution' and 'profit'. [6]  
 (b) Using all available information, calculate the weekly contribution for:  
 (i) the bungalows (assume all bungalows are hired by 4 people); [2]  
 (ii) the sporting facilities (assume all guests will use the facilities); [2]  
 (iii) the restaurant (assume that 50% of the guests will choose full board provision). [2]  
 (c) Using all available information, calculate the likely annual profit for the new proposal. [8]  
**[Total: 20]**
- 5 (a) Explain **two** legal and **two** financial consequences if Kwong forms a limited company. [8]  
 (b) Explain **one** financial advantage and **one** financial disadvantage of forming a limited company. [6]  
 (c) Explain **two** duties that Kwong would have to carry out as a director of a limited company. [6]  
**[Total: 20]**

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