



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

**BUSINESS FINANCE**

5173/01

Optional Module

October 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.

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 case study below and attempt ALL the tasks which follow.**

(The case study is fictitious.)

### **1 STOP (COMPUTER SUPPLIES)**

Mohammad has been running his own business, 1 Stop (Computer Supplies), for two years and he believes that he has achieved most of the targets that he set himself when he decided to go into business. Mohammad has been in business before; he operated a fast food franchise for several years and he sold computer software from a market stall until he set up 1 Stop. Neither of these business ventures was successful and both became insolvent. He decided that to be a success he needed to have business premises as this would allow him to have a bigger presence in the market place and he would be able to carry a wider range of stock. 5

Mohammad had only a small amount of capital when he set up 1 Stop and he therefore decided that he would operate as a sole trader and then review this decision after the business became established. He decided that he would reinvest any profits that he made in order to reduce the interest charges and he has managed to achieve this. 10

After reviewing the end of year figures he now believes that it is time to change strategy. He is looking to expand the business by introducing a new section that will undertake repairs of computer hardware. This proposal will involve a large amount of additional capital and Mohammad has been considering all of the available options, including taking on a partner and possibly forming a limited company. 15

Mohammad knows very little about the formal accounting process and relies on his brother to keep the records of the business. Mohammad has attended a business start-up course but apart from an understanding of double entry bookkeeping and historic costs, he has no knowledge of the other recognised accounting principles. His brother has recently recommended that he introduce a formal system of stock valuation but Mohammad is unsure about the need for such a system. 20

Mohammad believes that he can read the market signals and he has identified a number of external factors that are likely to affect the profitability of the business in the next trading period.

- The government is introducing a new system of grants for businesses that relocate to areas of high unemployment. 25
- The level of interest rates is predicted to fall for the next two years.
- A new generation of computer operating system is to be launched by the end of the year.
- Consumers are demanding more environmentally friendly products especially those that employ energy saving devices.

Mohammad has considered these factors and he believes that they could have positive effects on the business but his brother is less sure and he is urging Mohammad to be more cautious with his expansion plans. 30

**Item 1**

Stock Valuation

Opening Stock 01 September: 200 units @ \$3.50

Date	Units Purchased	Units Issued
September 08	200 @ \$3.50	-
09	-	300
16	300 @ \$3.75	-
17	-	200
19	400 @ \$4.00	-
21	-	500
25	250 @ \$4.25	-
28	-	300

**Item 2**

Balance Sheet Totals for 1 Stop as at 30 September 2009

	\$ <sup>1</sup>
Premises	30 000
Stock	7 000
Loan	17 000
Drawings	13 000
Creditors	4 500
Initial Capital	25 000
Mortgage	18 000
Debtors	15 000
Net Profit	24 950
Cash	2 750
Vehicles	17 000
Equipment	32 000
Prepayments	850
Accrued expenses	2 150

<sup>1</sup> quoted in \$US

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

- 1 (a) Explain what is meant by the term 'insolvent'. [2]
- (b) Explain **one** advantage and **one** disadvantage of operating as a franchisee. [4]
- (c) Identify **one** advantage and **one** disadvantage of carrying a wider range of stock. [2]
- (d) Explain how **each** of the **four** PEST factors listed in the case study could influence the future profitability of the business. [4 x 3 = 12]  
[Total: 20]
- 2 (a) Explain, with your own example, what is meant by 'double-entry bookkeeping'. [4]
- (b) Explain, with an example, what is meant by 'historic cost'. [4]
- (c) Explain how **three** additional recognised principles of accounting need to be applied to produce accurate accounting statements. [3 x 4 = 12]  
[Total: 20]
- 3 (a) Use the information contained in **Item 1** and the LIFO method of stock valuation in order to calculate the value of stock issued and the value of stock remaining. [8]
- (b) Use the information contained in **Item 1** and the FIFO method of stock valuation in order to calculate the value of stock issued and the value of stock remaining. [8]
- (c) Explain what is meant by the AVCO method of stock valuation and explain why a business might employ this method. [4]  
[Total: 20]
- 4 (a) Use the information in the case study and **Item 2** to produce an accurate balance sheet for 1 Stop. [14]
- (b) Explain how a balance sheet, a profit and loss statement and a cash flow statement can be used to assess the financial position of a business such as 1 Stop. [6]  
[Total: 20]
- 5 (a) Explain **two** advantages and **two** disadvantages of setting up in business as a sole trader. [8]
- (b) Explain **two** possible disadvantages of taking on a partner. [4]
- (c) Explain **two** possible financial advantages and **two** possible financial disadvantages of Mohammad establishing a limited company. [8]  
[Total: 20]

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