

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Career Award in Business
Standard Level

BUSINESS FINANCE

5163/01

Core Module

May 2003

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

The time allocated for this examination includes 15 minutes reading time.
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.
You may use a calculator.

Attempt **all** tasks.
Write your answers on the separate Answer Booklet/Paper provided.
At the end of the examination, fasten all your work securely together.
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 that follow.

The case study is fictitious.

Case Study - Kahn's Kasuals

Hassan Kahn has been running the family clothing business for the last five years as a sole trader, employing eight of his relatives. The firm has managed to attract funding from the regional Government for expansion of the business.

The firm makes some clothes for the domestic market but the recent growth has been in the production of copies of designer label clothing for exporting. The lack of any copyright laws in the country makes this trade very profitable. Hassan is, however, aware that the business environment is changing in the following ways. 5

- the National Government is coming under increasing pressure to introduce tighter copyright legislation. 10
- the growth in the real income of the domestic population is becoming a significant factor for the industry as a whole. 10
- the National Government is proposing to introduce more complex accounting procedures in line with international standards.
- it is rumoured that there is the possibility of a revaluation of the national currency in the near future. 15

Hassan has decided to contact his nephew, a product manager with a multinational company, for advice on future business strategy. His nephew has put forward a number of proposals for action.

- the firm appears to be lacking capital, and Hassan should consider establishing a partnership or a limited company. 20
- the accounting system employed by the firm needs to be formalised, employing standard accounting concepts. (Hassan currently produces some figures at the end of each financial year.) 20
- the machinery employed by the firm is becoming obsolete and needs replacing. The replacement machinery should be subject to a depreciation process.
- Hassan should consider entering into a licensing agreement with the brand name manufacturers rather than producing the present copies. This would require the purchase of new machinery. 25

Hassan's nephew has provided some financial information, some of which was extracted from Hassan's records, for these proposals and has agreed to meet with Hassan in a month's time.

Financial Information**Item A**

Owners Capital (including retained profits)	\$120,000
Current Annual Turnover	\$600,000
Current Gross Profit Margin	20%

Estimated Annual Turnover of Licensing Proposal	\$900,000
Estimated mark up on cost price of sales	20%
Additional capital required for the proposal	\$90,000

Item B

Purchase of computerised design / cutting machinery	\$80,000
Maximum capacity of machinery per annum	80,000 units
Sales revenue per unit	\$12.50
Variable cost per unit	\$9.31

Item C

Balance sheet for Kahn's Kasuals as at 30 April 2002

Produced by Hassan Khan – the balance sheet contains a number of errors.

ASSETS	\$	\$
<u>Fixed</u>		
Premises	90,000	
Vehicles	20,000	
Stock	15,000	
		125,000
<u>Current</u>		
Equipment	30,000	
Cash	6,000	
Retained profits	40,000	76,000
		<u>201,000</u>
LIABILITIES		
Creditors	23,000	
Loan	11,000	
Overdraft	2,000	
Debtors	30,000	
		66,000
Mortgage		35,000
Owners Capital*		100,000
		<u>201,000</u>

*This figure calculated as a balancing item by Hassan Khan

You must attempt ALL of the following tasks.

- 1 Explain what is meant by the following terms as used in the case study:
- (a) 'copyright' (line 5) [3]
 - (b) 'multinational company' (line 16) [3]
 - (c) 'obsolete' (line 23) [3]
 - (d) 'depreciation' (line 24) [3]
 - (e) 'licensing agreement' (line 25) [3]
- [Total: 15]**
- 2 (a) Identify **three** of the external (PEST) factors referred to in the case study. [3]
- (b) Explain how **each** of the chosen factors could affect the future profitability of the business. [12]
- [Total: 15]**
- 3 (a) Compare and contrast a partnership with a limited company. (line 19) [6]
- (b) List **two** advantages of **either** a partnership **or** a limited company compared to a sole trader. [4]
- [Total:10]**
- 4 (a) Using all of the available information, produce a **graph** to show the break-even point associated with the proposal to purchase new machinery. [8]
- (b) **Calculate** the margin of safety associated with the estimated level of output. [4]
- [Total: 12]**
- 5 Having identified the mistakes made by Hassan Khan and using all available information, produce a revised balance sheet, in appropriate format, for Khan's Kasuals as at 30 April 2002. [18]
- 6 Identify and explain, using your own examples, the significance of **four** 'standard accounting concepts' as mentioned in the case study. (line 20/21) [16]
- 7 Using all available information, calculate the percentage change in the level of gross profit that would result from adopting the licensing proposal. [14]