

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

**BUSINESS FINANCE**

**5163/01**

Optional Module

May 2006

**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.

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 that follow.**

(The following case study is fictitious.)

### **AK Services**

Anil Kumar left his bank manager's office feeling happy. He had just agreed terms for a new bank loan that would allow him to put his plans to expand his business into practice.

Anil had set up his business, AK Services, two years ago and although his turnover had not grown as predicted, his profits had increased significantly.

Originally Anil ran his business as a sole trader but at the end of the first year he had taken on a sleeping partner, Rajiv Golopan. Rajiv is a trained management accountant and he has provided Anil with some useful financial advice regarding the running of the business. Anil does have some knowledge of the accounting process, but this is limited to basic financial accounting procedures. However, he is competent in double entry bookkeeping. Anil does spend time maintaining the firm's books of account and he has developed a computerized system to monitor the trading records of the business. 5 10

AK Services' main business activity involves providing technical support for their clients' internet websites. Each client pays an annual fee which allows them to receive up to 50 hours' on-site support. If the client requires additional support, they are charged at an hourly rate. Currently Anil has 80 clients but he is hoping that the new loan will allow him to expand this side of the business. The expansion plan will involve a significant increase in the fixed assets of the firm, and these will, of course, be subject to depreciation. Anil has a limited knowledge of the depreciation process. 15

Both Anil's partner and his bank manager have suggested to Anil that he should consider forming a limited company as an alternative to further borrowing but Anil is not sure about this course of action. 20

As well as the website business, Anil also sells both computer hardware and computer software. He buys the hardware direct from the manufacturers and then sells it on with a target mark-up of 25 per cent, but with the software, he operates on a commission-only basis.

Recently, Anil has developed a new computer program which he is hoping to sell to the airline industry. He has already been in discussions with some of the leading software houses regarding selling the copyright for the program but he is also considering selling the product through a franchise arrangement. 25

## Financial Information

Trading figures for the hardware sales of AK Services to 30 April 2006

(Anil has introduced a system of allocating general expenses and these have been allocated across the different trading activities of the firm.)

	\$ <sup>1</sup>
Opening Stock	60 000
Turnover	200 000
Closing Stock	70 000
Vehicle Expenses	6 000
Telephone Expenses	2 000
Printing and Stationery	6 000
Purchases	140 000
Rent and Rates	18 000
Casual Labour	4 000
Insurance	1 000
Depreciation-Fixtures and Fittings	1 800
Depreciation-Vehicles	4 000

<sup>1</sup> All of the above figures are US Dollars (\$)

**You must attempt ALL of the following tasks.**

- 1 (a) Identify and explain the possible reasons for the profits of AK Services increasing significantly even though the turnover had not grown as predicted. [4]
- (b) Explain why Anil chose to set up in business as a sole trader. [4]
- (c) (i) Explain what is meant by the term 'sleeping partner'. [2]
- (ii) Identify and explain **one** advantage and **one** disadvantage to Anil of taking on a partner. [4]
- (d) Explain the difference between selling goods on commission and selling goods with a target mark-up. [4]
- (e) Explain what is meant by the term 'copyright'. [2]
- [Total: 20]**
- 2 (a) Explain the legal and financial consequences if Anil formed a limited company. [10]
- (b) Explain why and how the additional fixed assets needed for the expansion plan should be depreciated. [10]
- [Total: 20]**
- 3 (a) Identify **five** books of account and **five** accounting records that should be kept by Anil. [10]
- (b) Explain, using your own examples, what is meant by 'double entry bookkeeping'. [6]
- (c) Identify **one** advantage and **one** disadvantage of using a computerized system to maintain the accounts of a business. [4]
- [Total: 20]**
- 4 Using the information from the case study
- (a) construct a Profit and Loss Account for the hardware sales of AK Services; [12]
- (b) calculate the percentage mark-up that Anil achieved on the sales of the computer hardware. [8]
- [Total: 20]**
- 5 (a) Explain how the work of a financial accountant will differ from the work of a management accountant. [12]
- (b) Identify **two** internal and **two** external users of the accounts of AK Services. [4]
- (c) Explain how **each** of the users identified in (b) above would use the accounts. [4]
- [Total: 20]**

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