

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the May 2007 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5163 Business Finance, Maximum mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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- 1 (a) Explain what is meant by the term ‘sponsorship’.**
 Payment made by manufacturers to use individual’s reputation to promote products.
 Often a lump sum payment. [2]
- (b) Distinguish clearly between a set fee and a share of the royalties.**
 Set fee – a lump sum payment often paid in advance (1)
 Share of the royalties – a percentage payment related to the success of the enterprise (1)
 Allow up to **2 further marks** for comparison on the basis of timing of payment and explanation of how payments calculated. [4]
- (c) (i) Explain what is meant by the term ‘sole trader’.**
 Person who enters business on his/her own account (1) and who is to receive all the profits or be fully liable for all the debts (1).
 If mention of unlimited liability only allow **1 mark**. [2]
- (ii) Explain one advantage and one disadvantage of being a sole trader.**
 Advantages
 Receive all profits, makes all the decisions, easier/quicker control
 Allow **1 mark** for mention and a further mark if explained
 Disadvantages
 Unlimited liability, overwork, difficulty with succession, lack of capital
 Allow **1 mark** for mention and a further mark if explained
Max. 2 marks if only advantage or disadvantage given [4]
- (d) Explain what is meant by the term ‘sleeping partner’.**
 An individual who has contributed capital to a business (1) but who takes no active role in the business (1). [2]
- (e) List two characteristics of a multinational company.**
 Owns and operates assets in more than one country, employs both national and overseas employees, has an international brand image.
 Allow any other reasonable characteristics (**1 mark each**) up to a max. of 2 marks. [2]
- (f) Explain one advantage and one disadvantage of employing part time staff.**
 Allow **1 mark** for listing an advantage/disadvantage and **1 further mark** for the explanation.
 Advantages – cheaper, linked to number of clients etc.
 Disadvantages – unreliable, not as motivated, difficult to plan etc. [4]

[Total: 20 marks]

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- 2 (a) **Explain what is meant by the term ‘double entry bookkeeping’.**
 An accounting process (1) which ensures that the books will balance (1) by recording all transactions to show both the positive (1) and negative (1) sides of the transaction. If candidate produces own numerical examples allow a further **2 marks**. [6]
- (b) **Complete the table (Item B) for all of the transactions shown.**
 Allow **1 mark** per correct entry in the table (see Appendix 1 for solution). [10]
- [Total: 16 marks]**
- 3 (a) **Explain what is meant by the term ‘working capital’.**
 Working Capital equals Net Current Assets (1) i.e. Current Assets (1) minus (1) Current Liabilities (1) [4]
- (b) **Using the information in the Case Study calculate the current working capital of Pop in Gym.**
 Candidate extracts relevant figures (1) and produces correct calculation (1)
 (Current Assets \$68,000 - Current Liabilities \$50,000 = \$18,000) [2]
- (c) **List and explain four ways by which Olga could increase the level of working capital.**
 Increase stock, debtors, cash
 Decrease creditors, provisions, bank.
 For each method listed allow **1 mark** – allow **1 further mark** for explanation in terms of increasing current assets and/or decreasing current liabilities. [8]
- [Total: 14 marks]**
- 4 (a) **Explain the likely legal and financial consequences if Olga formed a limited company.**
 Need to comply with legislation
 Need to produce audited accounts
 Issuing of shares to raise capital
 Disclosure of record accounts
 Candidates should also introduce concept of limited liability
 For each of the above listed allow **1 mark** and allow **1 further mark** for development
 Allow credit as above for any other relevant suggestions [8]
- (b) **Explain two responsibilities that Olga would have to fulfil as a director of a limited company**
 Safeguard shareholders investment
 Ensure company operates within legal guidelines
 Formulating policy
 Ensure production of annual accounts/reports
 For each duty allow **1 mark** and up to **2 further marks** for quality of explanation.
 Allow credit as above for any other relevant suggestions. [6]
- [Total: 14 marks]**

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5 Using information in the Case Study, Item A, produce, in an appropriate format, a Balance Sheet to show the current financial position of Pop in Gym.

Level 1 – Candidate shows limited understanding of the structure of balance sheet and extracts and uses limited data from the Case Study. (1-4 marks)

Level 2 – As Level 1 but understanding is better and some relevant data and calculation is undertaken. (5-8 marks)

Level 3 – As Level 2 – but process is well understood and structure is complete but calculations contain several errors. (9-12 marks)

Level 4 – As Level 3 – but calculations are complete and at top end all sub totals and balancing item are correctly provided. (13-16 marks)

(For suggested solution see Appendix 2)

Accept any relevant format for the structure of the balance sheet and award marks as above.

6 Olga stated that she understood the accounting principle of historic costs.

(a) Explain what is meant by the term ‘historic cost’.

Allow up to **2 marks** for a vague definition of the principle e.g. Original cost recorded. For the full award candidates should provide an explanation of the need for accuracy linked to true and fair view.

[4]

(b) List four additional accounting principles that Olga should be aware of.

Consistency
Matching
Realisation
Going concern etc.

1 mark per principle listed

[4]

(c) Explain how each of these additional principles contributes towards the production of accurate accounts.

Allow up to **2 marks** per principle for explanation of the principle and allow **1 further mark** if the candidate links the principle to the accuracy of the accounts. Candidates may produce their own examples – reward as appropriate to the above.

[12]

[Total: 20 marks]

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Appendix 1

Source Document	Transaction	Subsidiary Book	Account to be debited	Account to be credited
Cheque counterfoil		Cash Book		Bank
Invoice		Journal	Stock	
Paying in slip		Cash Book	Bank	Cash

Appendix 2

Balance sheet for Pop in Gym as at 31st May 2007

	\$000	\$000		\$000	\$000
Fixed Assets			Owners Capital		670
Freehold Property		600			
Vehicles (at cost)	60		Long Term liabilities		
Depreciation	<u>8</u>	<u>52</u>	Mortgage		300
		652			
Other Assets			Current Liabilities		
Investments		300	Creditors		30
Current Assets			Provisions	14	
Stock	8		Bank	<u>6</u>	<u>50</u>
Debtors	36				
Cash	<u>24</u>	<u>68</u>			
	<u>1020</u>				<u>1020</u>