



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

BUSINESS FINANCE

5163/01

Optional Module

May 2007

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 that follow.

(The following case study is fictitious.)

POP IN GYM

Olga Popov has been making a good living as a professional gymnast for the past 10 years. She has won gold medals at three successive World Championships and this has led to a number of sponsorship deals with various multinational sports equipment manufacturers.

She used these funds to set up a fitness centre, which she runs as a sole trader. The centre provides a full range of facilities for clients interested in becoming fit or maintaining their fitness level. Olga sometimes operates as an instructor but most of the instruction is provided by part-time staff from the local university sports department. 5

In addition to running this centre she also operates as a coach for the national gymnastics team, for which she receives an annual fee. Olga has also released a fitness video for which she expects to receive a share of the royalties. 10

Olga was recently approached by an old friend who wanted to set up fitness centres in his chain of hotels. He had offered Olga a deal as a sleeping partner but as yet Olga has not committed herself to the offer.

A recent injury now means that Olga might not be able to continue with all of her professional activities. Her accountant has recommended that she should take a more active part in managing her business affairs and that she should learn more about accounting. Olga admits she knows little about the accounting process, although she is familiar with the concept of historic cost. In particular, her accountant has said that she should monitor her working capital more closely as her regular funding will be adversely affected in the future. He has also suggested that Olga should consider establishing a limited company. 15 20

Item A (Copy this table onto your answer paper for task 2(b))

<i>Source Document</i>	<i>Transaction</i>	<i>Subsidiary Book</i>	Account to be debited	Account to be credited
	(i) Insurance paid by cheque		Insurance	
	(ii) Gym supplies purchased on credit			Annie Gym Supplies
	(iii) Cash paid into bank account			

Item B

Financial Information

Balance Sheet totals for Pop in Gym as at 30 May 2007

	\$000 ¹
Freehold property	600
Stock	8
Vehicles (net)	52
Depreciation	8
Mortgage	300
Provisions	14
Debtors	36
Creditors	30
Investments	300
Overdraft	6
Cash	24

Owner's capital to provide balancing item.

¹ Amounts quoted in US dollars.

You must attempt ALL of the following tasks.

- 1 (a) Explain what is meant by the term 'sponsorship'. [2]
- (b) Distinguish clearly between a set fee and a share of the royalties. [4]
- (c) (i) Explain what is meant by the term 'sole trader'. [2]
- (ii) Explain **one** advantage and **one** disadvantage of being a sole trader. [4]
- (d) Explain what is meant by the term 'sleeping partner'. [2]
- (e) List **two** characteristics of a multinational company. [2]
- (f) Explain **one** financial **advantage** and **one** financial **disadvantage** of employing part-time staff. [4]
- [Total: 20]
- 2 (a) Explain what is meant by the term 'double entry book-keeping'. [6]
- (b) Copy **Item A** onto your answer paper. Complete the table by entering details in the boxes for all the transactions shown, (i) to (iii). [10]
- [Total: 16]
- 3 (a) Explain what is meant by the term 'working capital'. [4]
- (b) Using the information in the Case Study, calculate the current working capital of Pop in Gym. [2]
- (c) List and explain **four** ways in which Olga could increase the level of working capital. [8]
- [Total: 14]
- 4 (a) Explain the likely legal and financial consequences if Olga formed a limited company. [8]
- (b) Explain **two** responsibilities that Olga would have to fulfil as a director of a limited company. [6]
- [Total: 14]
- 5 Using the information in the Case Study, **Item B**, produce, in an appropriate format, a balance sheet as at 31 May 2007 to show the current financial position of Pop in Gym. [16]
- [Total: 16]
- 6 Olga stated that she understood the accounting principle of historic cost.
- (a) Explain what is meant by the term 'historic cost'. [4]
- (b) List **four additional** accounting principles that Olga should be aware of. [4]
- (c) Explain how **each** of these additional principles contributes towards the production of accurate accounts. [12]
- [Total: 20]

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