

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the May 2008 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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You must attempt ALL of the following tasks.

- 1 (a) **Explain how a limited partnership differs from an unlimited partnership.** [2]
 Allow **1 mark** for an answer that mentions limited liability available for some partners. Allow **the extra mark** for statement that one partner will have to remain with unlimited liability – the general partner. If the answer refers to sleeping partners allow **1 mark** if reference is correct.
- (b) **Identify and explain one advantage and one disadvantage of forming a limited company.** [4]
 Allow **1 mark** for **each** advantage/ disadvantage listed. Allow **1 additional mark** if the advantage/disadvantage is well explained.
 Advantage – extra capital, shared risks, limited liability etc.
 Disadvantage – sharing of profits, need to pay dividend, loss of control, formalities etc.
- (c) **Identify and explain three accounting principles that the brothers need to apply in producing accurate accounts.** [6]
 Allow **1 mark** per principle listed and **1 further mark** for the explanation of the principle.
 Principles – consistency, matching, realisation, duality etc.
- (d) **Identify two internal and two external users of the books of account for the business.** [4]
 Allow **1 mark** per user identified.
 Internal – owners, workers, suppliers etc.
 External – government, bank, future investors etc.
- (e) **Identify and explain one method that could be used to depreciate the fixed assets of the business.** [4]
 Allow **1 mark** for stating an appropriate method and a **further 3 marks** for explaining how the method is used. For an **award of 4 marks** it is likely that the candidate will provide a worked example .
 Accept any well known method – straight-line, reducing balance, sum of digits

[Total: 20]

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- 2 (a) List **five** financial records and **five** books of account used in the accounting process. [10]

Allow **1 mark** per record or book listed.

Records – invoice, purchase order, requisition, petty cash receipt etc.

Books – journal, sales day book, nominal ledger etc.

- (b) Explain the reasons for producing financial statements such as a Balance Sheet, a Profit and Loss Account and a Cash Flow Statement. [10]

Candidates need to demonstrate that they understand the purposes of producing these key statements and that they appreciate what information can be gathered from the statements.

For a simple answer that the authorities require that they are produced allow up to **2 marks** – e.g. Needed for tax calculations.

For an answer that explains that they help the business to monitor progress and assist control – allow **2 marks**.

Allow a **further 2 marks** per statement if the answer explains the nature of each statement – e.g. The Balance Sheet shows how the wealth of the business has changed over time. If the answer does not refer to each of the statements allow marks as above i.e. 2 statements equals maximum of 4 marks.

[Total: 20]

- 3 (a) Explain what is meant by the break-even level of output. [4]

Allow **1 mark** for an answer that states that revenue equals costs.

Allow up to **3 further marks** if the answer explains that total costs – both fixed and variable costs are covered by the revenue generated by a particular level of sales.

- (b) Using the data available in **Item A**, calculate the break-even point in weeks for the servicing proposal. [10]

Level 1 – the answer shows limited knowledge of the process required, data is incorrectly extracted and the calculation is incomplete or incorrect. [1–3 marks]

Level 2 – the answer shows better knowledge of the process required but the calculation has errors. [4–6 marks]

Level 3 – as level 2 but the process is well understood and the calculation is complete and at the top end is correct in all aspects. [7–10 marks]

For suggested solution see Appendix 1 (a)

- (c) If the fixed costs remained constant but there was a 10% increase in the variable costs and a 5% reduction in the price what would be the new breakeven point? [6]

Level 1 – the answer shows limited knowledge of the process required, data is incorrectly extracted and the calculation is incomplete or incorrect. [1–3 marks]

Level 2 – the process is well understood and the calculation is complete and at the top end is correct in all aspects. [4–6 marks]

For suggested solution see Appendix 1 (b).

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4 The case study referred to external (PEST) factors.

(a) Give an example of each of the PEST factors that could affect the business. [4]
 Allow **1 mark** per PEST factor identified – e.g. E – economic-changes in taxation, exchange rates, S – social – changes in buying behaviour etc.

(b) For each of the factors identified in (a), explain how the factor could influence the future profitability of the business. [4 x 4]
 For an award of **4 marks** the answer must demonstrate how the PEST factor will influence the sales revenue and/or the costs and therefore the level of profits. If any of these elements are missing the full award should not be given.

[Total: 20]

5 (a) Explain how contribution is different from profit. [4]
 Allow **2 marks** per term explained.

(b) Using the information available in Item B, calculate the contribution for both the car hire and van hire contracts. [6 x 2]

Allow up to **6 marks** per calculation.

Level 1 – the answer shows limited knowledge of the process required, data is incorrectly extracted and the calculation is incomplete or incorrect. [1–3 marks]

Level 2 – the process is well understood and the calculation is complete and at the top end is correct in all aspects. [4–6 marks]

For suggested solution see Appendix **2 (a)**.

(c) Calculate the overall profit for the hire service of the business. [4]

Allow up to 2 marks for an answer that shows that the candidate knows how to calculate the profit figure i. E. the total contribution must be calculated and the profit is the surplus above the fixed overheads.

Allow up to 2 further marks for a correct calculation.

For suggested solution see Appendix **2 (b)**.

Please note that OFR (Own Figure Rule) applies here i.e. if incorrect figures have been brought down from (b) then credit can still be gained for knowledge of the process.

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Appendix 1

- (a) Total Fixed costs = \$15,000 + \$ 20,000 = \$ 35,000
Variable costs per service = \$100 + \$25 = \$125
Revenue per service = \$250
Revenue-variable cost = \$250 - \$125 = \$125
Fixed costs = \$35,000 = \$280
Contribution \$125
Therefore it would take 280 services to break even.
At a maximum of 14 services per week it will take 20 weeks to break even.
- (b) Variable costs rise by 10% – \$137.5
Revenue falls by 5% – \$237.5
Contribution – \$100
Break even service level = \$350
350 x 14 per week = 25 weeks

Appendix 2

- (a) Fixed Overheads = \$175,000
Contribution = Revenue – Running costs
- Cars
Revenue = \$200 x 22 x 50 = \$220,000
Costs = \$75 x 22 x 50 = \$82,500
Contribution = \$137,500
- Vans
Revenue = \$125 x 18 x 50 = \$112,500
Costs = \$50 x 18 x 50 = \$45,000
Contribution = \$67,500
- (b) Total contribution = \$137,500 + \$67,500 = \$205,000
Less Fixed overheads (\$175,000) = \$30,000