



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

BUSINESS FINANCE

5163/01

Optional Module

May 2008

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 and attempt ALL the tasks which follow.

(The following case study is fictitious.)

U-DRIVE

Kim and Lee are brothers. They have been running their car hire business, U-Drive, for the last four years. They started the business with funds that they inherited from an uncle and they have re-invested the profits of the business rather than borrowing. This has allowed the business to grow and they are now considering a major expansion proposal which should allow them to significantly increase their share of the market. It is unlikely that the business will generate sufficient funds for this proposal and they have therefore been looking at various external sources of capital. 5

The business is currently run as a limited partnership, with Kim as the general partner. However, Kim and Lee have been advised that, if they go ahead with their expansion plans, they should consider establishing a private limited company. 10

Although both brothers have had no formal business training they are competent at keeping the records and books of account. They also employ a professional accountant to produce the financial statements for the business. The accountant has recommended that they should attend a course to gain an understanding of the basic principles of accounting and to help them produce books of account which are useful to both internal and external users. He has also suggested that they adopt a formal method of depreciating their vehicles rather than the random process that they use at present. 15

The business currently has 40 vehicles available for hire. There are 25 cars and 15 delivery vehicles. The expansion proposal will allow them to add a further 40 vehicles to their fleet. This would add an extra 20 cars, an extra 15 delivery vehicles and 5 new trucks to the current number of vehicles. The purchase of the trucks will allow them to enter a new sector of the market but Lee is unsure about this idea. He has read recent reports that indicate that some of the external (PEST) factors might not be favourable to the business. Lee has proposed an alternative which is to establish their own servicing and maintenance facilities. He believes this will reduce their running costs and may also generate some income if they decide to offer the services to the general public. 20 25

You must attempt ALL of the following tasks.

- 1 (a) Explain how the limited partnership, U-Drive, differs from an unlimited partnership. [2]
- (b) Explain **one** advantage and **one** disadvantage of forming a limited company. [2 x 2 = 4]
- (c) Explain **three** accounting principles that the brothers need to apply in producing accurate accounts. [3 x 2 = 6]
- (d) Identify **two** internal and **two** external users of the books of account for U-Drive. [4]
- (e) Explain **one** method that could be used to depreciate the fixed assets of U-Drive. [4]
- [Total: 20]**
- 2 (a) List **five** financial records and **five** books of account used in U-Drive's accounting process. [10]
- (b) Businesses produce financial statements. Explain why the brothers need to provide a Balance Sheet, a Profit and Loss Account and a Cash Flow Statement. [10]
- [Total: 20]**
- 3 (a) Explain what is meant by the break-even level of output. [4]
- (b) Using the data available in **Item A**, calculate the break-even point in weeks for the servicing proposal. [10]
- (c) If the fixed costs remained constant, but there was a 10% increase in the variable costs and a 5% reduction in the price, calculate the new break-even point. [6]
- [Total: 20]**
- 4 The case study referred to external (PEST) factors.
- (a) Give an example of **each** of the PEST factors that could affect U-Drive. [4]
- (b) Explain how the future profitability of the business could be influenced by **each** of the factors identified in (a) above. [4x4]
- [Total: 20]**
- 5 (a) Explain how contribution is different from profit. [4]
- (b) Using the information available in **Item B**, calculate the contribution for **both** the car hire and delivery vehicle hire contracts. [6 x 2 = 12]
- (c) Calculate the overall profit for the hire service of the business. [4]
- [Total: 20]**

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