

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the May 2013 series

<p>CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS 5163 (Business Finance), maximum mark 100</p>

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, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

Page 2	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

1 (a) (i) Explain what is meant by a patent. [2]

Allow **1 mark** for a vague statement e.g. the sole right to manufacture a particular product.

Allow **2 marks** for stating that the sole rights of the patent must be registered and there will be a time limit to the patent that can be extended.

(ii) Explain how a patent is treated in the accounts of a business. [2]

Allow **1 mark** for a statement that it is treated as a fixed asset.

Allow **the additional mark** if the answer refers to an intangible fixed asset which will fall in value over time.

(b) Explain one advantage and one disadvantage of subcontracting the maintenance of the security systems. [2 × 2 = 4]

Allow **up to 2 marks** for an advantage/disadvantage explained.

Advantage – No need to employ expensive specialist staff, no need to purchase specialist equipment etc.

Disadvantage – Loss of revenue/profits, loss of control over work etc.

(c) Explain, with an example, what is meant by a variable cost. [3]

Allow **2 marks** if the answer refers to a cost that will vary with the level of output or sales.

Allow **1 mark** for a relevant example e.g. labour costs or material costs.

(d) Explain what is meant by discounted cash flow techniques and give one example of such a technique. [4]

Allow **3 marks** if the answer makes reference to techniques that take account of the time value of money but discounting future income streams to give the present value of this income.

Allow **1 further mark** if the answer mentions net present value or internal rate of return.

Page 3	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

(e) The accountant has recommended that the company should raise additional finance by becoming a public limited company.

(i) Identify two other sources of long term capital that A1 Security Ltd could use to finance its expansion plans. [2]

Allow 1 mark for each valid source.

Debentures, venture capital, retained profits, scrip issue, convertible loan stock etc.

(ii) State, with a reason, which of the sources in (i) above, you would recommend to A1 Security Ltd. [3]

Allow up to 3 marks for any sensible and valid discussion e.g. issuing debentures means the company is sure about the amount of interest that it pays out and the company does not lose any control over its affairs.

[Total: 20]

2 Using the information in Item A:

(a) Product a three-month cash budget for A1 Security Ltd for the period August to October 2013. [12]

Level 1	1–4 marks	Candidate extracts some relevant data from the case study but few calculations are correct and little evidence of correct method of producing cash budget.
Level 2	5–8 marks	As Level 1 but candidate shows better knowledge of the method required and more correct calculations are attempted. Several errors remain.
Level 3	9–12 marks	As Level 2 but candidate shows clear knowledge of the method required and completes all relevant entries with accurate totals at the top end of the mark range.

See Appendix 1 for suggested solution.

(b) Explain two advantages and two disadvantages of keeping large reserves of cash. [4 × 2 = 8]

Allow up to 2 marks for a relevant advantage/disadvantage explained – 1 mark for identification and 1 further mark for the explanation.

Advantages – Liquidity of the business thus able to deal with emergencies, able to obtain cash discounts on purchases thus reducing costs etc.

Disadvantages – Cash is not producing profits thus reducing possible dividends, possible problems with fraud due to the large sums of money involved etc.

[Total: 20]

Page 4	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

3 Olga stated that she understood the accounting principles of historic cost and prudence.

- (a) Explain what is meant by both historic cost and prudence. [2 × 2 = 4]**

Allow **up to 2 marks** for each definition of the principle e.g. historic cost means that the original cost is recorded in the accounts before any subsequent adjustments are made, prudence involves operating in a conservative manner ensuring that any potential losses are recorded immediately whereas profits are only recorded when they are realised.

- (b) List four additional accounting principles that Olga should be aware of. [4 × 1 = 4]**

Consistency, matching, realisation, going concern etc.

Allow **1 mark** per principle listed.

- (c) Explain how each of these additional principles contributes towards the production of accurate accounts. [4 × 3 = 12]**

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 e.g. matching involves ensuring that revenues and associated costs are matched against each other in the trading period being reported, thus ensuring that a true profit figure is given.

Candidates may produce their own worked examples and markers should be prepared to reward as appropriate to the above.

[Total: 20]

4 Using the information in Item B:

- (a) Produce a revised Balance Sheet (Statement of Financial Position) for A1 Security Ltd that represents a ‘true and fair view’ of the financial affairs of the company. [12]**

Level 1	1–4 marks	Candidate identifies some errors/problems with the draft. The revised balance sheet still has errors.
Level 2	5–8 marks	As Level 1 but all errors/problems have been identified. The revised balance sheet still has errors.
Level 3	9–12 marks	As Level 2 but revised balance sheet has correct structure – may well be slight errors in subtotals. At the top end all errors have been identified and a correct balance sheet has been produced.

See Appendix 2 for suggested solution.

Page 5	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

(b) Explain what is meant by the balance sheet equation. [4]

For statement that balance sheet always balances as total assets must equal total liabilities – **allow 1 mark.**

For inclusion of balance sheet equation and explanation – **allow a further 2 marks.**

Possible equations include:

Assets = Capital + Liabilities

Assets – Liabilities = Owners/Shareholders' Equity

Assets = Capital introduced in previous periods + Liabilities

+ Profit retained in previous periods

+ Profit earned in the current period

+ Capital introduced in the current period

– Drawings in the current period

(c) Identify four financial documents (records) that A1 Security will use in their business. [4 × 1 = 4]

[4 × 1 = 4]

Allow **1 mark** for each document identified e.g. invoice, bank statement, credit note etc.

[Total: 20]

5 (a) Explain two advantages and two disadvantages of operating as a sole trader. [4 × 2 = 8]

[4 × 2 = 8]

Allow **up to 2 marks** for each advantage/disadvantage that is well explained.

Advantages – all profits belong to the owner therefore greater self-interest, no need to consult anyone therefore quicker decision making etc.

Disadvantages – lack of finance that limits potential for growth, no possibility for consulting others leading to mistakes being made etc.

(b) Explain both the legal and the financial implications of becoming a public limited company. [2 × 4 = 8]

[2 × 4 = 8]

Allow **up to 2 marks** for any relevant implications that are well explained.

Need to comply with all of the registration procedures which can be costly and time-consuming, need to ensure that the issue price of shares is set an appropriate level to ensure that the issue will be a success etc.

If only the legal or financial implications are discussed allow **a maximum of 4 marks.**

Page 6	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

- (c) Explain one financial advantage and one financial disadvantage of operating as a public limited company. [2 × 2 = 4]

Allow **2 marks** for each relevant advantage/disadvantage if well explained.

- Advantage – allows large amounts of capital to be raised which can enhance growth prospects, increases the reputation of the business which can make it easier to obtain credit etc.
- Disadvantage – the open sale of shares might encourage take-over bids which could prove costly to defend, the administration of a public limited company is more complicated and expensive and this may result in lower profit level etc.

[Total: 20]

Page 7	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

Appendix 1

Cash budget for A1 Security Ltd for the period August to October 2013

	August		September		October	
	\$	\$	\$	\$	\$	\$
Opening cash		40 000		60 000		92 500
Revenue						
Surveys	30 000		75 000		67 500	
Installations	45 000	75 000	37 500	112 500	75 000	137 500
Total cash		115 000		172 500		235 000
Expenditure						
Wages	20 000		40 000		50 000	
Materials	30 000		20 000		50 000	
Purchase of plant			15 000			
Insurance					15 000	
Overdraft payment	5 000		5 000		5 000	
Total expenditure		55 000		80 000		120 000
Closing cash		60 000		92 500		115 000
Closing overdraft		20 000		15 000		10 000

Page 8	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

Appendix 2

Allow either of the formats shown below:

Balance Sheet for A1 Security Ltd as at 31 January 2013

	\$000	\$000	\$000
Fixed Assets			
Land & Buildings		4 800	
Equipment at cost	9 600		
Less Accumulated Depreciation	1 800	7 800	
Fixtures		1 200	13 800
Current Assets			
Stock	800		
Debtors	720		
Cash	<u>120</u>		
		1 640	
Current Liabilities			
Creditors	480		
Corporation Tax	200		
Proposed Dividend	240		
Overdraft	<u>100</u>		
		1 020	
Net Current Assets			<u>620</u>
Assets Employed			14 420
Long Term Liabilities			
10% Debentures			<u>2 000</u>
			12 420
Financed by			
Ordinary Shares 1600 @ \$4			6 400
Share Premium			1 600
Preference Shares 400 @ \$8			3 200
Profit & Loss Account			<u>1 220</u>
			12 420

Page 9	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2013	5163

Balance Sheet (Statement of Financial Position) for A1 Security Ltd as at 30 January 2013

Non-current assets

	Cost	Acc Dep	NBV
Land & Buildings	4 800		4 800
Equipment			
Fixtures	9 600	1 800	7 800
	1 200		1 200
			13 800

Current Assets

Stock (Inventories)	800		
Debtors (Trade receivables)	720		
Cash	120		
Total Assets			15 440

Equity and Liabilities

Ordinary shares	6 400		
Share premium	1 600		
Preference shares	3 200		
Profit & Loss (Reserves)	1 220		12 420

Non-current Liabilities

Debentures (Long term borrowings)			2 000
-----------------------------------	--	--	--------------

Current Liabilities

Creditors (Trade payables)	480		
Corporation Tax (Current Tax payable)	200		
Proposed dividend	240		
Overdraft (Short term borrowing)	100		
Total Equity and Liabilities			15 440