

# UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Standard Level

## MARK SCHEME for the October 2004 question paper

### CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5163 Business Finance (Standard), maximum mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.



October 2004

**CAMBRIDGE INTERNATIONAL DIPLOMA**

**Standard Level**

**MARK SCHEME**

**MAXIMUM MARK: 100**

**PAPER: 5163**

**BUSINESS FINANCE**



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**You must attempt all of the following tasks**

- 1 (a) List and explain one advantage and one disadvantage of forming a private limited company [4]**

Advantages - limited liability, additional capital, shared experiences etc.

Disadvantages - sharing of profits, loss of control etc.

1 mark for identification plus 1 mark for explanation (2 x 2 marks) = 4 marks

- (b) Explain what is meant by ‘venture capitalists’ [2]**

Independent investors who contribute capital to small and medium sized enterprises, often require a seat on the Board, often are risk-takers

Any two elements to attract award of 2 marks

- (c) Distinguish clearly between a ‘grant’ and ‘an annual subsidy’ [3]**

Grant - a one off payment at the outset of the business - non-repayable

Subsidy - continuing payment often based on the performance of the enterprise

1 mark for a definition of each term with 1 extra mark if candidate makes an effort to draw a comparison

- (d) (i) Explain why the firm has chosen to employ part-time workers rather than full-time workers [2]**

Firms can save on costs - no need to pay employer's contributions - also workforce can be more closely linked to firms current requirements etc.

1 mark for identification plus 1 extra mark if reason is linked to costs

- (ii) List one financial advantage and one financial disadvantage of offering temporary contracts of employment [2]**

Advantage - save on costs of employment

Disadvantage - higher labour turnover - need to recruit more frequently - add to costs

1 mark for each advantage/disadvantage listed

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- (e) (i) **Explain what is meant by the term ‘going public’** [1]

The firm is restructured as a Plc., the firm sells shares to the general public

1 mark per definition

- (ii) **List two ways that the firm could employ to ‘go public’** [2]

Sale of shares via prospectus, private placing, offer for sale by tender etc.

1 mark per method listed (1 x 2 marks)

[Total 3 marks]

- (f) **Explain what is meant by the term ‘core business’**

The original/initial/majority activity of the firm

1 mark for any clear definition

[1]

- (g) (i) **Explain what is meant by the term ‘take over bid’**

The purchase of a controlling interest in another firm by obtaining a majority shareholding in that organisation

1 mark for a reasonable definition

- (ii) **What might be the financial consequences if the firm attempted the take over bid** [2]

Need to use up own financial resources to purchase shares - cost implications - firm obtains an instant increase in market share - more revenue

Firm has to take on the costs of the other firm - may lead to cash flow problems etc.

1 mark per implication identified

[Total 3 marks]

[Total: 20]

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- 2 The Case Study refers to four external (PEST) factors that were likely to affect the future profitability of the firm**

**Explain how each of these factors could influence the financial viability of the firm**

**[3 x 4 = Total: 12]**

1 mark for identifying/relating each factor to the PEST model e.g. tax reduction equals economic etc.

A further 2 marks per factor for explanation of how factor could influence the firm - the explanation must refer to changes in revenue and/or costs to attract a full award

- 3 The Balance Sheet provided was not accurate**

**Produce a revised Balance Sheet that represents a ‘true and fair view’ of the financial affairs of the firm** **[12]**

Level 1 - Candidate identifies some errors/problems with the draft. The revised balance sheet still has errors **[1 - 3 marks]**

Level 2 - As Level 1 but all errors/problems have been identified. The revised balance sheet still has errors **[4 - 6 marks]**

Level 3 - As level 2 but revised balance sheet has correct structure - may well be slight errors in sub-totals **[7 - 9 marks]**

Level 4 - All errors corrected and balance sheet presented correctly with accurate format and totals **[10 - 12 marks]**

(For suggested solution see Appendix 1)

- 4 (a) Using all available evidence identify two internal and two external users of the financial records and books of account of AZ Ltd** **[4]**

1 mark per user identified

Internal - Shareholders, managers, employees

External - Suppliers, government agencies, customers, bank

- (b) For each of the chosen users explain why they would have an interest in these documents** **[2 x 4]**

Allow up to 2 marks per user if explanation of use of document is clear and relevant e.g. Bank uses profit and loss account to assess viability and to produce credit rating. Government uses records to assess tax liability etc.

**[Total: 12]**

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**5 (i) Explain the difference between the terms profit and contribution [4]**

Level 1 - Candidate provides only vague definition of both terms or defines only one item [1 - 2 marks]

Level 2 - Candidate provides accurate definition of both terms [3 - 4 marks]

**(ii) Using the available evidence in Item B calculate the contribution for each of the activities of the firm [4 x 3]**

Level 1 - Candidate uses some revenue and cost figures to make calculation but relevance to contribution is not clear [1 - 2 marks]

Level 2 - Candidate demonstrates clear understanding of how to calculate contribution and produces accurate results [3 - 4 marks]

4 marks available for calculation of contribution for each activity of the firm

(For suggested solution see Appendix 2)

**[Total: 16]**

**6 (a) Using your own examples, distinguish clearly between financial accounting and management accounting practices [8]**

Level 1 - Candidate provides vague definitions of both terms - or defines only one term well [1 - 3 marks]

Level 2 - Candidate provides reasonable definitions of both terms but weak examples are used to illustrate the terms [4 - 6 marks]

Level 3 - As Level 2 but candidate provides useful and relevant examples [7 - 8 marks]

Financial Accounting - process of recording business transactions to provide accurate accounts. Involves use of primary, secondary and final records

Management Accountancy - The provision of information and reports extracted from the financial accounts to aid the decision making process

**(b) Identify and explain any two accounting principles. [3 x 2]**

1 mark for a mention of accounting principle up to 2 further marks for quality of explanation

Accept any recognised principle e.g. Prudence, matching, realisation etc.

**[Total: 14]**

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7 Using the information contained in Item C, produce a four month cash budget for AZ for the period Sept 31st 2004 to Jan 31st 2005 [14]

Level 1 - Some revenue and cost information used but no relevant structure for budget statement [1 - 4 marks]

Level 2 - The basic structure of budget is presented but many errors in cost and revenue calculations [5 - 8 marks]

Level 3 - As Level 2 but fewer errors in use of information and calculations [9 - 11 marks]

Level 4 - As Level 3 but errors are reduced and at top and all totals correct [12 - 14 marks]

(For suggested solution see Appendix 3)

**[Total: 14]**

### Appendix 1

Balance Sheet for AZ Ltd as at 30 Sep 2004

	\$ 000	\$ 000	\$ 000
Fixed Assets			
Land & Buildings		2 400	
Equipment at cost	4 800		
Less Accumulated Depreciation	900	3 900	
Fixtures		600	6 900
Current Assets			
Stock	400		
Debtors	360		
Cash	60		
		820	
Less Current Liabilities			
Creditors	240		
Corporation Tax	100		
Proposed Dividend	120		
Overdraft	<u>50</u>		
		510	
Net Current Assets			<u>310</u>
Assets Employed			7 210
Long term Liabilities			
10% Debentures			<u>1 000</u>
			6 210
Financed by			
Ordinary Shares 1600 @ \$2			3 200
Share Premium			800
Preference Shares 400 @ \$4			1 600
Profit & Loss Account			<u>610</u>
			6 210

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### Appendix 2

Contribution = Revenue - Variable Cost

#### Public Transport Services

Daily Revenue	=	$(\$280 \times 40 \times 15) + (\$180 \times 40 \times 10)$
	=	$\$168\,000 + \$72\,000$
Weekly Revenue	=	$(\$168\,000 \times 5) + (\$72\,000 \times 2)$
	=	$\$840\,000 + \$144\,000$
	=	$\$984\,000$
Weekly Costs - manpower	=	$(\$50 \times 40 \times 5) + (\$55 \times 40 \times 2)$
	=	$(\$10\,000) + (\$4\,400)$
	=	$\$14\,400$
Fuel	=	$(\$400 \times 40 \times 5) + (\$300 \times 40 \times 2)$
	=	$\$80\,000 + \$24\,000$
	=	$\$104\,000$
Contribution	=	$\$984\,000 - (\$14\,400 + \$104\,000)$
	=	$\$865\,600$

#### Limousine Service

Daily Revenue	=	$\$250 \times 12 = \$3\,000$
Daily Costs	=	Hire + Manpower + Fuel + Consumables
	=	$\$80 + \$50 + \$20 + \$10$
	=	$\$160$
Daily Contribution	=	$\$3\,000 - \$160 = \$2\,840$

Note: If candidate produces a calculation that shows weekly contribution, award marks appropriately.

#### Secure Storage Facilities

Revenue	=	$\$10 \times 300 = \$3\,000$
Costs - Staff	=	$(\$20 \times 3 \times 5) + (\$20 \times 2 \times 2)$
	=	$\$300 + \$80$
	=	$\$380$
Sundry Cost	=	$\$60$
Contribution per week	=	$\$3\,000 - (\$380 + \$60)$
	=	$\$3\,020 - (\$440)$
	=	$\$2\,560$

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**Appendix 3**

	October	November	December	January
	\$	\$	\$	\$
Opening Cash	5 000	11 240	11 480	14 720
Add Revenue	12 000	10 000	9 000	10 000
	<u>17 000</u>	<u>21 240</u>	<u>20 480</u>	<u>24 720</u>
Less Labour	1 520	1 520	1 520	1 520
Expenses	240	240	240	240
Capital Purchases	4 000	3 000	1 500	1 500
Computer Systems		<u>5 000</u>	<u>2 500</u>	<u>2 500</u>
Handling Equipment				6 000
Closing Cash	11 240	11 480	14 720	12 960