

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

**BUSINESS FINANCE**

**5163/01**

Core Module

October 2004

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper

**READ THESE INSTRUCTIONS FIRST**

The time allocated for this examination includes 15 minutes reading time.  
Write your Centre number, candidate number and name on all the work you hand in.  
Write in dark blue or black pen on both sides of the paper.  
You may use a soft pencil for any diagrams, graphs, music 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 7 printed pages and 1 blank page.



**You must read the case study below and attempt all the tasks that follow.**

[The following case study is fictitious]

### **AZ TRANSPORT LTD**

AZ Transport Ltd is a private limited company that provides public transport services in a major city in South East Asia. The firm was set up five years ago by four members of the same family who each contributed the same amount of capital. The firm attracted further investment from venture capitalists and also received a grant from the city authorities and an annual subsidy from the provincial government. The availability of such funds meant that the firm has done well and has no difficulty in attracting credit from its bankers. 5

The firm has a fleet of 40 buses which are in daily use. They also now operate a limousine service for overseas business clients and they recently converted part of their transport base to provide secure storage of sensitive documentation for local companies. The firm employs 90 part-time temporary workers and 30 full-time workers. 10

The family recently lost the controlling interest in the company although they all still play an active role within the firm. As a result the family now faces more challenges from other Board members about the running of the business. In particular there have been proposals that they should 'go public', that they should concentrate more on 'core business' and that they should consider a take-over bid for a rival transport firm. None of these proposals has been settled yet. 15

There are a number of external factors that are likely to affect the running of the company:

- A newly elected provincial government is promising much tighter legislation on the recording of business transactions
  - The national Government is proposing a reduction in the purchase tax on all new cars
  - New developments in fuel technology are leading to significant improvements in fuel usage
  - The general level of incomes is rising and individuals are beginning to become more interested in switching their jobs
- 20

The firm recently implemented a proposal from the Board to employ a firm of management accountants to produce reports for the Board. The firm's own financial accounting department were unhappy about this, and a number of key staff left. The initial report recommended that all senior management staff should be trained to handle accounts produced in line with standard accounting principles. 25

**Financial Information for AZ Ltd****Item A**

**The following draft Balance Sheet contains errors.**

(It was drawn up by a manager with only a little knowledge of accounting.)

**Draft Balance Sheet for AZ Ltd as at 31st September 2004**

	\$000	\$000
Land and Buildings	2400	
Equipment at Cost	<u>4800</u>	
		7200
Stock	400	
Fixtures	600	
Debtors	360	
Cash	<u>60</u>	
	1420	
Accumulated Depreciation	900	
Creditors	240	
Corporation Tax	100	
Proposed Dividend	120	
Overdraft	<u>50</u>	
	1410	
Working Capital		<u>10</u>
		<u>7210</u>
Financed by:		
Ordinary Shares 1600@ \$2		4000
Preference Shares 400@ \$4		1600
10% Debenture issued 31 Jun 2004		1000
Profit & Loss Account		<u>610</u>
		<u>7210</u>

It was reported that the ordinary shares had been sold at a 25% premium.

**Item B**Costs and Revenues for Activities of AZ Ltd

## (a) Public Transport Services

Assume all 40 buses operate on a 7 day basis

Item	Days	
Average Revenue per bus	Mon – Fri	\$280 Per Trip
	Sat – Sun	\$180 Per Trip
Number of trips	Mon – Fri	15 Trips Per Day
	Sat – Sun	10 Trips Per Day
Costs – drivers	Mon – Fri	\$50 Per Bus Per Day
	Sat – Sun	\$55 Per Bus Per Day
Fuel	Mon – Fri	\$400 Per Bus Per Day
	Sat – Sun	\$300 Per Bus Per Day

## (b) Limousine Service Daily

Average booking for limousines	12 clients
Revenue per limousine per day	\$ 250
Hire of vehicles	\$ 80 per day
Drivers	\$ 50 per day
Fuel	\$ 20 per day
Consumables	\$ 10 per day

## (c) Secure Storage Facilities

Assume average number of items stored	300
Revenue per item stored per week	\$10
Provision of security staff per day (Assume a minimum of 3 staff Monday – Friday and 2 staff for Saturday and Sunday)	\$20 per person
Sundry expenses including heating and lighting	\$ 60 per week

**Item C**Secure Storage Facility*Estimated Cash Flow – September 31st 2004 to 31st Jan 2005*

Opening Cash Balance \$ 5000

## Estimated Revenue

Month	Revenue (Estimated)
October	\$ 12 000
November	\$ 10 000
December	\$ 9 000
January	\$ 10 000

Estimated labour costs \$ 1520 per month

Regular Expenses \$ 240 per month

## Capital Purchases

Purchase	Payments per month
Storage Bins	\$ 4 000 October
	\$ 3 000 November
	\$ 1 500 December
	\$ 1 500 January
Computers Systems	\$10 000 to be paid
	50% November
	25% December 25% January
Handling equipment	\$ 6 000 to be paid in January

**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]
- (b) Explain what is meant by venture capitalists. [2]
- (c) Distinguish clearly between a grant and an annual subsidy. [3]
- (d) (i) Explain why the firm has chosen to employ part-time workers rather than full-time workers. [2]
- (ii) List **one** financial advantage and **one** financial disadvantage of offering temporary contracts of employment. [2]
- (e) (i) Explain what is meant by the term to 'go public'. [1]
- (ii) List **two** ways that the firm could use to go public. [2]
- (f) Explain what is meant by the term 'core business'. [1]
- (g) (i) Explain what is meant by the term 'take over bid'. [1]
- (ii) Explain the financial consequences if the firm attempted the take over bid. [2]
- [Total: 20]**
- 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]**
- 3 Item A, the Draft Balance Sheet, was **not** accurate. It contained mistakes.
- Produce a revised Balance Sheet that represents a true and fair view of the financial affairs of the firm. [12]
- [Total: 12]**
- 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]
- (b) For **each** of the chosen users explain why they would have an interest in these documents. [2 x 4]
- [Total: 12]**
- 5 (a) Explain the difference between the terms 'profit' and 'contribution'. [4]
- (b) Using the available evidence in **Item B**, calculate the contribution for **each** of the activities of the firm. [4 x 3]
- [Total: 16]**

- 6 (a) Using your own examples, distinguish clearly between financial accounting and management accounting practices. [8]
- (b) Identify and explain any **two** accounting principles. [3 x 2]  
[Total: 14]
- 7 Using the information contained in **Item C**, produce a four month cash budget for A-Z for the period Sept 31st 2004 to Jan 31st 2005. [14]  
[Total: 14]

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