

**MARK SCHEME for the October 2005 question paper**

**5163 BUSINESS**

**5163**

**Business Finance, 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. It does 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.

CIE is publishing the mark schemes for the November 2005 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

Page 1	Mark Scheme	Syllabus
	CAMBRIDGE INTERNATIONAL DIPLOMA– OCTOBER 2005	5163

- 1 (a) **Explain what possible financial difficulties there could be if a sole trader died.** [3]  
 Allow 1 mark for the statement that the business is legally no longer in existence.  
 Allow additional marks for identifying problems with succession, transfer of assets, difficulties with payment of taxation etc.
- (b) **Explain what is meant by the term ‘sleeping partner’.** [3]  
 Allow 1 mark for statement of ownership of the business, 1 mark for contributing to the capital, 1 mark for not taking any active part in running the business.
- (c) **Identify and explain one advantage and one disadvantage of operating a business as a partnership.** [4]  
 Allow 1 mark for listing an advantage/disadvantage and 1 extra mark if the explanation is provided – more capital, shared responsibilities/need to share profits, problems with decisions etc.
- (d) **Explain what is meant by the term ‘leasing’.** [3]  
 Allow 1 mark for statement that equipment is hired/rented.  
 Allow additional marks for an answer that refers to leasing period, maintenance provided by the leasing company, ownership remaining with the leasing company etc.
- (e) **Explain what is meant by the term ‘sale or return basis’.** [3]  
 For a full award the answer should refer to output being supplied at an agreed price with any unsold units being taken back with a full refund.
- (f) **Explain what is meant by the term ‘working capital’.** [2]  
 Allow 1 mark for a vague statement –e.g. day-to-day funds.  
 Allow 2 marks for definition – net current assets or provision of correct formula – current assets – current liabilities.
- (g) **Calculate the present level of working capital for the firm.** [2]  
 Allow 1 mark if the candidate demonstrates that they know how to calculate W.C. but their calculation is incorrect.  
 2 marks available for correct calculation - \$3,300 (\$24,300-\$21,000).

[Total 20]

2 **The case study refers to the users of the records and the books of account.**

- (a) (i) **Explain the difference between internal and external users.** [4]  
 Allow up to 4 marks for explaining the differences between internal and external users – interested parties who are directly/indirectly involved in the business, have access to the information etc.
- (ii) **Give two examples of each type of user.** [4]  
 Allow 1 mark per user identified – workers management/bankers, government etc.
- (b) **Using the information in the case study, identify one piece of information that would be of use to each of the users identified in (a)(ii) and explain why they would find the information useful.** [12]  
 Allow 1 mark for correctly extracting a relevant piece of information e.g. – profit figure of interest to workers, dividend of interest to share holders etc.  
 Allow 1 additional mark if the answer provides a reasonable explanation as to how the information would be used – e.g. workers use profits as basis for their wage negotiations.

[Total 20]

Page 2	Mark Scheme	Syllabus
	CAMBRIDGE INTERNATIONAL DIPLOMA– OCTOBER 2005	5163

**3 (a) Using the information in Item B, calculate the true profit figure for the daily sales of bread.**

Level 1 The candidate provides an answer that shows that they understand some of the process required to calculate profit but they do not provide a formula and the calculation contains several errors/omissions. **[1-3 marks]**

Level 2 As Level 1 but the candidate clearly understands the process and has provided a relevant formula and workings. The figures have been correctly extracted from the case study to arrive at an accurate solution. **[4-8 marks]**

For suggested solution see Appendix 1.

**(b) Explain why the profit figure calculated by Nasser was incorrect.** **[4]**

Level 1 The candidate has interpreted the profit figure given in the case study as the profit from original sales and the sales of returned items but cannot explain why the profit figure is incorrect. **[1-2 marks]**

Level 2 As Level 1 but the candidate makes reference to the costs to the firm of returned stock and correctly recalculates the loss on returned items. **[3-4 marks]**

For suggested solution see Appendix 1.

**[Total 12]**

**4 Identify three external (PEST) factors mentioned in the case study and explain how each of the factors could affect the future profitability of the firm.** **[15]**

Allow 1 mark for identifying a PEST factor from the case study.

Allow up to 4 additional marks for explaining how the selected factor would affect the business. To achieve the highest award the answer should refer to the likely effects on sales volume/revenue and/or costs of production and link these changes to the overall level of profit.

**[Total 15]**

**5 Using your own examples, identify and explain three standard accounting principles that the firm should be using when drawing up its accounts.** **[15]**

Allow 1 mark per principle listed.

Allow up to 4 additional marks per principle for explaining the meaning of the principle. To achieve the highest award the candidate should provide their own example of how the principle is applied when producing accounts.

**[Total 15]**

**Using the information contained in Item C:**

**6 (a) Calculate the breakeven level of output (in units) for the proposal.** **[8]**

Level 1 The candidate provides an answer that shows that they understand some of the process required to calculate break even output but they do not provide a formula and the calculation contains errors/omissions. **[1-3 marks]**

Level 2 As Level 1, but the candidate clearly understands the process and has provided a relevant formula and workings. The figures have been correctly extracted from the case study to arrive at an accurate solution. **[4-8 marks]**

For suggested solution see Appendix 2.

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>
	<b>CAMBRIDGE INTERNATIONAL DIPLOMA– OCTOBER 2005</b>	<b>5163</b>

**(b) Calculate the margin of safety (in units) for the proposal. [4]**

Level 1 The candidate provides an answer that shows that they understand some of the process required to calculate margin of safety but they do not provide a formula and the calculation contains errors/omissions. **[1-2 marks]**

Level 2 As Level 1 but the candidate clearly understands the process and has provided a relevant formula and workings. The figures have been correctly extracted from the case study to arrive at an accurate solution. **[3-4 marks]**

For suggested solution see Appendix 2.

**(c) Explain what is likely to happen to the breakeven point if the selling price should rise by 10% and the variable costs by 15%. [6]**

**(No calculation is required to answer this task)**

Level 1 The answer is very vague and is likely to discuss changes in the level of profit rather than the break even point. **[1-3 marks]**

Level 2 The answer is much more focused and analyses the changes in terms of a changing level of contribution per item sold and suggests a correct overall alteration in the break even level. **[4-6 marks]**

If candidates choose to recalculate the break-even output allow up to 3 marks for a correct description of the process and a further 3 marks for a correct calculation. If a candidate simply provides a revised figure but there is no explanation or discussion of the changes allow a maximum of 3 marks. **[Total 18]**

**Appendix 1**

**3 (a) Profit = Sales revenue – Cost of sales**

Sales price = \$1 (as fixed by the government)

Sales to supermarket = 1000 – 15% returns = 850 @ \$1 \$850

Sales to hotels = 500 – 10% returns = 450 @ \$1 = \$450

Sales of returns to farmers = 200 @ \$0.20 = \$40

Total sales revenue = \$850 + 450 + 40 = \$1340

All sales to be charged out at \$0.35

Cost of sales = 1500 @ \$0.35 = \$525

Profit = \$1340 – 525 = \$815

**3 (b) Profit on prime sales correct – 1300 @ \$0.65 = \$845**

Profit on returns not correct – 200 @ a loss of \$0.15 = (\$30)

The calculation had ignored the cost of the returns – they must still be charged out at \$0.35

Page 4	Mark Scheme	Syllabus
	CAMBRIDGE INTERNATIONAL DIPLOMA– OCTOBER 2005	5163

**Appendix 2**

- 6 (a) Contribution = sales - variable costs  
 $\$0.85 - \$(0.25 + 0.02 + 0.06) = \$0.52$   
Break even =  $\frac{\text{Fixed overheads}}{\text{Contribution}} = \frac{\$100}{\$0.52} = 1923 \text{ units}$
- 6 (b) Margin of safety = Actual or Maximum Output – Break even Output  
= 2000 – 1923 = 77units