

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

BUSINESS FINANCE

5163/01

Core Module

October 2005

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.
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 below and attempt all the tasks which follow

[The following case study is fictitious]

NTB Ltd

Five years ago Nasser became directly involved in the family bakery business, NTB Ltd. The business had originally been set up by Nasser's grandfather as an additional venture to a farm he owned. The grandfather had operated as a sole trader and this had led to financial difficulties when he died. The business was eventually passed down to Nasser and his brother Ali, and for two years Nasser has run the business with Ali as a sleeping partner. 5

Nasser recently bought Ali's share and he now runs the firm as a private limited company.

Nasser has made many changes to the business, including leasing the farmland and selling off the two shops that had been used as a retail base. Nasser now concentrates on the production of bread in a modern well-equipped factory and he has negotiated contracts to supply direct to a supermarket chain and to several large international hotels. These contracts are on a sale or return basis. 10

Nasser had trained as an engineer and he admits that he knows little about the accounting process or the principles of accounting. However his sister, Shahida, has been attempting to teach him the basics of bookkeeping and she believes that he now appreciates how to calculate an accurate profit figure. (See **Item A**.) She has also convinced him to introduce a formal accounting system that would allow all interested parties to have access to the accounts. 15

Nasser does appear to be able to read market trends and he is considering introducing a new range of luxury products that can be sold at a premium. (See **Item B**.) (Note – the State Government fixes the price of a standard loaf of bread on an annual basis.)

Nasser is quite confident about the future as a number of external factors seem to promise better times to come – 20

- The exchange rate of the national currency looks set to rise (currently the firm imports 75% of its raw materials).
- Developments in G.M. (genetically modified) crops are resulting in higher output.
- The State Government intends to relax the restrictions on financial reporting for small businesses and is considering removing the fixed price system on foodstuffs. 25
- Rising domestic incomes are encouraging the population to consume better and more expensive products.

Nasser knows that in order for his firm to continue to be profitable, he will have to introduce more capital into the business and he will need to manage his working capital more carefully. 30

Financial Information**Item A**

Balance Sheet Totals extracted from the records of NTB Ltd for the year ending 31 September 2005

	\$ ¹
Premises	450000
Ordinary shares @ \$2	115000
Debtors	2500
Investments	80000
Tax provision	5000
Prepayments	1800
Equipment (at cost)	22500
Cash	7000
Stock	13000
Long term loan	40000
Creditors	8500
Dividend proposed	6000
Profit and loss account	115500
Overdraft	1500

Item B

Figures for profit calculation for NTB Ltd.

Selling price of standard loaf (fixed by the Government) \$1.00
 Production cost per loaf \$0.35
 Daily supply to supermarkets = 1000 units – 15% were returned as unsold
 Daily supply to hotels = 500 units – 10% were returned as unsold
 Returned units were sold on to local farmers for \$0.20 per unit

Nasser had calculated his profit figure as \$845 (prime sales) + \$40 (returns) = \$885

Item C

Costings for proposed development of luxury items.

Leasing of new ovens for the bakery	\$100.00 per day
Maximum output from the ovens	2000 units per day
Raw material costs	\$0.25 per unit
Fuel costs per day per unit	\$0.02 per unit
Labour costs per day	\$0.06 per unit
Assume all output can be sold at an average revenue of \$0.85	

¹ The dollar referred to above is the US \$

You must attempt ALL of the following tasks

- 1 (a) Explain what possible financial difficulties there could be if a sole trader died. [3]
- (b) Explain what is meant by the term 'sleeping partner'. [3]
- (c) Identify and explain **one** advantage and **one** disadvantage of operating a business as a partnership. [4]
- (d) Explain what is meant by the term 'leasing'. [3]
- (e) Explain what is meant by the term 'sale or return basis'. [3]
- (f) Explain what is meant by the term 'working capital'. [2]
- (g) Calculate the present level of working capital for NTB Ltd. [2]
- [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]
- (ii) Give **two** examples of **each** type of user. [4]
- (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]
- [Total: 20]**
- 3 (a) Using the information in **Item B**, calculate the true profit figure for the daily sales of bread. [8]
- (b) Explain why the profit figure calculated by Nasser was incorrect. [4]
- [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]
- [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]
- [Total: 15]**
- 6 Using the information contained in **Item C**:
- (a) Calculate the breakeven level of output (**in units**) for the proposal. [8]
- (b) Calculate the margin of safety (**in units**) for the proposal. [4]
- (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]
- [Total: 18]**

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