

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the October 2007 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5163 Business Finance, Maximum mark 100

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.

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.

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- 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.

- (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) 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.

- (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 for either definition.

- (ii) List and explain two ways that the firm could use to ‘go public’. [4]**

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

1 mark per method listed.

1 mark for an explanation of the method.

- (f) Explain what is meant by the term ‘core business’. [2]**

The original/initial/majority activity of the item often yielding the bulk of the firm’s profits. Allow 2 marks if the answer contains reference to the profits

- (g) Explain what is meant by the term ‘takeover bid’. [2]**

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

1 mark for each element of the definition.

[Total: 20]

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

Explain how each of these factors could influence the financial viability of the firm. (4 x 3 marks) [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. [16]

Level 1 – Candidate identifies some errors/problems with the draft. The revised balance sheet still has errors. [1–4]

Level 2 – As Level 1 but all errors/problem have been identified. The revised balance sheet still has errors. [5–8]

Level 3 – As Level 2 but revised balance sheet has correct structure – may well be slight errors in sub totals. [9–12]

Level 4 – All errors corrected and balance sheet presented correctly with accurate format and totals. [13–16]

(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 A1 Travel 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. (4 x 3 marks) [16]**

Allow up to 3 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 or provide financial assistance etc.

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5 (a) 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]

Level 2 – Candidate provides accurate definition of both terms. [3–4]

Profit – the surplus of revenue over costs.

Contribution the surplus of revenue over variable costs available to meet fixed costs.

(b) Using the available evidence in Item B, calculate the weekly contribution for both the public transport and the airport services. (2 x 6 marks) [16]

Level 1 – Candidate uses some revenue and cost figures to make calculation but relevance to contribution is not clear. [1–3]

Level 2 – Candidate demonstrates clear understanding of how to calculate contribution and produces accurate results. [4–6]

6 marks available for calculation of contribution for each activity of the firm.

6 (a) Using your own examples, explain the differences 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]

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

Level 3 – As Level 2 but candidate provides useful and relevant examples. [7–8]

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 three accounting principles. (3 x 4 marks) [12]

1 mark for a mention of accounting principle up to 3 further marks for quality of explanation. Accept any recognised principle e.g. Prudence, matching, realisation etc.

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Appendix 1

Balance Sheet for A1 Travel Ltd as at 30 Sep 2007

	\$000	\$000	\$000
<u>Fixed Assets</u>			
Land & Buildings		4800	
Equipment at cost	9600		
Less Accumulated Deprecation	1800	7800	
Fixtures		1200	13800
<u>Current Assets</u>			
Stock	800		
Debtors	720		
Cash	<u>120</u>		
		1640	
<u>Less Current Liabilities</u>			
Creditors	480		
Corporation Tax	200		
Proposed Dividend	240		
Overdraft	<u>100</u>		
		1020	
Net Current Assets			<u>620</u>
Assets Employed			14420
<u>Long Term Liabilities</u>			
10% Debentures			<u>2000</u>
			12420
<u>Financed by</u>			
Ordinary Shares 1600@ \$ 4			6400
Share Premium			1600
Preference Shares 400 @ \$ 8			3200
Profit & Loss Account			<u>1220</u>
			12420

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Appendix 2

Contribution = Revenue – Variable Cost

Public Transport Services

$$\begin{aligned} \text{Weekly Revenue per bus} &= (\$ 300 \times 15 \times 5) + (\$200 \times 10 \times 2) \\ &= \$ 22,500 + \$ 4000 \\ &= \$26,500 \end{aligned}$$

$$\text{Total for the bus fleet} = \$26,500 \times 35 = \$927,500$$

$$\begin{aligned} \text{Weekly Costs per bus – staff} &= (\$100 \times 5) + (\$120 \times 2) \\ &= (\$500) + (\$240) \\ &= \$740 \end{aligned}$$

$$\begin{aligned} \text{Fuel} &= (\$400 \times 5) + (\$300 \times 2) \\ &= \$2000 + \$ 600 \\ &= \$2,600 \end{aligned}$$

$$\text{Weekly costs for the fleet} = \$2600 + 740 \times 35 = \$116,900$$

$$\text{Contribution} = \$927,500 - 116,900 = 810,600$$

Airport Service

$$\text{Weekly Revenue per bus} = \$25 \times 12 \times 6 \times 5 = \$9,000$$

$$\text{Weekly Revenue for fleet} = \$9000 \times 5 = \$45,000$$

$$\begin{aligned} \text{Weekly cost per bus} &= (150 \times 5) + (50 \times 5) + (5 \times 6 \times 5) \\ &= 750 + 250 + 150 = \$1150 \end{aligned}$$

$$\text{Weekly costs for the fleet} = \$1150 \times 5 = \$5750$$

$$\text{Contribution} = \$45,000 - \$5,750 = \$39,250$$