



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

**BUSINESS FINANCE**

**5163/01**

Optional Module

**October 2007**

**2 hours plus 15 minutes reading time**

Additional Materials: Answer Booklet/Paper



**READ THESE INSTRUCTIONS FIRST**

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 **5** printed pages and **3** blank pages.



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

(The following case study is fictitious.)

### **A1 TRAVEL LTD**

A1 Travel Ltd is a private limited company that provides transport services in several major cities in South East Asia. The company was set up five years ago, by four members of the same family, who each contributed the same amount of capital. The firm has since attracted further investment from venture capitalists and it has also received grants from some of the city authorities and an annual subsidy from the provincial government. The availability of such funds meant that the firm has prospered and has no difficulty in attracting credit from its bankers. 5

The company has a fleet of 40 mini buses which are used to provide commuter services for the general public. They also operate an airport service for overseas business clients and package holiday firms. Recently they have converted part of their transport base to provide secure storage of air freight packages. The firm employs 30 part-time temporary workers and 30 full-time workers. 10

The original family members have recently lost the controlling interest in the company, although they still play an active role in the firm. As a result, the family now face 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. As yet, none of these proposals have been implemented. 15

There are a number of external factors that are likely to affect the running of the company in the near future. These factors are:

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

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

## Financial Information

### Item A

Draft Balance Sheet for A1 Travel Ltd as at 31 September 2007.

	\$000 <sup>1</sup>		\$000
Land and Buildings	4 800		
Equipment at Cost	9 600		
			14 400
Stock	800		
Fixtures	1 200		
Debtors	720		
Cash	120		
	2 840		
Accumulated Depreciation	1 800		
Creditors	480		
Corporation Tax	200		
Proposed Dividend	240		
Overdraft	100		
	2 820		
Working Capital			20
			14 420
Financed by:			
Ordinary Shares @ \$4			8 000
Preference Shares @ \$8			3 200
10% Debenture issued 31 June 2004			2 000
Profit and Loss Account			1 220
			14 420

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

The draft balance sheet contains **errors** and is **not** an accurate version of the balance sheet.

<sup>1</sup> Amounts quoted in US dollars

**Item B****Public Transport**

Assume that 35 buses are used on this service on a 7 days a week basis.

Item	Days	
Average revenue per bus	Monday – Friday	\$300 per trip
	Saturday – Sunday	\$200 per trip
Number of trips	Monday – Friday	15 trips per day
	Saturday – Sunday	10 trips per day
Costs – drivers	Monday – Friday	\$100 per bus per day
	Saturday – Sunday	\$120 per bus per day
Fuel	Monday – Friday	\$400 per bus per day
	Saturday – Sunday	\$300 per bus per day

**Airport Service**

Assume that only 5 buses are used on this service on a 5 days a week basis.

Average number of clients per bus per trip = 12
Revenue per client = \$25
Average number of trips per bus per day = 6
Drivers' wages = \$150 per bus per day
Fuel = \$50 per bus per day
Parking fees = \$5 per bus per trip

**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 the term 'venture capitalists'. [2]
- (c) Distinguish clearly between a 'grant' and an 'annual subsidy'. [3]
- (d) 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 and explain **two** ways that the firm could use to go public. [4]
- (f) Explain what is meant by the term 'core business'. [2]
- (g) Explain what is meant by the term 'takeover bid'. [2]
- [Total: 20]**
- 2 The case study refers to **four** external (PEST) factors that are likely to affect the future profitability of the company.
- Explain how **each** of these PEST factors could influence the financial viability of the company. [4 x 3]
- [Total: 12]**
- 3 The draft balance sheet provided, **Item A**, was **not** accurate. Produce a **revised** Balance Sheet at 31 September 2007 that represents a true and fair view of the financial affairs of the company. [8]
- [Total: 16]**
- 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]
- (b) For **each** of the chosen users explain why they are interested in these documents. [4 x 3]
- [Total: 16]**
- 5 (a) Explain the difference between the terms 'profit' and 'contribution'. [4]
- (b) Using the available evidence in **Item B**, calculate the weekly contribution for **both** the public transport **and** the airport services. [2 x 6]
- [Total: 16]**
- 6 (a) Using your own examples, explain the **differences** between the practice of financial accounting **and** the practice of management accounting. [8]
- (b) Identify and explain any **three** recognised accounting principles. [3 x 4]
- [Total: 20]**

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