

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the October 2008 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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Page 2	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2008	5163

You must attempt **ALL** of the following tasks

- 1 (a) Explain, using your own worked examples, how a percentage mark up is different from a gross profit margin. [6]

Allow up to **2 marks** for each explanation of the terms.
Allow a further **2 marks** for correctly worked examples.

- (b) Explain how Ricky's duties as a finance director will differ from his job as a management accountant. [4]

Allow up to **2 marks** for explanation of **each** role. Maximum of **2 marks** if only one role discussed.
Director – set objectives, act on behalf of shareholders etc.
Management accountant – set strategy, targets for managers, reports to managers etc.

- (c) Identify and explain *one* advantage and *one* disadvantage to A-2-Z Building Supplies Ltd of entering into a franchise agreement. [4]

Allow up to **2 marks** per advantage/disadvantage.
Adv. – recognised product, assistance with marketing etc.
Disadv. – share profits, expense of establishment etc.

- (d) Identify and explain *one* advantage and *one* disadvantage to A-2-Z Building Supplies Ltd of leasing new equipment. [4]

Allow up to **2 marks** per advantage/disadvantage.
Adv. – cheaper than outright purchase, maintenance provided etc.
Disadv. – can be expensive, loss of capital allowances, no ownership of assets etc.

- (e) Identify and explain *one* disadvantage of sub-contracting the distribution of the materials. [2]

Allow up to **2 marks** for a well explained example.
Loss of overall control, difficult to monitor quality, reduced profits etc.

[Total: 20]

- 2 (a) Explain why it is important for a business to monitor the level of working capital. [8]

In order to achieve a **full award** the answer must provide a definition of working capital.
Allow up to **4 marks** for a complete definition – i.e. net current assets.
Allow a further **4 marks** for explanations of importance – need to remain solvent, deal with unforeseen problems, maintain maximum profitability etc.

Page 3	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2008	5163

(b) Using the information in Item A, produce a six-month cash budget for A-2-Z Building Supplies Ltd. [12]

Level 1 Candidate demonstrates little knowledge of the process required, some data extracted but not interpreted or used effectively. [1–4]

Level 2 Candidate demonstrates some knowledge of the process required, some data extracted and some attempt to interpret and use it effectively. [5–8]

Level 3 As Level 2 but better knowledge of process and correct interpretation and use of data leading to overall correct totals. [9–12]

For suggested solution see Appendix 1

[Total: 20]

3 (a) Identify and explain *one* advantage and *one* disadvantage of closing the distribution site. [4]

Allow **2 marks** per advantage/disadvantage if an explanation is given.
Cost saving, rationalisation/loss of assets, reputation harmed, redundancy problems etc.

(i) Identify *four* sources of finance that the company could use to fund the new marketing strategy. [4]

(ii) Explain one advantage of using each of these sources. [8]

Allow **1 mark** per source identified
Allow **2 further marks** for each explanation given
Maximum 3 marks per source

(c) State, with reasons, which source of funds you consider to be most appropriate for the company to use. [4]

Allow up to **2 marks** for a vague statement as to why a particular source should be used e.g. it is easy.

To achieve an award of **3–4 marks** the answer should make a comparison between the various alternatives and reach a logical conclusion.

[Total: 20]

4 (a) Explain what is meant by the balance sheet equation. [4]

Allow **1 mark** for a vague statement that the balance sheet will balance.
Allow up to **2 marks** for answers that include references to total assets = total liabilities.
For answers that provide the formula Assets = Liabilities + Equity allow **3–4 marks**.

Page 4	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2008	5163

- (b) Using the information in Item B, construct a balance sheet to show the financial position of A-2-Z Building Supplies Ltd. [16]**

Allow up to **4 marks** for producing an appropriate format for the balance sheet.
To award the **additional 12 marks** use the level descriptors below.

Level 1 Candidate demonstrates little knowledge of the process required, some data extracted but not interpreted or used effectively. [1–4]

Level 2 Candidate demonstrates some knowledge of the process required, some data extracted and some attempt to interpret and use it effectively. [5–8]

Level 3 As Level 2 but better knowledge of process and correct interpretation and use of data leading to overall correct totals. [9–12]

For suggested solution see Appendix 2

[Total: 20]

- 5 (a) Explain why the company should employ a formal process of depreciating its fixed assets. [6]**

Allow up to **2 marks** per valid reason – to reflect actual values, to provide for replacement funds etc.

- (b) Using the information contained in Item C, calculate the annual depreciation allowance that should be applied to the new vehicles. [6]**
(You should use the straight-line method to produce the answer)

Level 1 Some evidence of the process required but the calculations contain many errors. [1–3]

Level 2 Process is well understood and calculations contain few/no errors. [4–6]

For suggested solution see Appendix 3 (a)

- (c) What would be the book value of the vehicles at the end of Year 3? [2]**

Allow **1 mark** if process is known but answer is incorrect.
Own figure rule to apply to a maximum of **1 mark** if incorrect total given.

For suggested solution see Appendix 3 (b).

- (d) Explain why the company should consider making the additional annual payments. [6]**

Allow up to **3 marks** per valid reason if the explanation is well argued – prolongs the use of the asset, increases earnings from asset, increases the disposable value etc.

[Total: 20]

Page 5	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2008	5163

Appendix 1

	January	February	March	April	May	June
	\$	\$	\$	\$	\$	\$
Opening cash	30,000	21,000	2,000	5,500	6,000	14,500
Sales revenue	50,000	40,000	65,000	90,000	150,000	100,000
	80,000	61,000	67,000	95,500	156,000	114,500
Purchases materials	44,000	44,000	44,000	72,000	72,000	72,000
Overheads	15,000	15,000	15,000	15,000	15,000	15,000
Insurance	-	-	2,500	2,500	2,500	-
Purchases equipment	-	-	-	-	52,000	18,000
Closing cash	21,000	2,000	5,500	6,000	14,500	9,500

Appendix 2

Balance Sheet of A-2-Z Building Supplies Ltd as at 31 October 2008

	\$	\$	\$
Fixed Assets			
Leasehold Property		2,500,000	
Vehicles at cost	150,000		
Less Depreciation	60,000	90,000	2,590,000
Current Assets			
Stock	62,000		
Debtors	145,000		
Cash	35,000		
		242,000	
Current Liabilities			
Taxation	27,000		
Creditors	118,000		
Dividend	30,000		
Overdraft	10,000		
		185,000	57,000
			2,647,000
Less			
Mortgage	575,000		
Bank Loan	235,000		
		810,000	
			1,837,000
Financed by			
Ordinary Shares		1,200,000	
Share Premium		120,000	
Debentures		200,000	
Profit and Loss Account		317,000	
			1,837,000

Page 6	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2008	5163

Appendix 3

(a) Annual Depreciation = $\frac{\text{Purchase price} - \text{residual value}}{\text{Useful life}}$
= $\frac{\$70,000 - \$10,000}{5}$
= \$12,000

(b) Book value = Purchase price – accumulated depreciation
= \$70,000 – (\$12,000 x 3)
= \$70,000 – \$36,000
= \$34,000