

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the October 2010 question paper
for the guidance of teachers

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, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



Page 2	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – October 2010	5163

- 1 (a) Explain what is meant by a 'merger' and the legal consequences of two firms merging. [6]**

Allow up to 3 marks for a complete explanation of the term e.g. two firms combining their assets to create a new entity, often using a new name.

Allow a further 3 marks if there is a discussion of the prime legal consequences e.g. a new legal entity replaces the existing businesses and there is a transfer of assets and shareholdings.

- (b) Explain what is meant by a 'hostile takeover bid'. [3]**

Allow up to 3 marks for a complete explanation of the term e.g. a situation where one company attempts to gain a controlling interest in another company against the wishes of that company.

- (c) Explain what is meant by a 'multinational company'. [3]**

Allow up to 3 marks for a complete explanation of the term e.g. a large company that owns and operates assets in more than one country; it often has a well established brand identity.

- (d) Explain what is meant by a 'rights issue'. [3]**

Allow up to 3 marks for a complete explanation of the term e.g. the raising of additional capital by issuing extra shares to existing shareholders on the basis of their existing shareholdings.

- (e) Explain what is meant by 'working capital' and why monitoring working capital is very important for a company. [5]**

Allow up to 3 marks for a complete explanation of the term e.g. the excess of current assets over current liabilities. Allow a further 2 marks for an explanation that monitoring the working capital ensures that the company remains solvent and liquid.

[Total: 20]

Page 3	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – October 2010	5163

2 (a) Explain what is meant by the break-even level of output. [4]

Allow 1 mark for an answer that states that revenue equals costs.
 Allow up to 3 further marks if the answer explains that total costs – both fixed and variable costs are covered by the revenue generated by a particular level of sales.

(b) The company is considering purchasing some new equipment. Using the data available in *Item A*, calculate the break-even point in weeks, to the nearest whole number. [10]

Level 1 – the answer shows limited knowledge of the process required, data is incorrectly extracted and the calculation is incomplete or incorrect. (1–3 marks)

Level 2 – the answer shows better knowledge of the process required but the calculation has errors. (4–6 marks)

Level 3 – as level 2 but the process is well understood and the calculation is complete and at the top end is correct in all aspects. (7–10 marks)

(c) The business experiences a 10% increase in the variable costs and a 5% reduction in price. Calculate the new break-even point in weeks to the nearest whole number given that the fixed costs remain constant. [6]

Level 1 – the answer shows limited knowledge of the process required, data is incorrectly extracted and the calculation is incomplete or incorrect. (1–3 marks)

Level 2 – the process is well understood and the calculation is complete and at the top end is correct in all aspects. (4–6 marks)

[Total: 20]

For suggested solution see Appendix 1

Page 4	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – October 2010	5163

- 3 (a) Explain the difference between internal and external stakeholders of a company, giving *two* examples of *each* type of stakeholder. [8]

Allow up to 4 marks for an answer that clearly explains the difference between internal and external stakeholders e.g. internal stakeholders are likely to be involved in the running of the company and/or have a vested interest in the success of the company, whereas external stakeholders will be concerned with the progress of the company but they do not have a direct input to the operations of the company but may be able to exert some pressure on the company at specific times e.g. the bank may refuse to provide financial support.

Allow 1 mark per stakeholder identified.

Internal – Shareholders, managers, employees.

External – Suppliers, government agencies, customers, bank.

- (b) For *each* of the stakeholders identified in (a) above, explain what financial information they would be interested in receiving from the company and how they would use this information. [12]

Allow up to 3 marks per user if explanation of what information they require is clear and relevant e.g. a 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.

[Total: 20]

- 4 (a) Explain what is meant by the terms 'realisation' and 'prudence', and explain how these principles are used to create accurate accounts. [2 × 5 = 10]

Allow up to 2 marks for an accurate definition of each principle.

Allow a further 3 marks for an explanation of how they may be applied to ensure accuracy in the accounts.

- (b) Identify *two* other accounting principles and explain how they would be applied in the accounting process. [2 × 5 = 10]

Allow 1 mark for identifying a recognised principle and a further 1 mark for an accurate explanation of each principle.

Allow a further 3 marks for an explanation of how each of them may be applied to ensure that the accounts are in the standardised format and that they are accurate.

[Total: 20]

Page 5	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – October 2010	5163

- 5 (a) Using the information in *Item B*, construct a *four-month* cash budget for the period January to April. [12]**

Level 1 – Candidate extracts some relevant data from the case study but few calculations are correct and little evidence of correct method of producing cash budget. (1–4 marks)

Level 2 – As level 1 but candidate shows better knowledge of the method required and more correct calculations are attempted. Several errors remain. (5–8 marks)

Level 3 – As level 2 but candidate shows clear knowledge of the method required and completes all relevant entries with accurate totals at the top end of the mark range. (9–12 marks)

For suggested solution see Appendix 2

- (b) Identify and explain *one* advantage and *one* disadvantage of implementing financial control through a system of cash budgeting. [2 × 4 = 8]**

Allow up to 4 marks for each advantage that is identified and well explained.

[Total: 20]

Appendix 1

- 2 (b) Break-even occurs where total revenue matches total costs.
 The costs associated with the proposal can be divided into those that are fixed and those that are variable.
 The purchase of the equipment is a fixed cost that needs to be covered by the contribution from the production.
 Assuming that the output is constant at 800 units the non variable costs are:
- | | |
|-----------------|--------------|
| Wages | \$700 |
| Consumables | \$100 |
| Power and light | <u>\$250</u> |
| | \$1050 |
- To this we must add the material costs of $\$30 \times 800 = \$24\,000$.
 This gives a weekly cost total of \$25 050.
 The weekly revenue is calculated as $\$60 \times 800 = \$48\,000$.
 This will give a weekly contribution of \$22 950.
 The initial outlay of \$455 000 will therefore be repaid in $\$455\,000/\$22\,950 = 19.83$ weeks i.e. 20 weeks.
- (c) If the material costs were to rise by 10% then the total for weekly costs would rise to \$27 450.
 The weekly revenue would fall to \$45 600 as the price has fallen by 5%.
 The weekly contribution would fall to \$18 150.
 The time to repay the initial outlay would rise to $\$455\,000/\$18\,150 = 25.07$ weeks i.e. 25 weeks.

Appendix 2

- 5 (a)

	January	February	March	April
	\$	\$	\$	\$
Opening cash	23 000	19 000	14 300	16 200
Add				
Sales revenue	32 000	30 000	31 500	26 100
	55 000	49 000	45 800	42 300
Less				
Material costs	12 000	11 000	10 500	9 600
Labour costs	18 000	16 000	15 000	13 850
Sundry expenses	6 000	7 000	3 400	6 150
Insurance premium	–	700	700	700
License fee	–	–	–	3 500
	36 000	34 700	29 600	33 800
Closing cash	19 000	14 300	16 200	8 500