

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Advanced Level

MARK SCHEME for the May 2005 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5173

Business Finance (Core) maximum raw mark 100

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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.

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May 2005

CAMBRIDGE INTERNATIONAL DIPLOMA

MARK SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 5173

BUSINESS

BUSINESS FINANCE



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- 1 (a) Explain what is meant by the term ‘copyright’ and explain how it will contribute towards the profits of the business. [4]

Allow up to 2 marks for a precise definition of the term – legal protection for the owners of the copyright, ability to protect the brand etc. For the extra 2 marks, the responses should link the protection to maintenance of sales revenue and the ability to charge a premium on selling price based on the brand name.

- (b) Explain how Ronald’s work as an auditor will be different from the tasks that he will undertake for EmW. [4]

Allow up to 2 marks for an answer that explains the work of the auditor – provides an independent check of accounts produced by the client to ensure compliance with the law and accounting principles. To achieve the remaining 2 marks, the responses should refer to the task of producing final accounting statements and should refer to the differing tasks involved in the roles.

- (c) Give one reason why EmW employs agents to distribute its products. [2]

Allow up to 2 marks for any relevant, well explained reason – reduction in costs compared to employing own staff, expertise of agents provides opportunities for additional sales etc.

- (d) Explain what is meant by the term ‘venture capitalist’ and give one reason why EmW might approach a venture capitalist to raise additional finance. [4]

Allow up to 2 marks for a precise definition of the term – financier/merchant banker who specialises in providing capital for small/medium sized firms; risk takers – often insist on having an input into the decision making by taking a seat on the Board. Allow 2 further marks for any valid reason for using the venture capitalist – finance not available from conventional sources, better able to keep control of the firm, expertise provided by the V.C.

[Total: 14]

- 2 (a) Calculate the allocation of fixed overheads to each of the firm’s products by employing the following criteria:

(i) Floor space [6]

(ii) Number of employees [6]

For both (a), (i) and (ii):

Level 1: Candidate provides an answer that demonstrates some knowledge of the process required but there are errors/omissions in the calculations [1–3 marks]

Level 2: Candidate provides clear evidence of the required process and shows that they can extract the data and correctly complete the calculations [4–6 marks]

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- (b) List and explain two reasons why the firm should employ this cost-centred approach to the allocation of its overheads. [6]**

For listing a reason allow 1 mark. Allow up to 2 further marks for explanation of the reason – ensures that total overheads will be covered, closer control of costs, better decision making – make or buy decisions etc.

For suggested solution see Appendix 1. **[Total: 18]**

- 3 (a) Identify two internal and two external users who will have an interest in the financial records and accounts of the firm, and explain why they would they will have an interest. [8]**

For each user listed allow 1 mark – employees, management, creditors, Government etc. Allow 1 additional mark if candidate provides a valid reason for interest in the accounts, e.g. wage demands, investment decisions etc.

- (b) For each of the users identified, select and calculate an appropriate financial ratio that will be useful to them. [8]**

For identifying an appropriate ratio allow 1 mark. For correct calculation of the ratio allow 1 additional mark.

[Total: 16]

- 4 Using the information provided in Item C, calculate the closing stock figure by employing:**

- (a) The FIFO method of stock valuation [8]**

- (b) The LIFO method of stock valuation [8]**

For both **(a)** and **(b)**:

Level 1: Candidate provides some evidence of the process required to produce a solution but there are several errors/omissions [1–3 marks]

Level 2: Candidate demonstrates clear understanding of the process required to produce the correct answers and extracts the data from the case study and produces complete and accurate solutions [4–8 marks]

For suggested solutions see Appendix 2. **[Total: 16]**

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- 5 (a) Identify and explain three accounting principles that will need to be employed to produce accurate accounts. [12]**

Allow 1 mark for listing of each principle. Allow up to 3 additional marks for explanation of the principle. To achieve the full award, the explanation should demonstrate how the application of the principle will create accuracy in the accounts.

- (b) From the evidence available in the case study, explain how the firm is applying two of these principles to produce accounts that represent a ‘true and fair view’. [4]**

Allow 1 mark for identification of relevant principle from the case study, e.g. prudence, going concern, matching etc. Allow 1 additional mark for explanation of the principle linked to true and fair view.

[Total: 16]

- 6 (a) Calculate the ARR % for each of the proposals shown in Item D. [12]**

Level 1: Candidate demonstrates some knowledge of the process required to complete the task but there are likely to be several errors in the calculations [1–3 marks]

Level 2: Candidate clearly understands the process and produces answers that are accurate [4–6 marks]

- (b) Calculate the payback period for each of the proposals. [6]**

Allow 1 mark for knowledge of the process/formula required to calculate Payback. Allow up to 2 additional marks for correctly applying the formula to produce accurate results.

For suggested solutions see Appendix 3.

[Total: 18]

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Appendix 1

Allocation of Fixed Overheads

Total Overheads	\$250 000
Total Floor Space	9000sq.m.
Total Number of Employees	60

Cost centre allocation = Total Overhead x $\frac{\text{Cost centre total}}{\text{Total for category}}$

e.g. Women's clothing (Floor space) = \$250 000 x $\frac{3\ 000}{9\ 000}$ = 83 333

Women's clothing (Employees) = \$250 000 x $\frac{25}{60}$ = 104 166

Answers

(a) (i)	Women's Clothing	\$83 333
	Men's Clothing	\$69 444
	Household Textiles	\$97 222
(a) (ii)	Women's Clothing	\$104 166
	Men's Clothing	\$83 333
	Household Textiles	\$62 500

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Appendix 2

FIFO Method

Date	Stock purchased	Stock issued	Stock value remaining \$
June 1			2400
June 8	200 @ \$12		4800
June 9		300	1200
June 16	300 @ \$12.50		4950
June 17		200	2500
June 19	400 @ \$13		7700
June 21		500	1300
June 25	250 @ \$14		4800
June 28		300	700

LIFO Method

Date	Stock purchased	Stock issued	Stock value remaining \$
June 1			2400
June 8	200 @ \$12		4800
June 9		300	1200
June 16	300 @ \$12.50		4950
June 17		200	2450
June 19	400 @ \$13		7650
June 21		500	1200
June 25	250 @ \$14		4700
June 28		300	600

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Appendix 3

$$\text{ARR\%} = \frac{\text{Average Net Return}}{\text{Initial Investment}} \times 100$$

$$\text{Net Return} = \text{Expected Returns} - \text{Running Costs} - \text{Initial Investment}$$

$$\text{Average Net Return} = \frac{\text{Net Return}}{\text{No. of Years}}$$

Proposal A

$$\text{Expected returns} = 300\,000 + 320\,000 + 325\,000 + 275\,000 + 250\,000 = 1\,470\,000$$

$$\text{Running costs} = 30\,000 + 30\,000 + 32\,000 + 35\,000 + 40\,000 = 167\,000$$

$$\text{Net return} = 1\,470\,000 - 167\,000 - 500\,000 = 803\,000$$

$$\text{Av. Net return} = \frac{803\,000}{5} = 160\,600$$

$$\text{ARR} = \frac{160\,600}{500\,000} \times 100 = \underline{32\%}$$

Proposal B

$$\text{Total returns} = 3\,700\,000$$

$$\text{Total Running costs} = 585\,000$$

$$\text{Net Return} = 3\,700\,000 - 585\,000 - 850\,000 = 2\,265\,000$$

$$\text{Av. Net return} = 323\,571$$

$$\text{ARR} = \frac{323\,571}{850\,000} \times 100 = \underline{38\%}$$