

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
Cambridge International Diploma Advanced Level

**MARK SCHEME for the May 2007 question paper**

**CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS**

**5173 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) (i) **Explain why the gross profit figure might have increased as predicted although the level of turnover had not risen as expected.** [3]

Allow 1 mark if the answer explains how gross profit arises and a further 1 mark if the answer explains the nature of turnover. To obtain the full award the answer must link the two concepts and provide a possible solution e.g. the company has increased its selling price giving higher profit margins.

- (ii) **Explain why the gross profit figure appeared acceptable whilst the net profit figure was disappointing.** [2]

Allow 1 mark if the answer correctly identifies the relationship between gross and net profit.

Allow the extra mark if the answer provides a possible solution e.g. the distribution costs have risen.

- (b) **Give one advantage and one disadvantage that would be associated with producing under a licence from a major multinational company.** [2]

1 mark per advantage/disadvantage identified.

Advantages – guaranteed work, specification of product known etc.

Disadvantages – dependant on another firm's sales, profit margin controlled, license fee payable.

- (c) (i) **Explain what is meant by a patent.** [1]

Allow the mark if the answer refers to intangible asset, fixed asset or sole rights to manufacture.

- (ii) **Identify one advantage and one disadvantage to Chalin Ltd of obtaining a patent.** [2]

Allow 1 mark per advantage/disadvantage.

High profits, goodwill, fixed asset.

Expensive to maintain, copying by rivals.

- (d) (i) **Explain what is meant by the term capital.** [2]

Accept any relevant statement e.g. funds contributed by owners/shareholders, distinction between fixed capital i.e. plant and equipment and working capital, authorised, issued, capital etc. – 1 mark for identification plus 1 for explanation.

- (ii) **Explain how lack of management of the working capital could restrict the planned growth of the firm.** [2]

To achieve 2 marks the candidate must include reference to the inability to cover Current Liabilities, possibility of insolvency, likely to affect future plans.

Be prepared to reward any reasonable argument.

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- (e) Choose two of the external factors identified by the firm's banker, and explain how each of the factors would be likely to affect the future profitability of Chalin Ltd. [2 x 3]**

1 mark per factor extracted from the case study.

plus 2 marks for explaining the possible effects.

Technology – reduction in costs – profits increased.

Economic – interest rates rising – costs up – profits reduced.

Social consumer boom – sales revenues rising.

**[Total: 20]**

- 2 (a) Identify three additional sources of funds that could be employed by Chalin Ltd to finance their proposed expansion plans. [3]**

1 mark per source of funds identified.

Sale of shares, bank loan, mortgage, hire purchase, leasing etc.

- (b) For each of the additional sources you have identified, provide one advantage and one disadvantage of using that source. [3 x 2]**

1 mark per advantage/disadvantage.

Advantages – relative cost, ability to retain control, ease of access etc.

Disadvantages – higher costs, loss of privacy, loss of control etc.

- (c) State with reasons which source of funds you would recommend for the firm to use to finance its expansion. [3]**

For a vague statement as to choice allow 1 mark.

For a more detailed explanation that explains the comparison of sources and refers to the case study directly. [2–3]

**[Total: 12]**

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**3 Using the information in Item 1:**

- (a) Calculate, using the LIFO method of stock valuation, the value of stock retained and the value of stock issued. [8]**

Level 1 Candidate demonstrates some knowledge of process required – many errors in calculations. [1–4]

Level 2 Candidate shows understanding of the process required and errors are fewer and at top end the answers are accurate. [5–8]

- (b) Calculate, using the FIFO method of stock valuation, the value of stock retained and the value of stock issued. [8]**

Answer key as for 3 (a).

For suggested solutions to 3 (a) and 3 (b) see Appendix 1.

**[Total for Task 3: 16]**

**4 For published accounts to be useful they must be accurate and produced according to recognised accounting principles.**

- (a) Identify three recognised accounting principles. [3]**

1 mark per principle identified.

Duality, prudence, matching, going concern etc.

- (b) Using your own examples, explain how each of the principles that you have identified contribute towards the production of accurate accounts. [3 x 3]**

For a vague statement/explanation of a principle. [1]

For a more complete explanation. [2]

For an explanation that links the principle to accuracy in the accounts. [3]

- (c) Explain why it is necessary to have ‘accurate’ accounts independently checked by an auditor. [2]**

For listing of a reason allow 1 mark.

If the reason is explained then allow 1 further mark.

e.g. legal requirement – ensures that the firm is complying with the relevant legislation – enhances the firm’s reputation – protects the interests of stakeholders – reduce possibility of challenges to the accounts by interested parties.

**[Total for Task 4: 14]**

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**5 Using the information contained in Item 2, construct a balance sheet to show the current financial position of Chalin Ltd. [14]**

Level 1 Candidate demonstrates weak knowledge of the structure of a balance sheet and makes many errors/omissions in the use of data. [1–3]

Level 2 Candidate shows better knowledge of process required but still many errors in the use of data. [4–7]

Level 3 Structure of balance sheet is almost complete and fewer errors in the use of data. [8–11]

Level 4 Structure of balance sheet is complete – errors are absent and subheading and subtotals are correctly entered. [12–14]

For suggested solution see Appendix 2.

**6 Using your own examples, distinguish clearly between the roles of the financial accountant, the management accountant and the cost accountant. [12]**

For each role allow up to 2 marks for the quality of explanation of the activities involved/processes undertaken e.g. Financial accounting – concerned with establishing system for recording of transactions and production of standardised accounting documents.

Allow 1 further mark if the explanation is supplemented with relevant examples e.g. Cost accountant – production of standard costing statements and variance analysis.

Allow 1 further mark if the candidate draws an effective comparison between the roles and/or explains similarities or overlap between roles.

4 marks available for each role x 3 = 12 marks.

**7 Using the information contained in Item 3:**

**(a) Calculate the allocation of fixed overheads to each of the firm's products by employing the following criteria:**

**(a) Floor space [6]**

Level 1 Candidate demonstrates limited knowledge of the process required and/or many errors in calculations. [1–3]

Level 2 Candidate shows understanding of the process required and produces accurate results. [4–6]

**(b) Number of employees [6]**

Marks to be awarded as in (i) above.

For suggested solution to (a) and (b) see Appendix 3.

**[Total: 12]**

## Appendix 1

### LIFO method

Date	Purchases	Issued	Stock retained units	Stock value \$
1 Jan			10 000	60 000
15 Jan	4000		14 000	84 000
17 Jan		8000	6 000	36 000
29 Jan		4000	2 000	12 000
30 Jan	3000		5 000	30 000
18 Feb		1000	4 000	24 000
20 Feb	5000		9 000	59 000
22 Feb		8000	1 000	6 000
27 Feb	1000		2 000	13 600
13 Mar	3000		5 000	37 600
18 Mar		4000	1 000	6 000
4 April	5000		6 000	46 000
5 April		3000	3 000	22 000
20 April	3000		6 000	47 500
21 April		4500	1 500	10 000

Stock Issued = 48 000  
 24 000  
 6 000  
 53 000  
 31 600  
 24 000  
37 500  
224 100

Stock value retained = \$10 000

\$224 100

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**FIFO method**

Date	Purchases	Issued	Stock retained units	Stock value \$
1 Jan			10 000	60 000
15 Jan	4000		14 000	84 000
17 Jan		8000	6 000	36 000
29 Jan		4000	2 000	12 000
30 Jan	3000		5 000	30 000
18 Feb		1000	4 000	24 000
20 Feb	5000		9 000	59 000
22 Feb		8000	1 000	7 000
27 Feb	1000		2 000	14 600
13 Mar	3000		5 000	38 600
18 Mar		4000	1 000	8 000
4 April	5000		6 000	48 000
5 April		3000	3 000	24 000
20 April	3000		6 000	49 500
21 April		4500	1 500	6 375

Stock Issued = 48 000  
24 000  
6 000  
52 000  
30 600  
24 000  
36 750  
221 350

Stock value retained = \$12 750

\$221 350

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## Appendix 2

### Balance Sheet for Chalin Ltd as at 30 April 2004

	\$000	\$000
Fixed assets at cost		1 340
Less Accumulated Depreciation		280
Patent		<u>50</u>
		1 110
<b>Current Assets</b>		
Stock	450	
Debtors	575	
Cash	15	
	<u>1 040</u>	
<b>Current Liabilities</b>		
Creditors	322	
Corporation Tax	192	
Proposed Dividend	250	
Overdraft	180	
	<u>944</u>	
Working Capital		<u>96</u>
		<u>1 206</u>
Less Debentures		<u>100</u>
		<u>1 106</u>
<b>Financed by</b>		
400 000 Ordinary Shares @ \$1		400
* Profit & Loss Account		<u>706</u>
		<u>1 106</u>

\* Calculated as balancing item



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### Appendix 3

7 (a) Allocation of overhead = % Floor Space per product X Overhead

Circuit Boards = 45% of \$1 800 000  
= \$810 000

Mobile Phones = 30% of \$1 800 000  
= \$540 000

Calculators = 25% of \$1 800 000  
= \$450 000

(b) Allocation of overheads =  $\frac{\text{Number of employees per centre} \times \text{Overhead}}{\text{Total Employees}}$

Circuit Boards =  $\frac{65 \times \$1\,800\,000}{180}$   
= \$650 000

Mobile Phones =  $\frac{60 \times \$1\,800\,000}{180}$   
= \$600 000

Calculators =  $\frac{55 \times \$1\,800\,000}{180}$   
= \$550 000