



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

BUSINESS FINANCE

5173/01

Optional Module

May 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 **6** printed pages and **2** blank pages.



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

(The following case study is fictitious.)

CHALIN LTD (CL LTD)

David Chan and Robert Ling were reasonably pleased with the year-end results for their company, Chalin Ltd. The gross profit figure had increased as predicted although the level of turnover had not risen as expected. However, they were concerned that the net profit figure was rather disappointing.

The company had been established as CL Ltd, with capital contributed solely by David and Robert, who had decided at the start to borrow as little as possible until the company became firmly established in the market. The company began life manufacturing circuit boards for the telecommunications industry under a licence from a major multinational company. Soon after becoming established in the market they began to develop their own range of products for the export market and two years ago they borrowed additional capital from the bank, moved premises and renamed the company. Although they still produced the circuit boards, the bulk of their turnover now came from selling their own-brand products via a network of agents. They had recently been granted a patent on one of their products and they were now looking to expand the business with a further capital injection.

Although neither of them had any formal accountancy training they were both 'good with figures' and they did appear to have a basic understanding of the principles of the standard accounting model. The firm's accountant suggested that they should attend an accountancy course as it was likely that if the firm expanded as predicted, they would need to be aware of financial, management and cost accounting procedures. He was also concerned at the rather low level of working capital within the firm, which he felt could restrict the planned growth.

The firm's banker insisted that they should produce a business plan, with full financial details, before any further borrowing would be allowed. He identified a number of external factors that he thought David and Robert should take into account when drawing up their proposal for the future of the business. These were:

- Developments in technology were reducing the costs of components across the whole of the electronics market.
- The general level of interest rates was predicted to rise in the near future.
- Although the national level of consumer income was likely to remain constant, there appeared to be an upward trend in sales with consumers being more willing to spend on the new generation of technologically advanced consumer goods.

David and Robert agreed to call an extraordinary Board meeting in one month's time, when they hoped to have all of the data required to justify their expansion programme.

Financial Information

Item 1

Extracted stock figures for electrical components for Chalin Ltd January to April 2007.

Opening Stock 1 January - 10 000 @ \$6¹

Purchases

Date	Units purchased	Cost \$s per unit
15 January	4000	6
30 January	3000	6
20 February	5000	7
27 February	1000	7.60
13 March	3000	8
4 April	5000	8
20 April	3000	8.50

Stock Issued

Date issued	Units
17 January	8000
29 January	4000
18 February	1000
22 February	8000
18 March	4000
5 April	3000
21 April	4500

¹ Amounts quoted in US dollars.

Item 2

Balance Sheet totals extracted from the records of Chalin Ltd as at 30 April 2007:

	\$000
Creditors	322
Stock	450
Accumulated Depreciation	280
Debtors	575
Cash	15
Proposed Dividend	250
Overdraft	180
Fixed Assets at cost	1340
Corporation Tax	192
Debentures	100
400 000 Ordinary shares at \$1	400
Patent	50

The profit and loss account total will provide the balancing total for the balance sheet.

Item 3

Total fixed overhead to be allocated \$1 800 000

The firm manufactures circuit boards, mobile phone components and calculators.

The floor space occupied by each of these different products is as follows:

- circuit boards 45%
- mobile phone components 30%
- calculators 25%

The firm employs a total of 180 workers. The distribution of the workforce across the product range is as follows:

- circuit boards 65 workers
- mobile phone components 60 workers
- calculators 55 workers

You must attempt ALL of the following tasks.

- 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]
- (ii) Explain why the gross profit figure appeared acceptable whilst the net profit figure was disappointing. [2]
- (b) Give **one** advantage and **one** disadvantage that would be associated with producing under a licence from a multinational company. [2]
- (c) (i) Explain what is meant by a patent. [1]
- (ii) Identify **one** advantage and **one** disadvantage to Chalin Ltd of obtaining a patent. [2]
- (d) (i) Explain what is meant by the term 'capital'. [2]
- (ii) Explain how lack of management of the working capital could restrict the planned growth of the firm. [2]
- (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]
[Total: 20]
- 2 (a) Identify **three** additional sources of funds that could be employed by Chalin Ltd to finance their proposed expansion plans. [3]
- (b) For **each** of the additional sources you have identified provide **one** advantage and **one** disadvantage of using that source. [3 x 2]
- (c) State, with reasons, which source of funds you would recommend should be used by the firm to finance its expansion. [3]
[Total: 12]
- 3 Use 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]
- (b) Calculate, using the FIFO method of stock valuation, the value of stock retained **and** the value of stock issued. [8]
[Total: 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]
- (b) Using your own examples, explain how **each** of the principles that you have identified contributes towards the production of accurate accounts. [3 x 3]
- (c) Explain why it is necessary to have 'accurate' accounts independently checked by an auditor. [2]
[Total: 14]

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

[Total: 14]

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

[Total: 12]

7 Using the information contained in **Item 3**, calculate the allocation of fixed overheads to each of the firm's products by employing the following criteria:

(a) floor space;

[6]

(b) number of employees.

[6]

[Total: 12]

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