

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the May 2008 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.

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

CIE is publishing the mark schemes for the May/June 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

Page 2	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2008	5173

You must attempt ALL of the following tasks

- 1 (a) Identify and explain one advantage and one disadvantage of registering a patent. [4]
 Allow up to 2 marks per advantage/disadvantage if the explanation is valid.
 Advantage – sole production rights maintaining high profit levels etc.
 Disadvantage – expense of obtaining – expensive to police etc.
- (b) Explain what is meant by ‘non-executive director’. [3]
 An individual who has been invited/ elected to the board, is involved in policy making, but does not have a role to play in the management of the firm’s affairs. Allow 1 mark per aspect as above.
- (c) Identify and explain two reasons why Asia Plastics Ltd employs agents to distribute its products. [6]
 Allow up to 3 marks per reason if the explanation is complete and valid.
 E.g. expert knowledge leading to additional sales and higher profits, cost savings on the distribution which can reduce prices and increase sales, etc.
- (d) Identify and explain one advantage and one disadvantage of selling products via a website. [4]
 Allow up to 2 marks if the advantage/disadvantage is well explained.
 E.g. provides access to a global market leading to higher sales, costly to establish and to maintain – may lead to over trading etc.
- (e) Explain what is meant by a ‘rights issue’. [3]
 The offer of additional shares to existing shareholders on the basis of their existing holdings of shares.
 Allow the full award only if all aspects are contained within the answer.

[Total: 20]

- 2 (a) Calculate the allocation of fixed overheads to each of the firm’s products by using the following criteria:
- (i) Floor space [8]
- (ii) Number of employees [8]
- 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. [1–4]
- Level 2** Candidate provides clear evidence of the required process and shows that they can extract the data and correctly complete the calculations. [5–8]

For suggested solutions see **Appendix 1**.

Page 3	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2008	5173

- (b) Identify and explain **two** reasons why the firm should employ a cost-centred approach to the allocation of overheads. [4]

For listing a reason allow **1 mark**.

Allow **1 further mark** for explanation of the reason – ensures that total overheads will be covered, closer control of costs, better decision making-make or buy decisions etc

[Total: 20]

- 3 (a) (i) Identify **two** internal and **two** external users who will have an interest in the financial records and accounts of the firm. [4]

For each user listed allow **1 mark** – employees, management – creditors, Government etc.

- (ii) Explain why each of the users in (i) above will have an interest in Asia Plastic Ltd. [4]

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 in Task 3(a)(i) select and calculate an appropriate financial ratio that will be useful to them. [12]

For identifying an appropriate ratio allow **1 mark**.

For correct calculation of the ratio allow **2 additional marks**.

[Total: 20]

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

- (i) the FIFO method of stock valuation [8]

- (ii) the LIFO method of stock valuation [8]

For both (i) and (ii)

Level 1 Candidate provides some evidence of the process required to produce a solution but there are several errors/omissions. [1–4 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. [5–8 marks]

For suggested solutions see **Appendix 2**.

- (b) Explain how the AVCO method of stock valuation could be used to value stocks. [4]

Allow **1 mark** for identifying that AVCO means average cost of stocks.

Allow the **further 3 marks** if the answer explains how to use this method of valuing stocks.

It is likely that answers will contain a worked example – allow credit if the correct method of calculation has been employed and the answer given is correct.

[Total: 20]

Page 4	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2008	5173

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

Allow 1 mark for listing of each principle.

Allow up to 2 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'. [8]

Allow 2 marks for identification of relevant principle from the case study e.g. prudence, going concern, matching etc.

Allow 2 additional marks for explanation of the principle linked to true and fair view.

[Total: 20]

Appendix 1

Allocation of Fixed Overheads

Total Overheads \$350 000

Total Floor Space 9000sq.m.

Total Number of Employees 70

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

e.g. Lighting (Floor space) = \$350,000 x $\frac{3500}{9000}$ = \$136,111

Lighting (Employees) = \$350,000 x $\frac{15}{70}$ = \$75,000

Answers

(a) (i) Lighting - \$136,111
Automotive - \$97,222
Computer - \$116,666

(a) (ii) Lighting - \$75,000
Automotive - \$125,000
Computer - \$150,000

Page 5	Mark Scheme	Syllabus
	Cambridge International Diploma – May 2008	5173

Appendix 2

FIFO Method

Date	Stock purchased	Stock issued	Stock value remaining \$
July 1			300
July 8	200 @ \$1.50		600
July 9		300	150
July 16	300 @ \$1.75		675
July 17		200	350
July 19	400 @ \$1.80		1070
July 21		500	180
July 25	250 @ \$1.90		655
July 28		300	95

LIFO Method

Date	Stock purchased	Stock issued	Stock value remaining \$
July 1			300
July 8	200@\$1.50		600
July 9		300	150
July 16	300@\$1.75		675
July 17		200	325
July 19	400@\$1.80		1045
July 21		500	150
July 25	250@\$1.90		625
July 28		300	75