



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

BUSINESS FINANCE

5173/01

Optional Module

May 2008

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 **4** printed pages.



You must read the case study and attempt ALL of the tasks which follow.
(The following case study is fictitious.)

ASIA PLASTICS LTD

Henry Ling has just taken up a position as a non-executive director on the board of Asia Plastics Ltd. Henry spent several years working for a venture capitalist before he began training as a management accountant. He has studied the background of the other board members and is concerned that most of them have very little knowledge of the accounting process. He is therefore keen to introduce a training programme to help them appreciate the basic principles of the accounting model. He has also proposed that the company should introduce more advanced management practices when they are allocating overheads and valuing stock. 5

The company's managing director and major shareholder is Robert Ling. The company has been in existence for five years. It has established a reputation for producing good quality products at reasonable prices. Robert Ling is very proud of this achievement and he is keen to maintain this reputation. Robert trained as an engineer. He has registered patents on some of the products that the company manufactures. When he established the business he borrowed money from his family and the bank and he chose at the outset to operate as an incorporated business. 10

Asia Plastics Ltd manufactures plastic components mainly for the export trade. There has been some growth in the domestic market in recent times due to rising income levels and advances in technology which has led to reductions in costs. The company currently produces three different ranges of products: lighting, automotive and computer parts. Asia Plastics Ltd sells most of its exports through a network of agents, but Henry has suggested that they should set up their own distribution channel via a website. 15

Robert and Henry have discussed the future of the company on several occasions and both agree that there is a need to invest in new equipment to cope with any increase in output. Henry has suggested that a rights issue should be employed to raise the additional capital, whereas Robert has proposed that additional debentures should be offered. 20

Financial Information

Item A

Extracts from the balance sheet and profit and loss account of Asia Plastics Ltd.

	\$000s ¹
Issued fully paid up shares	1200
Net current assets	84
Capital employed	1934
Stock	42
Provisions	11
Current liabilities	61
Net profit	215
Turnover	1350
Equipment at cost	300
Prepayments	5
Provisions	12
10% debenture stock	200

Item B

Manufacturing Fixed Overhead Costs \$350 000

Product	Floor Space sq. metre	Number of employees
Lighting	3500	15
Automotive	2500	25
Computer	3000	30

Item C

Stock Valuation Lighting Components Section

Opening Stock July 1 200 units @ \$1.50

Date		Units Purchased	Units Issued
July	8	200 @ \$1.50	-
	9	-	300
	16	300 @ \$1.75	-
	17	-	200
	19	400 @ \$1.80	-
	21	-	500
	25	250 @ \$1.90	-
	28	-	300

¹ Prices quoted in \$US

You must attempt ALL of the following tasks.

- 1 (a) Explain **one** advantage and **one** disadvantage of registering a patent. [4]
 (b) Explain what is meant by 'non-executive director'. [3]
 (c) Explain **two** reasons why Asia Plastics Ltd employs agents to distribute its products. [6]
 (d) Explain **one** advantage and **one** disadvantage of selling products via a website. [4]
 (e) Explain what is meant by a 'rights issue'. [3]
[Total: 20]
- 2 (a) Using the information in **Item B**, 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]
 (b) Explain **two** reasons why Asia Plastics Ltd should employ a cost-centred approach to the allocation of overheads. [4]
[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]
 (ii) Explain why **each** of the users in (i) above will have an interest in Asia Plastic Ltd. [4]
 (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. Use the information contained in **Item A** to calculate the ratios. [12]
[Total: 20]
- 4 (a) Using the information in **Item C**, calculate the closing stock figure by using:
 (i) the FIFO method of stock valuation [8]
 (ii) the LIFO method of stock valuation [8]
 (b) Explain how the AVCO method of stock valuation could be used to value stocks. [4]
[Total: 20]
- 5 (a) Explain **four** accounting principles that will need to be applied in order to produce accurate accounts. [12]
 (b) From the evidence available in the case study, explain how **two** of these principles are being applied by the company to produce accounts that represent a 'true and fair view'. [8]
[Total: 20]

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