

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the May 2009 question paper
for the guidance of teachers

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, which would have considered the acceptability of alternative answers.

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- 1 (a) Explain **one** advantage and **one** disadvantage of distributing the products via a network of agents. [4]
 Allow up to 2 marks per advantage/disadvantage if well explained.
 A – local knowledge, expertise, increased sales etc.
 D – reduced profit margin, distance from consumer etc.
- (b) Explain **one** advantage and **one** disadvantage of installing a computerised accounting system. [4]
 Allow up to 2 marks per advantage/disadvantage if well explained.
 A – quicker, accurate, less possibility of human error etc.
 D – costly to install, not easy to use, possible problems with security etc.
- (c) Explain why a business should allow for depreciation of its fixed assets and suggest **one** method that it could use to calculate the depreciation allowances. [6]
 Allow up to 3 marks for any sensible discussion as to why depreciation is necessary e.g. to provide for replacement assets, to present a true and fair view etc.
 Allow up to 3 marks for outlining a method of depreciation e.g. straight line, reducing balance etc.
- (d) Explain **one** advantage and **one** disadvantage of selling the products via the website. [4]
 Allow up to 2 marks per advantage/disadvantage if well explained.
 A – access to world wide market, savings on marketing costs etc.
 D – problems with payments, too many orders etc.
- (e) Produce a formula that you could use to calculate working capital. [2]
 For 2 marks the formula $CA - CL = WC$ must be used.

[Total: 20]

- 2 (a) Use the information contained in **Item 1** to calculate the number of days that it will take for **each** of the machines to break-even. [2 × 6 = 12]
 For each calculation award marks according to the following criteria.
- Level 1** Candidate provides an answer that demonstrates some knowledge of the process required but there are errors/omissions in the calculations [1–3]
- 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]
- See Appendix 1 for the suggested solution.
- (b) State which of the machines you would recommend should be purchased, giving **two** reasons for your choice [2 × 4 = 8]
 Allow up to 4 marks for any reason that is relevant and well discussed
 e.g. Machine A since the initial outgoings are less and it operates with lower labour costs.
 Machine B since the break-even point occurs earlier and there is a higher potential profit from the increased output.

[Total: 20]

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- 3 (a)** Identify **four** sources of funding that would be appropriate for the company to use in order to finance its expansion proposal. **[4]**
 Allow 1 mark per source of funding e.g. issue of more shares, issue of debentures, long term loans etc.
- (b)** For each of the four sources identified in **(a)** above, explain **one** advantage and **one** disadvantage of using that source of funding. **[16]**
 Allow 2 marks per advantage/disadvantage if the explanation is relevant.

[Total: 20]

- 4 (a)** Using the information contained in **Item 2**, calculate the allocation of fixed overheads for the **three** products according to:
- (i)** floor space; **[6]**
- (ii)** number of employees; **[6]**
- (iii)** percentage of material costs. **[6]**

For each calculation award marks according to the following criteria.

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

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]**

See Appendix 2 for the suggested solution.

- (b)** Explain **one** advantage of adopting a cost centred approach to the allocation of fixed overhead costs. **[2]**
 Allow the full 2 marks if the explanation is relevant e.g. presents a more accurate picture of the costs allowing a more accurate prediction of profit levels etc.

[Total: 20]

- 5 (a)** Using examples, clearly distinguish between the roles of a financial accountant, a management accountant and a cost accountant in the company. **[3 × 5 = 15]**
 Allow up to 5 marks per role explained. To achieve the 5 marks the answer should discuss the activities that each role entails and should contain examples of the types of tasks/documents that will be produced.

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- (b)** Explain the possible benefits to Soles and Heels Ltd of introducing a company-wide accounting training programme. **[5]**
Allow up to 3 marks per advantage that is relevant to a maximum of 5 marks e.g. people working in different areas of the firm can have easy access to relevant information, which will ensure quicker and better informed decision-making. If the answer contains several poorly explained points the candidate may still achieve the 5 marks allowed.

[Total: 20]

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Appendix 1

Machine A

$$\text{Break-even} = \frac{\text{Purchase price}}{\text{Contribution}}$$

$$\text{Contribution} = \text{Sales revenue} - \text{Running costs}$$

$$\text{Sales revenue per day} = \$5 \times 1200 = \$6000$$

$$\text{Running costs per day} = \$200 + \$40 + (1200 \times \$2) = \$2640$$

$$\text{Contribution} = \$6000 - \$2640 = \$3360$$

$$\text{Break-even} = \frac{\$400000}{\$3360} = 119.05 \text{ days.}$$

Machine B

$$\text{Break-even} = \frac{\text{Purchase price}}{\text{Contribution}}$$

$$\text{Contribution} = \text{Sales revenue} - \text{Running costs}$$

$$\text{Sales revenue per day} = \$5 \times 1800 = \$9000$$

$$\text{Running costs per day} = \$250 + \$40 + (1800 \times \$2) = \$3890$$

$$\text{Contribution} = \$9000 - \$3890 = \$5110$$

$$\text{Break-even} = \frac{\$600000}{\$5110} = 117.42 \text{ days.}$$

Appendix 2

Allocation of Fixed Overheads

Total Overheads \$700,000

Total Floor Space 10000 sq.m.

Total Number of Employees 120

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

e.g. for shoes

$$(\text{Floor space}) = \$700,000 \times \frac{4500}{10000} = \$315,000$$

$$(\text{Employees}) = \$700,000 \times \frac{35}{120} = \$204,166.67$$

$$(\text{Material costs \%}) = \$700,000 \times \frac{25}{100} = \$175,000$$

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Answers

- (a) (i)** Shoes – \$315,000
Trainers – \$210,000
Boots – \$175,000
- (ii)** Shoes – \$204,166.67
Trainers – \$233,333.33
Boots – \$262,500.00
- (iii)** Shoes – \$175,000
Trainers – \$315,000
Boots – \$210,000