

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

**MARK SCHEME for the May 2012 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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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

Cambridge is publishing the mark schemes for the May 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

<b>Page 2</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>
	<b>Cambridge International Diploma – May 2012</b>	<b>5173</b>

**1 (a) Explain what is meant by a non-executive director. [3]**

Allow 1 mark for a vague statement e.g. a member of the Board.

Allow 3 marks if the answer is complete e.g. a member of the Board who contributes to the decision making process but does not have a day-to-day management role within the organisation.

**(b) Explain two advantages that may result from operating a computerised accounting system. [2 × 2 = 4]**

Allow up to 2 marks for each well explained advantage e.g. a computerised accounting system allows easy access to the accounts for all people and therefore there is greater knowledge of the company's activities, a computerised accounting system should produce quicker and more accurate accounts as long as the data is correctly entered.

**(c) Explain what is meant by a trial balance and explain one advantage of producing a trial balance. [5]**

Allow up to 3 marks for a complete definition of a trial balance e.g. an interim statement that takes total balances from the books of prime entry and translates them into debit and credit balances.

Allow 2 further marks for explaining an advantage of the trial balance e.g. the trial balance provide an initial check on the accuracy of the recording of the accounting data etc.

**(d) Explain what is meant by a patent and explain how a patent is treated in the accounts of a business. [4]**

Allow 2 marks for a complete definition of a patent e.g. an intangible fixed asset that provides time limited financial benefits to the organisation.

Allow 2 marks for pointing out that the value of the patent is entered in the fixed asset section of the balance sheet but it may be written off over time.

**(e) Explain two advantages that would result from operating as an incorporated business. [4]**

Allow 2 marks for explaining each advantage e.g. all shareholders enjoy limited liability and this encourages investment, the credit rating of companies is generally higher than that of unincorporated organisations etc.

**[Total: 20]**

<b>Page 3</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>
	<b>Cambridge International Diploma – May 2012</b>	<b>5173</b>

**2 (a) Explain, using your own examples, what is meant by:**

- (i) accounting principles (concepts / assumptions) [3]**
- (ii) accounting standards [3]**
- (iii) accounting methods [3]**
- (iv) accounting policies [3]**

Allow up to 3 marks for each explanation of the terms. To obtain the full 3 marks the answer must contain an example.

Possible content:

The accounting processes that have become accepted are in part based upon recognised assumptions and recognised principles / concepts. There is some debate as to whether certain assumptions could be classified as concepts and vice versa. This debate is unimportant as long as the user of the accounts is clear about how the accounts have been drawn up and how the concepts and assumptions have been implemented.

Generally an accounting assumption provides an explanation to the reader as to how the accounts have been drawn up. The reader of the accounts can then make a like for like comparison with any accounts that have been drawn up using the same assumptions.

An accounting principle / concept is similar in nature to an accounting assumption in that they have become part of the accounting process through being introduced, refined and then implemented as a regular part of the accounting model.

The main assumptions / principles include: business entity, historic cost, realisation, accruals / matching, money terms, consistency, disclosure, duality, materiality, going concern, prudence, objectivity, substance over form and separate entity.

Although the accounts produced will be based on the recognised assumptions and principles, it is likely that there will still be areas where individual judgements will have been made. Therefore different people working from the same raw data may well produce radically different final statements and this will make effective comparison of the results very difficult.

It was for this reason that the accountancy profession established, in 1970, the Accounting Standards Committee, with the aim of reducing the areas of difference and variety in accounting practice.

The standards cover a wide range of accounting practices and they are being developed on a continual basis to ensure that the accounts that are produced represent a true and fair view of the financial position of a given enterprise. The standards are intended to supplement the regulations that stem from government legislation and in some cases they may be followed rather than the legal rules, if this will be more likely to lead to a presentation that demonstrates a true and fair view. In such circumstances the accounts must be accompanied with an explanation of why there has been a departure from the normal legal rules.

<b>Page 4</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>
	<b>Cambridge International Diploma – May 2012</b>	<b>5173</b>

An accounting method is a simple statement as to how the assumption / principles have been applied e.g. the firm has stated that it has employed the reducing balance method of depreciation in order to present a true and fair view of the value of its fixed assets.

An accounting policy is simply a statement that outlines how the organisation has applied various methods in order to produce accounts that are in line with accepted assumptions / principles and where applicable accounting standards.

**(b) Explain how each of the terms in 2(a) above are used in the accounting process. [8]**

Allow 1–4 marks for a vague explanation as to how some of the terms are related e.g. the answer identifies that a principle has been implemented and that an appropriate accounting method has been adopted to ensure that the principle can be applied. It is unlikely that the answer will include a useful example.

Allow 5–8 marks for an explanation that clearly indicates how most or all of the terms are related e.g. the answer clearly links the terms and shows how a chosen principle is in line with accepted accounting standards and the chosen method is appropriate choice to ensure that the principle can be applied. Also the policy further underpins the accounting process.

**[Total: 20]**

**3 (a) Explain the various internal sources of funding available to the company. [8]**

Allow 1 mark for identifying an internal source and a further 1 mark for an explanation of the source.

Retained profits, sale of assets, sale and leaseback, etc.

**(b) Explain the various external sources of funding available to the company, distinguishing between short term and long term sources. [12]**

Allow up to 6 marks for short term sources and up to 6 marks for long term sources.

Allow 1 mark for identifying an external source and a further 1 mark for an explanation of the source.

Short term – bank loans and overdrafts, trade credit, leasing, debt factoring, trade bills etc.

Long term – share capital (types of share), loan capital (mortgage, debentures)

**[Total: 20]**

<b>Page 5</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>
	<b>Cambridge International Diploma – May 2012</b>	<b>5173</b>

- 4 (a) Explain why a business needs to hold some of its assets in petty cash and how it is used. [4]**

Allow up to 2 marks for any relevant reason that is explained e.g.

All business need to keep a small amount of cash on hand to pay for minor expenses e.g. to buy milk, to purchase postage stamps etc.

Also cash should be held in order to deal with emergencies e.g. to pay for minor repairs.

This cash is known as the cash float or the petty cash account.

- (b) Explain, with your own example, how the imprest system operates. [8]**

Allow up to 4 marks for an explanation of the imprest system and a further 4 marks for an example of how the imprest system works.

Possible content:

Many businesses operate with what is known as the imprest system where an agreed amount of money is always to be held in the petty cash account. If the balance falls below the agreed figure a withdrawal is made from the bank account to top up the petty cash.

Example – a firm has decided that the minimum amount of petty cash that needs to be held at all times is \$200. During one month the total value of all petty cash vouchers issued is \$78, leaving a balance of \$122. The firm could easily leave the balance as it is because it is likely to be sufficient to cover petty cash requirements for the next month.

However, the imprest system requires that \$78 is transferred from the bank account to the petty cash account to bring the balance back to \$200.

- (c) Distinguish between accounting records and books of accounts, explaining how each is used within the accounting process. [8]**

Allow up to 4 marks for each explanation of how the records / books will be used e.g. invoices will be used to record purchases / sales and provide the information regarding the revenue / costs of the business. They provide the basic data for entry into the prime entry books.

The books of account contain summarised information regarding the activities of the business e.g. the sales ledger will contain information regarding the sales to individual clients which can be used to monitor the overall level of sales.

**[Total: 20]**

Page 6	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – May 2012	5173

- 5 (a) Explain what is meant by working capital and produce a formula that could be used to calculate working capital. [4]

Allow 2 marks for a complete definition of the term e.g. the surplus of current assets beyond current liabilities.

Allow a further 2 marks for a statement of the formula –

Current assets – Current liabilities = Working capital.

- (b) (i) Explain why it is important to monitor the level of working capital. [2]

Allow up to 2 marks for any well explained reason e.g. if working capital is too low, there may not be sufficient funds to pay the creditors and the suppliers may decide not to sell products to the firm. This will disrupt the production process and lead to falling sales revenue and even closure of the business.

- (ii) Explain two methods that could be used to increase the level of working capital. [2 × 2 = 4]

Allow up to 2 marks for any valid method of increasing the level of working capital.

These methods will be either increasing the level of current assets and / or decreasing the level of current liabilities e.g. increase the level of cash or reduce the level of creditors.

- (c) Using the information in Item A, calculate the current level of stocks that are being held by the company. [6]

Allow up to 3 marks for an answer that demonstrates that the candidate understands how to undertake the calculation but there are errors in the calculation.

Allow 4–6 marks for an answer that uses the correct method and arrives at the correct result.

See Appendix 1 for suggested solution

- (d) If the company implements the proposed changes, explain what will be the likely effect on the level of working capital. [4]

Allow up to 2 marks for identifying and explaining any effect of the proposed changes e.g. if the customers cannot obtain credit, the debtors total is reduced and this reduces the working capital, unless they pay cash in which case the level of working capital may be unaltered etc.

[Total: 20]

Page 7	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – May 2012	5173

## Appendix 1 – Suggested Solution

### 5 (c)

Current ratio = Current assets: Current liabilities  
 Current liabilities = Creditors + Dividend + Overdraft + Taxation  
 = \$200 000 + \$60 000 + \$40 000 + \$40 000 = \$340 000  
 Current assets = \$340 000 × 125% = \$425 000  
 Current assets = Debtors + Cash + Stocks  
 = (\$200 000 × 150%) + \$38 000 + ?  
 = \$338 000 + ?  
 Therefore Stocks = \$425 000 – £338 000 = \$87 000