

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
Cambridge International Diploma Advanced Level

## **MARK SCHEME for the May 2013 series**

### **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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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- 1 (a) Explain how Tony's duties as a non-executive director would differ from those of an executive director. [4]

Allow **up to 2 marks** for explaining how the duties of **each** person will be different e.g. Tony will be required to produce reports to be submitted to the board but will not take any active part in the running of the company, but will vote on issues at the board meetings.

An executive director will be active within the company and is likely to produce and commission several reports to be submitted to the board. He may or may not be entitled to a vote at the board meetings.

- (b) Explain why the company is able to charge premium prices for its products. [2]

Allow **up to 2 marks** for the quality of the explanation e.g. a premium is an additional amount that is added to the sales price as the goods on sale are perceived to be of a higher quality and therefore consumers will be prepared to pay the higher price.

- (c) (i) Explain what is meant by a scrip issue and convertible loan stock. [2 × 2 = 4]

Allow **up to 2 marks** for explaining each term e.g.

A scrip issue involves giving 'free' shares to existing shareholders on the basis of their existing shareholdings. The funds for these shares comes from the retained profits of the company and this process is often known as capitalisation of the profits.

Convertible loan stock represents a loan to the company that will attract interest payments. The stock is time dated and on maturity the stock can be converted into ordinary shares of the company at an agreed price.

- (ii) Explain why it would be sensible to raise the additional finance through a combination of methods. [6]

To achieve the full **6 marks** the candidate should produce an answer that includes a discussion of the motives of **both** the company and the investors e.g. the company can attract a wider range of investors, some want regular safe interest rewards whilst the additional shares keep shareholders happy. The loan stock will not be associated with extra voting rights and therefore there is no loss of control. The scrip issue is 'costless' to the company and ensures that the capital becomes a permanent feature of the company.

- (d) Explain how one of the external factors mentioned in the case study could affect the profitability of the company. [4]

Allow **1 mark** for extracting a relevant factor from the case study and a **further 3 marks** for explaining how the factor could affect the company.

To achieve **the full 4 marks** the answer must explain the **possible impact on the profit** of the company.

External factors – relaxation of trade policy, fluctuating exchange rates, employment policy.

Example – fluctuating exchange rates may mean that the prices of imported components rises or falls, leading to increased or decreased costs and therefore higher or lower profits.

[Total: 20]

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**2 Using the information in Item A:**

- (a) Calculate, using the LIFO method of stock valuation, the value of stock retained and the value of stock issued. [6]**

**Level 1** Candidate demonstrates some knowledge of process required – many errors in calculations (1–3 marks)

**Level 2** Candidate shows understanding of the process required and errors are fewer and at the top end the answers are accurate (4–6 marks)

- (b) Calculate, using the FIFO method of stock valuation, the value of stock retained and the value of stock issued. [6]**

Answer key as for 2(a).

For suggested solutions to 2(a) and 2(b) see Appendix 1.

- (c) State, with reasons, which method of stock valuation you would choose for Direct Components Ltd. [4]**

Allow **up to 2 marks** for any valid choice of method that is well explained

e.g. choosing the LIFO method will increase the cost of sales, thus reducing the gross profit figure in line with the prudence concept.

Choosing the FIFO method will mean higher retained stock figures will be recorded which is more representative of the actual value of the stocks being held in line with the historic cost concept.

- (d) Explain one advantage and one disadvantage of carrying large stocks of raw materials. [2 × 2 = 4]**

Allow **up to 2 marks** for any well explained advantage/disadvantage.

Advantages – able to deal with additional unexpected orders, ability to make savings if the cost of current stocks is rising.

Disadvantages – possibility of making losses if stocks deteriorate, are stolen or the final goods go out of fashion etc.

**[Total: 20]**

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**3 Explain the role that each of the following will play in the accounting process, and outline which activities they are likely to be involved in:**

**(a) the bookkeeper [4]**

Allow **up to 2 marks** for explaining the role of the individual and **a further 2 marks** for outlining the kind of activities that they will be involved in.

The bookkeeper is involved in the initial stage of the accounting process and will be responsible for entering data from the financial records. They will be responsible for ensuring that the books of prime entry are maintained according to the appropriate accounting standards.

**(b) the financial accountant [4]**

Allow **up to 2 marks** for explaining the role of the individual and **a further 2 marks** for outlining the kind of activities that they will be involved in.

The financial accountant will be concerned with establishing a system for recording of transactions and production of standardised accounting documents. It is likely that they will deal with the secondary books of account such as the ledgers and that they will produce the trial balance. At year end they will produce the required financial statements and these will be available for external users.

**(c) the management accountant [4]**

Allow **up to 2 marks** for explaining the role of the individual and **a further 2 marks** for outlining the kind of activities that they will be involved in.

The management accountant will be involved in producing documents and reports for internal users on an ad hoc basis. These documents will be used primarily by the managers in the decision-making process. Examples would include cash budgets and budgeted profit and loss statements.

**(d) the cost accountant [4]**

Allow **up to 2 marks** for explaining the role of the individual and **a further 2 marks** for outlining the kind of activities that they will be involved in.

The cost accountant will fulfil a similar function to the management accountant but is more likely to concentrate on producing reports that deal with issues of reducing costs. They are likely to be involved in the production of standard costing statements and variance analysis reports.

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**(e) the auditor [4]**

Allow **up to 2 marks** for explaining the role of the individual and **a further 2 marks** for outlining the kind of activities that they will be involved in.

The auditor is an outsider whose main role is to check the accuracy of the year-end statements and to check that these statements have been produced according to the recognised accounting standards. In addition, the auditor may produce a report that contains recommendations for the future conduct of the organisation.

**[Total: 20]**

**4 Using the information contained in Item B:**

**(a) Calculate the number of days, to the nearest whole number, 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 several 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 at the top end correctly complete the calculations. (4–6)

See Appendix 2 for the suggested solution.

For an answer that expresses the break-even point in units allow a maximum of 3 marks.

**(b) State which of the machines you would recommend should be purchased, giving two reasons for your choice. [2 × 2 = 4]**

Allow **up to 2 marks** for any reason that is relevant and well discussed e.g. buy machine 2 since as the break-even point is lower and it has lower labour costs per unit of output etc.

**(c) Explain what other information you would require before you made a decision to pay for the machinery in full. [4]**

Allow **up to 2 marks** for any sensible suggestion that is well explained e.g. will the current level of sales be guaranteed in the future, what would be the costs associated with leasing or buying the machine through a hire purchase agreement etc.

**[Total: 20]**

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5 (a) Explain, with examples, what is meant by each of the following:

(i) the books of prime entry [4]

Allow **2 marks** for an answer that provides a reasonable definition of prime entry and a further **2 marks** if the answer provides additional explanation by providing examples.

The initial books where raw accounting data is entered from the records such as invoices, delivery notes etc.

Cash book, sales day book, purchases day book etc.

(ii) the interim accounts [4]

Allow **2 marks** for an answer that provides a reasonable definition of interim accounts and a further **2 marks** if the answer provides additional explanation by providing examples.

The secondary books of account where the totals from the prime books are summarised and posted. Interim statements may be produced to ensure that the initial entries have been correctly entered.

Sales ledger, purchase ledger, trial balance etc.

(iii) the end-of-year statements [4]

Allow **2 marks** for an answer that provides a reasonable definition of end-of-year statements and a further **2 marks** if the answer provides additional explanation by providing examples.

The final accounting statements produced at the end of the accounting period when the interim accounts have been closed off and the totals are transferred.

Balance sheet, P&L account, cash flow statement etc.

(b) Explain two financial advantages and two financial disadvantages that could result from introducing a computerised accounting system. [4 × 2 = 8]

Allow **up to 2 marks** for each advantage/disadvantage if they are well explained. The advantages/disadvantage must be related to finance.

For general advantages/disadvantages that do not include financial implications allow a **maximum of 1 mark**.

Advantages – computerisation will lead to quicker decision making which will involve cost savings, all staff will have access to information and this may lead to a culture of cost saving etc.

Disadvantages – the initial installation cost may be high and there will be a need for staff training which could be expensive, there could be security issues which will be expensive to solve etc.

[Total: 20]

**Appendix 1**

**2 (a)**

LIFO method

Date	Purchases units	Issued units	Stock retained units	Stock value \$
1 June			10 000	60 000
15 June	4 000		14 000	84 000
17 June		8 000	6 000	36 000
29 June		4 000	2 000	12 000
30 June	3 000		5 000	30 000
18 July		1 000	4 000	24 000
20 July	5 000		9 000	59 000
22 July		8 000	1 000	6 000
27 July	1 000		2 000	13 600
13 August	3 000		5 000	37 600
18 August		4 000	1 000	6 000
4 September	5 000		6 000	46 000
5 September		3 000	3 000	22 000
20 September	3 000		6 000	47 500
21 September		4 500	1 500	10 000

Stock issued =	\$48 000	Stock value retained = \$10 000
	\$24 000	
	\$ 6 000	
	\$53 000	
	\$31 600	
	\$24 000	
	<u>\$37 500</u>	
	<u>\$224 100</u>	

**2 (b)**

FIFO method

Date	Purchases units	Issued units	Stock retained units	Stock value \$
1 June			10 000	60 000
15 June	4 000		14 000	84 000
17 June		8 000	6 000	36 000
29 June		4 000	2 000	12 000
30 June	3 000		5 000	30 000
18 July		1 000	4 000	24 000
20 July	5 000		9 000	59 000
22 July		8 000	1 000	7 000
27 July	1 000		2 000	14 600
13 August	3 000		5 000	38 600
18 August		4 000	1 000	8000
4 September	5 000		6 000	48 000
5 September		3 000	3 000	24 000
20 September	3 000		6 000	49 500
21 September		4 500	1 500	12 750

Stock issued =	\$48 000	Stock value retained = \$12 750
	\$24 000	
	\$ 6 000	
	\$52 000	
	\$30 600	
	\$24 000	
	<u>\$36 750</u>	
	<u>\$221 350</u>	

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## Appendix 2

### Machine 1

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

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

$$\text{Sales revenue per day} = \$6 \times 1500 = \$9000$$

$$\text{Running costs per day} = \$300 + \$50 + (1500 \times \$3) = \$4850$$

$$\text{Contribution} = \$9000 - \$4850 = \$4150$$

$$\text{Break even} = \frac{\$500\,000}{\$4150} = 120.48 = 120 \text{ days}$$

### Machine 2

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

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

$$\text{Sales revenue per day} = \$6 \times 2000 = \$12\,000$$

$$\text{Running costs per day} = \$300 + \$60 + (2000 \times \$3) = \$6360$$

$$\text{Contribution} = \$12\,000 - \$6360 = \$5640$$

$$\text{Break even} = \frac{\$600\,000}{\$5640} = 106.38 = 106 \text{ days}$$