



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

BUSINESS FINANCE

5173/01

Optional Module

May 2013

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 **5** printed pages and **3** blank pages.



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

Direct Components Ltd.

Direct Components Ltd has recently appointed Tony Ling as a non-executive financial director. Tony has considerable experience, having worked for several large investment banks in Asia and America. He has been asked by the Chief Executive Officer (CEO) to examine all financial aspects of the business to see if any cost savings can be made. Tony has already begun to examine the finances and he has uncovered some good practices and some wasteful methods of operation. 5

Tony is impressed with the overall cost saving policies adopted by the company. In particular, the cost-centred approach to allocating overheads and the fact that the company has a formal approach to appraising future investments. However, he is concerned with the company policy to carry large stocks of materials. He is also concerned with the overstaffing of the financial department which has many individuals including bookkeepers and various qualified accountants. This last issue has been raised by the company's auditor on a number of occasions, but no corrective action has ever been taken. 10

Tony has suggested that the company should consider introducing a computerised accounting system that would deal with the prime books of entry, the interim accounts and final end-of-year statements. 15

The company has been in existence for six years and in each of these years it has reported profits well above the industry average. It has established a reputation for producing and supplying good quality products which are sold at premium prices. Tony has pointed out that due to the relaxation of trade policy by the government, it is likely that the company will face much greater competition in the future and the company therefore needs to review its pricing policy. He has also reported that the practice of importing some of the components may need to be reviewed and that the company should consider investing in new machinery to manufacture these components instead. He has suggested that the company could raise the necessary finance by a combination of a scrip issue and offering additional convertible loan stock. 20

Tony has reviewed the distribution function of the company which appears to be quite efficient, but he has made a suggestion for improvement. He has recommended that the company should begin selling through its own website. 25

A number of external factors are likely to have an impact on the company in the immediate future and Tony has highlighted two factors in particular. Recent government policy has led to fluctuations in the exchange rate. The government is offering interest free loans to be given to any business organisation that increase its permanent workforce. 30

Financial Information

Item A

Extracted stock figures for Direct Components Ltd June-September 2012.

Opening Stock 1 June 10 000 units @ \$6.00¹ per unit.

Purchases

Date	Units	Cost per unit
15 June	4 000	\$6 00
30 June	3 000	\$6 00
20 July	5 000	\$7 00
27 July	1 000	\$7 60
13 August	3 000	\$8 00
4 September	5 000	\$8 00
20 September	3 000	\$8 50

Stock issued

Date issued	Units
17 June	8 000
29 June	4 000
18 July	1 000
22 July	8 000
18 August	4 000
5 September	3 000
21 September	4 500

Item B

		Machine 1	Machine 2
Purchase Price		\$500 000	\$600 000
Maximum output per day		1 500 units	2 000 units
Unit sales price		\$6	\$6
Running costs			
	Labour costs per day	\$300	\$300
	Maintenance costs per day	\$50	\$60
	Material costs per unit	\$3	\$3

You should assume that each of the machines will operate at full capacity and that all output can be sold.

¹ Quoted in US dollars

You must attempt ALL of the following tasks.

Where appropriate use information from the case study to support your answer.

- 1 (a) Explain how Tony's duties as a non-executive director would differ from those of an executive director. [4]
- (b) Explain why the company is able to charge premium prices for its products. [2]
- (c) (i) Explain what is meant by a scrip issue and convertible loan stock. [2 x 2 = 4]
- (ii) Explain why it would be sensible to raise the additional finance through a combination of methods. [6]
- (d) Explain how **one** of the external factors mentioned in the case study could affect the profitability of the company. [4]

[Total: 20]

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]
- (b) Calculate, using the FIFO method of stock valuation, the value of stock retained and the value of stock issued. [6]
- (c) State, with reasons, which method of stock valuation you would choose for Direct Components Ltd. [4]
- (d) Explain **one** advantage and **one** disadvantage of carrying large stocks of raw materials. [2 x 2 = 4]

[Total: 20]

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]
- (b) the financial accountant [4]
- (c) the management accountant [4]
- (d) the cost accountant [4]
- (e) the auditor [4]

[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 x 6 = 12]**
- (b) State which of the machines you would recommend should be purchased, giving **two** reasons for your choice. **[2 x 2 = 4]**
- (c) Explain what other information you would require before you made a decision to pay for the machinery in full. **[4]**

[Total: 20]**5** (a) Explain, with examples, what is meant by each of the following:

- (i) the books of prime entry **[4]**
- (ii) the interim accounts **[4]**
- (iii) the end-of-year statements **[4]**
- (b) Explain **two** financial advantages and **two** financial disadvantages that could result from introducing a computerised accounting system. **[4 x 2 = 8]**

[Total: 20]

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.