



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

**BUSINESS FINANCE**

**5173/01**

Optional Module

**May 2012**

**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.)

### **South East Electricals Ltd.**

Robert Green has just taken up a position as a non-executive director on the board of South East Electricals Ltd. Robert spent several years working in the banking industry before he took up a position teaching management accounting at the local university. His first impression about the current accounting process within the company is that it is totally disorganised, with very few staff aware of even the basics of accounting. He has studied the background of the other board members and senior staff and he is concerned that most of them have very limited knowledge of how the company's computerised accounting system operates. He is therefore keen to introduce a training programme to help them to understand the basic principles of the accounting model and knowledge of accounting methods, policies and standards. 5

At present the bookkeeping of the company is carried out by a number of part-time staff, who simply enter figures from the accounting records into the computerised books as they arrive and there is no coordination of their activities. The company has never produced a trial balance and there are no management accounting reports in existence. The handling of cash within the company is on an *ad hoc* basis and Robert has suggested that the company should monitor its petty cash closely by introducing the imprest system. In addition, he has recommended much tighter controls of the working capital of the company. 10 15

The company has been in existence for five years and it has established a reputation for producing quality products at reasonable prices. The company's Managing Director and major shareholder, Henry Chan, is very proud of this achievement and he is keen to maintain this reputation. Henry trained as an engineer and he has registered patents on some of the products that the company manufactures. When he established the business he borrowed money from both family and the bank and he chose at the outset to operate as an incorporated business. 20

Robert and Henry have discussed the future of the company on several occasions and both agree that, in the near future, there will be a need to invest in new equipment to cope with the increased competition. Henry has suggested that internal sources of finance should be employed to raise the additional capital, whereas Robert has proposed that external sources of capital would be better. Robert has agreed to produce a report, showing the advantages of both sources, for the next Board meeting. 25

## Financial Information

### Item A

Working capital information

The current ratio had been calculated at 1.25: 1

Creditors	\$200 000 <sup>1</sup>
Provision for dividend	\$60 000
Cash	\$38 000
Debtors 150% of the creditors' total	
Overdraft	\$40 000
Provision for taxation	\$40 000

Stocks are to be calculated.

The Finance Director has suggested a number of changes to the working capital totals for the next financial year. These include reducing the amount of credit allowed to the customers, paying off all creditors within 40 days instead of 50 days, and reducing the level of the overdraft by using some of the cash reserves.

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<sup>1</sup> 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 what is meant by a non-executive director [3]
- (b) Explain **two** advantages that may result from operating a computerised accounting system. [2 x 2 = 4]
- (c) Explain what is meant by a trial balance and explain **one** advantage of producing a trial balance. [5]
- (d) Explain what is meant by a patent and explain how a patent is treated in the accounts of a business. [4]
- (e) Explain **two** advantages that would result from operating as an incorporated business. [2 x 2 = 4]
- [Total: 20]**
- 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]
- (b) Explain how **each** of the terms in 2(a) above are used in the accounting process. [8]
- [Total: 20]**
- 3 (a) Explain the various internal sources of funding available to the company. [8]
- (b) Explain the various external sources of funding available to the company, distinguishing between short term and long term sources. [12]
- [Total: 20]**
- 4 (a) Explain why a business needs to hold some of its assets in petty cash and how it is used. [4]
- (b) Explain, with your own example, how the imprest system operates. [8]
- (c) Distinguish between accounting records and books of accounts, explaining how **each** is used within the accounting process. [8]
- [Total: 20]**

- 5 (a) Explain what is meant by working capital and produce a formula that could be used to calculate working capital. [4]
- (b) (i) Explain why it is important to monitor the level of working capital [2]
- (ii) Explain **two** methods that could be used to increase the level of working capital. [2 x 2 = 4]
- (c) Using the information in **Item A**, calculate the current level of stocks that are being held by the company. [6]
- (d) If the company implements the proposed changes, explain what will be the likely effect on the level of working capital. [4]

[Total: 20]





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