

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

## **MARK SCHEME for the October 2008 question paper**

### **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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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

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You must attempt ALL of the following tasks

- 1 (a) Identify and explain *two* possible disadvantages of running Occasions as a sole trader. [4]

Allow **1 mark** for listing a disadvantage and a **further mark** if an explanation is given.

e.g. unlimited liability – may lead to bankruptcy

unable to perform all tasks – need to employ experts etc.

- (b) Explain what is meant by ‘reschedule the existing bank loan’ and explain why the bank would agree to do this. [4]

Allow up to **2 marks** for explaining the process of rescheduling – loan payments being adjusted to alleviate cash flow problems – lower payments and/or longer repayment period

Allow up to **2 marks** for explaining why the bank would reschedule – allow the firm to continue in business - keep their custom – no alternative if the firm was forced to close – bank can adjust the repayments to create more profits for the bank in the future.

- (c) Explain what is meant by ‘a franchise agreement’ and explain how an agreement like this would operate. [4]

Allow **2 marks** for explaining what a franchise is and a **further 2 marks** for the explanation as to how it will operate.

- (d) Explain, using your own examples, what is meant by ‘double entry bookkeeping’. [4]

Allow up to **2 marks** for a vague statement regarding making two entries for any transaction

To **achieve a full award** the candidate should refer to dual recording and mention positive and negative aspects of the entry/credit and debit entries possibly with a worked example.

- (e) (i) Explain what is meant by ‘working capital’. [2]

Allow **1 mark** for a vague statement e.g. day to day running

For **the full award** the answer should refer to Net current assets – i.e. current assets – current liabilities.

- (ii) Calculate the current working capital of Occasions. [2]

Allow **1 mark** if the correct data has been extracted but the calculation is wrong.

Allow **2 marks** if the correct figure is given without any workings.

Current assets = \$28,000 Current liabilities = \$25,500

Net current assets = \$2,500

[Total: 20]

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- 2 (a) Explain the legal and the financial formalities that need to be followed in order to establish a limited company. [8]**

Allow up to **4 marks** for legal formalities and **4 marks** for financial formalities.

If candidate only refers to **legal or financial** maximum of **4 marks**.

Allow up to **2 marks** per well explained point.

Legal – registration procedures, need to comply with company legislation etc.

Financial – required to sell/purchase quota of shares, appointment of auditors etc.

- (b) Identify and explain one financial advantage and one financial disadvantage that would result from the process of incorporation. [4]**

Allow **1 mark** for listing relevant advantage/disadvantage.

Allow **1 additional mark** for explanation of the points listed.

Adv. – access to more capital, enhanced financial status, possible to obtain cheaper loans etc.

Disadv. – legal costs of formation, need to pay out dividend in the future etc.

- (c) Distinguish between ordinary shares, preference shares and debentures as methods of raising capital for the limited company. [8]**

Allow **2 marks** for a complete definition of each method of raising finance.

To achieve **the additional 2 marks** the candidate should draw comparisons between the sources of finance.

**[Total: 20]**

- 3 Use the information in Item A and employ the straight line method of depreciation**

- (a) Calculate the annual depreciation allowances for the vehicles and for the cooking equipment. [8]**

4 marks are available for each calculation.

**Level 1** The candidate demonstrates some knowledge of the process required but the calculations are incomplete and/or contain errors. [1–2 marks]

**Level 2** The candidate applies the process well to the task and produces accurate results. [3–4 marks]

- (b) Calculate the book value of the vehicles and the cooking equipment at the end of Year 3. [6]**

3 marks are available for each calculation

**Level 1** The candidate provides evidence of knowing how to complete the task but the process is incomplete and/or contains errors. [1–2 marks]

**Level 2** The process is well applied to the task and produces accurate results. [3 marks]

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- (c) (i) Identify *one* alternative method of depreciation that could be employed by the firm, and explain how the method is applied. [3]

It is most likely that the candidates will identify the reducing balance method of depreciation although allow credit if they select the sum of digits method.

- (ii) Explain the circumstance in which this method would be more suitable than the straight line method. [3]

Allow **up to 3 marks** for listing the method and any explanation of how the method is applied.

To achieve a **full award** the candidate must provide an explanation of why the alternative method is more suitable – e.g. it would allow for increased depreciation allowances in the early years for assets that tend to lose their value quickly e.g. computers, vehicles.

For suggested solution to (a) and (b) see Appendix 1

[Total: 20]

- 4 (a) Using the information provided in the case study and Item B, produce in an appropriate format, a balance sheet for the firm as at 31 September 2008. [13]

**Level 1** The candidate provides limited evidence of understanding the nature of the balance sheet and fails to extract information correctly. The structure of the balance sheet is incomplete and there are likely to be several errors in the calculations. [1–5 marks]

**Level 2** As above but the structure is clearly better understood and the candidate has made fewer errors in extracting/classifying the data. It is likely that not all of the subtotals are correct/included. [6–10 marks]

**Level 3** As Level 2 but errors are fewer and the format/structure is complete with correctly calculated totals. [11–14 marks]

- (b) Explain how the profit and loss account and the cash flow statement can be used to measure the performance of the business. [6]

Allow up to **2 marks** for a description of what is contained in each of the statements. If both statements are described allow **4 marks**.

Allow **2 further marks** if the answer discusses how either of the statements can be used.

For suggested answer to 4 (a) see Appendix 2

[Total: 20]

- 5 (a) Identify and explain three external (PEST) factors that could influence the future profitability of the firm. [12]

Allow **1 mark** for each factor identified

Allow **up to 3 additional marks** for a reasoned explanation of how each factor could influence the future level of profits. To achieve a **full award** the response must link the factor to changes in costs and/or revenues and then by implication the level of profit.

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e.g. exchange rate changes alter costs – need to change prices – revenue changes – profits altered

- (b) Identify and explain what information Maria should have included in her business plan. [8]**

Allow up to **2 marks per item** listed if an explanation is given – e.g. sales estimates showing revenue streams, cash budget showing cash flows etc.

**[Total: 20]**

### Appendix 1

**(a) Depreciation (Equipment) =  $\frac{\text{Initial Purchase Price} - \text{Residual Value}}{\text{Useful Life in years}}$**   
 $= \frac{\$33,000 - \$2,000}{5} = \$6,200$

Depreciation (Vehicles) = \$4,612.5

**(b) Book value (Equipment) = Initial purchase price – Accumulated Depreciation**  
 $= \$33,000 - (\$6,200 \times 3) = \$14,400$

Book value (Vehicles) = \$27,162.5

### Appendix 2

	\$	\$	\$
<b>Fixed Assets</b>			
Premises		25,000	
Vehicles		15,000	
Equipment		23,000	
			63,000
<b>Current Assets</b>			
Stock	7,000		
Debtors	18,000		
Cash	3,000		
		28,000	
<b>Current Liabilities</b>			
Creditors	4,500		
Loan	21,000		
		25,500	
Net Current Assets			2,500
Net Assets Employed			65,500
Mortgage		8,000	
			57,500
<b>Capital Account</b>			
Owners Capital		30,000	
Net Profit		20,500	
Drawings		7,000	57,500

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