



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

BUSINESS FINANCE

5173/01

Optional Module

October 2008

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 **4** printed pages.



You must read the case study and attempt ALL of the tasks that follow.

(The case study is fictitious.)

OCCASIONS

Maria was feeling quite pleased with the publicity that her firm, Occasions, had received as a result of an article in the local newspaper. Maria provides catering services for clients who want to host a special event. The meals can be cooked at the client's premises or prepared in advance and delivered when required. Although Maria has only been trading for two years, she has already established a reputation for quality and she wants to build on this reputation. Recently, one of her private clients suggested that she might enter the corporate market by providing catering for conferences and exhibitions. Maria is unsure about this development as it would involve a considerable capital investment. 5

Maria first gained experience of catering when she ran a fast food restaurant under a franchise agreement with a major food retailer. Although this was quite profitable, she always wanted to be her own boss and this led to her establishing Occasions. She is currently trading as a sole trader but her bank manager has suggested that she should consider forming a limited company, especially if she is to go ahead with her expansion plans. Maria contributed all of the initial capital to the business and has also put in a further \$10,000 during the current trading year. 10

Maria currently shares premises with another business but changes in health and safety rules will mean that she will have to find alternative premises in the near future. She employs three part-time staff to prepare the food and some casual workers to serve the meals. She obtains most of her ingredients from the local markets but the more unusual ingredients have to be imported. Maria has noticed that many more of her clients are asking for organic food (food grown without the use of chemicals) and she is looking into the possibility of an alternative choice of menu. 15
20

Maria is very competent at keeping the books of the business and she fully understands the concept of double-entry bookkeeping. She does, however, employ a professional accountant to produce the end of year financial statements. She is currently training her staff in the principles of the standard accounting model so that she will have more time to devote to marketing her business. 25

She has recently put together a business plan which she has discussed with her bank manager. Although he is supportive, he has suggested that she must manage her working capital better and that she needs to introduce a formal system for depreciating the fixed assets. He has also agreed to reschedule the existing bank loan until she has made a decision about forming the limited company. He did point out that in the near future it is likely that the exchange rate would fall and therefore the business plan would need to be amended. 30

Financial Information

Item A

Purchase price of new equipment: \$33 000

Expected useful life: 5 years

Residual (scrap) value: \$2000

Purchase price of new vehicles: \$41 000

Expected useful life: 8 years

Residual value: 10% of purchase price

Item B

Figures extracted from the records of Occasions for the year ending 31 September 2008

Items	\$ ¹
Premises	25 000
Stock	7 000
Loan	21 000
Drawings	7 000
Creditors	4 500
Initial Capital	20 000
Mortgage	8 000
Debtors	18 000
Net Profit	20 500
Cash	3 000
Vehicles	15 000
Equipment	23 000

¹ Figures quoted in \$US

You must attempt ALL of the following tasks.

- 1 (a) Explain **two** possible **disadvantages** of running Occasions as a sole trader. [2 x 2 = 4]
- (b) Explain what is meant by 'reschedule the existing bank loan' and why the bank would agree to do this. [4]
- (c) Explain what is meant by 'a franchise agreement' and how it operates. [4]
- (d) Explain, using your own examples, what is meant by 'double-entry bookkeeping'. [4]
- (e) (i) Explain what is meant by 'working capital'. [2]
- (ii) Calculate the current working capital of Occasions. [2]
- [Total: 20]**
- 2 (a) Explain the legal and the financial formalities that need to be followed in order to establish a limited company. [8]
- (b) Explain **one** financial **advantage** and **one** financial **disadvantage** that would result from the process of incorporation. [2 x 2 = 4]
- (c) Distinguish between ordinary shares, preference shares and debentures as methods of raising capital for a limited company. [8]
- [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 cooking equipment. [8]
- (b) Calculate the book value of the vehicles and the cooking equipment at the end of Year 3. [6]
- (c) (i) Identify **one** alternative method of depreciation that could be employed by the firm and explain how the method is applied. [3]
- (ii) Explain the circumstance in which this method would be more suitable than the straight-line method. [3]
- [Total: 20]**
- 4 (a) Using the information provided in the case study and **Item B** produce, in an appropriate format, a balance sheet for Occasions as at 31 September 2008. [14]
- (b) Explain how a profit and loss account and a cash flow statement can be used to measure the performance of the business. [6]
- [Total: 20]**
- 5 (a) Explain how the **three** external (PEST) factors mentioned in the case study could influence the future profitability of the firm. [3 x 4 = 12]
- (b) Explain what information Maria should have included in her business plan. [8]
- [Total: 20]**

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