

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

**MARK SCHEME for the October 2009 question paper**  
**for the guidance of teachers**

**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.

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**1 (a) Explain what is meant by the term 'insolvent'. [2]**

For a vague statement such as cash shortages allow 1 mark.

Allow 2 marks if the answer refers to inability to meet both current and long term liabilities.

**(b) Explain *one* advantage and *one* disadvantage of operating as a franchisee. [4]**

Allow 1 mark for identifying an advantage/disadvantage and a further mark for the quality of the explanation.

A – well known product, advertising of product etc.

D – tied to franchisor, little flexibility on price etc.

**(c) Identify *one* advantage and *one* disadvantage of carrying a wider range of stock. [2]**

Allow 1 mark per advantage/disadvantage.

A – increase in sales, wider range of customers etc.

D – higher stock costs, greater risks of out of date stock etc.

**(d) Explain how *each* of the *four* PEST factors listed in the case study could influence the future profitability of the business. [4 × 3 = 12]**

Allow 1 mark for extracting the relevant material from the case study and a further mark if the answer puts the factor in the relevant PEST category e.g. interest rate rise is economic.

Allow 2 further marks for explaining how the factor might influence the future profits of the business.

Maximum of 3 marks per factor.

[Total: 20]

**2 (a) Explain, with your own example, what is meant by 'double-entry bookkeeping' [4]**

Allow up to 2 marks for the explanation of double entry and a further 2 marks for a correctly worked example.

**(b) Explain, with an example, what is meant by 'historic cost' [4]**

Allow 2 marks for an explanation of historic cost and a further 2 marks for an example that illustrates the principle.

**(c) Explain how *three* additional recognised principles of accounting need to be applied to produce accurate accounting statements. [4 × 3 = 12]**

Allow 1 mark for identifying a principle and a further mark if the answer explains the nature of the principle. Allow a further 2 marks if the answer explains how the application of the principle will contribute towards accuracy in the accounts.

[Total: 20]

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- 3 (a) Use the information contained in *Item 1* and the LIFO method of stock valuation in order to calculate the value of stock issued and the value of stock remaining. [8]

**Level 1** Candidate provides some evidence of the process required to produce a solution but there are several errors/omissions. [1–4 marks]

**Level 2** Candidate demonstrates clear understanding of the process required to produce the correct answers and extracts the data from the case study and produces complete and accurate solutions. [5–8 marks]

For suggested solution see Appendix 1.

- (b) Use the information contained in *Item 1* and the FIFO method of stock valuation in order to calculate the value of stock issued and the value of stock remaining. [8]

**Level 1** Candidate provides some evidence of the process required to produce a solution but there are several errors/omissions. [1–4 marks]

**Level 2** Candidate demonstrates clear understanding of the process required to produce the correct answers and extracts the data from the case study and produces complete and accurate solutions. [5–8 marks]

For suggested solution see Appendix 1.

- (c) Explain what is meant by the AVCO method of stock valuation and explain why a business might employ this method. [4]

Allow 2 marks for explaining what is involved in the AVCO method and further 2 marks if the answer contains a relevant reason for adopting this method e.g. more accurate, provides a realistic cost of sales figure, provides a middle range for profits etc.

[Total: 20]

- 4 (a) Use the information in the case study and *Item 2* to produce an accurate balance sheet for 1 Stop. [14]

**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]

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- (b) Explain how a balance sheet, a profit and loss statement and a cash flow statement can be used to assess the financial position of a business such as 1 Stop. [6]

Allow 2 marks for explaining how each statement can be employed to assess the strengths/weaknesses of the business e.g. balance sheet used to determine the worth of the business, profit and loss measures the relative strength of the business – comparison over time or with competition, cash flow indicates relative liquidity. Reward any relevant discussion.

[Total: 20]

- 5 (a) Explain *two* advantages and *two* disadvantages of setting up in business as a sole trader. [8]

Allow 1 mark for each advantage/disadvantage identified and a further mark if the advantage/disadvantage is explained.

- (b) Explain *two* possible disadvantages of taking on a partner. [4]

Allow 1 mark for each disadvantage identified and a further mark if the disadvantage is explained.

- (c) Explain *two* possible financial advantages and *two* financial possible disadvantages of Mohammad establishing a limited company. [8]

Allow 1 mark for each advantage/disadvantage identified and a further mark if the advantage/disadvantage is explained.

[Total: 20]

## Appendix 1

### FIFO Method

Date	Stock purchased	Stock issued	Stock value remaining \$
July 1			700
July 8	200@\$3.50		1400
July 9		300	350
July 16	300@\$3.75		1475
July 17		200	750
July 19	400@\$4.00		2350
July 21		500	400
July 25	250@\$4.25		1462.50
July 28		300	212.50

Stock issued \$4975.00

### LIFO Method

Date	Stock purchased	Stock issued	Stock value remaining \$
July 1			700
July 8	200@\$3.50		1400
July 9		300	350
July 16	300@\$3.75		1475
July 17		200	725
July 19	400@\$4.00		2325
July 21		500	350
July 25	250@\$4.25		1412.50
July 28		300	175

Stock issued \$5012.50

## Appendix 2

### Balance sheet for 1 Stop as at 30 September 2009

	\$	\$	\$
<b>Fixed Assets</b>			
Premises		30,000	
Vehicles		17,000	
Equipment		32,000	
			79,000
<b>Current Assets</b>			
Stock	7,000		
Debtors	15,000		
Prepayments	850		
Cash	2,750		
		25,600	
<b>Current Liabilities</b>			
Creditors	4,500		
Loan	17,000		
Accrued expenses	2,150		
		23,650	
Net Current Assets			1,950
Net Assets Employed			80,950
Mortgage		18,000	
			62,950
<b>Capital Account</b>			
Owners Capital		25,000	
Net Profit		24,950	
Drawings		13,000	