

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Career Award in Business
Standard Level

BUSINESS FINANCE

Core Module

5163/01

October 2003

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

The time allocated for this examination includes 15 minutes reading time.

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.

You may use a calculator.

Attempt **all** tasks.

Write your answers on the separate Answer Booklet/Paper provided.

At the end of the examination, fasten all your work securely together.

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 the tasks that follow.

The case study is fictitious.

Case Study – U-Win Games

Tan Wing and Sue Lin Twai were two clever, young computer science graduates who had already made some money out of their computer skills. Whilst at University, they had produced and sold a computer game for which they had received a lump sum payment and a share of the royalties. Although neither of them had any formal business training, they decided that they wished to go into business producing computer games that they would market themselves. They were also confident that they would receive some contract work from other firms. 5

They both had \$5,000 to contribute towards the initial capital of their business but they believed that they would require \$40,000 by the end of their first year in order to achieve their targets.

Tan had approached his uncle, who was an auditor, for advice on becoming established, and he had produced a list of issues that he thought that Tan and Sue should consider. 10

- Were they intending to operate as an incorporated or an unincorporated organisation?
- Were they intending to finance their expansion plans from their profits or by borrowing?
- What was the minimum amount of capital with which they could commence the business?
- Had they considered leasing equipment rather than outright purchase? 15
- Were they intending to keep their own accounts?
- If so, did they understand the process of double entry bookkeeping and did they appreciate the need to establish an accounting system according to standard accounting concepts?

He suggested that they think through these issues, and that they should produce a fully costed business plan. 20

Sue Lin had already produced some figures relating to two different production systems. Proposal A would allow them to undertake only their own work, whereas Proposal B would allow them to take on contract work in addition.

	PROPOSAL A	PROPOSAL B
Rental of premises	\$5,000	\$5,000
Purchase of Computer Equipment	\$6,000	\$10,000
Production wages	\$40,000	\$50,000
Consumables	\$4,000	\$5,000
Sales expenses (advertising, distribution)	\$10,000	\$10,000
Fuel, power, light	\$5,000	\$5,000
Estimated Sales Turnover	\$120,000	\$120,000 plus \$30,000 commission

It was suggested that the allocation of rent and fuel expenses should be 60% to production and 40% to administration and marketing.

The computer equipment would be depreciated on a straight-line basis at 50% per year.

Table 1 Cash Budget Information for Proposal B.

Cash Budget Information	Date	\$
Opening Cash Balance	1 January	3 000
Purchases - consumables	January	500
	February	300
	March	250
	April	250
Purchase of computer equipment (Proposal B)	January	50% payable
	February	25% payable
	March	25% payable
Overheads – rent, fuel, wages, sales expenses (Proposal B)		One twelfth of annual figures
Sales estimates	January	10 000
	February	15 000
	March	5 000
	April	5 000

You must attempt ALL of the following tasks.

- 1 (a) Explain the difference between a 'lump sum payment' and a 'share of the royalties' (line 3). [2]
- (b) (i) Explain what is meant by the term 'auditor' (line 9). [2]
- (ii) Identify **two** services that an auditor could provide for U-Win Games. [2]
- (c) Explain the difference between 'an incorporated and an unincorporated organisation' (line 12). [4]
- (d) (i) Explain what is meant by the term 'leasing' (line 15). [2]
- (ii) List **one** advantage and **one** disadvantage to U-Win Games of leasing computer equipment. [2]
- [Total: 14]**
- 2 (a) Identify **four** sources of capital that could be used to finance the proposed business venture. [4]
- (b) For **each** source that you have selected, explain the financial consequences to the business of using that source. [4 x 3 = 12]
- [Total 16]**
- 3 (a) From the information provided by Tan and Sue Lin produce a four month (January - April) Cash Budget for Proposal B. [12]
- (b) Identify and explain **two** reasons why producing a cash budget would be useful to Tan and Sue Lin. [4]
- [Total 16]**
- 4 (a) Explain what is meant by the term 'double entry bookkeeping' (line 17). [4]
- (b) Identify and explain the double entry balancing equation. [2]
- (c) List **three** financial records and **three** books of account that the firm should be keeping. [6]
- [Total 12]**
- 5 (a) Identify **three** standard accounting concepts. [3]
- (b) Explain how **each** of these concepts contributes to the production of accurate accounts. [3 x 3 = 9]
- [Total 12]**
- 6 Using the information provided, calculate **both** the gross and the net profit figures for the **two** production proposals, A and B. [12]

- 7 (a) Explain what information you would require in order to be able to produce a balance sheet and a profit and loss account for the firm. [10]
- (b) Identify **two** internal and **two** external users who would be interested in these statements and explain how they would use the information. [8]
- [Total: 18]

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