

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

**BUSINESS FINANCE**

Core Module

**5163/01**

May 2004

**2 hours 15 minutes**

Additional Materials: Answer Booklet/Paper  
Insert

**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 on both sides of the paper.  
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.

**Question 3 – Complete the insert and attach it to your answers.**

This document consists of 5 printed pages, 3 blank pages and 1 insert.

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International Examinations

**[Turn over**

**You must read the case study below and attempt all of the tasks which follow**

[The following case study is fictitious]

**TIGER ENTERPRISES**

Ree 'The Tiger' Ming had made a good living as a martial arts teacher, teaching Judo and Karate, for the past 20 years. He won gold medals at three World Championships and this led to a number of sponsorship deals with various multinational sports equipment manufacturers.

He used these funds to set up a number of martial arts training centres, which he ran as a sole trader. To minimise his costs he often employed his best students as instructors. 5

In addition to running these centres, he often operated as a stuntman in films and provided technical advice to film companies. For each of these services he was paid a set fee and received a share of the profits from the films.

He also invested in a restaurant business as a sleeping partner. His partner recently suggested that they should open up the training centres to overseas customers (see item B). 10

However, a recent injury now means that Ree might not be able to continue with all of his income generating professional activities. His accountant recommended that he should take a more active part in the financial management of his business and that he should learn more about accounting. Ree openly admitted that apart from historic cost he knew very little about the accounting process. In particular, his accountant said that he should monitor his working capital more closely as his regular funding might go down in the future. The accountant also suggested that Ree should consider establishing a limited company. 15

**Financial Information****Item A**

Balance Sheet totals for Tiger Enterprises as at 31st May 2004

	\$000
Freehold Property	300
Stock	4
Vehicles (net)	26
Depreciation	4
Mortgage	150
Provisions	7
Debtors	18
Creditors	15
Investments	150
Overdraft	3
Cash	12

Owners Capital to provide balancing item

**Item B**

Proposal to offer training to foreign clients.

Estimated annual fixed costs	\$120,000	per year
Revenue per client per week	\$1,000	per week
Variable Costs (assuming fully booked)		
Staff (instructor) costs	\$800	per week
Accommodation per client	\$400	per week
Incidental expenses per client	\$50	per week
Maximum number of clients	20	per week

**Item C**

Source Document	Transaction	Subsidiary Book	Account to be debited	Account to be credited
	Insurance paid by cheque		Insurance	
	Gym supplies purchased on credit			A.1 Gym supplies
	Cash paid into bank account			

(A copy of this table is printed on the **Insert**. Write your answer on the Insert.)

**You must attempt ALL of the following tasks**

- 1 (a) Explain what is meant by the term sponsorship. [2]  
 (b) Distinguish clearly between a set fee and a share of the profits. [4]  
 (c) (i) Explain what is meant by the term sole trader. [2]  
 (ii) List and explain **one** advantage and **one** disadvantage of being a sole trader. [4]  
 (d) Explain what is meant by the term sleeping partner. [2]  
 (e) List **two** characteristics of a multinational company. [2]  
**[Total: 16]**
- 2 (a) Using the information in the Case Study, **Item B**, calculate the number of weeks needed to break even. Assume that the maximum number of clients attend each week. [10]  
 (b) Explain what would happen to the break-even point if sales revenue rose by 5% **and** variable costs rose by 10%. [4]  
**[Total: 14]**
- 3 (a) Explain what is meant by the term double entry bookkeeping. [4]  
 (b) Complete the table on the insert, **Item C**, for each of the transactions shown. **Attach the insert to your question paper.** [10]  
**[Total: 14]**
- 4 (a) Explain what is meant by the term working capital. [2]  
 (b) Using the information in the Case Study, calculate the current working capital of Tiger Enterprises. [2]  
 (c) List and explain **four** ways by which Ree could increase the level of working capital. [8]  
**[Total: 12]**
- 5 (a) Explain the legal and financial effects Ree will need to be aware of if he forms a limited company. [8]  
 (b) List and explain **two** responsibilities that Ree would have as a director of a limited company. [6]  
**[Total: 14]**
- 6 Using the information in the Case Study, **Item A**, produce a Balance Sheet in an appropriate format, to show the current financial position of Tiger Enterprises. [14]  
**[Total: 14]**

7 Ree Ming stated that he understood the accounting principle of historic cost.

(a) List **four** additional accounting principles that Ree should be aware of. [4]

(b) Explain how **each** of the principles that you have selected contributes towards the production of accurate accounts. [12]

[Total: 16]

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