

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

BUSINESS FINANCE

5173/01

Core Module

May 2004

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 on both sides of the paper.
You may use a soft pencil for any diagrams, graphs, music 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 **6** printed pages and **2** blank pages.



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

[The following case study is fictitious]

C L Ltd

David Chan and Robert Ling were pleased with the year-end results for their company, C L Ltd, which they established two years ago. The net profit figure had increased as predicted, although the level of turnover had not risen as expected. However, both of them knew that if the firm was to continue to prosper it would be necessary to raise more capital, move to larger premises and to take on additional employees. 5

The company was established with capital contributed by David and Robert. They had decided at the start to borrow as little as possible until they were firmly established in the market. The firm manufactures circuit boards for the telecommunications industry under a licence from a major multinational company. In recent times they have developed their own products and are now selling branded products on a sale or return basis through a large retail chain. 10

Although neither of them had any formal accountancy training they were both 'good with figures' and they did have a basic understanding of the principles of the standard accounting model. The firm's accountant had suggested to them that they should attend accountancy courses as it was likely that if the firm expanded as predicted, they would need to be aware of financial, management and cost accounting procedures. He was also concerned at the rather low level of working capital within the firm, which he felt could restrict the planned growth of the firm. 15

The firm's banker was insisting that they should produce a fully-costed business plan before any further borrowing would be allowed. He had identified a number of external factors that he thought David and Robert should take into account when drawing up their proposal for the future of the business: 20

- Developments in technology were reducing the costs of components across the market
- The general level of interest rates was predicted to rise in the near future
- Although the national level of consumer income was likely to remain constant, there appeared to be an upward trend of consumers willing to spend on the new generation of technologically advanced consumer goods 25

David and Robert agreed to call an extraordinary Board meeting in one month's time, when they hoped to have all of the data required to justify their expansion programme.

Financial Information**Item 1**

Extracted stock figures for electrical components for C L Ltd January-April 2004

Opening Stock 1 January 10,000 @ \$3

Purchases

Date	Units purchased	Cost per unit
15 Jan	4000	\$3.00
30 Jan	3000	\$3 00
20 Feb	5000	\$3.50
27 Feb	1000	\$3.80
13 Mar	3000	\$4 00
4 April	5000	\$4 00
20 April	3000	\$4.25

Stock issued

Date issued	Units
17 Jan.	8000
29 Jan	4000
18 Feb	1000
22 Feb	8000
18 Mar	4000
5 April	3000
21 April	4500

Item 2

Balance Sheet totals extracted from the records of C L Ltd as at 30 April 2004

	\$000s
Creditors	161
Stock	250
Accumulated Depreciation	140
Debtors	295
Cash	0
Proposed Dividend	125
Overdraft	90
Fixed Assets at cost	670
Corporation Tax	96
Debentures	50
200,000 Ordinary Shares @ \$1	200

The Profit and Loss Account total will provide the balancing total for the balance sheet.

Item 3

Total Fixed Overhead to be allocated: \$1,700,000

The firm manufactures circuit boards, mobile phone components and calculators. The floor space occupied by each of these products and the distribution of the workforce across the product range is shown in the table below.

Products	% of total floor space occupied	Distribution of workforce (Total 160)
Circuit boards	60	88
Mobile phone components	24	37
Calculators	16	35

You must attempt ALL of the following tasks.

- 1 (a) Explain how the net profit figure had increased as predicted even though the level of turnover had not risen as expected. [3]
- (b) Give **one** advantage and **one** disadvantage of producing under a licence from a major multinational company. [2]
- (c) Explain what is meant by sale or return. [3]
- (d) (i) Explain what is meant by the term working capital. [2]
- (ii) Explain how lack of management of the working capital could restrict the planned growth of the firm. [2]
- (e) For **each** of the **three** factors identified by the firm's banker, explain how the factor would be likely to affect the future profitability of the firm. [2 x 3]
[Total: 18]
- 2 (a) Identify **three** additional sources of funds that could be employed by C L Ltd to finance their proposed expansion plans. [3]
- (b) For **each** of the additional sources you have identified suggest **one** advantage and **one** disadvantage of using that source. [2 x 3]
- (c) State with reasons which source of funds you would recommend the firm to use in order to finance its expansion. [3]
[Total: 12]
- 3 Use the information in **Item 1**.
- (a) Calculate, using the LIFO method of stock valuation, the value of stock retained and the value of stock issued. [6]
- (b) Calculate, using the FIFO method of stock valuation, the value of stock retained and the value of stock issued. [6]
- (c) State with reasons which method of stock valuation you think C L Ltd should use. [3]
[Total: 15]
- 4 For published accounts to be useful they must be accurate and produced according to recognised accounting principles.
- (a) Identify **three** recognised accounting principles. [3]
- (b) Using your own examples, explain how **each** of the principles that you have identified contributes towards the production of accurate accounts. [3 x 3]
- (c) Explain why it is necessary to have accurate accounts independently checked by an auditor. [3]
[Total: 15]

- 5 Using the information contained in **Item 2**, construct a balance sheet to show the current financial position of C L Ltd. [14]
[Total: 14]
- 6 Using your own examples, distinguish clearly between the roles of the financial accountant, the management accountant and the cost accountant. [12]
[Total: 12]
- 7 Use the information contained in **Item 3**.
- (a) Calculate the allocation of fixed overheads to each of the firm's products by employing the following criteria:
- (i) Floor space [4]
- (ii) Number of employees [4]
- (b) List and explain **two** advantages of employing a cost-centred approach to allocating overhead costs. [6]
[Total: 14]

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