

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Career Awards

MARK SCHEME FOR the October 2002 question paper

CAREER AWARD IN BUSINESS
STANDARD LEVEL
5163 Business Finance

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

The mark scheme must be read in conjunction with the question paper.

- CIE will not enter into discussions or correspondence in connection with this mark scheme.



Mark Scheme

The following are not model answers, but should be regarded as persuasive. Reward any other reasonable approach provided by the candidate.

1. (a) (i) Explain what is meant by the term bankrupt as used in the case study. (line 3.) (2 marks)
1 mark for a weak answer
2 marks for a complete answer
Reference to unincorporated state, insolvent
- (ii) Identify the effects that being declared bankrupt would have on someone who was engaged in business? (2 marks)
1 mark for answer with out explanation
2 marks for consequences
Inability to trade, hold bank account, need to pay off debts
- (b) (i) Explain how the owners could have borrowed to finance their enterprise. (2 marks)
1 mark for sources of borrowing – loan, mortgage, banks insurance companies etc. Reward reference to case study figures – up to one mark.
- (ii) Explain why the owners might have chosen to keep the borrowing of the company low. (2 marks)
1 mark for vague reference to costs of borrowing
2 marks for references to profitability, future prospects etc.
- (c) (i) Explain the role of the auditor in the accounting process. (2 marks)
1 mark for person who checks accounts. Additional mark for independent check, required by law.
- (ii) Explain why the auditor might have chosen not to sign the accounts of the business. (2 marks)
1 mark per reasonable explanation, incorrect totals, wrong figures, misleading figures, inconsistencies
- (d) Explain what is meant by the term multinational company as used in the case study. (line 16.) (2 marks)
1 mark for vague statement – large company
2 marks for full explanation – owns and operates in more than one country – employs nationals etc
- (e) (i) Explain what is meant by the term going public as used in the case study. (line 22.) (2 marks)
1 mark for vague explanation of selling shares to public
2 marks for fuller explanation of change of legal status
- (ii) Explain **two** methods that could be employed to go public. (4 marks)
1 mark per method identified
2 marks per method explained e.g. prospectus, placing, offer for sale
Alternative approach of listing on AIM vs. Full stock exchange listing to be rewarded if explained – up to 4 marks

(Total 20 marks)

2. Using the information contained in Table 1, prepare a cash budget for the six-month period July to December. (12 marks)

L1 1-3 marks Candidate has little knowledge of how to construct a budget – some figures correct

L2 4-6 marks As Level 1 but basic structure of budget known – errors in totals

L3 7-9 marks As Level 2 – structure mostly complete – minor errors in additions

L4 10-12 marks As Level 3 – entries complete and totals correct

See Appendix 1 for suggested solution

3. List and explain the possible advantages and disadvantages if Activate Ltd was to become a public limited company. (10 marks)

L1 1-3 marks Candidate lists advantages/disadvantages – no explanation

L2 4-6 marks As L1 – some advantages/disadvantages explained

L3 7-8 marks As L2 – advantages and disadvantages explained – no overall assessment

L4 9-10 marks As L3 – candidate provides an assessment of the advantages/disadvantages

Possible advantages – extra capital, larger scale operations, access to further funding, status etc

Disadvantages – loss of control (dilution) – need to pay extra dividend, loss of privacy etc

4. List and explain two accounting concepts that are required to produce accurate accounts. (8 marks)

L1 1-2 marks Concept identified and partially explained

L2 3-4 marks Concepts fully explained and at top end is linked to production of accurate accounts

4 marks per concept fully explained (4 x 2 = 8 marks)

5. (a) Explain what is meant by the term working capital. (line 23) (2 marks)

1 mark for a vague definition of working capital e.g. money being used etc

2 marks for precise definition – net current assets

Reward candidates who extract figures from case study – 1 mark

(b) Describe the methods that could be employed to ensure that there is effective control of working capital. (10 marks)

L1 1-2 marks Method(s) identified not explained

L2 3-6 marks As L1 – the need for control is identified and explained

L3 7-10 marks Methods are fully explained and related to effectiveness

Minimum of two methods required for full 10-mark award.

Suggested solution – need for liquidity, conflict with profitability – allowance of credit etc. (Total 12 marks)

6. (a) Using the information in Table 1, construct a balance sheet to show the position of Activate Ltd as at 30 June 200X. (14 marks)

L1 1-3 marks Some knowledge of balance sheet structure – many errors

L2 4-6 marks As Level 1 – better understanding of balance sheet – fewer errors

L3 7-10 marks As Level 2 – most calculations correct - at top end the correct interim totals and overall balance

L4 11-14 marks As Level 3 – structure fully understood – calculations correct and at top end correct interim totals and overall balance
(See Appendix 2 for suggested solution)

(b) Use this balance sheet to comment on the financial position of Activate Ltd.
(4 marks)

L1 1-2 marks Candidate extracts figures but little or no explanation

L2 3-4 marks As Level 1 but figures are explained and judgement made
(Total 18 marks)

7. Using the information contained in Table 3 calculate the change in both gross and net profit that would occur if the new proposals were to be implemented
(8 marks)

L1 1-3 marks Candidate demonstrates some knowledge of profit – calculations have errors

L2 4-6 marks As Level 1 – but calculations mostly correct

L3 7-8 marks As Level 2 – calculations correct and overall changes identified
(See Appendix 3 for suggested solution)

8. Select **three** sources of finance that could be used by Activate Ltd to expand its operations. Describe the effects that each source would have upon the capital structure and the future profitability of the firm.
(12 marks)

L1 1 mark Source of finance identified

L2 2-3 marks Effects that finance has on structure and profits identified

L3 4 marks As Level 2 but overall judgement made

4 marks per source of finance (4x3=12 marks)

Appendix 1

Normal monthly outgoings = Wages \$32,000
Rent \$1,000
Insurance \$700
Advertising \$1,200
Fuel & Power \$1,600
\$36,500

	July	Aug	Sept	Oct	Nov	Dec
	\$	\$	\$	\$	\$	\$
Opening cash	450	13950	16450	16950	9450	(21050)
Add Revenue	<u>50000</u>	<u>50000</u>	<u>60000</u>	<u>35000</u>	<u>40000</u>	<u>30000</u>
	50450	63950	76450	51950	49450	8950
Less costs	36500	36500	36500	36500	36500	36500
Less Special purchases		11000	11000	6000	6000	28000
			12000			
Closing cash	13950	16450	16950	9450	(21050)	(27550)

Appendix 2

	\$	\$	\$
<u>FIXED ASSETS</u>			
Property			110500
Vehicles (at cost)		30000	
Accumulated depreciation		<u>3500</u>	
Vehicles (net)			<u>26500</u>
			137000
<u>CURRENT ASSETS</u>			
Stock	3400		
Debtors	4100		
Cash	<u>450</u>		
		7950	
<u>CURRENT LIABILITIES</u>			
Tax	1600		
Creditors	2500		
Dividend	2400		
Overdraft	<u>980</u>		
		<u>7480</u>	
<u>NET CURRENT ASSETS</u>			
			<u>470</u>
			137470
<u>LONG TERM LIABILITIES</u>			
Mortgage			20000
Bank loan			<u>5000</u>
			112470
<u>NET ASSETS</u>			
<u>FINANCED BY</u>			
Share capital			65000
P&L Account			17470
Drawings			<u>30000</u>
			112470

Appendix 3

$$\text{Gross Profit Margin \%} = \frac{\text{Gross Profit}}{\text{Sales Turnover}}$$

Current

$$12\% = \frac{\text{Gross Profit}}{\$450,000} \quad \text{Gross Profit} = \$54,000$$

$$\text{Net Profit} = 85\% \text{ of Gross Profit} = 85\% \text{ of } \$54,000 = \underline{\$45,900}$$

Future

$$\text{Turnover increased by } 22\% = \$450,000 \times 1.22 = \$549,000$$

$$\text{Gross Profit} = 12\% \text{ of } \$549,000 = \$65,800$$

$$\text{New Net Profit} = 70\% \text{ of Gross Profit} = 70\% \text{ of } \$65,800 = \underline{\$46,060}$$

$$\text{Gross Profit Change} = \$65,800 - \$54,000 = \underline{\$11,800}$$

$$\text{Net Profit Change} = \$46,060 - \$45,900 = \$160$$

$$\% \text{ Changes Gross profit} = 21.9\% \quad \text{Net Profit} = 0.3\%$$