

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Career Awards

MARK SCHEME FOR the October 2002 question paper

CAREER AWARD IN BUSINESS
ADVANCED LEVEL
5173 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 exclusive dealing agreement. (line 7.) (2 marks)
For a vague definition 1 mark
For a fuller definition 2 marks
Contractual relationship between two parties – sole distribution rights
- (ii) List **two** financial advantages to BobCat Ltd from entering into such an agreement. (2 marks)
1 mark per advantage
Standardised pricing, possibility of premium pricing, shared promotional costs
- (b) (i) Explain what is meant by the term agent as used in the case study. (line 9.) (2 marks)
For a vague definition 1 mark
For a fuller definition 2 marks
Person acting on behalf of principal – often operating on retainer plus commission
- (ii) Explain why BobCat Ltd might prefer to employ agents to deliver its services. (2 marks)
1 mark per reason listed
Additional mark if reason explained
Reduced costs – lower employee wages, greater productivity if related to commission payments etc
- (c) Explain what is meant by the term premiums as used in the case study. (line 10.) (2 marks)
For a vague definition 1 mark
For a fuller definition 2 marks
Additional payments that could be received (higher prices) due to marketing to different market segments – may or may not be related to higher costs
- (d) Identify and explain **two** financial problems that could arise from on-line selling. (line 11.) (4 marks)
1 mark per problem identified
Additional mark if problem explained
Selling on credit – payments to credit card company, difficulty with stock controls, problem of changing costs/ prices – menu costs
- (e) Explain what is meant by the term Alternative Investment Market. (line 21) (2 marks)
For a vague definition 1 mark
For a fuller definition 2 marks
Market for those organisations not seeking full listing – smaller and medium sized/ newer organisations – providing access to institutional investor funding
- (f) (i) Explain what is meant by the term working capital. (line 24) (2 marks)
For a vague definition 1 mark

For a fuller definition 2 marks

Difference between current assets and current liabilities – net current assets

(ii) List **two** methods of controlling working capital. (2 marks)

1 mark per method

Costs control, reduce debtors/creditors etc.

(Total 20 marks)

2. Bob and Catherine had originally set up in business as a limited partnership.

(a) Explain what is meant by a limited partnership (2 marks)

For a vague definition 1 mark

For a fuller definition 2 marks

Structure that allows all but one partner to enjoy limited liability – sleeping partners etc

(b) Identify and explain **one** advantage and **one** disadvantage of operating as a limited partnership. (4 marks)

1 mark per advantage/ disadvantage identified

Additional 1 mark if advantage/ disadvantage explained

Advantages – more capital, shared workload, limited liability

Disadvantages – Unlimited liability (Ordinary partner), inflexibility etc,

(c) Identify and explain **one** advantage and **one** disadvantage that would result from establishing the present limited company. (4 marks)

1 mark per advantage/ disadvantage identified

Additional 1 mark if advantage/ disadvantage explained

Advantages - More capital, limited liability for all

Disadvantages – Legal formalities, need to pay dividends, loss of privacy

(Total 10 marks)

3. (a) Using the information contained in Item 1, produce a Cash Flow Statement for Bob Cat Ltd for the year ending Sep 30 2002. (14 marks)

L1 1-3 marks Candidate has little idea of format of statement – few relevant details extracted

L2 4-7 marks As Level 1 but format is better understood – some relevant details extracted and used

L3 8-10 marks As Level 2 – format well understood – calculations have several errors/ omissions

L4 11-14 marks As Level 3 – format complete and at top end all totals correctly shown

See Appendix 1 for suggested solution

(b) Explain briefly why the cash balance had fallen during the years. (2 marks)

For a vague explanation 1 mark

For a fuller explanation linked to the case study data 2 marks

Company has expanded – expansion financed internally

(Total 16 marks)

4. SSAP2 'Disclosure of Accounting Policies' defines four fundamental accounting concepts. State and define any **three** of these concepts and explain and illustrate their impact on the published accounts of a limited company. (12 marks)

4 marks per concept explained

L1 1 mark Concept identified

- L2 2 marks Concept defined
 L3 3-4 marks As Level 2 but the impact of the concept is explained with an example
 Accruals, Prudence, Consistency, Going concern
5. (a) Using the information contained in Item 2, calculate the allocation of fixed overheads employing both the contribution to turnover and number of employees as cost centres. (8 marks)
 4 marks available per method of allocation employed
 L1 1 mark Candidate shows little evidence of process required
 L2 2 marks Process appears to be known but calculations contain errors/ omissions
 L3 3-4 marks As Level 2 but fewer errors and at top end all calculations correct
 For suggested solution see Appendix 2
- (b) Give a reasoned recommendation as to which of these cost centres would be more appropriate for BobCat Ltd. (4 marks)
 L1 1-2 marks Recommendations made but with no reasoning or reasoning not explained
 L2 3-4 marks Recommendations made with sound reasoning and at top end candidate provides evaluation of decision
 (Total 12 marks)
6. (a) (i) Explain the difference between a bonus issue of shares and a rights issue of shares. (6 marks)
 Up to 2 marks available for each definition of bonus/ rights issues
 For full award candidate must draw a comparison
 (ii) Explain the circumstances in which a share premium account arises. (2 marks)
 2 marks available for explanation of share premium account
- (b) Compare and contrast the risk implications of using shares or debentures as alternative ways of raising additional finance. (6 marks)
 up to 2 marks per category (shares/debentures) identified
 Additional 1 mark if risks identified and compared
 (Total 14 marks)
7. Using the information contained in Item 3 calculate the closing stock figures and the values of stock issued by employing both the F.I.F.O. and L.I.F.O. methods of stock valuation. (16 marks)
 L1 1-3 marks Little evidence of process required – few calculations many errors
 L2 4-7 marks As Level 1 – but better knowledge of process - calculations contain errors
 L3 8-11 marks As Level 2 – process well understood - fewer errors
 L4 12-16 marks As Level 3 – process complete and at top end all calculations correct
 For suggested solution see Appendix 3

Appendix 1

Cash Flow Statement for BobCat Ltd as at 30 Sep 2002

	\$0000	\$0000
Increase in p & (353-273)	80	
Interest	5	
Taxation	96	
Dividend	<u>125</u>	
	<u>306</u>	
	\$0000	\$0000
Trading profit (cf)		306*
Depreciation		40
Stock		-80
Debtors		-75
Creditors		<u>19</u>
<i>Cash flow from operating activities</i>		210
<i>Servicing of finance</i>		
Interest		<u>-5</u>
		205
Taxation		<u>-50</u>
		155
<i>Capital expenditure</i>		
Purchase of fixed assets		<u>-370</u>
		-215
<i>Equity dividends</i>		<u>-75</u>
		-290
<i>Financing</i>		
Equity shares issued	100	
Debentures issued	<u>50</u>	
		150
<i>Decrease in cash</i>		<u>-140</u>

* O.F.R. applies

Appendix 2

Allocation of Overhead Costs Total Overheads = \$850,000

Contribution to Turnover method

Allocation = $\frac{\% \text{ to turnover}}{\text{Total turnover}} \times \text{overheads}$

Core business = $\frac{70\% \times \$850,000}{100\%} = \$595,000$

Bliss = $\frac{22\% \times \$850,000}{100\%} = \$187,000$

Home cleaning = $\frac{5\% \times \$850,000}{100\%} = \$42,500$

Internet sales = $\frac{3\% \times \$850,000}{100\%} = \$25,500$

Number of Employees method

Allocation = $\frac{\text{Number of employees per centre} \times \text{overheads}}{\text{Total number of employees}}$

Core business = $\frac{230 \times \$850,000}{280} = \$698,210$

Bliss = $\frac{23 \times \$850,000}{280} = \$69,821$

Home cleaning = $\frac{17 \times \$850,000}{280} = \$51,607$

Internet sales = $\frac{20 \times \$850,000}{280} = \$60,714$

Appendix 3

F.I.F.O. Method

Date	Stock bought	Stock issued	Units of stock remaining	Value of stock remaining \$
April 1	-	-	50,000	500,000
April 15	40,000	-	90,000	980,000
April 30	-	75,000	15,000	180,000
May 15	60,000	-	75,000	930,000
May 30	-	55,000	20,000	250,000
June 15	80,000	-	100,000	1,250,000
June 30	-	75,000	25,000	312,500
July 15	60,000	-	85,000	1,092,000
July 30	-	70,000	15,000	195,000
Aug 15	70,000	-	85,000	1,105,000
Aug 20	30,000	-	115,000	1,510,000
Aug 30	-	95,000	20,000	270,000
Sep 15	60,000	-	80,000	1,110,000

Sep 30	-	70,000	10,000	140,000
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Closing stock figure = \$140,000

Stock Issued	April	50000	@\$10	= \$500,000
		25000	@\$12	= \$300,000
	May	15000	@\$12	= \$180,000
		40000	@\$12.5	= \$500,000
	June	75000	@\$12.5	= \$937,500
	July	25000	@\$12.5	= \$312,500
		45000	@\$13	= \$585,000
	Aug	85000	@\$13	= \$1,105,000
		10000	@\$13.5	= \$135,000
	Sept	20000	@\$13.5	= \$270,000
		50000	@\$14	= \$700,000
			TOTAL	= \$5,525,000

L.I.F.O. method

Date	Stock bought	Stock issued	Units of stock remaining	Value of stock remaining \$
April 1	-	-	50,000	500,000
April 15	40,000	-	90,000	980,000
April 30	-	75,000	15,000	150,000
May 15	60,000	-	75,000	900,000
May 30	-	55,000	20,000	212,500
June 15	80,000	-	100,000	1,212,500
June 30	-	75,000	25,000	275,000
July 15	60,000	-	85,000	1,055,000
July 30	-	70,000	15,000	150,000
Aug 15	70,000	-	85,000	1,060,000
Aug 20	30,000	-	115,000	1,235,000
Aug 30	-	95,000	20,000	215,000
Sep 15	60,000	-	80,000	1,055,000
Sep 30	-	70,000	10,000	100,000

Closing stock figure = \$100,000

Stock Issued	April	40000	@\$12	= \$480,000
		35000	@\$10	= \$350,000
	May	55000	@\$12.5	= \$687,500
	June	75000	@\$12.5	= \$937,500
	July	60000	@\$13	= \$780,000
		10000	@\$12.5	= \$125,000
	Aug	30000	@\$13.5	= \$405,000
		65000	@\$13	= \$845,000
	Sept	60000	@\$14	= \$840,000
		5000	@\$13	= \$65,000
		5000	@\$10	= \$50,000
			TOTAL	= \$5,565,000