UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Standard Level

MARK SCHEME for the May 2005 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5163 Business Finance (Standard), maximum mark 100

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. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

May 2005

CAMBRIDGE INTERNATIONAL DIPLOMA

Standard Level

MARK SCHEME
MAXIMUM MARK: 100
PAPER: 5163 BUSINESS FINANCE

UNIVERSITY of CAMBRIDGE
International Examinations

Mark Scheme

1 (a) Explain what is meant by the term 'multinational company'. [3]

For a vague definition e.g. a large firm - allow only 1 mark.
For a definition that refers to large scale production in more than 1 country with employment of nationals at senior levels allow the full award of 3 marks.

(b) Identify and explain one advantage and one disadvantage of running Medisure as a private limited company. [4]

Allow 1 mark for listing of advantage/disadvantage e.g. access to more capital, enhanced status, loss of privacy etc.
Allow 1 additional mark if the advantage/disadvantage is well explained – often this will require a comparison with alternative business structures.

(c) Explain what is meant by the term 'annual retainer fee'. [2]

Allow 1 mark if the response mentions a one-off/lump sum payment.
Allow the additional mark if the response refers to a payment that is not related to completing a particular task.

(d) Identify and explain one advantage and one disadvantage of 'leasing facilities'. [4]

Allow 1 mark for listing an advantage/disadvantage e.g. no need to raise capital to purchase assets, equipment maintained at no cost/ equipment does not belong to the firm, can be costly, loss of capital allowances etc.
Allow the additional mark if the financial consequences of leasing are explained.

(e) Explain how being 'price competitive' might lead to 'reduced profit margins.' [6]

Allow up to 2 marks for explaining each of the terms – pricing at the market level in order to maintain sales, margin is the gross profit expressed as a percentage of the sales figure. Allow the additional 2 marks if the response links the need to limit the price level to lower gross profit figure and/or profit being compared to a higher sales figure - reward any relevant, sensible discussion.

[Total: 19]

2 (a) Explain, using your own examples, what is meant by the term 'double entry bookkeeping'. [6]

Allow up to 3 marks for a complete definition of the concept – transactions recorded twice, positive and negative aspects, credit and debit entries. Allow the additional 3 marks if the response includes clear and relevant worked example(s).

(b) List four examples of financial records and four books of account that the firm should be keeping. [8]

Allow 1 mark per record and 1 mark per book – invoice, credit note/ journal ledger etc.

[Total:14]

3 (a) Select three additional sources of capital that Medisure could employ to finance the expansion of the firm. [3]

Allow 1 mark per source of finance.

(b) Explain the legal and financial consequences of employing each of these three selected sources of finance. [12]

Allow up to 2 marks for a discussion of the legal consequences and a further 2 marks if the financial consequences are discussed e.g. loan – legal requirement to repay, may be secured against the assets/need to pay interest by the due dates reducing the potential profits. If only the legal or the financial consequences are discussed – maximum of 2 marks per source.

[Total: 15]

4 Using the information in Item B, calculate the likely annual gross profit that will result from the proposal to introduce the cosmetic surgery clinic. [16]

Level 1 The candidate has limited knowledge of how to calculate the profit figure, some relevant information has been extracted but there are likely to be several errors/omissions in the calculations. **1-5 marks**

Level 2 As level 1 but there is more evidence of understanding the process required but there are still some errors/omissions in the calculations. **6-10 marks**

Level 3 As level 2 but there is clear evidence of understanding the process and this is demonstrated with correct formulae and workings. At the top end errors are absent and a totally correct calculation is completed. **11-16 marks**

For suggested solution see Appendix 1

5 Using the information in the case study and Item A, produce a balance sheet to show the financial position of Medisure Ltd as at 31 May 2005. [20]

(Note: there are 8 marks available for producing a correct format for the balance sheet)

Allow up to 8 marks for a correct and complete balance sheet format – this must include the title and all sub-totals should be identified. The remaining 12 marks are awarded for being able to extract the relevant data and for classifying correctly and arriving at an overall balance for the statement:

Level 1 The candidate has extracted the data and has classified some of the data correctly but there are likely to be errors/or missing sub-total figures. It is unlikely that the statement balances/or the balance figure is incorrect. **1-4 marks**

Level 2 As level 1 but there are fewer errors associated with the classification of the data and fewer errors in the provision of sub-totals. The correct overall balance is not provided possibly because of the incorrect calculation of the profit figure. **5-8 marks**

Level 3 As level 2 but the process is complete and the sub-totals and the overall balance is achieved by correctly calculating the profit figure. **9-12 marks**

For suggested solution see Appendix 2

6 Using the information in Item C, produce a cash budget statement for the period June – August 2005. [16]

Level 1 The candidate has limited knowledge of how to calculate the cash balance, relevant information has been extracted but there are likely to be several errors/omissions in the calculations. **1-5 marks**

Level 2 As level 1 but there is more evidence of understanding the process required but there are still some errors/omissions in the calculations. **6-10 marks**

Level 3 As level 2 but there is clear evidence of understanding the process and this is demonstrated with correct formulae and workings. At the top end errors are absent and a totally correct calculation is completed. **11-16 marks**

For suggested solution see Appendix 3

Appendix 1

Estimated Revenue		**$**
Jan – March	150 per month x $2 000 = 300 000 x 3 =	900 000
April – June	200 per month x $2 000 = 400 000 x 3 =	1 200 000
July – Sept	125 per month x $2 000 = 250 000 x 3 =	750 000
Oct – Dec	200 per month x $2 000 = 400 000 x 3 =	1 200 000
Total Estimated Revenue		4 050 000

Estimated Costs

Fixed Costs-
Annual costs of leasing facilities = $600 000
Annual costs of retainer fees for additional consultants = $60 000
Annual costs of advertising and administration = $36 000
Total of additional fixed costs for the proposal = $696 000

Variable Costs (fees per procedure)

Fee per procedure = $850

Jan – March	450 @ 850 = $382 000
April – June	600 @ 850 = $510 000
July – Sept	375 @ 850 = $318 750
Oct – Dec	600 @ 850 = $510 000

Total Variable Cost = $1 721 250

Total overall cost = Fixed + Variable cost = 1 721 250 + 696 000 = $2 417 250
Gross Profit = Revenue – Cost = 4 050 000 – 2 417 250 = $1 632 750

Appendix 2

Balance sheet for Medisure Ltd as at 31 May 2005

	$	$	$
Fixed Assets			
Property		1 500 000	
Vehicles and Equipment (at cost)	26 500		
Less Depreciation	3 500	23 000	1 523 000
Current Assets			
Stock	40 000		
Debtors	135 000		
Cash	11 000		
		186 000	
Current Liabilities			
Taxation	40 000		
Creditors	60 000		
Dividend	50 000		
Overdraft	25 000		
		175 000	
			11 000
Less			1 534 000
Mortgage	200 000		
Bank Loan	50 000		
		250 000	
			1 284 000
Financed by			
Ordinary Shares		1 000 000	
Profit and Loss Account		284 000	
			1 284 000

Appendix 3

Revenue Schedule

	June $		July $		August $
April (25%)	40 000	May (25%)	35 000	June (25%)	50 000
May (25%)	35 000	June (25%)	50 000	July (25%)	45 000
June (50%)	100 000	July (50%)	90 000	Aug (50%)	120 000
Total	175 000		175 000		215 000

Cash Budget Statement

	June	July	July	July	August	August
	$	$	$	$	$	$
Opening cash	11 000		38 000		75 000	
Revenue	175 000	186 000	175 000	213 000	215 000	290 000
Leasing	30 000		30 000		30 000	
Retainers	18 000		18 000		18 000	
Fees	100 000	(148 000)	90 000		120 000	
Insurance	-			(138 000)	48 000	(216 000)
Closing cash		38 000		75 000		74 000