UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Standard Level

MARK SCHEME for the May 2006 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5163   Business Finance, maximum mark 100

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show 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.

1 (a) Identify and explain the possible reasons for the profits of AK Services increasing significantly even though the turnover had not grown as predicted. **[4]**

Candidates need to demonstrate that they appreciate the relationship between turnover, costs and profits. For a simple statement of this relationship allow up to 2 marks.

If the answer begins to examine cost savings as the reason for the increase in profits allow up to 2 extra marks.

(b) Explain why Anil chose to set up in business as a sole trader. **[4]**

Possible reasons to include – lack of formalities, cheaper, maintain control, receive all profits etc.

Allow 1 mark per valid reason to a maximum of 4 marks

(c) (i) Explain what is meant by the term 'sleeping partner'. **[2]**

A person who contributes capital, enjoys limited liability but takes no active part in running the business.

For a vague or incomplete answer allow 1 mark. For 2 marks the answer should contain all of the characteristics.

(ii) Identify and explain one advantage and one disadvantage to Anil of taking on a partner. **[4]**

Advantages – additional capital, shared experiences, expertise etc.
Disadvantages – sharing of profits, slower decision making etc.
Allow 1 mark per valid point. Maximum of 2 marks if only advantages/disadvantages mentioned.

(d) Explain the difference between selling goods on commission and selling goods with a target mark-up. **[4]**

Candidates need to show understanding of both terms to achieve 4 marks. Allow 2 marks for each term explained.
Commission – selling on behalf of a third party – returns are linked to the volume of sales, often at a fixed percentage rate.
Mark-up – related to the cost of sales – selling on own behalf – the difference between cost and sales equalling the profit.

(e) Explain what is meant by the term 'copyright'. **[2]**

Intellectual property rights to a particular item/product – allows sole rights of manufacture/distribution.
Allow 1 mark for a vague or incomplete answer. Allow the extra mark if the answer is complete.

[Total for Question 1: 20]

2 (a) Explain the legal and financial consequences if Anil formed a limited company. [10]

Candidates have to produce answers that address both parts of the task – i.e. both the legal and the financial consequences must be discussed.
Allow up to 5 marks for discussion of either the legal or the financial consequences.
To achieve a 10 mark award the candidate must discuss at least two issues from each category. Allow a maximum of 3 marks if only one issue per category is discussed.
Issues to include – need to follow legal formalities, need to produce audited accounts, raising share capital, need to pay dividends etc.

(b) Explain why and how the additional fixed assets needed for the expansion plan should be depreciated [10]

Candidates need to address both parts of the task to achieve the 10 marks award – i.e. they must explain why assets need to be depreciated and identify the methods employed to depreciate the assets.
Allow up to 5 marks for an answer that explains the need to present a true and fair view of the asset's value – as a result of wear and tear and/or obsolescence.
Allow up to 5 marks for an answer that discusses the methods of depreciation – calculating the annual depreciation allowance to arrive at a realistic book value for the asset.

[Total for Question 2: 20]

3 (a) Identify five books of account and five accounting records that should be kept by Anil. [10]

Allow 1 mark per book of account and 1 mark per accounting record.
Books – journal, ledger, cash book etc.
Records – invoices, counterfoils, credit notes etc.

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

Allow up to 3 marks for an explanation of double entry – candidates should mention balancing of accounts and positive and negative entries to achieve the full 3 mark award.
Allow the additional 3 marks for a worked example that demonstrates knowledge of the balancing equation.

(c) Identify one advantage and one disadvantage of using a computerised system to maintain the accounts of a business. [4]

Allow up to 2 marks per advantage/disadvantage identified.
Advantages – entries posted to one book are automatically transferred to other books – allows up to date totals to be accessed easy to operate etc.
Disadvantages – time consuming – problems if system breaks down – problems if staff leave.

[Total for Question 3: 20]

4   Using the information from the case study:

(a) construct a Profit and Loss Account for the hardware sales of AK Services.   [12]

Candidates need to process the data to produce an accurate statement that identifies both the gross profit and the net profit.
Level 1 – (1-4 marks)   Some data used – calculations of profit figures not made.
Level 2 – (5-8 marks)   Most data entered correctly – profit figures still incorrect.
Level 3 – (9-12 marks)   All data correctly entered and profit figures correctly calculated.

See Appendix 1 for suggested solution.

(b) calculate the percentage mark-up that Anil achieved on the sales of the computer hardware.   [8]

Allow 4 marks for providing the correct formula for calculating % mark-up.
Allow up to 4 additional marks for correct extraction of data from the P&L and correct calculation of the mark up.

See Appendix 2 for suggested solution.

[Total for Question 4: 20]

5 (a) Explain how the work of a financial accountant will differ from the work of a management accountant.   [12]

Allow up to 6 marks for explaining the roles of each category – maximum of 6 marks if only one role is discussed.
Financial accountant – produce annual statements, maintain system, formal role etc.
Management accountant – continuous process, management information, internal etc.

(b) Identify two internal and two external users of the accounts of AK Services.   [4]

Allow 1 mark per user identified.
Internal – management, employees, shareholders etc.
External – Government, creditors, suppliers etc.

(c) Explain how each of the users identified in (b) above would use the accounts.   [4]

Allow 1 mark per valid reason identified – e.g. suppliers need to be sure that payments will be made, Government need to be able to calculate tax liability etc.

[Total for Question 5: 20]

Appendix 1

Profit and Loss Account for AK Services to 30 April 2006

Turnover		200 000
Opening stock	60 000	
Purchases	140 000	
		200 000
less Closing stock	70 000	
		130 000
Gross profit		70 000
less		
Vehicle expenses	6 000	
Telephone	2 000	
Printing and stationery	6 000	
Rent and rates	18 000	
Casual labour	4 000	
Insurance	1 000	
Depreciation – vehicles	4 000	
Depreciation – fixtures and fittings	1 800	
Total expenses		42 800
Net profit		27 200

Appendix 2

$$\% \text{ mark-up} = \frac{\text{gross profit}}{\text{cost of sales}} \times 100$$

$$= \frac{70\ 000}{130\ 000} \times 100 = 54\%$$

If candidate employs the net profit figure allow up to 6 marks.

The OFR applies with this calculation – allow up to 6 marks if the candidate uses an incorrect profit figure in the calculation.