

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

BUSINESS FINANCE

Optional Module

5163/01 May 2009 2 hours plus 15 minutes reading time

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Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.Write in dark blue or black pen.You may use a soft pencil for any diagrams, graphs 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. You may use a calculator.

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 4 printed pages.



You must read the following case study and attempt ALL of the tasks.

(The case study is fictitious.)

PARADISE PROPERTIES

Kwong Hing, the owner and sole manager of Paradise Properties, was feeling rather pleased with the outcome of recent meetings that he had set up with his bank manager and a prospective investor. The meetings had been called to discuss proposals to further diversify his business, which Kwong thought was necessary due to falling profits in his core business.

Kwong inherited Paradise Properties five years ago and, although he has made some minor 5 changes, it is still mainly a farming business producing vegetables which are sold at local markets. Kwong has managed to persuade a chain of supermarkets to take his produce, but the profit margins on these sales are disappointing. He has recently introduced the production of organic vegetables which can be sold at a premium. However, sales of these have failed to reach their target.

10

15

Kwong has also converted part of his property into a secure parking area that is used by car hire companies, as his farm is located close to an international airport. The hire companies pay a set monthly fee and a charge for each vehicle movement in or out of the parking area. Although this diversification has helped to maintain the profitability of his business, there are signs that this will not be the case in the future.

Kwong has therefore come up with an ambitious plan to convert a major part of his property into a holiday centre that is aimed at foreign tourists. He believes that there is a market for such facilities and that the proposed extension of the airport will mean that the market is likely to expand. Kwong has already obtained permission from the local authorities to build the holiday centre and has employed a firm of architects to draw up plans for the proposal. The proposal will involve a large 20 capital outlay, which is why he organised the meetings with the bank manager and the venture capitalist.

Kwong had produced some costings for the new proposal but he is not an accountant and knows very little about the principles of accounting. He has invested in a computerised double entry system for keeping his records. His bank manager has offered to produce a fully-costed business 25 plan for him so that they will have a clearer picture of the likely contribution and profit of the proposal.

One issue that Kwong needs to deal with immediately is his cash flow, as the business is running very close to the upper limit of the overdraft set by the bank. He has been collecting information from all the activities of the business and has agreed to monitor the working capital of the business 30 more closely in the future.

Kwong has been looking into the ways that he could raise the additional capital that he requires. He has been persuaded that he should form a private limited company.

Financial Information

Item A

June 1 Cash balance \$3400

Receipts

Local Market sales		June – August	\$6000	per month	
		September – November	\$4500	per month	
Sales to Supermarkets		June – September	\$3500	per month	
		October – November	\$2400	per month	
Sales of organic vegetables		6	\$1250	per month	
Vehicle storage		Set fee	\$1000	per month	
C C		Vehicle movements	2300 vehicles per month		
		(Each vehicle movement is charged a	vement is charged at \$2)		
Payments					
Wages	Full time employees (10 employees) Part time employees		\$750 per employee per month \$ 20 per day per employee		
Avera	he number of day	vs worked by part time employees:			
,	je namber er dag	June – September	40 davs	per month	
		October – November	25 days	per month	
			20 4490	pormonar	
Consumables			\$675	per month	
Petrol			\$500	per month	
Administration costs			\$650	per month	
Annual Insurance - paid in four equal instalments (Julv –October)			\$5400	•	
Purchase of	of replacement m	achinery	\$27000		
(Paid in th	ree instalments J	une – August: 50% in June; 25% in Jul	y and Augu	ust)	

Item B

Additional Information:

Building costs for the holiday centre

\$2.5 million

This construction cost is to be provided by the local authority as a non repayable grant as long as the project guarantees employment opportunities.

The cost would allow the building of 20 bungalows, a restaurant and bar area and all of the sports facilities. The annual maintenance costs for the centre are expected to be in the region of \$250,000.

Each bungalow is capable of accommodating 4 people.

The proposed charges for the bungalows are 4 people \$250 per week.

The proposed charge for the sporting facilities are \$25 per person per week.

In addition the guests are to be offered full-board facilities with a weekly charge for use of the restaurant facilities of \$100 per person.

The running costs of the facilities have been estimated as:

Bungalows \$80 per bungalow per week

Sporting facilities \$13 per person per week

Restaurant facilities \$65 per person per week

The proposal is based on a likely operating season of 40 weeks per year.

In order to build the centre the parking area will have to be reduced in size by 50% - the charges for these parking facilities are to remain as at present.

You must attempt ALL of the following tasks. Where appropriate use information from the case study to support your answer.

1	(a)	(i)	Explain what is meant by the term 'working capital'.	[3]
		(ii)	Explain two ways of maintaining an adequate level of working capital.	[4]
	(b)	Exj a p	xplain what is meant by a premium and why the sales of the organic produce might a premium.	attract [4]
	(c)	(i)	Identify two external factors that are affecting Paradise Properties.	[2]
		(ii)	Explain the effects of these two factors on Paradise Properties. [2 x	2 = 4]
	(d)	Exp	plain what is meant by a venture capitalist. [Tota	[3] al: 20]
2	(a)	Use Jun	e the information in Item A to produce a six month cash budget for the pne – November.	period [16]
	(b)	Exp	plain one advantage and one disadvantage to a company of holding large amounts of [Tota	cash. [4] al: 20]
3	(a)	Usi	ing examples explain what is meant by the term 'double entry bookkeeping'.	[10]
	(b)	Usi pro	ing examples explain how two recognised accounting principles can be appli oduce accurate accounts. [Tota	ed to [10] al: 20]
4	(a)	Dist	stinguish clearly between the terms 'contribution' and 'profit'.	[6]
	(b)	Usi	ing all available information, calculate the weekly contribution for:	
		(i)	the bungalows (assume all bungalows are hired by 4 people);	[2]
		(ii)	the sporting facilities (assume all guests will use the facilities);	[2]
		(iii)	the restaurant (assume that 50% of the guests will choose full board provision).	[2]
	(c)	Usi	sing all available information, calculate the likely annual profit for the new proposal. [Tota	[8] al: 20]
5	(a)	Exp	plain two legal and two financial consequences if Kwong forms a limited company.	[8]
	(b)	Exp con	plain one financial advantage and one financial disadvantage of forming a l mpany.	imited [6]
	(c)	Exp	plain two duties that Kwong would have to carry out as a director of a limited compar [Tota]	ıy. [6] al: 20]

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