

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the May 2009 question paper
for the guidance of teachers

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS
5163 Business Finance, maximum mark 100

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

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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

CIE is publishing the mark schemes for the May/June 2009 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



Page 2	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – May 2009	5163

You must attempt ALL of the following tasks.

- 1 (a) (i)** Explain what is meant by the term 'working capital'. **[3]**
 Allow 1 mark for a vague statement such as day to day expenses.
 Allow the full 3 marks for providing the formula $CA - CL = WC$.
- (ii)** Explain **two** methods of maintaining an adequate level of working capital. **[4]**
 Allow 1 mark for a statement that it is necessary to balance the levels of CA and CL to maintain liquidity.
 Allow up to 2 marks per method if the method is correct and well explained.
 e.g. ensuring that there is a balance between debtor and creditor totals and the repayment periods for both are not too different.
- No credit should be allowed for methods that are associated with raising additional finance e.g. issuing more shares, more bank loans. The answer must relate to the issue of working capital.
- (b)** Explain what is meant by a premium and explain why the sales of the organic produce might attract a premium. **[4]**
 Allow up to 2 marks for a definition of a premium – an extra charge that can be added to the selling price of the product.
 Allow up to 2 marks for any reasonable explanation of why the premium can be charged – the product is seen as better quality, the production costs may be higher etc.
- (c) (i)** Identify **two** external factors that are affecting Paradise Properties. **[2]**
 Allow 1 mark for identifying each factor – airport construction, organic food market.
- (ii)** Explain what effects these factors are having on Paradise Properties. **[4]**
 Allow a further 2 marks if the factor is explained – both factors could lead to expansion of the business but they represent new activities and will require close monitoring.
- (d)** Explain what is meant by a venture capitalist. **[3]**
 An investor who often contributes large amounts of capital to small and medium sized enterprises where the risks are seen as too great for traditional lenders. Often require an input in the management of the business.
 Allow 1 mark per element of the definition to a maximum of 3 marks

[Total: 20]

Page 3	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – May 2009	5163

- 2 (a) Use the information in **Item A** to produce a six month cash budget for the period June – November. [16]

Level 1 Candidate demonstrates little knowledge of the process required, some data extracted but not interpreted or used effectively [1–6]

Level 2 Candidate demonstrates some knowledge of the process required, some data extracted and some attempt to interpret and use it effectively [7–12]

Level 3 As Level 2 but better knowledge of process and correct interpretation and use of data leading to overall correct totals. [13–16]

- (b) Explain **one** advantage and **one** disadvantage to a company of holding large amounts of cash. [4]

Allow up to 2 marks per advantage/disadvantage if an explanation is provided.

e.g. Large reserves of cash allow the business to obtain discounts on purchases, but cash does not attract any financial rewards etc.

[Total: 20]

- 3 (a) Using examples explain what is meant by the term 'double entry Bookkeeping'. [10]

Allow up to 4 marks for a complete explanation of double entry.

Allow a further 6 marks if the candidate provides a minimum of two worked examples of double entry accounting i.e. 3 marks per example provided.

- (b) Using examples explain how **two** recognised accounting principles can be applied to produce accurate accounts. [10]

Allow 1 mark for identifying each principle and a further 1 mark for explaining what the principle involves e.g. historic cost – recording entries at original cost.

Allow a further 3 marks if the candidate provides a worked example that illustrates how the principle ensures that the accounts are accurate – e.g. fixed assets recorded at original cost, depreciation subtracted to produce a true picture of the assets value.

[Total: 20]

- 4 (a) Distinguish clearly between the terms 'contribution' and 'profit'. [6]

Allow up to 3 marks per term explained e.g. contribution = sales revenue – variable costs, net profit = sales revenue – cost of sales and expenses.

If the candidate provides only a correct formula for the term allow the full 3 marks if the formula is correct and complete

Page 4	Mark Scheme: Teachers' version	Syllabus
	Cambridge International Diploma – May 2009	5163

- (b) Using 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]

For (i), (ii) and (iii), allow the full 2 marks if the correct answer provided. Allow 1 mark if the process is correct but the answer is incorrect. See Appendix B for suggested solution.

- (c) Using all available information, calculate the likely annual profit for the new proposal. [8]
 Allow up to 2 marks for demonstrating how to calculate the overall profit.
 Allow a further 6 marks for producing a complete and correct profit figure.

[Total: 20]

- 5 (a) Explain **two** legal and **two** financial consequences if Kwong forms a limited company. [8]
 Allow 1 mark for each consequence identified and a further 1 mark for an explanation e.g. necessity to comply with all the legal formalities of the company acts, need to sell a minimum amount of shares to accumulate the capital of the company.
- (b) Explain **one** financial advantage and **one** financial disadvantage of forming a limited company. [6]
 Allow 1 mark for identifying an advantage/disadvantage and a further 2 marks for a clear explanation e.g. access to large amounts of capital and enhanced status with financial institutions, loss of privacy of financial affairs, leading to greater vulnerability.
- (c) Explain **two** duties that Kwong would have to carry out as a director of a limited company. [6]
 Allow up to 3 marks for each duty that the candidate identifies and explains e.g. Kwong has to ensure that the accounts are produced in a proper manner that protects the interests of the shareholders.

[Total: 20]

Appendix A

	June	July	Aug	Sept	Oct	Nov
Opening cash	3400	(3875)	(5750)	(7625)	(4250)	(1675)
Market sales	6000	6000	6000	4500	4500	4500
Supermarket sales	3500	3500	3500	3500	2400	2400
Organic sales	1250	1250	1250	1250	1250	1250
Vehicle set fee	1000	1000	1000	1000	1000	1000
Vehicle movements	4600	4600	4600	4600	4600	4600
	16350	16350	16350	14850	13750	13750
Full time wages	7500	7500	7500	7500	7500	7500
Part time wages	800	800	800	800	500	500
Consumables	675	675	675	675	675	675
Petrol	500	500	500	500	500	500
Administration	650	650	650	650	650	650
Insurance	---	1350	1350	1350	1350	---
Machinery	13500	6750	6750	---	---	---
	23625	18225	18225	11475	11175	9825
Closing cash	(3875)	(5750)	(7625)	(4250)	(1675)	2250

All figures are in US\$

Appendix B

4 (b) Contribution = Revenue – Variable (Running) costs

(i) Bungalows $\$250 - \$80 = \$170 \times 20 = \3400

(ii) Sports facilities $\$25 - \$13 = \$12$ per person. 80 people in total
Total contribution = $\$12 \times 80 = \960

(iii) Restaurant $\$100 - \$65 = \$35$ per person. 40 people using the restaurant
Total contribution $\$35 \times 40 = \1400

4 (c) Profit = surplus of contribution above fixed costs

Total contribution for all activities = $\$3400 + \$960 = \$1400 = \5760 per week

Total annual contribution (40 weeks) = $\$5760 \times 40 = \$230,400$

Add car parking revenue $\$1000 + \$2300 = \$3300$ per month $\times 12 = \$27,600$ p.a.

(50% reduction in vehicle movements)

Total contribution = $\$230,400 + \$27,600$

Fixed costs (maintenance costs) = $\$250,000$

Profit = $\$8000$