

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the October 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.

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You must attempt ALL of the following tasks.

- 1 (a) Explain why a patent is treated as an asset in the accounts of a business. [4]

Allow 1 mark for defining what a patent is and a further 1 mark if the answer mentions an intangible asset. Allow the additional 2 marks for explaining how the patent contributes towards the profit potential of a business and must therefore represent an asset to the business.

- (b) Explain why it is likely that the labour costs would rise if A1 Enterprise Ltd. relocated. [6]

Allow up to 2 marks for any relevant suggestion to a maximum of 6 marks.
Possible answers – redundancy costs for workers unwilling to move, recruitment costs for replacement workers, training costs, possible travel costs for key workers etc.

- (c) Explain what is meant by the term 'merchant banker' and explain what role a merchant banker could play in the operations of A1 Enterprise Ltd. [6]

Allow up to 2 marks for explaining what is meant by a merchant banker e.g. an individual who looks to invest large sums of money in high risk enterprises, operating outside the commercial banking system.

Allow up to 2 marks for an explanation of a role that could be adopted by the merchant banker – provision of finance, provision of advice, expertise etc.

- (d) Explain *one* benefit and *one* disadvantage of allowing the two sections of the firm to adopt different accounting practices. [4]

Allow 2 marks per benefit/problem – choice of accounting practice that is most appropriate/difficult to make comparisons across the business etc.

[Total: 20]

- 2 (a) Explain what effect *each* of the *three* external (PEST) factors mentioned in the case study is likely to have on the future profitability of the business. [3 × 4 = 12]

Allow 1 mark for extracting the information from the case study and a further mark for relating the factor to the PEST framework.

Allow a further 2 marks per factor for a well argued explanation of how the factor could influence the future profits.

Maximum marks per factor = 4, for 4 complete discussions = 3 x 4 marks.

- (b) Explain how Michael could use a rights issue to raise additional capital and explain one advantage of using this method to raise the capital. [8]

Allow up to 4 marks for explaining how a rights issue works.

Allow the additional 4 marks for any relevant advantage of the rights issue e.g. costs are reduced, shares are offered to existing shareholders who are known to the business etc.

[Total: 20]

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3 (a) Use the information in *Item A* to produce a balance sheet for A1 Enterprise Ltd. [14]

Allow up to 6 marks for a correctly formatted balance sheet – to achieve a full award the balance sheet should be complete and correctly laid out.

To achieve the remaining 8 marks the candidate must have extracted the data from the case study and integrated it into the balance sheet.

Level 1 Some of the data has been correctly integrated but there are errors and sub totals may be missing or incorrect. It is unlikely that there is a correct balance. [1–4]

Level 2 The data has been correctly integrated and the sub totals are correct. A correct overall balance figure is given. [5–8]

See Appendix A for suggested solution.

(b) Explain how each of the following would use the information contained in the balance sheet.

(i) the government [2]

Allow up to 2 marks for any valid reason e.g. to assess tax liability, to ensure regulations are being followed etc.

(ii) prospective investors [2]

Allow up to 2 marks for any valid reason e.g. to assess potential future profits/dividends.

(iii) the firm's suppliers [2]

Allow up to 2 marks for any valid reason e.g. to assess whether they should offer credit terms.

[Total: 20]

4 (a) Explain *two* advantages and *two* disadvantages of operating as a sole trader. [8]

Allow up to 2 marks for each advantage/disadvantage that is well explained.

(b) Explain both the legal and financial implications of going public. [8]

Allow up to 2 marks for any relevant points – minimum required for full award = 4 explained points. Allow full marks only if both the legal and financial issues are discussed.

(c) Explain *one* financial advantage and *one* financial disadvantage of operating as a public limited company. [4]

Allow 2 marks for each advantage/disadvantage if well explained.

[Total: 20]

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5 (a) Use the information in *Item B* to calculate:

(i) the annual depreciation allowance that should be applied to the new machinery; [6]

Level 1 Candidate demonstrates some knowledge of the process required to complete the calculation but several errors are present. [1–3]

Level 2 As Level 1 but fewer errors and at the top end, the correct figure is presented. [4–6]

(ii) the book value of the machinery at the end of year 4. [6]

Level 1 Candidate demonstrates some knowledge of the process required to complete the calculation but several errors are present. [1–3]

Level 2 As Level 1 but fewer errors and at the top end the correct figure is presented. [4–6]

(b) Explain why A1 Enterprises should depreciate its fixed assets and how depreciation is treated in the final accounts of the firm. [8]

Allow up to 4 marks for any relevant explanation of the need for depreciation of assets e.g. the need to present a true and fair view, the need to allow for additional maintenance costs etc.

Allow the additional 4 marks for explaining how depreciation is treated in the accounts e.g. subtracted from fixed assets in the balance sheet, as an expense in the P&L account and added back in the cash flow statement.

[Total: 20]

Appendix A

Fixed Assets			
Land and buildings		2500	
Plant and equipment	4800		
Depreciation	900	3900	
Fixtures and fittings		500	
			6900
Current Assets			
Stock	500		
Debtors	350		
Cash	60		
		910	
Current liabilities			
Creditors	280		
Corporation Tax	110		
Dividend	120		
Overdraft	30		
		540	
Working capital			370
			7270
Long term liabilities			
Debentures			1200
			6070
Financed by			
Ordinary shares			3200
Ordinary share premium			800
Preference shares			1600
Profit and loss account			470
			6070

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Appendix B

(a) Annual depreciation allowance = $\frac{\text{purchase price} - \text{residual value}}{\text{useful life}}$

Residual value = 15% of purchase price = 15% of \$650,000 = \$97,500

Annual depreciation allowance = $\frac{\$650,000 - \$97,500}{8} = \$69,062.50$

(b) Accumulated depreciation after 4 years = \$69,062.50 x 4 = \$276,250

Book value after 4 years = \$650,000 – \$276,250 = \$373,750