

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the October 2010 question paper
for the guidance of teachers

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5173 Business Finance, maximum mark 100

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You must attempt ALL of the following tasks.

Where appropriate use information from the case study to support your answer.

1 (a) Explain the benefits of a franchise agreement to *both* a franchisee and a franchisor. [6]

Allow up to 3 marks for any relevant discussion of a benefit to either party e.g. franchisee benefits from selling an existing product with a well established brand name and a market standing; the franchisor achieves a greater market share without having the expense of employing additional employees.

(b) Explain what is meant by a profit margin. [3]

Allow 1 mark if there is a simple explanation of profit as the difference between sales and cost of sales. Allow a further 2 marks if the answer refers to the margin as being the gross profit margin i.e. the profit achieved as a percentage of the sales figure.

(c) Explain what is meant by overtrading. [3]

To achieve an award of 3 marks the answer should address issues such as the company has insufficient current assets to support the high level of sales that it has achieved, the fixed assets are being over used, the firm needs an influx of more capital i.e. it is under-capitalised etc. Allow 3 marks if any explanation is well explained.

(d) Explain what is meant by 'window dressing'. [4]

Allow up to 2 marks for a statement that this is concerned with manipulating the accounts to portray the company's financial position in a more favourable way.

Allow a further 2 marks if the answer provides an example of the practice e.g. valuation of fixed assets at a higher than their net realisable value, introducing an inflated profit figure etc.

(e) Explain what is meant by 'working capital' and produce a formula that could be used to calculate working capital. [4]

Allow 2 marks for a complete definition of the term e.g. the surplus of current assets beyond current liabilities. Allow a further 2 marks for a statement of the formula –

Current assets – Current liabilities = Working capital.

[Total: 20]

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- 2 (a) Identify and explain *two* advantages and *two* disadvantages of forming a private limited company. [8]

Allow up to 2 marks for each relevant well explained advantage/disadvantage e.g. increase in capital contributions allows expansion, increased costs of establishing the organisation and loss of privacy etc.

- (b) Identify and explain *two* advantages and *two* disadvantages of forming a public limited company. [8]

Allow up to 2 marks for each relevant well explained advantage/disadvantage e.g. increased publicity leading to enhanced reputation and sales, need to publish audited accounts etc.

- (c) Explain *two* methods that could be used to 'go public'. [4]

Allow up to 2 marks for each method that is explained e.g. Initial Public Offering (IPO), private placing, prospectus etc.

[Total: 20]

- 3 (a) Use the information contained in *Item A* to produce a *four-month* cash budget for the period June to September. [14]

Level 1 – Candidate demonstrates little knowledge of the process required, some data extracted but not interpreted or used effectively. (1–5)

Level 2 – Candidate demonstrates some knowledge of the process required, some data extracted and some attempt to interpret and use it effectively. (6–10)

Level 3 – As Level 2 but better knowledge of process and correct interpretation and use of data leading to overall correct totals. (11–14)

For suggested solution see Appendix 1

- (b) (i) Explain *one* reason why a company would be prepared to allow customers to buy goods on credit. [3]

Allow up to 3 marks for a well explained reason e.g. the firm is facing competition and there needs to maximise its possible sales, free credit will attract more customers etc.

- (ii) Describe *one* method that a company could employ to ensure that it receives all of the credit payments that are due. [3]

Allow 3 marks for any valid method of obtaining the payments e.g. employing a debt collection agency, factoring etc.

[Total: 20]

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4 (a) Describe the main duties of a financial accountant. [8]

Allow up to 2 marks for each well explained duty e.g. maintaining the books of account, entering financial information, summarising financial information, presenting information, checking the accuracy of entries through the trial balance drawing up the end of year statements.

(b) Explain how the duties of a management accountant will differ from those of a financial accountant. [8]

Allow up to 2 marks for identifying and explaining each difference/activity of the management accountant e.g. providing interim reports for decision making purposes, interpreting the accounts, operating on an ad hoc basis rather than at regular intervals etc.

(c) Explain how the job of an internal auditor will be different from that of an external auditor. [4]

Allow up to 2 marks for each explanation of the work undertaken by the internal/external auditors. Allow up to 2 marks if the answer points out that there are similarities but the external audit is required by law for incorporated businesses.

[Total: 20]

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5 (a) (i) Explain what is meant by a cost centre. [2]

2 marks for a definition of the term cost centre – any activity of the business where it is possible to attach a cost that has been a consequence of that activity. It could be a product or a department etc.

(ii) Describe how the company would benefit from adopting a cost-centred approach within their accounts. [6]

Allow up to 3 marks for any one valid and relevant explanation of the benefit of introducing cost centres e.g. it gives a true reflection of the contribution that the centre is making to the overall profit of the business, it ensures that all of the costs have been taken into account and will be covered etc.

(b) Use the information in *Item B* to calculate the appropriate allocation of fixed overheads to *each* of the departments, by using the following criteria:

(i) number of employees [4]

Level 1 – Candidate demonstrates limited knowledge of the process required and/or many errors in calculations (1–2 marks)

Level 2 – Candidate shows understanding of the process required and produces accurate results (3–4 marks)

(ii) floor space [4]

Level 1 – Candidate demonstrates limited knowledge of the process required and/or many errors in calculations (1–2 marks)

Level 2 – Candidate shows understanding of the process required and produces accurate results (3–4 marks)

(iii) value of machinery employed. [4]

Level 1 – Candidate demonstrates limited knowledge of the process required and/or many errors in calculations (1–2 marks)

Level 2 – Candidate shows understanding of the process required and produces accurate results (3–4 marks)

[Total: 20]

For suggested solution to (b)(i), (ii) and (iii) see Appendix 2.

Appendix 1

3 (a) Cash budget for the period June – September

	June	July	August	September
	\$	\$	\$	\$
Overdraft	12 500	12 500	8 500	7 250
Opening cash	47 000	7 300	57 750	83 450
Add				
Cash sales	120 000	100 000	75 000	65 000
Credit sales	–	25 000	52 500	64 500
Interest received	–	30 000	–	–
	167 000	162 300	185 250	212 950
Less				
Wages	11 500	11 500	11 500	11 500
Material costs	12 000	12 000	12 000	12 000
Consumables	8 700	8 700	8 700	8 700
Administration costs	6 500	6 500	6 500	6 500
Overdraft repayment	–	4 000	1 250	–
Insurance premium	–	1 350	1 350	1 350
Purchase of machinery	121 000	60 500	60 500	–
Closing cash	7 300	57 750	83 450	172 900

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Appendix 2

Allocation of overheads to departments

The formula to be employed in each of the calculations is:

$$\text{Overhead allocation for the department} = \text{Total overheads} \times \frac{\text{Department criteria value}}{\text{Total criteria value}}$$

e.g. Using the number of workers, for department 1 the calculation is:

$$\text{Allocation} = \$450\,000 \times \frac{24}{64} = \$168\,750$$

Answers

(b) (i) Number of workers

Department 1 \$168 750
 Department 2 \$225 000
 Department 3 \$56 250

(ii) Floor space

Department 1 \$135 000
 Department 2 \$90 000
 Department 3 \$225 000

(iii) Value of machinery used

Department 1 \$262 500
 Department 2 \$97 500
 Department 3 \$90 000