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

BUSINESS FINANCE **5163/01**

Core Module

May 2005

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

The time allocated for this examination includes 15 minutes reading time.
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.
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.

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UNIVERSITY of CAMBRIDGE International Examinations

[Turn over

You must read the case study below and attempt all the tasks that follow
[The following case study is fictitious]

Medisure Ltd
Medisure Ltd is a private limited company that was formed five years ago by two friends, Dr Pal and Dr Kohli. The company provides medical services for private clients, most of whom are employees of multinational companies. Medisure receives payments from the insurance companies who provide health insurance schemes.

Medisure provides a range of services including annual medical checks, medical reports on prospective employees and non-emergency treatment for clients. The company has established a good reputation within the industry and has recruited several leading medical professionals as consultants.

Medisure employs their consultants on a casual basis but does provide them with an annual retainer fee. The consultants are then paid a set fee for each medical procedure undertaken. The firm has no medical facilities of its own but leases facilities from both the public and private sectors. Dr Pal believes that this significantly reduces the overheads and makes the business price-competitive, whereas Dr Kohli believes that it greatly reduces their profit margins.

Dr Pal appears to have more knowledge of the accounting process and has been responsible for establishing the double-entry bookkeeping system that the firm employs. He is keen to see growth in the firm and has put forward a number of proposals including the introduction of a cosmetic surgery clinic. (See **Item B**.) The proposals will require raising considerable additional finance and the firm's accountant has produced a report outlining various alternatives.

Dr Kohli is concerned that the proposals will change the nature of the business and he is urging a more cautious approach. He is particularly concerned that the new proposals could lead to cash-flow problems and he has asked the accounts department to assess the current financial situation by drawing up a cash budget for the next three months. (See **Item C**.)

<u>Financial Information</u>

<u>Item A</u>

Figures extracted from the records of Medisure Ltd as at 31 May 2005

	$[1]
Leasehold Property	1 500 000
Creditors	60 000
Vehicles and Equipment (at cost)	26 500
Mortgage	200 000
Ordinary Shares at $1	1 000 000
Bank Loan	50 000
Stock	40 000
Dividend Proposed	50 000
Cash	11 000
Overdraft	25 000
Provision for Taxation	40 000
Debtors	135 000
Profit and Loss Account	(to provide balancing total)
Accumulated Depreciation	3 500

[1] The dollar referred to in this text is the US Dollar [US$]

Item B

Proposal to establish cosmetic surgery clinic - estimated costs and revenues.

	$ per month
Leasing of additional medical facilities	50 000
Additional retainer fees for extra consultants	5 000
Additional advertising and administration costs	3 000

It was forecast that there would be a seasonal demand for the procedures (operations).

	per month
January – March	150
April – June	200
July – September	125
October – December	200

The estimated average revenue per procedure was set at $2000.

The average cost to Medisure for the medical fees per procedure (operation) was estimated to be $850.

Item C

Information for Cash Budget to be prepared for the period June – September 2005.

Opening Cash Balance $11 000

Number of procedures (operations) to be carried out per month

April	400
May	350
June	500
July	450
August	600

The average revenue from each completed procedure (operation) is estimated as $400.
It is normal for clients to pay 50% of their bill during the month of treatment and the remaining 50% in two equal monthly instalments.

The monthly payments have been estimated as follows:

Leasing of medical facilities - $30 000 per month
Consultants' Retainer Fees - $18 000 per month
Medical Fees to be paid in the month that the procedure (operation) is carried out: $200 per procedure

In addition the firm will pay its own insurance premium, due in August, in two instalments – 60% in August and 40% in September. The annual premium is $80 000.

You must attempt ALL of the following tasks

1 **(a)** Explain what is meant by the term 'multinational company'. **[3]**

(b) Identify and explain **one** advantage and **one** disadvantage of running Medisure as a private limited company. **[4]**

(c) Explain what is meant by the term 'annual retainer fee'. **[2]**

(d) Identify and explain **one** advantage and **one** disadvantage of 'leasing facilities'. **[4]**

(e) Explain how being 'price-competitive' might lead to 'reduced profit margins'. **[6]**

[Total: 19]

2 **(a)** Explain, using your own examples, what is meant by the term 'double-entry bookkeeping'. **[6]**

(b) List **four** examples of financial records and **four** books of account that the firm should be keeping. **[8]**

[Total: 14]

3 **(a)** Select **three** additional sources of capital that Medisure could employ to finance the expansion of the firm. **[3]**

(b) Explain the legal and financial consequences of employing **each** of these **three** selected sources of finance. **[12]**

[Total: 15]

4 Using the information in **Item B**, calculate the likely annual gross profit that will result from the proposal to introduce the cosmetic surgery clinic. **[Total: 16]**

5 Using the information in the case study and **Item A**, produce a balance sheet to show the financial position of Medisure Ltd as at 31 May 2005. **[Total: 20]**
[Note: there are 8 marks available for producing a correct format for the balance sheet]

6 Using the information in **Item C**, produce a cash budget statement for the period June – August 2005. **[Total: 16]**