

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the May 2011 question paper
for the guidance of teachers

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

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1 (a) (i) Explain what is meant by a limited partnership. [3]

Allow 1 mark for a vague statement.
Allow the full 3 marks if the definition is complete.

A Limited Partnership is one in which one of the partners will have unlimited liability and the other partners benefit from limited liability but take no active role in the running of the business.
The business therefore has both limited partners and a general or ordinary partner.

(ii) Explain one advantage and one disadvantage of operating as a limited partnership. [2 × 2 = 4]

Allow 1 mark for identifying a relevant advantage/disadvantage and a further 1 mark if the advantage/disadvantage is well explained.

Advantages – limited liability for sleeping partners, likely to attract more capital etc.
Disadvantages – general partner has unlimited liability, capital base is limited to number of partners etc.

(b) (i) Explain what is meant by a percentage mark up and what is meant by a gross profit margin. [2 × 2 = 4]

Allow 1 mark for a vague statement.
Allow 2 marks for each term that is well explained.

% mark up is gross profit expressed as a % of cost of sales.
% gross profit margin is gross profit expressed as % of sales revenue.

If candidates produce correct formulae allow full 2 marks.

(ii) The company bought some medical instruments for \$400 each. It applied the normal 25 % mark up to obtain the selling price. Using this selling price, calculate the % gross profit that would be achieved on the sale of the instruments. [3]

Allow 1–2 marks if the candidate appears to know how to undertake the calculation but the answer is incorrect.
Allow the full 3 marks for an answer that uses the correct method and provides the correct answer.

Sales price = \$400 × 1.25 = \$500
Gross profit = \$500 – \$400 = \$100
Gross profit margin – \$100 / \$500 × 100 = 20%

(c) Explain the role of an external auditor of the company. [3]

Allow 1 mark for a vague statement of the role of the auditor.
Allow 2 marks for an answer that contains 2 of the elements shown below.
Allow the full 3 marks if the answer is complete.

The auditor is an independent professional who scrutinises the accounts to ensure that **they are accurate** and they have been **produced according to recognised conventions** and standards and **they represent a true and fair view** of the financial position of the organisation.

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- (d) Explain how one of the external factors mentioned in the final paragraph of the case study could affect the profitability of the company in the near future. [3]

Allow 1 mark for a vague statement of how the factor may affect the profitability of the company.

Allow 2 marks if the answer explains how the factor could affect the company but does not state how profits could be affected

Allow the full 3 marks if the answer is complete and relates the changes in the factor to the profits of the company.

E.g. If interest rates rise then **the cost of borrowing will increase** and if the firm has borrowed funds, the **repayments will increase** and this will **reduce the profits of the firm**.

[Total: 20]

- 2 (a) Identify four sources of finance that the company could use to fund the manufacturing proposal. [4 × 1 = 4]

Allow 1 mark per source identified.

Sources could include selling unissued shares, obtaining loans, selling debentures, sale and leaseback etc.

- (b) Explain one advantage and one disadvantage of using each of the sources identified in 2(a). [4 × 4 = 16]

Allow 2 marks for each explanation of a relevant advantage and 2 marks for each explanation of a relevant disadvantage.

Allow 1 mark if the answer is explained in a vague manner.

Advantages could include: easy to obtain, no loss of control, few formalities, cheaper than other sources etc.

Disadvantages could include: many formalities, loss of control, expensive to obtain, loss of privacy etc.

[Total: 20]

- 3 (a) (i) Describe three tasks undertaken by a financial accountant. [3 × 2 = 6]

Allow up to 2 marks for explaining the following roles

- produce annual statements, maintain accounting system, formal role, follow established procedures etc.

- (ii) Describe three tasks undertaken by a management accountant. [3 × 2 = 6]

Allow up to 2 marks for explaining the following roles

- continuous process, management information, internal, produce information when requested etc.

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- (b) Identify two internal and two external users of the accounts of M & S Medical Supplies Ltd. [4 × 1 = 4]

Allow 1 mark per user identified.

Internal – management, employees, shareholders etc.

External – government, creditors, suppliers etc.

- (c) Explain how each of the users identified in 3(b) above would use the accounts. [4]

Allow 1 mark per valid reason identified – e.g. suppliers need to be sure that payments will be made, Government need to be able to calculate tax liability, employees use information during wage negotiations etc.

[Total: 20]

- 4 (a) Explain what is meant by the term working capital. [3]

Allow up to 2 marks for a vague definition e.g. money required for day-to-day expenses.

Allow 3 marks if the candidate provides an answer that employs the correct formula as follows:

Working capital equals net current assets (1 mark) i.e. current assets (1 mark) minus current liabilities (1 mark)

- (b) Using the information in the Item A, calculate the current working capital of M & S Medical Supplies Ltd. [3]

Candidate extracts relevant figures (1 mark) and produces correct calculation (2 marks).

For solution see Appendix 1

- (c) Explain three reasons why it is important for a business to monitor the level of working capital. [3 × 2 = 6]

Allow up to 2 marks for any relevant reason that is well explained.

E.g. the need to remain solvent, in order to deal with unforeseen problems, to maintain maximum profitability etc.

- (d) List and explain four ways by which M & S Medical Supplies Ltd could increase the level of working capital. [4 × 2 = 8]

For each relevant method listed allow 1 mark – allow 1 further mark for explanation in terms of increasing current assets and/or decreasing current liabilities.

E.g. increase in stock, debtors, cash (assets)

or decrease in creditors, provisions, bank overdraft (liabilities).

[Total: 20]

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5 (a) Explain what is meant by contribution and profit. [4]

Level 1 (1–2 marks)

Candidate provides only vague definition of both terms or defines only one term.

Level 2 (3–4 marks)

Candidate provides accurate definition of both terms.

Profit – the surplus of revenue over costs.

Contribution – the surplus of revenue over variable costs available to meet fixed costs.

(b) Using the information available in Item B, calculate the weekly contribution for both of the hire contracts. [2 × 6 =12]

Level 1 (1–3 marks)

Candidate uses some revenue and cost figures to make calculation but relevance to contribution is not clear.

Level 2 (4–6 marks)

Candidate demonstrates clear understanding of how to calculate contribution and produces accurate results.

6 marks available for calculation of contribution for each activity of the firm.

For solution see Appendix 2

(c) Calculate the overall weekly profit for the hire services of the business. [4]

Level 1 (1–2 marks)

Candidate uses some revenue and cost figures to make calculation but relevance to profit is not clear.

Level 2 (3–4 marks)

Candidate demonstrates clear understanding of how to calculate profit and produces accurate results.

For solution see Appendix 2

[Total: 20]

Appendix 1

Working Capital = Current Assets – Current Liabilities

Current Assets		\$		\$
Stocks	Raw materials	6500		
	Work in progress	4000		
	Finished goods	3500		14000
Debtors				11000
Cash in hand				2500
				27500
Current Liabilities	Creditors		7300	
	Provision for taxation			4000
	Overdraft		8000	
			19300	

Working capital = \$27500 – \$19300 = \$8200

Appendix 2

5 (b)

Contribution = Revenue – Variable costs

Bed linen

Revenue = \$80 × 8 = \$640 per week

Variable costs = (\$10 + \$12) × 8 = \$176 per week

Contribution = \$640 – \$176 = \$464 per week

Medical instruments

Revenue = \$100 × 6 = \$600 per week

Variable costs = (\$12 + \$10) × 6 = \$132 per week

Contribution = \$600 – \$132 = \$468 per week

5 (c)

Weekly contribution = \$464 + \$468 = \$932

Weekly fixed costs = \$44200 / 52 = \$850

Weekly profit = \$932 – \$850 = \$82