

MARK SCHEME for the October 2006 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS

5163 Business Finance
Maximum mark 100

This mark scheme is published as an aid to teachers and students, 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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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

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Page 2	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2006	5163

You must attempt ALL of the following tasks

- 1 (a) Explain the legal and financial consequences of being declared bankrupt. [6]**
- Allow up to 2 marks for any of the consequences that are explained.
Inability to trade, need to reach agreement with creditors, cannot hold cheque book, loss of personal possessions etc.
- (b) Identify and explain the possible reasons why Li Tan chose to set up in business as a limited company. [6]**
- Allow up to 2 marks for any valid reason that is explained.
Enjoys limited liability, able to raise more capital, enhanced status/reputation of business etc.
- (c) Explain the difference between a percentage mark up and a percentage gross profit margin. [4]**
- Allow up to 2 marks for each term explained.
Mark up relates gross profit to cost of sales.
Gross profit margin relates gross profit to sales revenue.
- (d) Identify and explain one advantage and one disadvantage of subcontracting the specialist work. [4]**
- Allow up to 2 marks for an advantage/disadvantage explained.
Advantage – no need to employ expensive specialist staff, no need to purchase specialist equipment etc.
Disadvantage – loss of revenue/profits, loss of control over work etc.
- [Total: 20]**
- 2 (a) Identify and explain four principles of accounts that Li Tan should be using to produce accurate accounts. [16]**
- Allow up to 4 marks for each principle explained.
To obtain 4 marks the candidate must demonstrate how the principle contributes towards accuracy
e.g. matching ensures that revenues and costs are correctly set against each other.
- (b) Explain the role that the auditor will play in the accounting process. [4]**
- Candidates are required to identify the range of duties carried out by the auditor.
Independent checking of the accounts, signing off the accounts, providing advice to the firm etc.
Allow up to 2 marks for each duty explained.

[Total: 20]

Page 3	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2006	5163

- 3 (a) Produce a balance sheet to show the financial position of TanCon Ltd as at 30th September 2006. [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 marks)

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

See Appendix 1 for suggested solution.

- (b) Identify and explain two reasons why a balance sheet might not balance. [6]**

Allow up to 3 marks for a well explained reason with own example provided.
E.g. incorrect entry of information, wrong information entered, incorrect totals calculated.

[Total: 20]

- 4 (a) Identify two internal and two external stakeholders of TanCon Ltd. [4]**

Allow 1 mark per stakeholder identified.
Internal – shareholders, employees etc.
External – Government agencies, potential customers etc.

- (b) For each of the stakeholders identified in (a) above, identify what information they are likely to require and explain how they would use this information. [16]**

Allow up to 4 marks for the quality of explanation of each of the users of the information.
E.g. Government – data on profits to assist in collection of taxes, assessing entitlement to funding etc.

[Total: 20]

- 5 (a) Produce a three- month cash budget for TanCon Ltd for the period October to December 2006. [16]**

Level 1 – (1-5 marks) Candidate extracts some relevant data from the case study but few calculations are correct and little evidence of correct method of producing cash budget.

Level 2 – (6-10 marks) As level 1 but candidate shows better knowledge of the method required and more correct calculations are attempted. Several errors remain.

Level 3 – (11-16 marks) As level 2 but candidate shows clear knowledge of the method required and completes all relevant entries with accurate totals at the top end of the mark range.

See Appendix 2 for suggested solution

- (b) Identify and explain one advantage and one disadvantage of keeping large reserves of cash. [4]**

Allow up to 2 marks for an advantage/disadvantage
Advantage – Liquidity of the business, able to obtain cash discounts on purchases etc.
Disadvantage – Cash is not producing profits, problems with fraud etc.

[Total: 20]

Page 4	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2006	5163

Appendix 1

Balance Sheet for TanCon Ltd as at 30th September 2006
All figures are in US \$000

Fixed Assets			
Land and buildings		2400	
Plant and equipment	4800		
Depreciation	900	3900	
Fixtures and fittings		600	
			6900
Current Assets			
Stock	400		
Debtors	360		
Cash	60		
		820	
Current liabilities			
Creditors	240		
Corporation Tax	100		
Dividend	120		
Overdraft	50		
		510	
			310
			7210
Long term liabilities			
Debentures			1000
			6210
Financed by			
Ordinary shares			3200
Ordinary share premium			800
Preference shares			1600
Profit and loss account			610
			6210

Page 5	Mark Scheme	Syllabus
	Cambridge International Diploma – October 2006	5163

Appendix 2

Cash budget for TanCon Ltd for the period Oct-Dec. 2006

	October		November		December	
	\$	\$	\$	\$	\$	\$
Opening cash		60,000		80,000		112,500
Revenue						
Reports	30,000		75,000		62,500	
Builds	45,000	75,000	37,500	112,500	75,000	137,500
Total cash		135,000		192,500		250,000
Less expenditure						
Wages	20,000		40,000		50,000	
Materials	30,000		20,000		50,000	
Purchase of plant			15,000			
Insurance					15,000	
Overdraft payment	5,000	55,000	5,000	80,000	5,000	120,000
Closing cash		80,000		112,500		130,000
Closing overdraft		20,000		15,000		10,000