

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

BUSINESS FINANCE

5163/01

Optional Module

October 2006

**2 hours
plus 15 minutes reading time**

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

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 **5** printed pages and **3** blank pages.



You must read the case study below and attempt all the tasks that follow.

[The following case study is fictitious.]

TanCon Ltd

TanCon Ltd is a medium-sized construction company that operates in the south eastern corner of Asia. The firm was established in 2002 by Li Tan, who is the Chief Executive and major shareholder.

Li has twenty years' experience in the construction industry and he has owned several other businesses before setting up TanCon. Unfortunately, on two occasions Li's businesses had failed and he was declared bankrupt. These experiences convinced Li that he needed to set up a limited company and he approached several of his family and friends to raise the required capital to form the company. 5

TanCon Ltd provides finishing services for major construction firms. This requires Li and his team of consultants to inspect large building projects that are nearing completion and to identify jobs that need to be completed and/or redone. After each inspection visit TanCon Ltd produces a report for which it charges a fee equal to two and a half per cent of the total build cost of the project. The auditor for TanCon Ltd has recently suggested that the firm should instead charge a set fee for each report. 10

Once the inspection report has been produced, TanCon Ltd negotiates a price with the clients for completing the required jobs. Often these jobs are carried out by TanCon's own staff, but where specialist work is required TanCon Ltd subcontracts the work. 15

In addition to these finishing services, TanCon Ltd has its own house building division. The company constructs exclusive prefabricated houses under a licensing agreement from a German manufacturing company. Currently TanCon Ltd fixes its prices on the basis of a set percentage mark-up, but it has been suggested that they should change to a system of applying a fixed gross profit margin. 20

The most recent financial results show that TanCon Ltd is making reasonable profits despite the current downturn in the economies of South East Asia. There has, however, been some opposition from some of the firm's stakeholders to recent decisions taken by the Board of Directors. 25

The firm's auditor has been critical about the lack of accounting knowledge demonstrated by the directors. She has recommended that all directors and managers should attend a training course to gain a basic knowledge of the recognised accounting principles and practices.

Financial Information**Item A**

Balance Sheet totals for TanCon Ltd as at 30 September 2006:

	US \$000
Land and buildings	2400
Stock	400
Accumulated Depreciation	900
Cash	60
Creditors	240
Fixtures and fittings	600
Proposed Dividend	120
Plant and Equipment at cost	4800
Debtors	360
Overdraft	50
Ordinary Shares 1,600,000 @ \$2	3200
Corporation Tax provision	100
Preference Shares 400,000@ \$4	1600
10% Debenture issued June 2005	1000
Profit and Loss Account	610

It was reported that the Ordinary shares had been issued at a premium of 25%

Item B

Estimated cash receipts and expenditure for TanCon Ltd October to December 2006:

Cash Receipts

Inspection Reports	October	-	4 @ \$15 000
	November	-	6 @ \$15 000
	December	-	3 @ \$15 000

TanCon Ltd receives 50% of the payment for a report in the month that it was carried out and 50% in the following month. There were no reports conducted in September.

House build starts	October	-	2
	November	-	1
	December	-	3

For each house build TanCon Ltd receives \$30 000. It receives 75% of this money in the month that the house build started and the remaining 25% in the following month. There were no house builds started in September.

Cash Payments

			\$
Wages	October	-	20 000
	November	-	40 000
	December	-	50 000
Materials	October	-	30 000
	November	-	20 000
	December	-	50 000
Purchase of new plant	November	-	15 000
Insurance premium to be paid	December	-	15 000
Payments to be made against the overdraft		-	5 000 per month
Opening cash balance			60 000
Opening overdraft			50 000

You must attempt ALL of the following tasks

- 1 (a) Explain the legal and financial consequences of being declared bankrupt. [6]
- (b) Identify and explain the possible reasons why Li Tan chose to set up in business as a limited company. [6]
- (c) Explain the difference between a percentage mark-up and a percentage gross profit margin. [4]
- (d) Identify and explain **one** advantage and **one** disadvantage of subcontracting the specialist work. [4]
- [Total: 20]**
- 2 (a) Identify and explain **four** principles of accounts that Li Tan should be using to produce accurate accounts. [4x4=16]
- (b) Explain the role that the auditor will play in the accounting process. [4]
- [Total: 20]**
- 3 (a) Produce a balance sheet to show the financial position of TanCon Ltd at 30 September 2006. [14]
- (b) Identify and explain **two** reasons why a balance sheet might not balance. [6]
- [Total: 20]**
- 4 (a) Identify **two** internal and **two** external stakeholders of TanCon Ltd. [4]
- (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. [4x4=16]
- [Total: 20]**
- 5 (a) Produce a three-month cash budget for TanCon Ltd for the period October to December 2006. [16]
- (b) Identify and explain **one** advantage and **one** disadvantage of keeping large reserves of cash. [4]
- [Total: 20]**

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