



General Certificate of Education

Applied Business 8610

BS03 Financial Planning and Monitoring

Mark Scheme

2006 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
	AO1 Knowledge, skills and understanding Candidates demonstrate knowledge and understanding of the specified content and relevant business skills.
	AO2 Application of knowledge, skills and understanding Candidates apply knowledge and understanding of the specified content and relevant business skills.
	AO3 Research and analysis Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
	AO4 Evaluation Candidates evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none">• select and use a form and style of writing appropriate to purpose and complex subject matter• organise relevant information clearly and coherently, using specialist vocabulary when appropriate• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1**Total for this question: 10 marks**

*Drawing on your pre-examination research, examine **the case for** the Directors of *FemmeFit Ltd* deciding to continue trading as a **private** limited company. (You should **not** spend more than ten minutes on this question.)* (10 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of case in context.	8–10	AO2
3	Candidate offers analysis of point(s).	6–7	AO3
2	Candidate provides simple development of point(s).	3–5	AO1
1	Candidate states relevant points.	1–2	

Relevant answers might include the following:

- the cost of ‘going public’ is high and *FemmeFit Ltd* may not have the finance to afford this, even if it can raise a bank loan
- do Polly and her management team have the expertise to manage a plc?
- Polly may lose control of the business – is this acceptable to her?
- the risk of a hostile take-over will appear for the first time
- as a plc trading on the Stock Exchange the company will be more in the public eye and will have to consider its share price when taking major decisions
- increased regulatory burden
- need for greater disclosure of financial information.

2

Total for this question: 23 marks

(a) Explain **one** benefit that *FemmeFit Ltd* might receive by drawing up a business plan for its proposed expansion. (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanation in context.	5–6	AO2
2	Candidate provides simple development.	2–4	AO1
1	Candidate states relevant benefit or offers definition.	1	

Relevant answers might include the following:

- it will provide financial and other information to help *FemmeFit Ltd's* directors to take the decision on whether or not to go ahead with the expansion
- the process of preparing the business plan helps the directors to take a considered decision
- the business plan may help to persuade its bank to grant the proposed loan
- it provides a measure against which the directors can measure the company's future performance.

(b) Using the information in **Item A**, calculate the number of members that a typical *FemmeFit Ltd* health club will need in order to break even. You should show your calculations. (3 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate calculates answer correctly.	3	AO2
2	Candidate makes attempt at calculation demonstrating understanding of concept.	2	
1	Candidate shows understanding of break-even, eg by writing down relevant formula or by identifying relevant figures.	1	AO1

Break-even = fixed costs / contribution per unit

Break-even = £500 000/£475 – £75
 = £500 000/£400
 = **1 250 members**

(c) *Market research indicates that a typical FemmeFit Ltd health club will attract 1500 members in the first year.*

Calculate the profits or losses that will be generated for a single health club if this forecast is accurate. (Assume each member pays fees for the full year.) You should show your calculations. (4 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers correct answer.	4	AO2
2	Candidate makes attempt at calculation.	2–3	
1	Candidate demonstrates knowledge of profits/losses, eg by writing down relevant formula.	1	AO1

Profits = revenues – (fixed costs + variable costs)

Revenues = 1500 x £475
= £712 500

Costs = £500 000 + (1500 x £75)
= £612 500

Profits = £712 500 – £612 500
= **£100 000**

OR

Profit = contribution – fixed costs

= (1500 x £400) – £500 000

= £600 000 – £500 000

= **£100 000**

(d) *Polly thinks that using break-even analysis is of little value to the company in deciding whether or not to go ahead with the expansion plan.*

Discuss whether you agree with Polly's view. Justify your opinion. (10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of points in context.	5–6	AO2
2	Candidate provides analysis of point(s).	3–4	AO3
1	Candidate states relevant points.	1–2	AO1

NB if candidate only discusses one side of the question, award maximum Level 2. In addition, (and separately) award marks for evaluation using the grid below.

Level	Descriptor	Marks	Assessment Objective
E3	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4	AO4
E2	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	2–3	
E1	Candidate offers undeveloped judgement based on evidence. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	

Relevant answers might include the following:

- break-even is a simple technique which can show amounts of profit or loss at various levels of membership. This might help when taking the overall decision, or at least decisions over individual health clubs
- evidence of this type of financial planning may be important in gaining financial support from the company's bank
- break-even analysis offers some 'rule of thumb' guidance for pricing decisions which might be helpful as they are moving into different geographical markets
- but break-even pays little attention to the market place and *FemmeFit Ltd* faces tough competition. This lessens its value
- the model tells Polly and her colleagues of the level of membership necessary for a single health club to break-even. It does not mean that they will achieve that level of sales
- break-even relates more effectively to *FemmeFit Ltd's* individual health clubs rather than the entire proposed expansion.

3

Total for this question: 11 marks

(a) Complete the budget in **Item B**, by filling in the shaded boxes. (4 marks)

**Revenue and Expenditure Budget For *FemmeFit Ltd*'s Proposed 20 New Health Clubs
(January–April 2007)**

REVENUE OR EXPENDITURE	JANUARY 2007 £	FEBRUARY 2007 £	MARCH 2007 £	APRIL 2007 £
Cash sales	1 900 000	1 200 000	1 400 000	1 550 000
Credit sales	165 000	50 000	68 500	95 250
Total sales revenue	2 065 000	1 250 000	1 468 500	1 645 250
Marketing	255 000	147 750	102 000	68 950
Rent and rates	89 450	92 210	92 200	92 750
Electricity, gas etc	8 348	8 491	7 375	6 910
Wages and salaries	1 061 225	1 063 044	1 084 350	1 102 750
Other costs	445 760	476 085	322 400	369 050
Total expenditure	1 859 783	1 787 580	1 608 325	1 640 410
PROFIT/(LOSS)	205 217	(537 580)	(139 825)	4 840

Award **one mark** for each correct answer.

(b) Analyse the benefits that *FemmeFit Ltd* might receive from the use of budgets to help manage its proposed expansion. (7 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of points in context.	6–7	AO2
2	Candidate provides analysis of point(s).	3–5	AO3
1	Candidate states relevant points.	1–2	AO1

Relevant answers might include the following:

- budgets will help *FemmeFit Ltd* to control and monitor its expenditure. This will be important during a period of expansion when it is notoriously difficult to control expenditure
- operating budgets throughout the 20 new health clubs will help to identify the parts of the expanded business that are performing well financially and those that are not
- allowing managers in each of the health clubs to have some control over their finances through a system of setting and monitoring budgets may have a positive motivational effect
- budgets can be used as targets for staff improving performance and possibly engendering some competition between individual health clubs.

4

Total for this question: 16 marks

Using all the data available to you, decide whether or not FemmeFit Ltd should go ahead with its proposed expansion. You should justify your view. (16 marks)

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis of both sides of argument in context.	9–10	AO2/3
4	Candidate offers analysis of both sides of argument or one side in context.	7–8	
3	Candidate offers analysis of point(s).	5–6	AO3
2	Candidate provides limited explanation of point(s).	3–4	AO1
1	Candidate states relevant points.	1–2	

In addition, (and separately) award marks for evaluation using the grid below. **NB** AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–6	AO4
E2	Candidate offers judgement plus incomplete justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	3–4	
E1	Candidate offers judgement plus an attempt at justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1–2	

Relevant answers might include the following arguments:

For the expansion

- expanding at the same time as ‘going public’ is a good choice in that the sale of shares may provide much of the capital that is needed
- after the expected popularity in the opening month, *FemmeFit Ltd*’s new health clubs enjoy rising sales revenue
- the budgets for the 20 new health clubs show them making an initial profit and then steadily moving (quickly) into a profitable position
- the 20 new clubs are forecast to make a profit of £1.3 million during their first year of trading
- the break-even analysis suggested the clubs will break-even at least
- this positive financial performance is achieved alongside steadily falling expenditure on marketing.

Against the expansion

- the company faces substantial interest charges and has to possibly pay for ‘going public’ at the same time
- the company’s budgets are forecasts and they are moving into new geographical markets, so they may be inaccurate
- the company incurs some heavy losses in the early months
- the company faces a heavy net outflow of cash during 2007 – can it fund this?
- the break-even data reveals a small margin of safety and will all clubs follow this model?

Issues for evaluation might include the following:

- this is an encouraging performance for the first year of trading for a new venture
- what are the company’s financial (and other) objectives – this decision should be made against them
- all of the financial data is forecast and whether or not the expansion should go ahead depends upon the reliability of the data – how much research was undertaken?
- more information is needed.

Credit ‘plc’ arguments **only** when used to support/oppose expansion.