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General Certificate of Education  
 January 2006  
 Advanced Subsidiary Examination



**APPLIED BUSINESS**  
**Unit 3 Financial Planning and Monitoring**

**BS03**

Tuesday 10 January 2006 9.00 am to 10.00 am

<p><b>For this paper you must have:</b></p> <ul style="list-style-type: none"> <li>a calculator</li> </ul>
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For Examiner's Use			
Number	Mark	Number	Mark
1		3	
2		4	
Total (Column 1) →			
Total (Column 2) →			
TOTAL			
Examiner's Initials			

Time allowed: 1 hour

**Instructions**

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want marked.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which question you are answering.

**Information**

- The maximum mark for this paper is 60.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. Questions 2(d) and 4 should be answered in continuous prose. Quality of Written Communication will be assessed in these answers.

### **In Good Health? (pre-issued)**

Polly Hammond had achieved so much. In 1998, she was a penniless graduate with an overdraft and no idea of what she wanted to do with her life. By 2005, she had established a chain of health clubs. She, along with rivals such as *Green's*, had benefited enormously from the growing trend among people to seek more healthy lifestyles.

This transformation began with an idea. Polly had joined a local gym to keep fit and felt that it catered mainly for men. She decided that a gap in the market existed for health clubs targeted primarily at women. She opened her first health club, using the name *FemmeFit*, in Amersham – a wealthy town some twenty-five miles from London. The health club offered a range of facilities:

- a wide selection of high technology fitness equipment, including running and rowing machines
- two sports halls offering space for classes in yoga, aerobics and other activities aimed primarily at women
- two pools – one for adults and another for children
- an advice centre offering support and guidance on diet, nutrition, exercise and other health issues
- a crèche for young children
- a café selling healthy meals and snacks.

The first *FemmeFit* health club established the business model. The health club was aimed primarily at women and carefully planned to provide a supportive atmosphere for clients. The facilities were designed to be suitable for mothers with children of all ages.

In the summer of 2005, Polly felt that her business was at a turning point. *FemmeFit* had become a private limited company in 2001, and four years later was operating 12 health clubs in the London area. Polly had located her clubs in less expensive areas of the capital to keep her costs to a minimum. Finance had been an ongoing problem because of the relatively high costs of building and equipping a health club. She had funded the first 12 health clubs through a mixture of bank loans and the sale of shares to the small group of shareholders who owned *FemmeFit Ltd*.

Polly and the other Directors of *FemmeFit Ltd* were considering an expansion plan which would result in the opening of 20 new health clubs in other regions of the UK. The Directors were unsure of how best to finance this expansion; one option was to convert the business into a public limited company through a process known as 'going public'.

#### **Pre-release Research Tasks**

- (a) Investigate the benefits and drawbacks to *FemmeFit Ltd* of becoming a public limited company compared with remaining a private limited company.
- (b) Research the criteria that *FemmeFit Ltd* might use to decide whether or not to go ahead with its proposed expansion.



2 Read **Item A** and then answer the questions that follow.

**Item A**  
**Preparing for Expansion**

Polly and *FemmeFit Ltd's* Board of Directors had decided to investigate the option of 'going public' and also to examine the case for and against the proposed expansion.

*FemmeFit Ltd's* Financial Director had drawn up a break-even chart for one of the company's typical health clubs. This information could help the management team's decision-making. He had assumed that the fixed costs of operating a typical health club would be £500 000 per annum. The variable costs of each individual member were estimated to be £75 annually and the average annual membership charge was initially set at £475.

Market research in two selected towns had suggested that a typical health club might expect to attract 1500 members in its first year. However, the Board of Directors recognised that they would face tough competition from rival health clubs such as *Green's*.

At their latest board meeting, *FemmeFit Ltd's* Directors had to take two major decisions. Should they go ahead with the expansion? Should the company be floated on the Stock Exchange?

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

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(6 marks)

- (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.

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(3 marks)

- (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.

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(4 marks)

**Question 2 continues on the next page**



**Turn over for the next question**

3 Read **Item B** and then answer the questions that follow.

**Item B**

The Directors decided to prepare a business plan to help the decision-making process and, as part of their financial planning, drew up a budget for the operation of the 20 proposed new health clubs for the first four months of trading at the start of 2007. **The Revenue and Expenditure Budget** is shown below, with **Other Financial Forecasts**.

**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
<b>Total sales revenue</b>	<b>2 065 000</b>	<b>1 250 000</b>	<b>1 468 500</b>	
Marketing	255 000	147 750	102 000	68 950
Rent and rates	89 450	92 210		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
<b>Total expenditure</b>	<b>1 859 783</b>		<b>1 608 325</b>	<b>1 640 410</b>
<b>PROFIT/(LOSS)</b>		<b>(537 580)</b>	<b>(139 825)</b>	<b>4 840</b>

**Other Financial Forecasts relating to *FemmeFit Ltd's* 20 Proposed New Health Clubs  
for the Financial Year ending 31 December 2007**

	£
Forecast net cash flow	(4 000 000)
Interest charges	2 230 000
Forecast profits	1 300 000



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

(4 marks)

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

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(7 marks)

**Turn over for the next question**



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(16 marks)

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<b>16</b>

**END OF QUESTIONS**

