General Certificate of Education
June 2003
Advanced Subsidiary Examination

BUSINESS STUDIES **BUS1**
Unit 1

Monday 2 June 2003 Afternoon Session

In addition to this paper you will require: an 8-page answer book. You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS1.
- Answer **both** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 52.
- Mark allocations are shown in brackets.
- Both questions carry equal marks.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.
- Up to 2 marks will be awarded for the quality of your written communication.

Answer **both** questions.

1 **Total for this question:** ***25 marks***

Study the information and answer **all** parts of the question that follows.

IN POOR HEALTH

Penman Ltd publishes twenty magazine titles each month, mainly on sport. Each of the company's magazines operates as a separate profit centre. Penman's financial position has been weak for some years. Profits have been low and the company has had problems with working capital. In an attempt to improve its financial position, Penman launched a new magazine, called *Vitality*, in June 2002 aimed at people who want a healthier lifestyle.

Vitality contains regular articles on diet, exercise programmes and learning new sports. The magazine was aimed at all ages, and not merely younger age groups. At its launch *Vitality* faced fierce competition from similar magazines produced by large publishers. Penman Ltd spent heavily on promotion and offered reduced price memberships for health clubs for readers taking out a year's subscription to *Vitality*.

However, *Vitality* had a disappointing first year. The magazine fell short of its sales budgets and exceeded forecast costs. In its first year, the magazine recorded a loss of £400 000. The cash flow position of *Vitality* was also poor, partly due to high start-up costs.

Despite this poor start, Penman Ltd's management team decided to continue with the publication, as sales had improved towards the end of the magazine's first year. The team agreed to approach the company's bankers for a loan to support the development of *Vitality*. Tough budgets were set for *Vitality's* second year. The managing director insisted that a cash flow forecast should be an important part of the financial planning for *Vitality's* second year.

Forecast costs, revenue and profits for *Vitality*
July 2003 – June 2004

Item	£
Sales Revenue	**1 250 000**
Fixed Costs	602 000
Variable Costs	550 000
Total Costs	**1 152 000**
Profit	**98 000**

Penman Ltd expects to sell 500 000 copies of *Vitality* at a price of £2.50 per magazine in the year beginning July 2003.

(a) What is meant by the term "budget" (line 11)? *(2 marks)*

(b) (i) How many copies of *Vitality* would have to be sold in the year from July 2003 for the magazine to break even? *(5 marks)*

(ii) If sales in the year from July 2003 were actually 600 000, what level of profit would *Vitality* earn? [Assume that fixed costs and variable costs per unit are unchanged.] *(3 marks)*

(c) Analyse **one** reason why Penman Ltd should draw up a cash flow forecast for *Vitality* for next year. *(6 marks)*

(d) Discuss the case for **and** against Penman Ltd's management team deciding to publish *Vitality* for a second year. *(9 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ▶

2 **Total for this question:** ***25 marks***

Study the information and answer **all** parts of the question that follows.

(a) Distinguish between "market share" (line 7) and "market size" (line 6). *(4 marks)*

(b) *Mars bars* have been a cash cow for many years. Explain **one** benefit the company may have received as a result of this. *(3 marks)*

(c) Examine **two** problems Mars might have faced as a result of the large fall in sales of *Mars bars* in 2001. *(8 marks)*

(d) Mars decided not to reduce prices as part of the new marketing strategy for *Mars bars*. Evaluate the case for **and** against this decision. *(10 marks)*

END OF QUESTIONS