AM 01/I.14m

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
MAY 2014

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	30th April 2014
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **FOUR** questions, choosing **ONE** from **SECTION A** and **THREE** from **SECTION B**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

<u>Section A</u>: Answer ONE question from this Section. Each question carries 28 marks.

Question 1

The following balances were extracted from the books of Mast plc at the end of the reporting period 31 December 2013. The debit and credit totals of the trial balance were not equal.

	€
Profit for the period ended 31 December 2013	1,935,200
Ordinary share capital (€0.50 nominal value)	6,000,000
Share premium	1,620,000
Revaluation reserve	734,000
Retained earnings	4,328,000
Freehold land and buildings	5,025,200
Plant and machinery	7,220,000
Fixture and fittings	1,710,000
Motor Vehicles	1,860,000
5% Debentures *(maturing 2020)*	800,000
Bank Loan	1,400,000
Loan interest due	56,000
Cash	130,000
Bank *(Credit balance)*	867,800
Inventories	2,151,000
Trade receivables	2,995,600
Trade payables	1,920,000
Prepayments	154,000
Accruals	131,000
Accumulated depreciation allowance:	
Buildings	415,000
Plant and machinery	566,000
Fixtures and fittings	290,000
Motor vehicles	430,000

The following information is also available:

1. An expenditure of €120,000 on research and development was charged to profit and loss. Nevertheless, €50,000 of this amount was spent on development of a product which is expected to generate future economic benefits for the entity.
2. An interim dividend of €0.02 per ordinary share was paid in August 2013 but only the bank entry was recorded.
3. Depreciation of 5% straight line was provided on the total book value of freehold land and buildings when it should have been charged on buildings only. Land was valued at €2,500,000 in the accounts.
4. Inventories included items costing €22,500 which were damaged. A flea market trader offered €3,000 for the lot.
5. The bank balance showed only the balance extracted from the bank statement. This had not been reconciled with the cashbook balance which included cheques which had not yet been presented totalling €25,400 and a deposit of €8,200 not yet registered in the bank statement.
6. Expenses of €124,800 incurred in the extension of a warehouse had been considered as normal repairs and charged accordingly.

7. Both the sales and purchases day books were overcast by €22,300 and €15,500 respectively.
8. Returns of €8,200 by a customer were entered in the personal account as a sales transaction.
9. A cheque of €24,000 received from a customer was returned by the bank as unpaid. A trade discount of 20% had been allowed on the total amount of the sale price. It was decided to consider the amount outstanding as a bad debt. The only entry made in respect of the returned cheque was in the bank account.
10. It was also found that a total of €14,600 in the wages account was carried forward as €4,600.

Required:

a. Prepare a Trial Balance before the adjustment of errors; calculate the discrepancy and transfer this to a Suspense Account. **(3 marks)**
b. Prepare Journal Entries to correct the errors and balance the Suspense Account. **(9 marks)**
c. Prepare a Statement of Adjusted Profit and a Statement of Financial Position as at 31 December 2013. **(10 marks)**
d. "If the trial balance balances, one should not waste time looking for errors." Comment on this statement **and** list **FOUR** errors which do not affect the Trial Balance. **(6 marks)**

Please turn the page.

Question 2

The financial year of **Crows Nest Ltd** has just ended and the following are its summarised financial statements.

Statement of Financial Position as at 31 March 2014

	Mar-14	**Mar-13**
	€	**€**
Property, plant and equipment	250,600	184,100
Development expenditure	40,000	8,000
Financial asset	22,500	31,200
Inventory	84,200	71,300
Trade receivables	88,300	73,100
Interest receivable accrued	1,000	9,000
Cash and bank	-	9,900
	486,600	**386,600**
Share capital - Ordinary shares of €0.50 each	150,000	100,000
Share premium	50,000	20,000
Revaluation surplus	26,000	16,000
Retained earnings	86,800	70,200
6% Debentures 2023	30,000	50,000
Tax payable	30,000	33,100
Bank	5,500	-
Other amounts payable	20,000	-
Trade payables	88,300	97,300
	486,600	**386,600**

Statement of Comprehensive Income for the year ended 31 March 2014

	€	**€**
Revenue		435,000
Cost of sales		(260,600)
Gross profit		174,400
Interest income		1,500
		175,900
Administrative overheads	(42,100)	
Depreciation and amortisation	(19,200)	
Finance cost	(3,000)	(64,300)
Profit before tax		111,600
Income tax expense		(35,000)
Profit for the year		**76,600**
Other Comprehensive Income:		
Gain on revaluation of property		10,000
Total Comprehensive Income for the year		**86,600**

The following additional information is also provided.

1. Non-current tangible assets are held at cost less depreciation except for property which is measured at fair value. Regular assessments are carried out to ensure that the carrying value reflects the fair value at the year end.
2. On 1 July 2013, the company disposed of old equipment which had a carrying value of €22,000. The sales proceeds of €20,000 were used as a 25% down payment on new equipment acquired on the same date. The balance due was to be settled in 3 equal instalments every 3 months.
3. The intangible asset at the start of the year was in respect of the development of a new product which is now being redesigned. The opening balance has, therefore, been written off. The amortisation cost on capitalised development expenditure for the year amounted to €10,000.
4. The financial asset represents investment in government stock. Some of these stocks matured during the year. The company intends to hold the remaining government stocks to maturity.
5. Just before the year end, a dividend of €35,000 was paid together with a bonus issue of 1 ordinary share for every 4 ordinary shares held by capitalising retained earnings. This was followed by a public issue, which was fully taken up.

Required:

a. For the year ended 31 March 2014, prepare the Statement of Cashflows of Crows Nest Ltd. **(22 marks)**

b. Briefly explain what **<u>each</u>** section of the Statement of Cashflows is intended to convey to the user of financial statements. **(6 marks)**

Please turn the page.

Section B: Answer THREE questions from this Section. Each question carries 24 marks.

Question 3

The following balances have been prepared from the books of **Ballchain plc** for the period ending 31 March 2014.

	€	€
Ordinary share capital (€1 shares)		200,000
8% Redeemable preference shares 2018		80,000
Retained earnings as at 1 April 2013		198,000
General reserve		194,000
6% Debentures 2020		350,000
Trade payables		142,000
Turnover		4,797,500
Cash in hand	800	
Bank balance		16,500
Freehold properties	542,000	
Plant and machinery	1,100,000	
Motor vehicles	852,000	
Depreciation Allowance: *1 April 2013*		
Freehold buildings		125,000
Plant and machinery		420,000
Motor Vehicles		385,000
Proceeds from sale of non-current assets		252,500
Inventories	314,000	
Trade receivables	364,000	
Cost of goods sold	3,438,000	
Administration expenses	283,000	
Selling and distribution	197,000	
Debenture interest paid	10,500	
Interim preference dividend paid	3,200	
Difference in books – Suspense A/c	56,000	
	7,160,500	7,160,500

The following information is also available

1. The administration expenses include €63,000 repairs to the premises because of storm damage. Although the building is insured, the insurance company is only willing to pay €32,000. The difference is still being contested by the firm
2. Audit fees of €16,800 and directors' emoluments of €165,000 have not been provided for.
3. Depreciation on plant and machinery is at 15% on cost while that on motor vehicles is at 40% reducing balance. Premises, with a value of €200,000 are to be depreciated by €12,000.
4. Administration expenses include a prepayment of €42,000.
5. The difference in the books of €56,000 taken to the trial balance as a Suspense Account was in respect of the payment of a selling and distribution expense which, through an oversight, had not been debited to the relevant account.

6. During the year the company disposed of the following non current assets:

	Original cost	*Depreciation Allowance*	*Realised*
	€	€	€
Plant and machinery	38,000	19,500	12,300
Motor Vehicles	32,000	17,500	15,200
Freehold land	150,000	nil	225,000

The proceeds from these disposals were debited to bank and credited to a Proceeds from Sale of Non-current Assets account, included in the trial balance above. No other entries were made.

7. Acquisitions included new plant, at a cost of €24,000, and new vehicles for €22,000. These have been accounted for accordingly.
8. For the period ended 31 March 2013 closing inventories were over stated by €13,200. For the period ended 31 March 2014 inventories valuation was based on the physical stocktake.
9. The preference shares were issued on 1 April 2012 and dividend is paid in two equal instalments on 1st October and 1st April.
10. The directors propose an ordinary dividend of €0.08 per share.

Required:

a. Prepare the Statement of Comprehensive Income and the Statement of Financial Position of Ballchain plc for the reporting period ended 31 March 2014. **(18 marks)**
b. Explain your treatment of preference shares in part (a) and list **TWO** differences between ordinary shares and preference shares. **(6 marks)**

Please turn the page.

Question 4

The performance of **Portside Ltd** has been declining over the past years but they have experienced a substantial downturn in the financial year ended 31 December 2013. As the auditor of the company, the following draft financial statements were presented to you.

	€	**€**
Property	410,000	
Equipment	220,000	
Motor vehicles	101,000	731,000
Inventories	140,000	
Receivables	158,200	
Cash and bank	3,600	301,800
		1,032,800
Ordinary share capital	500,000	
Share premium	100,000	
Retained earnings at start of year	5,000	
Draft profit for year	166,300	771,300
Trade payables	210,000	
Accruals	51,500	261,500
		1,032,800

You are informed that the draft financials include the following.

1. Up to last year, property was carried at cost. This year the company engaged two independent firms to value its property. Both exercises indicated that the market value is €100,000 above book value. The directors are confident that the company would realise this higher value if the property is sold. However, as they have no intention of selling, they acted prudently and only recognised 50% of this gain in the draft profit for the year with a corresponding increase in property.
2. Equipment is usually subject to a 10% depreciation of carrying value. No equipment was bought or sold during the year. As equipment is subjected to regular maintenance, the directors are confident that there was no loss in value and as such no depreciation on equipment was charged this year.
3. Last year the company engaged a contractor to carry out refurbishments. During this year, some latent defects cost the company €25,000 to rectify. The company intends to sue the contractor for this amount. As the legal advisors believe that the company has a strong case, this amount has been recognised as Receivables and Other income in the draft financials for the year.
4. A specific allowance of €18,000 set aside the previous year on a doubtful debtor has been reversed this year. The directors feel this is justified as the position of the debtor has remained unchanged and argued that as the provision set aside last year has not materialised it should therefore be reversed. They assure you that the situation will be re-visited if circumstances concerning this debtor change.
5. The revenue for the year includes €35,000 worth of sales transacted in the first week of January 2014. These are included in the draft financials and the entries passed were to increase Revenue and Receivables. No adjustment to stock records was made.
6. Inventory at the year-end includes a batch of goods which had originally cost €20,000. The supplier of these goods has recently informed the company that prices have gone up by 25%. These goods,

which are still held by the company, have been included in closing inventory at this updated cost price.

7. Revenue for the year includes a credit sale transaction of €12,000 on a sale-or-return basis. The customer has up to 30 June 2014 to return the goods against a full refund. The company applies an average margin of 25%.
8. As the balance on Retained Earnings at the start of the year was not sufficient to meet the interim dividend of €10,000, it was fully taken from the Share Premium Account.

Required:

a. Prepare a Statement of Adjusted Profit for the financial year ended 31 December 2013. **(6 marks)**
b. For each adjustment explain the underlying accounting concept. **(8 marks)**
c. Prepare an adjusted Statement of Financial Position as at 31 December 2013. **(4 marks)**
d. Define the term '*distributable profits*' and give **TWO** examples to show the difference between revenue and capital reserves. **(6 marks)**

Please turn the page.

Question 5

The summarised final accounts of **Starboard Ltd** for the year ended 31 March 2014 were as follows:

Summarised Statement of Profit for year ended 31 March 2014

	€'000
Revenue	55,000
Cost of sales	(42,900)
Gross Profit	12,100
Overheads	(6,300)
Profit for the year	**5,800**

Statement of Financial Position as at 31 March 2014

	€'000	**€'000**
Non Current assets		29,000
Current assets		
Inventories	5,600	
Receivables	1,200	
Cash and cash equivalents	500	7,300
		36,300
Equity		
Ordinary share capital	20,000	
Reserves	7,000	27,000
Non current liabilities		
10% Long term loan		5,000
Current liabilities:		
Trade payables		4,300
		36,300

Inventory at the start of the financial year was valued at €5,125,000.

The latest average key performance indicators for the industry in which Starboard Ltd operates have been published by the trade association as follows:

Gross profit margin	30.0%
Net profit margin	12.5%
ROCE	15.0%
Rate of stock turnover	12x
Current ratio	1.5:1
Quick ratio	0.8:1

Required:

a. Calculate the above key performance indicators for Starboard Ltd. **(6 marks)**

b. Compare the key performance indicators of Starboard Ltd with the industry averages; explain what each difference means and give **ONE** possible reason for such difference. **(12 marks)**

c. Explain **TWO** benefits and **TWO** limitations of ratio analysis. **(6 marks)**

Question 6

The directors of **Fairway plc** have decided to lower the gearing of the company during the reporting period which has just started on 1 April 2014.

At the beginning of the same financial year the company had an authorised capital of 3,000,000 Ordinary shares of €0.50 each of which 1,600,000 had been called up and fully paid.

Other balances include:

	€
8% Shareholders' loan	500,000
Share premium	180,000
Retained earnings	345,650
Goodwill	80,000
Property	360,000
Plant and machinery	280,000
Bank overdraft	135,600

The board is planning the following actions.

1. Half of the 8% loan is to be repaid immediately and no interest will be due.
2. A bonus issue of 1 share for 4 ordinary shares in issue is to be made. Company policy requires maximisation of distributable reserves..
3. The bonus issue will be followed by a rights issue of 2 for every 5 ordinary shares in issue at €0.65 per share.
4. To write down plant and machinery to €200,000.
5. Recent technological developments strongly indicate that the carrying value of the goodwill will be impaired by 50%.
6. An independent valuer deemed that freehold land was undervalued by approximately €100,000. Company policy will be changed to measure property using the revaluation model.

Required:

a. Prepare Journal entries to effect the above suggestions. **(6 marks)**
b. Prepare an extract from the Statement of Changes in Equity for the year ending 31 March 2015, reflecting these adjustments**.** **(6 marks)**
c. Prepare the cash statement showing the flows arising from the changes suggested and calculate the gearing of Fairway plc before and after the adjustments. **(6 marks)**
d. Briefly explain what you understand by the term '**gearing**' and comment on the statement '*a little gearing could prove to be beneficial*'**.** **(6 marks)**

AM 01/II.14m

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
MAY 2014

SUBJECT:	ACCOUNTING
PAPER NUMBER:	II
DATE:	2nd May 2014
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **FOUR** questions, choosing **ONE** from **SECTION A** and **THREE** from **SECTION B**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

<u>Section A</u>: Answer ONE question from this Section. Each question carries 28 marks.

Question 1

Esskey Limited manufactures two products: Product S and Product K. The production of these products requires the usage of two raw materials, namely Material A and Material B, and two levels of workers, namely skilled and semi-skilled. The company operates a budgetary control system and is in the process of preparing its annual budget for the coming year.

The following data per unit of product, which has not changed from the previous year, is available:

		Product S	**Product K**
Materials	*Price per kg – €*	*Kgs*	*Kgs*
Material A	8.00	10	5
Material B	16.00	5	20
Direct Wages	*Rate per hour – €*	*Hours*	*Hours*
Skilled	10.00	16	8
Semi-skilled	8.00	24	8
Other variable costs - €		45	84

Budgeted data for the coming year is as follows:

	Product S	**Product K**
Sales – €	5,999,180	4,316,400
Inventory of finished goods – Units:		
At start of year	1,000	800
At end of year	1,200	800
Inventory of raw materials – Units:	***Material A***	***Material B***
At start of year	98,000	82,000
At end of year	88,200	83,800
	Skilled	***Semi-skilled***
Direct labour hours	94,480	128,640

Budgeted fixed production overhead is €1,004,040 and is absorbed on a direct labour hour basis. Administration cost is absorbed by products at a rate of 20% of budgeted production cost; and selling and distribution costs are absorbed by products at a rate of 40% of budgeted production cost.

Profit is budgeted as a percentage of total cost at 25% for all products.

Required:

a. Calculate the budgeted selling price per unit. **(6 marks)**

b. For the coming year, prepare the following:
   - i) Production budget in units **(3 marks)**
   - ii) Purchases budget **(3 marks)**
   - iii) Labour budget **(3 marks)**
   - iv) Total Production cost budget **(4 marks)**
   - v) Summarised Budgeted profit statement for each product **<u>and</u>** in total. **(3 marks)**

c. Outline **TWO** main objectives of a budgetary control system. **(6 marks)**

Question 2

InfinityStar, an igaming company, has provided you with the budget for the coming financial year in respect of the three games it produces. All units produced are sold in the same year of production.

Budget	**COD** €	**NFS** €	**GTA** €
Turnover	90,000	75,000	28,800
Material and Labour	42,000	30,000	12,000
Variable overheads	16,500	15,000	6,600
Variable costs	58,500	45,000	18,600
Fixed overheads	22,500	20,000	15,000
Budgeted total costs	81,000	65,000	33,600
Budgeted profit/(loss)	9,000	10,000	(4,800)
Number of units	15000	10000	3000

The directors are not happy with the negative results forecast for GTA and are considering the following mutually exclusive options.

Option 1: Stop producing GTA. This is not expected to influence the sales of the other products and has no impact on total fixed overheads.

Option 2: Carry out an intensive marketing campaign to promote COD. Such a campaign is estimated to cost €8,400. This campaign is not expected to affect sales of the other products.

Option 3: Reduce the selling price of NFS by 20% as this should result in an increased demand for this product with no effect on the other products.

Independently of the options being considered, the directors also inform you that they have just received notification that their supplier of component X, used in all three products, has gone out of business and can no longer supply this material. While alternative sources are being sought, the directors want to be prepared in case this component is not available in time for production. The directors inform you that the above options would only be considered once the problem with component X is resolved.

Meanwhile the company has 41,000 of these components in its inventory. The current product design envisages the following usage of component X by the three products.

	COD	**NFS**	**GTA**
Component X per unit	1.5	2.0	1

Please turn the page.

Required:

a. Once the issue with component X is resolved, calculate:
   i) the effect on budgeted profit if GTA is discontinued, briefly explain why profit changes in this way **and** state whether you agree with the option to stop production of GTA. **(6 marks)**
   ii) Calculate the additional COD units that would need to be produced to cover the marketing cost proposed in Option 2. **(4 marks)**
   iii) Calculate the additional number of units of NFS that would need to be sold to make up for the reduction in selling price as suggested in Option 3. **(6 marks)**

b. Calculate the optimum quantities of each product that the company should produce in order to maximise profit in view of the latest development concerning component X. Assume that sales levels cannot be higher than those budgeted. **(6 marks)**

c. Describe the term ***'a limiting factor'*** **and** explain why it is important to identify such factors at the beginning of the budgeting process. **(6 marks)**

Section B: Answer THREE questions from this Section. Each question carries 24 marks.

Question 3

Firelight is a company producing one product in a single department, namely a fire extinguisher. The standard prime cost for each unit is as follows:

	€
Materials: Powder	4.50
Chemicals	3.00
Container	20.00
	27.50
Labour Costs	3.00
Total Prime Cost	**30.50**

Standard usage of materials for each fire extinguisher requires 6 kgs of powder, 2 litres of chemicals and 1 container. The standard labour hour rate is €6 per hour.

During the month of March, 3,500 fire extinguishers were produced. The actual materials purchased and used for this month were as follows:

Powder:	4,900 kgs at €0.80 per kg 15,000 kgs at €0.72 per kg
Chemicals:	7,500 litres at €1.55 per kg
Containers:	400 containers at €18.00 per container 3,150 containers at €20.50 per container

The actual labour hours worked during the month amounted to 2,100 hours for a total labour cost of €12,915.

Required:

a. Calculate the following variances for the month of March 2014:
   i) Materials price variances;
   ii) Materials usage variances;
   iii) Labour rate variance; and
   iv) Labour efficiency variance. **(18 marks)**

b. Explain what you understand by ***'interdependence of variances'*** **<u>and</u>** give **TWO** examples of how materials and labour variances could be related.. **(6 marks)**

Please turn the page.

Question 4

Ace.com provides tailor-made IT solutions for the financial sector. The work is carried out in three distinct departments: Research, Design and Testing.

The budgeted production overheads for the financial year to 31 March 2014 were:

	€
Indirect wages	75,000
Performance bonus	120,000
Insurance of machinery	50,000
Water and electricity	65,000
Rent	40,000
Property maintenance agreements	10,000
Machine maintenance agreements	25,000
Depreciation of machinery	40,000

The following table shows other budget data which may be relevant.

	Research	**Design**	**Testing**
Direct wages (€)	250,000	600,000	350,000
Number of indirect employees	5	15	10
Labour hours	13,000	38,600	20,800
Machine hours	30,000	20,000	50,000
Book value of machinery (€)	100,000	400,000	300,000
Floor area (square metres)	50	200	150
Electricity (units)	2,000	5,000	3,000

The actual overheads and activity levels for the three departments are as follows:

	Research	**Design**	**Testing**
Labour hours	15,600	39,500	24,400
Machine hours	28,000	18,000	52,000
Total overheads (€)	80,000	199,000	150,000

Required:

a. Calculate, for **each** department:
   i) the budgeted production overhead;
   ii) an appropriate production overhead absorption rate; and
   iii) the amount of over/under absorbed overheads for the year. **(18 marks)**

b. Prepare a brief report to explain the over/under absorbed overhead in each department **and** give **TWO** advantages of using predetermined overhead absorption rates. **(6 marks)**

Question 5

Maltex held 1,000 units of one particular stock item on 1 March 2014, valued at €150,000 in total.

The following purchases were made during the month of March 2014.

Date	Units	Total cost - €
03-Mar	800	124,000
10-Mar	1,200	178,800
17-Mar	2,000	292,000
24-Mar	1,700	256,700

Details of sales carried out during the same months are as follows:

Date	Units	Total Sales Proceeds - €
07-Mar	1,300	255,000
14-Mar	1,500	290,000
21-Mar	1,100	215,000
28-Mar	1,600	310,000

The following additional information is available:

	Normal	Maximum	Minimum
Consumption per day	120 units	180 units	100 units

The re-order period is between 6 to 10 days and the re-order quantity is 2,000 units.

Required:

a. Calculate the value of inventory as at 31 March 2014 using the following methods of valuation:
   i) First In First Out (FIFO)
   ii) Weighted Average Cost (AVCO). **(8 marks)**
   ***Note**: The stock value per unit is to be calculated correct to 2 decimal places.*

b. Calculate the profit for the month of March 2014 using each method of stock valuation. **(4 marks)**

c. On the basis of the rate of consumption registered in the month of March, calculate:
   i) Re-order level;
   ii) Minimum stock level; and
   iii) Maximum stock level. **(6 marks)**

d. Outline **TWO** advantages and **TWO** disadvantages of each method of stock valuation. **(6 marks)**

Please turn the page.

Question 6

John Borg is a businessman operating a restaurant in the Sliema area. His son has just concluded his studies at the Institute of Tourism Studies and so he is considering various ways to expand his business and profits.The following information is available for the restaurant for the month of March 2014:

	€
Sales	32,832
Variable costs:	
Materials	17,784
Labour costs	2,736
Energy costs	4,104
Fixed costs:	
Labour costs	1,520
Rent and other expenses	5,152

The average selling price per meal is €24. John Borg is considering taking up an unutilised shop right next door to his restaurant and open another catering outlet. Two options are being considered:

1) A fast food take-away outlet
2) A fine Asian cuisine dining outlet

The following has been forecasted for both options:

	Take-away	**Asian Cuisine**
Sales per month – number of meals	2,200	240
Average selling price per meal – €	4.80	36.00
Variable costs per meal – €	3.00	30.00
Incremental fixed costs per month - €	3,900	1,800

If either of the above options was implemented, the effect on the existing restaurant operations are forecast to be as follows:

a) Sales of the existing restaurant would increase due to the fact that more people would be aware of the restaurant. Sales would increase by 1 meal for every 20 take-away meals; and by 1 meal for every 5 Asian cuisine meals.
b) Material costs for the existing restaurant would decrease by €1 per meal as a result of quantity discounts.

Required:

a. For the existing restaurant:
   i) calculate the present contribution per meal;
   ii) calculate the break-even point;
   iii) calculate the margin of safety for the month of March 2014; and
   iv) prepare a Profit Statement for the month of March 2014. **(6 marks)**
b. Under the current set up, calculate the number of meals required to be sold in order to earn a profit of €1,800 per month **(2 marks)**
c. Prepare a profit statement for **each** of the options being considered. **(10 marks)**
d. Based on your computations in (c), advise John Borg as to the type of catering outlet he should operate from the new premises **<u>and</u>** highlight **TWO** other factors which John Borg should consider before reaching a decision. **(6 marks)**