### Part (a)

#### Capacity (persons)
- Irene: 6,750
- R/burg: 6,750
- M/berg: 9,000
- Lodge: 1

#### Actual attendees
- Irene: 2,025
- R/burg: 3,375
- M/berg: 3,600
- Lodge: 1

#### Capacity utilisation - 1 mark for ratio if incorrect attendees used
- Irene: 30.0%
- R/burg: 50.0%
- M/berg: 40.0%
- Lodge: 1

**Comment that capacity cannot be calculated for Lodge given lack of info in Q**

- Capacity utilisation generally low at all venues
- Irene capacity utilisation is well below other venues/market Irene to increase attendees
- More people attend 2/3 day courses at M/berg than Randburg & Irene
- Bar revenue represents 24% of total revenue at the Lodge

#### Contribution/revenue
- Irene: 85.8%
- R/burg: 86.5%
- M/berg: 83.3%
- Lodge: 62.2%

**Alternative: variable costs to revenue**
- Irene: 14.2%
- R/burg: 13.5%
- M/berg: 16.7%
- Lodge: 37.8%

**Comment**
- Contribution/revenue generally low at all venues
- Irene contribution/revenue is below other venues/market Irene to increase attendees

#### Fixed costs/revenue
- Irene: 76.1%
- R/burg: 54.9%
- M/berg: 42.1%
- Lodge: 64.6%

#### Fixed costs/total costs
- Irene: 69.9%
- R/burg: 63.2%
- M/berg: 54.5%
- Lodge: 55.5%

**Comment**
- Fixed costs represent a high % of total costs
- Presenter salaries the largest component of fixed costs
- Other fixed costs at Randburg are very high compared to other venues

#### Operating profit/revenue
- Irene: -8.8%
- R/burg: 13.0%
- M/berg: 22.7%
- Lodge: -16.6%

#### Operating profit before HO costs/revenue
- Irene: 9.7%
- R/burg: 31.6%
- M/berg: 41.2%
- Lodge: -2.4%

**Comment**
- Irene is making a profit before head office cost allocation
- The Lodge loss is of concern - incurring a loss before head office costs
- Magaliesberg and/or Randburg profit margins are good
- How are venues trading compared to budget/prior years?

#### Head office costs/total costs
- Irene: 17.0%
- R/burg: 21.3%
- M/berg: 24.0%
- Lodge: 12.1%

**Comment**
- Head office costs represent a significant % of total costs
- Basis of allocation of head office costs may be inappropriate

#### Breakeven revenue
- Irene: 1,077,670
- R/burg: 1,285,549
- M/berg: 1,092,000
- Lodge: 1,092,987

**Comment**
- Irene operating at very close to breakeven
- Lodge is not breaking even

**Margins of safety**
- Excluding HO costs: 11.3% (Irene), 36.5% (R/burg), 49.4% (M/berg), -3.9% (Lodge)
- Including HO costs: -10.3% (Irene), 15.1% (R/burg), 27.2% (M/berg), -26.6% (Lodge)

### Part (b)

#### Retain status quo
- Operating profit before HO costs: -107,488

#### Closing down Irene

<table>
<thead>
<tr>
<th>Category</th>
<th>Irene</th>
<th>R/burg</th>
<th>M/berg</th>
<th>Lodge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>911,250</td>
<td>Sales lost</td>
<td>-303,750</td>
<td>1</td>
</tr>
<tr>
<td>Variable costs</td>
<td>-123,019</td>
<td>Variable saved</td>
<td>49,106</td>
<td>1</td>
</tr>
<tr>
<td>Contribution</td>
<td>788,231</td>
<td>Contribution lost</td>
<td>-254,644</td>
<td>1</td>
</tr>
<tr>
<td>Presenter costs</td>
<td>-450,000</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental costs</td>
<td>0</td>
<td>215,000</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Other fixed costs</td>
<td>0</td>
<td>260,000</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Head office costs</td>
<td>-225,363</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Operating profit (i.e. change of **R220 356)**

- Irene: 112,868
- Lodge: 220,356

**Comment**
- Irene making a profit before head office cost allocation
- The Lodge loss is of concern - incurring a loss before head office costs
- Magaliesberg and/or Randburg profit margins are good
- How are venues trading compared to budget/prior years?
Retrenchment costs (R200k), other closure costs (*R75k) -275,000
Rental for further year -215,000

Factors to consider

- Enough capacity at Randburg to absorb Irene attendees?
- Impact on ABS reputation/credibility of closing down Irene?
- Impact on staff morale?
- Any HO cost savings due to fewer venues?
- Presenters' attitude to change.
- Assumption re 75% of attendees moving to R/burg may not be correct
- Other fixed costs no longer incurred? Assumed for purposes of our calc's
- Perhaps investigate real reasons for low attendees before making decision
- Possibility of R/Burg's costs increasing due to higher attendees?

<table>
<thead>
<tr>
<th>Outsourcing to UP</th>
<th>Total</th>
<th>Incremental</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tot. approach</td>
<td>Inc. approach</td>
</tr>
<tr>
<td>Revenue</td>
<td>60,750</td>
<td>Rev Lost -1,154,250</td>
</tr>
<tr>
<td>Variable cost</td>
<td>0</td>
<td>VC saved 172,125</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>0</td>
<td>FC saved 925,000</td>
</tr>
<tr>
<td>Head office costs</td>
<td>-225,363</td>
<td>0</td>
</tr>
<tr>
<td>Loss</td>
<td>-164,613</td>
<td>-57,125</td>
</tr>
<tr>
<td>Once off retrenchment costs</td>
<td>-350,000</td>
<td>-350,000</td>
</tr>
</tbody>
</table>

Factors to consider

- UP will have access to ABS' intellectual property re training material
- Quality of course delivery beyond ABS' control/UP's reputation

Overall conclusions:

- Appropriate conclusion based on candidates workings
- Important to make the appropriate long term decision
- Perhaps, ABS should first consider marketing Irene venue, improving quality of presenters etc. to improve profitability?

<table>
<thead>
<tr>
<th>Party (c)</th>
<th>Financial impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tot approach</td>
<td>Incremental approach</td>
</tr>
<tr>
<td>Revenue 800,000</td>
<td>Bar sales lost -252,000</td>
</tr>
<tr>
<td>Catering charge -250,000</td>
<td>-250,000</td>
</tr>
<tr>
<td>Variable costs 0</td>
<td>VC saved 397,500</td>
</tr>
<tr>
<td>Current fixed costs -355,000</td>
<td>325,000</td>
</tr>
<tr>
<td>Head office costs -148,387</td>
<td>0</td>
</tr>
<tr>
<td>Profit 46,613</td>
<td>Incr. Profit 220,500</td>
</tr>
</tbody>
</table>

Retrenchment costs - once off -230,000

Appropriate conclusion based on candidates workings

Additional factors:

- Impact on quality of food/catering/service?
- Will Brillant be able to make profits?
- Any increases in bar mark ups?
- Impact on staff morale at Lodge?
- Brillant's reputation?
- Any other quotes to compare against Brillant's?
- Duration of contract with Brillant?

Approach

Follow a capital budgeting approach (determine future cash flows)
- estimate future cash flows associated with project
- discount cash flows using WACC to determine NPV
Alterations will require landlord's consent and become his property after termination of lease
Perform sensitivity analysis to evaluate possible scenarios/accuracy of estimates
Financing of project?

**Additional financial information**

*Revenue projections*
- Rate per head that can be charged for wedding catering?
- Venue hire charges
- Likely bar profits?
- accommodation revenue?

*Increased costs*
- Catering costs?
- Other variable expenses?
- Increased fixed costs (salaries, overheads, cleaning costs)
- Marketing costs?

*Other considerations*
Profitability of competitors?
Taxation considerations
Impact of alterations on current activities/how long to complete alterations?

<table>
<thead>
<tr>
<th>Available</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>6</td>
</tr>
</tbody>
</table>

**PRESENTATION MARKS**

3