



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

HTM 217: HOSPITALITY FINANCIAL MANAGEMENT

DATE: 1/12/2020

TIME: 8:30 – 10:30 AM

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## INSTRUCTIONS:

*Answer question one and any other two questions.*

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Why would a firm experience soft capital rationing? (4 marks)
- b) A company has 4 independent projects which have the following information: (13 marks)

Project	Initial cost	Present Value of Cash Inflows
A	Shs.30m	Shs. 50m
B	Shs.35m	Shs. 53m
C	Shs.50m	Shs. 93m
D	Shs. 58m	Shs.90m

#### Additional Information:

- i) The company has a capital limitation of Shs.100m. the cost of capital is 9.5% and any surplus funds can be invested at 12% p.a return on investment in perpetuity.
- ii) All the projects are indivisible.

#### Required:

Determine the optimal project combinations.

- c) Mjengo Limited intends to invest in either machine KX40 or KY50. Each of these machines costs shs.200,000 and have an estimated economic life of 10 years and no scrap value. The net returns after tax but before depreciation for the two machines are as follows: (13 marks)

Year	KX40	KY50
Shs.	Shs.	
1	40,000	60,000
2	50,000	40,000
3	30,000	50,000
4	10,000	30,000
5	20,000	20,000
6	30,000	18,000
7	15,000	14,000
8	10,000	8,000
9	5,000	3,000
10	30,000	30,000

Calculate the Accounting Rate of Return for each of the machines and advise the management on the machine to purchase.

### QUESTION TWO (20 MARKS)

- a) K. LTD produces a single product with a selling price of Sh.20 and a variable cost of Sh.12. Fixed costs are Sh.120,000 per annum. you are required to determine the following:
- (13 marks)
- Break-even point in units and in shs value.
  - The number of units to be sold to achieve a profit of Sh.50,000 per annum.
  - If tax rate is 30%, how many units will be sold to make a profit of Sh.30,000 after tax per annum.
- b) A company has a fixed cost per annum of Ksh.50,000 and three products of which data is given as follows:

Product	Sales	Contribution
Ksh.	Ksh.	
A	150,000	30,000
B	40,000	20,000
C	60,000	25,000

### Required:

Determine the Variable cost for each of the products.

(6 marks)

**QUESTION THREE (20 MARKS)**

AB Ltd manufactures two types of products namely X and Y. The company uses two materials A and B in the manufacture of these products. The following information is given for the year 2016:

a) **Budgeted sales**

Product	Quantity	Price
X	10,000	Ksh.40
Y	8,000	Ksh.30

b) **Materials used:**

**Material**

	A	B
Unit cost	Ksh.5	Ksh.8
Quantities used		
X	5	3
Y	4	4

There were no stocks at the beginning of the year. Stocks at the end of year are expected to be:

X 1000 units          Y 500units

**Required: Prepare:**

- i. Sales budget (3 marks)
- ii. Production budget (7 marks)
- iii. material usage in quantities budget (7 marks)
- iv. Material purchase in quantity and value budget. (3 marks)

#### QUESTION FOUR (20 MARKS)

The summarized accounts of Shiners Ltd. for the years ended 31<sup>st</sup> December 2010 and 2011 are as follows:

	<b>2011</b>	<b>2010</b>
<b>Balance sheet</b>	<b><u>Sh.'000'</u></b>	<b><u>Sh.'000'</u></b>
Investments at cost	16,000	10,400
Land	12,600	8,800
Plant and machinery, at cost	2,200	2,000
Buildings, at cost	18,000	10,000
Stock	13,000	11,000
Debtors	10,000	8,000
Bank	-	200
	<u>71,800</u>	<u>50,400</u>
Ordinary shares Sh.20 each	10,000	8,000
Share premium	2,800	2,600
Revaluation reserve	4,000	-
Profit and loss account	5,000	5,000
10% Debentures	30,000	20,000
<b>Accumulated depreciation:</b>		
Plant and machinery	1,000	800
Buildings	2,200	2,000
Creditors	12,000	8,000
Proposed dividend	4,000	4,000
Bank	<u>800</u>	<u>-</u>
	<u>71,800</u>	<u>50,400</u>
<b><u>Profit and loss account:</u></b>		
Sales	40,000	40,000
Cost of sales	<u>24,000</u>	<u>20,000</u>
	16,000	20,000
Expenses	<u>12,000</u>	<u>12,000</u>
	4,000	8,000
Dividends	<u>4,000</u>	<u>4,000</u>
	-	4,000
Balance b/f <u>5,000</u> 1,000		
Balance c/f	<u>5,000</u>	<u>5,000</u>

**Required:**

- a) calculate for Shiners Ltd, for 2010 and 2011, the following ratios: (18 marks)
- i) Gross profit percentage
  - ii) Net profit percentage
  - iii) Debtors turnover
  - iv) Creditors turnover
  - v) Current ratio
  - vi) Quick assets (acid test) ratio
- b) comment on the liquidity position of the company. (2 marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain the advantages of the Accounting Rate of Return (ARR) as a method of appraising projects. (5 marks)
- b) Explain the advantages and disadvantages of ratio analysis. (10 marks)
- c) Explain the limitations of Break-even analysis. (5 marks)