



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (HOSPITALITY AND TOURISM MANAGEMENT)

SHT 408 -1: HOSPALITY AND TOURISM FINANCIAL MANAGEMENT

DATE: 23/10/2020

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) In the context of performance evaluation, distinguish between a profit Centre and an investment Centre (5 marks)
- b) Mention three advantages of divisionalisation. (3 marks)
- c) Explain the Qualitative factors affecting lease or buy decision. (8 marks)
- d) Explain the assumptions of break even analysis. (8 marks)
- e) Evaluate merits and demerits of payback project appraisal. (6 marks)

QUESTION TWO (20 MARKS)

Mutuku baker's Limited's tentative budget for SUPA loaf for 2019 is as follows:

	Ksh	ksh
Sales(12,500 units at ksh.40 a unit)		500,000
Manufacturing cost of goods sold		
Direct labour	75,000	
Direct materials	70,000	
Variable factory O/H	50,000	
Fixed factory O/H	25,000	220,000
Gross profit		280,000
Selling expense		

▪ Variable	30,000	
▪ Fixed	50,000	(80,000)
Administration		
▪ Variable	25,000	
▪ Fixed	50,000	(75,000)
Operating income		125,000

Required:

- How many units of product SUPA would have to be sold to break even? (4 marks)
- What is the margin of safety? (4 marks)
- What would the operating income be if projected sales increase by 20% ? (5 marks)
- If a targeted profit after tax of Ksh 375,000 is to be made, advise the management on the level of sales that should be achieved in order to meet the targeted profit (6 marks)

QUESTION THREE (20 MARKS)

Marcan hotels limited has four divisions operating in Bakery, Rooms, Tours and Caferia

The following data are in respect of them

	Bakery	Rooms	Tours	Caferia
	Ksh	ksh	ksh	khs
Total assests	12 M	10M	14M	18M
Total sales	20M	30M	36M	28M
Total costs	18M	27M	33.6M	26M
Cost of capital (%)	14M	18M	16M	10M

Required:

- Calculate the annual returns on investment (6 marks)
- Calculate the residual income (6 marks)
- Explain the limitations of break even analysis (8 marks)

QUESTION FOUR (20 MARKS)

Tukur tours limited intends to obtain the use of an asset, but is uncertain of the best financing method to be employed. The financing methods under consideration are:

- a) To borrow and purchase the asset: borrowing would cost 12% before tax which is the current competitive rate for debt. The asset would cost ksh 450,000 to purchase and will have a guaranteed salvage value of ksh 50,000 in five years. Expenditure on the asset qualifies for capital allowance at 25% per annum on the reducing balance.
- b) To lease the asset, two financial leases are being considered the details are:

Year	Payments to be made	
	LEASE A(ksh000)	lease B (ksh 000)
0	125	20
1	125	40
2	125	80
3	125	150
4	125	250

If the asset is leased, the entire salvage value will accrue to the lessor. The firms weighted average cost of the assets if the firm is:

- a) Subject to company tax at 35% with a one-year delay and has large taxable profit.
- b) Permanently in a non-taxable position

Required

Advice the company on whether to

- i) buy (10 marks)
- ii) lease (10 marks)

QUESTION FIVE (20 MARKS)

Jenny Hotel recently convinced his friends and relatives to grant him a loan of Ksh.1,000,000, which he intends to invest in a farming project. He estimates that the project will yield the following returns annually for the next five years.

YEAR	KSH
1	300,000
2	300,000
3	400,000
4	300,000
5	200,000

There was no scrap value at the end of the fifth year and the company desires to evaluate the project on the basis of accounting rate of returns.

Required

Provide the internal rate of return of this project on the assumption that the annual returns are profits after depreciation but before taxation