# MACHAKOS UNIVERSITY COLLEGE

**(A Constituent College of Kenyatta University)**
**University Examinations for 2015/2016 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES**

**FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF SCIENCE IN HOSPITALITY AND TOURISM MANAGEMENT**

**SHT 403: HOSPITALITY AND TOURISM FINANCIAL MANAGEMENT**

**Date: 4/8/2016** **Time: 11:00 – 1:00 PM**

**INSTRUCTIONS**

**Answer Question One and Any Other Two Questions**

**QUESTION ONE – COMPULSORY**

a) Explain the following terms as used in financial management

i. Contribution margin
ii. Cost management
iii. Capital investment
iv. Mutually exclusive projects (6 marks)

b) Smiling ever restaurant is considering investing in a project which will cost Shs. 80,000 the following alternative projects are available with their respective cash flows for the next four years

**Yearly cashflows.**

| year | Project 1 (shs) | Project 2 (shs) | Project 3 (shs) | Project 4 (shs) |
|---|---|---|---|---|
| 2016 | 30,000 | 35,000 | 32,000 | 35,000 |
| 2017 | 28,000 | 30,000 | 30,000 | 32,000 |
| 2018 | 25,000 | 20,000 | 25,000 | 28,000 |
| 2019 | 20,000 | 18,000 | 10,000 | 20,000 |

i) Using the payback method, advice the restaurant on the best project to invest in. (6 marks)

ii) Give the reasons to support your answer in (i) above (2 marks)

c) Using three examples, explain the application of cost volume profit analysis in the hospitality industry. (6 marks)

d) State and explain any four factors you would consider when evaluating a sound investment, (8 marks)

**QUESTION TWO**

a) Bela club has provided the following information on one of its food package for the year ended 31st December 2016

Expected total sales by the end of the eyar (in units of food package) 7500

Variables cost per unit of package Shs. 5

Allocated fixed costs for the year Shs. 90,000

The club has been selling its food package (as a unit) at sh. 50 for the better part of the year, the price is not expected to change by the close of the year

**Calculate**

i) How many food packages (units) should the club sell to break even? (4 marks)

ii) How much profit will the club earn if the units sold are 15% more than the break even units (4 marks)

iii) How many units of food should the club sell to earn a profit of Shs. 27,000

b) Explain clearly the stages involved in the budgeting process. (8 marks)

**QUESTION THREE**

a) Describe the meaning of an hotel feasibility study and explain the key steps involved in a successful study. (12 marks)

b) Explain four assumptions under the cost volume profit analysis. (8 marks)

**QUESTION FOUR**

Shamona Hotel is planning to replace one of its machines in the food department. The following information relates to two types of machines, available in the market, machines X and machine **y** each costing shs. 25,000

The two machines will have zero residual values after five years.

Their expected earnings for the five years before depreciation, interest and taxes are provided for each machine

| Year | Machine X | Machine Y |
|---|---|---|
| | Shs. | Shs.r |
| 1 | 120,000 | 130,000 |
| 2 | 100,000 | 110,000 |
| 3 | 80,000 | 90,000 |
| 4 | 80,000 | 50,000 |
| 5 | 60,000 | 50,000 |

Using the return on capital employed (ROCE) method recommend which machine should be purchased by the hotel (12 marks)

b) Describe the nature of the following cost stating three examples of each from the hospitality industry

i) Fixed costs

ii) Variable costs (8 marks)

**QUESTION FIVE**

a) Smart hotels intends to invest in either project J or K. The initial capital outlay is Shs. 200,000. The expected cash inflows from the respective projects are given as follows

| | Project J | Project K |
|---|---|---|
| Years | Kshs. | Ksh. |
| 1 | 90,000 | 50,000 |
| 2 | 80,000 | 60,000 |
| 3 | 75,000 | 70,000 |
| 4 | 60,000 | 80,000 |

The company's cost of capital is 15%

Calculate the net present value of each project (10 marks)

Advise the management on the project to invest in (2 marks)

b) State and explain any four methods you would use to control food cost in a Restaurant. (8 marks)