NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCE AND EDUCATION
DEPARTMENT OF ECONOMICS, ACCOUNTING & FINANCE

QUALIFICATION: BACHELOR OF HOSPITALITY MANAGEMENT (HONOURS)	
QUALIFICATION CODE: 08BHTH	**LEVEL: 8**
COURSE CODE: FMH810S	**COURSE NAME: FINANCIAL MANAGEMENT: HOSPITALITY AND TOURISM**
SESSION: JUNE 2023	**PAPER: PRACTICAL AND THEORY**
DURATION: 3 HOURS	**MARKS: 100**

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS:	H Namwandi
MODERATOR:	A Okafor

INSTRUCTIONS

- This question paper is made up of four (4) questions.
- Start each question on a new page.
- Answer All the questions in blue or black ink **only.**
- You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.
- Start each question on a new page in your answer booklet and show all your workings.
- Questions relating to this paper may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities and any assumption made by the candidate should be clearly stated.

PERMISSIBLE MATERIALS

Non-programmable calculator

THIS QUESTION PAPER CONSISTS OF 5 PAGES (Including this front page)

Question 1 **(27 Marks)**

Chef Club Ltd is a company that produces cooking utensils. The management of Master Chef Ltd made a decision to venture into manufacturing a special cast iron pan which will result in the improvement of the overall profit of the organisation. The cast iron pan is very competitive and subject to frequent changes.

The finance team at Chef Club Ltd prepare monthly budgets as part of their planning and management control process.

The data for the forthcoming new budget period related to the Casserole pot is as follows:

The variable cost of producing a cast iron pan is N$21.

The planned selling price of a cast iron pan is N$45 and at this selling price, the demand for pots is expected to be 125 000 pans. Information from the marketing division at Chef Club Ltd suggests that for every N$3 increase in the selling price, the customer demand would reduce by 10 000 pots and that for every N$3 decrease in the selling price, the customer demand would increase by 10 000 pans.

An additional cost of producing the product in relation to its output is as follows:

Annual output (units)	115 000	140 000	155 000
Overheads cost (N$)	950 000	950 000	950 000

Administrative costs are as follows:

Selling cost	N$525 000
Advertising cost	N$660 000

REQUIRED:		**Marks**
(a)	Advise the management of Chef Club Ltd on the optimum selling price that should be charged to customers in order to maximise profit.	(12)
(b)	Prepare a statement of profit/loss that show the total maximum profit that Master Chef Ltd will generate from the selling price you calculated in part (a).	(9)
(c)	List four (4) limitations of using the profit maximization model.	(4)
(d)	Explain what are price differentiation and premium pricing.	(2)
Show all your workings!		
Total		**27**

Question 2 **(30 marks)**

NUST Ltd specialises in the importation and sales of equipment for children's indoor play centres. The company was set up by Mr. Sintentu. Mr Sintentu has asked you to assist him in managing his cash balance over the next three months. You have been provided with the following information:

Budgeted statement of profit or loss for three months ended 31 December 2023.

	October	**November**	**December**
	N$	**N$**	**N$**
Sales: Credit	138 000	140 000	185 000
Cash	36 000	40 000	65 000
Total	**174 000**	**180 000**	**250 000**
Less: Cost of goods sold	**(116 000)**	**(114 000)**	**(130 000)**
Opening inventory	180 000	134 000	105 000
Add: Purchases – (all credit)	70 000	85 000	55 000
	250 000	219 000	160 000
Less: Closing inventory	134 000	105 000	30 000
Gross profit	**58 000**	**66 000**	**120 000**
Discount received	1 500	1 100	2 400
Less: Expenses	**(43 500)**	**(48 400)**	**(54 800)**
Sundry expenses	10 000	12 000	14 000
Wages & salaries	29 000	32 000	36 000
Depreciation	2 000	2 000	2 000
Bad debts	2 500	2 400	2 800
Net profit	**16 000**	**18 700**	**67 600**

Additional information:

1. It is expected that trade debtors will settle their accounts as follows:
   20% during the month of sales
   70% during the month after the month of sales
   8% during the second month after the month of sales
   The remaining 2% is written off as bad debts
2. Purchases will be paid during the month following the month of purchases.
3. Credit purchases for August 2023 are N$75 000 and September 2023 amounts to N$60 000.
4. Total credit sales for September 2015 are N$120 000.
5. Sundry expenses are paid for in cash in the month incurred. The amounts for sundry expenses were obtained after deducting a prepayment of N$ 1000 each month.
6. Wages & salaries are paid for in the month incurred. Wages for each month included accruals of N$4 000.
7. An income tax of N$40 000 will be paid in November.
8. The closing balance for September 2023 amounts to N$8 000.

REQUIRED:		**Marks**
(a)	Prepare a cash budget for NUST Ltd for the period of October, November and December 2023.	(27)
(b)	List three (3) purposes of why an organisation needs to budget.	(3)
Show all your workings!		
Total		**30**

Question 3 **(13 Marks)**

Gondwana Collection Namibia, is a hub of travel and safari in Namibia and also offers rental cars and accommodation (hotel, lodges, campsite and self-catering). The company went through a major strategic restructuring and has recently appointed new management to implement the revised strategy. One of the key responsibilities of the new management is to implement a new management control system (MCS) within the organisation specifically looking at the performance of all employees in the area of hospitality. The management of Gondwana asked you to advise them on certain key areas that are needed to be done to successfully ensure that the management control system that will be designed and implemented works as intended. Therefore, the management requires an adviser to assist them in the implementation of a good Management Control System (MCS).

REQUIRED:		**Marks**
(a)	Explain what is task control.	(3)
(b)	Give four key differences between strategy formulation and management control.	(10)
Total		**15**

Question 4 **(30 marks)**

Midgard Holdings is considering two projects. The projects are similar in nature and are expected both operate for four years. Due to the unavailability of funds to undertake both of them, only one project can be accepted. The cost of capital is 12%.

The following information is available:

	Profit for each project	
	Project A	**Project B**
	N$000	**N$000**
Initial investment	46 000	46 000
Year 1	6 500	4 500
Year 2	3 500	2 500
Year 3	13 500	4 500
Year 4	(1 500)	14 500
Estimated scrap value at the end of year 4	4 000	4 000

Depreciation is charged on a straight-line basis.

REQUIRED:		**Marks**
Calculate the following for both projects:		
(a)	The payback period (answer rounded off to one decimal place)	(8)
(b)	The net present value (NPV).	(8)
(c)	The accounting rate of return (ARR) on the initial investment (round off your answer to one decimal place).	(4)
(d)	If the two projects are mutually exclusive, which project should be chosen and why?	(4)
(e)	List three advantages of the payback period and three advantages of accounting rate of return methods of capital appraisal.	(6)
Show all your workings!		
Total		**30**

THE END

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·914	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·350	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15