NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS & FINANCE

QUALIFICATION: BACHELOR OF HOSPITALITY AND TOURSIM MANAGEMENT HONOURS	
QUALIFICATION CODE: 08BHTH	LEVEL: 8
COURSE CODE: FMH810S	COURSE NAME: FINANCIAL MAGEMENT: HOSPITALITY AND TOURISM
SESSION: JUNE 2019	PAPER: PRACTICAL AND THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER	Ms S Kasita
MODERATOR:	Mr. V. Maengahama

INSTRUCTIONS
1. This question paper is made up of four (4) questions. 2. Answer All the questions and in blue or black ink. 3. Start each question on a new page in your answer booklet and show all your workings. 4. 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 6 PAGES (Excluding this front page)

Question 1 (20 marks) (36 minutes)

Investors Bank is evaluating an application for a short-term loan from Bread Ahead Ltd, a company with artisan batteries in small towns and villages across the country. The company supplies bread to hotels and restaurants, as well as selling to the public. Selected financial statement items for the Bread Ahead Ltd and the corresponding industry average are as follows:

	Bread Ahead Ltd 31/12/ 2018	**Industry Average 31/12/2018**
	N$	N$
Bank	4 000	12 000
Short-term Investments	5 000	8 000
Accounts Receivable	58 000	72 000
Expenses paid in advance	9 000	7 000
Closing inventory	72 000	96 000
Opening Inventory	64 000	92 000
Accounts payable	36 000	50 000
Expenses payable	22 000	30 000
Sales (all Credit)	420 000	660 000
Cost of sales	320 000	500 000

You are required to:

a) Calculate the following ratios for both Bread Ahead Ltd and for the industry average:

i) Current Ratio
ii) Quick Ratio
iii) Average number of days to collect accounts receivable
iv) Inventory holding period
v) Average number of Days taken to pay accounts payable
vi) Gross profit margin **12 marks**

b) Consider the information provided and you calculations in part (a) and comment on the ratio to assist investor's bank in making a decision. **5 marks**

c) State what limitations you see in your analysis and what additional information might be helpful to the loan officer in making her decision. **3 marks**

TOTAL MARKS FOR QUESTION 1 20 MARKS

Question 2 (35 marks) (63 minutes)

Part A

Hotel Caviar have the following cost available for their green salad packages

	N$
Variable Cost per green salad package	40
Fixed Costs	N$20 000
Budgeted Production	1000

Required:	
1. Calculate the full cost per green salad package.	**(3 Marks)**
2. With the recent recession, the firm is experiencing a slowdown in demand and the only offer they have for their product is a company who will buy all 1,000 units at N$57 per unit. Management are confident that demand will pick up in the next few months. Should they accept the offer?	**(7 Marks)**

TOTAL MARKS FOR PART A	**10 Marks**

PART B

Company A is producing a product with the following information:

	N$
Selling price	50
Variable Cost	30
Fixed Costs	N$ 40 000
Budgeted production	6 000

REQUIRED:	
Calculate the following:	
1. Contribution to sales ratio.	**(1 Mark)**
2. Break-even point in units.	**(2 Marks)**
3. Break-even point in revenue.	**(3 Marks)**
4. How many units need to be sold to achieve a profit of N$50,000.	**(3 Marks)**
5. How much revenue is required to achieve a profit of N$50,000.	**(3 Marks)**
6. The margin of safety.	**(3 Marks)**
TOTAL MARKS FOR PART B	**15 Marks**

PART C:

Given the current state of the Namibian economy, both individuals and the like are finding it difficult to make ends meet. As for the real estate sector, for example, there seems to be a major hick-up as far as housing prices and are concerned. Though housing prices had slightly decreased over the past two years, customers' buying power has equally been affected. As a result, the majority of people have resorted to renting as it appears to be a bit cheaper compared to paying for a mortgage bond instalment.

Suppose you are one of those who have been affected by the current state of the economy. In order to overcome such a dilemma, you managed to secure a three bedroom house in Pioneers Park, Windhoek. As part of your lease agreement, a fixed monthly fee of N$ 6 000 is payable every month, effective 1 June 2018 – 31 May 2019. The sizes of the rooms for the secured house are presumed to be equal, thus, it is assumed that each room costs N$ 3 000 per month. Currently, you are the only one occupying the said house. The lease agreement does not restrict you from practising inter-renting provided that a full rental fee obligation of N$ 6 000 is met every month.

REQUIRED: Using the information above:		**MARKS**
1.	What does it mean by opportunity cost? Substantiate your answer in relation to the given scenario.	4
2.	From an economic point of you, what would have been your total yearly rental fee assuming that you are the only person staying in the house, and you did not consider practising inter-renting, thus leads to the other two rooms being unoccupied?	4
3.	Why do companies take the principle of opportunity cost into account during their respective decision making process?	2
TOTAL MARKS FOR PART C		**10**

Question 3 (15 marks) (27 minutes)

Kalahari has decided to close department 3 in its operations.

You have been asked to review the decision based on the following information:

	1	2	3	Total
Sales (units)	5,000	6,000	2,000	13,000
Sales Revenue	150,000	240,000	24,000	414,000
Cost of Sales				
Direct Material	75,000	150,000	10,000	235,000
Direct Labour	25,000	30,000	8,000	63,000
Production Overhead	5,769	6,923	2,308	15,000
Gross Profit	44,231	53,077	3,692	101,000
Expenses	15,384	18,461	6,155	40,000
Net Profit	28,847	34,616	-2,463	61,000

Notes

1. The production overheads of $15,000 have been allocated to the 3 departments on the basis of sales revenue. On further investigation you realise that only 50% of these can be traced directly to these departments and can be allocated on the basis 2:2:1.

2. Expenses are head office expenses of which 60% can be traced to the departments and can be allocated on the basis 3:3:2.

3. 80% of the labour is a fixed cost and the remaining amounts would be better allocated on the basis of sales volume.

REQUIRED:
(A) Recommend to management whether their decision to close department 3 is justified. **(10 marks)**
(B) Why might a company choose not to shut down a division which is making a loss? **(5 Marks)**

Question 4 (30 Marks) (54 minutes)

Part 1

Bonolo Bliss is considering the acquisition of a new machine with an operating life of three years. The new machine could be leased for three payments of N$55,000, payable annually in advance.

Alternatively, the machine could be purchased for N$160,000 using a bank loan at a cost of 8% per year. If the machine is purchased, Bonolo Bliss will incur maintenance costs of N$8,000 per year, payable at the end of each year of operation. The machine would have a residual value of N$40,000 at the end of its three-year life.

Bonolo Bliss's production manager estimates that if maintenance routines were upgraded, the new machine could be operated for a period of four years with maintenance costs increasing to N$12,000 per year, payable at the end of each year of operation. If operated for four years, the machine's residual value would fall to N$11,000.

Taxation should be ignored.

REQUIRED:
(a) (i) Assuming that the new machine is operated for a three-year period, evaluate whether Melanie Co should use leasing or borrowing as a source of finance. **(6 marks)**
(ii) Using a discount rate of 10%, calculate the equivalent annual cost of purchasing and operating the machine for both three years and four years, and recommend which replacement interval should be adopted. **(6 marks)**
(b) Critically discuss FOUR reasons why NPV is regarded as superior to IRR as an investment appraisal technique. **(8 marks)**

Part 2

Bonolo's Bliss (Pty) Ltd. has recently developed and launched an innovative and unique new product, which the organisation plans to manufacture and sell in addition to its other products. The estimated duration of the new product's life cycle is just less than a year. Bonolo's Bliss (Pty) Ltd. applies life cycle costing, which consists of the development, introduction, growth, maturity and decline stages that Bonolo, the owner, learnt about in Financial Management for Hospitality.

In the introductory stage of the new product, Bonolo's Bliss (Pty) Ltd. has only produced and sold a few units of the new product and at the same time experienced very high fixed costs. However, Bonolo expects huge growth in sales volumes for the growth stage based on the very positive results of thorough market research in the development stage of the new product.

REQUIRED		
For each of the maturity and decline stages of the new product's life cycle, explain what Bonolo should expect as likely changes from the preceding stage with regard to the following:		
•	sales volumes	**(5 marks)**
•	behaviour and size of production costs in total and per unit	**(5 marks)**

THE END