



KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2007/2008
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE (HOSPITALITY & TOURISM MANAGEMENT)

HIM 407: HOSPITALITY FINANCIAL MANAGEMENT

DATE: WEDNESDAY, 25TH JUNE 2008

TIME: 2.00 P.M. – 4.00 P.M.

INSTRUCTIONS:

This paper comprises Sections A, B and C. attempt ALL questions in Section A and B. Answer only ONE question in section C. All monetary value is in Kenya shillings.

Section A: Answer All Questions

1. You have recently been appointed to manage a new 100-room hotel that is currently under construction. The hotel is expected to cost 150 million shillings by the time it will open its door to the public. Your first task is to decide on the kind of room rates you will be charging. Explain how you will go about this task, to give you the necessary average room-rate. [5 marks]
2. Discuss the concepts of product/or service differentiation in a restaurant situation. [5 marks]
3. If the initial feasibility of a proposed hotel does not appear good enough from a financial point of view, what variables might one try to improve/change in order to improve the results. [5 marks]
4. Briefly describe how a composite growth rate of demand for hotel rooms can be calculated. [5 marks]

Section B: Answer ALL questions

5. A financial feasibility study is being carried out for a proposed new 120-seat restaurant. It will be open for both lunch and dinner from Monday through Saturday and for dinner only on Sunday – on a 52 week year. Seat turnover and average food check figures are estimated as follows:

	Turnover	Average Food Check
Weekday Lunch:	1 ½	560.00
Weekday Dinner:	1 ¼	1,050.00
Sunday Dinner:	1 ¾	1,300.00

- In Addition, the Banquet room and food revenue is estimated at Shillings 1,400,000 a month.
- Alcoholic beverage revenue is estimated at 12% lunch food revenue and 30% of dinner food revenue for the main restaurant.
- In the banquet room, alcoholic beverage is estimated at 40% of the food revenue.
- Food cost is estimated at 40% of total food revenue.
- Beverage cost is estimated at 30% of the total beverage revenue.
- Wage cost for salaried personnel is estimated at 30,000,000 per year (manager, chef, hostess, headwaiter, cashier)
- Wages for all OTHER employees will be 15% of the total annual restaurant revenue.
- Employee benefits will be 10% of the total annual wages.
- Other operating costs are estimated at 12% of total annual revenue.
- Undistributed costs are estimated at Shs.13,000,000 per year.

Prepare the restaurant's pro-forma income statement for the first year, rounding all figures to the nearest shilling. Ignore income tax. [30 marks]

Section C: Answer ONLY ONE question from this section

6. You have the following information about 3 electronic cash registers that are on the market. As the manager of the restaurant you want to decide on which of the 3 machines to buy.

	Register A	Register B	Register C
Cash investment required	6,300	6,000	6,700
Machine life	5 years	5 years	5 years
Trade in value at end of life	500	0	300
Annual operating costs (excluding depreciation)	400	300	300
Annual saving before deduction Of costs	2000	2000	2000

- Income tax ratio is 50%. Assume straight-line depreciation.

- (a) Use the ARR method to decide which of the 3 machines would be the best investment. [10 marks]
- (b) If the restaurant owner wanted a return on investment of at least 10%, what would you advise? [10 marks]
7. A cocktail bar you are managing is presently doing Shs.500,000 a year in sales. Beverage cost is 40% and other variable costs at this level of revenue total 150,000. Fixed costs are at 120,000.
- (a) What is the present annual operating income (income before tax) [5 marks]
- (b) The owner wants to increase your salary (manager's) by 10,000 more a year. By how much will you need to increase sales revenue to provide this additional salary and maintain the present level of operating income. Suggest how you will go about increasing the turn over. [5 marks]

- (c) The owner overrules your decision and increases menu prices by 5%. The bar does not lose any of its present customers and not have increase on cost of sales or any other variable costs. The manager's salary increase still apply. What will the bars operating income (before tax) now have to be? [5 marks]
- (d) With the new pricing structure as indicated in part (C), how much can sales revenue decrease before operating income falls below a 30,000 limit per year? [5 marks]

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