KENYATTA UNIVERSITY

INSTITUTE OF OPEN LEARNING (IOL)

UNIVERSITY EXAMINATIONS 2007/2008

EXAMINATION FOR THE DEGREE OF MASTER OF SCIENCE

(HOSPITALITY AND INSTITUTIONAL MANAGEMENT)

HIM 501: HOSPITALITY ACCOUNTING

DATE: MONDAY, 7TH JANUARY 2008 **TIME: 9.00 A.M. – 12.00 P.M.**

INSTRUCTIONS:

Answer ALL questions in Section A and B. Answer only **ONE** (**1**) question in Section C. All monetary value is in Kenya Shillings.

SECTION A

1. a) Explain the concept of depreciation and give two depreciation methods. How are the values posted in the ledger.

   b) Suppliers are interested in the current ratio of hospitality firm before accepting their LPOs. Explain their concern.

   c) Urgent purchasing of kitchen raw material for preparing lunch is required. There is no petty cash available but the Chief Cashier is holding the night's sales collection. He has refused to release any of the collection and insists that he needs to Bank it all before he withdraws the petty cash. Explain to the Food and Beverage Manager why this is necessary.

SECTION B

2. In January 2007 Hotel Kusinyi purchased the following wines:

   2nd Jan : Purchased 12 bots Naivasha @ 120.00

   16th Jan: Purchased 12 bots Naivasha @ 130.00

   31st Jan: Sold 18 units (bots) @ 260.00 each

   a) Determine the inventory value at the end of Jan and cost of sales.

      1) Using FIFO method

      2) Using the LIFO method

      3) Weighted average

   b) A hotel with three divisions reported the revenues for each division. Determine the percentages of revenue provided by each division from the following:

Rooms division	1,269,008
Food service division	878,544
Beverage division	292,848
Total Revenue	2,440,400
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SECTION C

Answer only **ONE** (**1**) question form this Section.

John Katumanga has sent his Balance Sheet to you for advice. You observe the information for the last 2 successive years as follows:

	Year 006	Year 007
Total assets	411,200	395,700
Total liabilities	302,400	315,500
Total stockholders equity	108,800	80,200

You have decided to analyse the balance sheet using the following ratios:

a) Total assets to total liability ratio

b) Total liabilities to total asset ratio

c) Total liabilities to total ownership equity

Calculate the above ratios and discuss the changes that have taken place over the 2 year period from the view point of an investor who has been asked to loan the hotel money for expansion.

Hassan runs a restaurant at Eastleagh that has 3 revenue divisions. He is considering closing some divisions. His average monthly figures are as follows:

	Dining Room	Banquet Room	Beverages
Revenue	208,000	112,000	80,000
Cost of Sales	83,200	33,600	28,000
Wages/salaries	66,560	24,640	12,000
Other direct costs	16,640	8,960	1,600

The Restaurant has the following indirect costs:

Administration	13,000 (Administration)
Marketing	9,000
Utilities expense	6,000
Maintenance	12,000
Depreciation expense	14,000
Insurance expense	2,000

a) Prepare a contributory income statement. Show each division side by side for comparison, allocate no indirect costs.

b) Allocate indirect costs to the division and prepare an income statement for each division. Administration and marketing are based allocated “based on revenue”, while the remaining indirect costs are “based on square footage” used by each division. Dining is 2400 Sq. ft., Banquet 3,00 Sq. ft and Beverage 600 Sq. ft.

c) Would you consider closing any of the divisions? If so tell Hassan why? If not state why?