# Chapter 3 Answers for the online resources

**Question 3** With reference to the Paris Tours example in this chapter, calculate the profit at 18,000 tours. At this level of operation what proportion of total costs are variable and what proportion are fixed and what is the implications of this for the business orientation.

**Question 4** Using the data from Paris Tours calculate the operational gearing (cost structure %) for the company at 16,000 tours. What happens to operational gearing as the business grows, what are the implications for risk?

# Chapter 11 Answers for the online resources

**Question 3**

1. Calculate the cash operating cycle for this hospitality business for 2012 and 2011
2. The company recently employed a new Head of Finance Department, from the changes you observe, do you think this was a good decision?

|  |  |  |
| --- | --- | --- |
|  | **2012** | **2011** |
| Sales  | €13,544 | €13,544 |
| % Sales on Credit | 18% | 21% |
| Cost of sales % | 40% | 40% |
| Closing stock figure | €12,772 | €13,544 |
| Debtors  | €20,452 | €29,751 |
| Creditors | €49,635 | €47,769 |
|  NB - Closing Stock from 2010 = €12,997 |

**Question 3 Answer**

a)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Ratios (shown in days) |  | **2012** |  | **2011** |
| Stock Turnover | 13,158 ÷ 518,400 x 365 | 9.26 | 13,270.5 ÷ 544,320 x 365 | 8.9 |
| Debtor Collection Period | 20,452 ÷ 233,280 x 365 | 32.0 | 29,751 ÷ 285,768 x 365 | 38 .0 |
| Creditor Payment Period | 49,635 ÷ 517,628 x 365 | 35.0 | 47,769 ÷ 544,867 x 365 | 32.0 |
| Cash operating Cycle | 9.26 + 32 – 35 =  | 6.26 | 8.9 + 38 – 32 =  | 14.9 |

b) The cash operating cycle has reduced considerably between the two years, which means the company is having wait less time to recover cash. This could arguably be the result of tighter financial control, resulting in shorter Debtor Collection period and an extension in credit terms with suppliers.

**Question 4**

1 The figures below are extracted from the accounts of four different hotels.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Hotel A | Hotel B | Hotel C | Hotel D |
| Number of rooms | 55 | 150 | 270 | 112 |
| Guest capacity | 90 | 270 | 500 | 190 |
| Average number of rooms occupied | 41 | 90 | 210 | 100 |
| Average bed occupancy (sleepers) | 70 | 150 | 300 | 102 |
| Daily Room Sales | £5,000 | £8,120 | £24,500 | £9,400 |
| Average Rack Rate | £140 | £132 | £155 | £135 |

Note: all figures are net of VAT and are daily averages for a month’s trading.

You are required to:

a) Using the data above, calculate appropriate industry specific ratios (show your workings).

 (16 marks)

b) Based on the ratios you have calculated in (a), discuss the results. (9 marks)

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**Question 4 Answer**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Hotel A | Hotel B | Hotel C | Hotel D |
| Average room rate | £121.95 | £90.22 | £116.67 | £94.00 |
| Room occupancy % | 75% | 60% | 78% | 89% |
| Yield statistic\* | 65% | 41% | 59% | 62% |
| Sleeper-night ratio | 78% | 56% | 60% | 54% |
| \*Potential revenue | £7,700 | £19,800 | £41,850 | £15,120 |