

**Additional Practice Questions**

**Chapters 1 – 20**

Introduction

Each chapter within this textbook contains a series of self-check questions, the answers of which are contained in the back of the book. In addition, each chapter in the textbook contains ‘additional questions’ – the answers to these are available to registered tutors.

The textbook learning materials are further enhanced by supporting online materials; these include additional online practice questions beyond those within the book. The answers to these are available to registered tutors.

Ideas for further useful online materials can be made to the authors via the publishers.

Chapter 1 A Strategic Managerial Accounting Perspective to hospitality, tourism and events operations

1. Identify 4 of the key characteristics of the industry and explain briefly the implications this has for managers and managerial accounting and information.

Answer:

|  |  |
| --- | --- |
| **Characteristic** | **Implications**  |
| Fixed capacity | Need to maximise revenue, need information about demand, volume and prices from management information systems |
| Changeable Demand | Need to flexible to cope with changes, need to understand business costs and the breakeven point of the business operations |
| Perishability | Can’t store services to sell another day, so need to price to sell and use marginal costing |
| Range of services offered | Managers can bundle services together or price and sell them separately. Management information needs to provide separate costs for each service or product where possible to enable managers to make best pricing decisions. |
| Concurrent production and consumption | Customers have a big impact on the service quality, can’t build up stock or batch process, can’t easily reduce costs per unit once business model established. |
| A real time activity | Management need to plan for peaks and troughs, need sophisticated demand data linked to key external factors (drivers) such as weather and events.  |
| Business Size | Most business are smaller in size so it is more difficult to gain economies of scale. Each individual business needs its own management information systems. |
| Nature of Labour | Labour is very important aspect of the business, need good information on costs and means of reducing labour costs without affecting quality. |
| Location | Location central to provision of service, these can be very expensive. Management information systems can provide data on space utilization and the cost of premises, space or facilities needs to be built into the design phase of any event, or new service business |
| Capital Intensive | Managers need to focus on utilization of capital assets and developing partnerships and outsourcing to reduce investment and costs. |
| Operating cost structure | The predominant high fixed cost structure leads to a focus on customers and customer profitability analysis. |

Chapter 2 Financial statements for decision making

1. What are the key categories of items that are reported in the Statement of Financial Position (or Balance Sheet), list each with and example and explain the difference between assets and liabilities.

**Answer**: Assets, Non-current (Property) and Current (Stock)

Liabilities, Equity (Ordinary Share Capital); Non-current liabilities (deferred tax) and current liabilities (Trade Payable)

An asset is something of value, which will be useful to the business in the future so has future value or utility.

A liability is an obligation to pay money or provide services and will make a claim on the business resources in the future.

1. Why does the statement of financial position differentiate between equity and other liabilities.

**Answer**: Equity attributable to owners is a permanent liability established at the start of the business and not normally paid back whilst business is operating. Other liabilities arise through decisions and actions of managers and owners and will change over the life of the business.

Chapter 3 Costs and their behaviour

1. 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.

**Answer**:

No. of tours 18,000

 €

Sales revenue 540,000

COSTS

Entrance Fees 162,000

Food and Refreshments 216,000

Wages and Salaries 102,000

Overheads 28,000

Total Cost 508,000

Operating Profit € 32,000

Variable Costs = € 450,000 Fixed costs = € 58,000 so fixed costs only constitute 11.4% of total costs at this level of operation

1. Using the data from Paris Tours calculate the operational gearing (cost structure %) for the company at 12,000 tours. What happens to operational gearing as the business grows, what are the implications for risk?

**Answer**: At this level of operation total costs are €358,000, fixed costs remain the same at € 58,000 so fixed costs are 16% of total costs, so operational gearing has increased and as such the risk of the business.

Chapter 4 Cost volume profit analysis (CVP)

1. What factors are not easily integrated into CVP analysis and what are the limitations of CVP?

**Answer**: Quality of management and staff, working methods, the economic situation, staff training and the weather. Managers need to realise that the technique is limited by the assumptions and the data being used to make decisions and these should guide management in their decision making.

1. A Pop-up vendor is selling traditional Cornish pasties in a busy tourist area in down town New York, he has noticed over time that sales are considerably lower on really hot days. He is thinking about reducing prices on hot days to improve sales. Using the data below calculate the contribution margin, breakeven point and the margin of safety for each of the alternative options, and advice the vendor on what to do.

Sales $ 35,249

Variable Costs $ 18,846

Total Contribution $ 16,403

Less Fixed Costs $ 9,580

Net Profit $ 6,823

Each pasty is sold at $5.05, sales drop on average by 40% in hot weather, the vendor is thinking of dropping his prices to $3.75 to maintain volumes.

**Answer:**

|  |  |  |  |
| --- | --- | --- | --- |
| (Figures rounded to whole dollars)  | On normal day | Hot Day no price change | Hot Price change |
| Selling Price | $ 5.05 | $ 5.05 | $ 3.75 |
| Sales Volume | 6,980 | 4,188 | 6,980 |
| Sales revenue | $ 35,249 | $ 21,149 | $ 26,175 |
| Variable Costs | $ 18,846 | $ 11,308 | $ 18,846 |
| Contribution | $ 16,403 | $ 9,841 | $ 7,329 |
| Contribution Margin  | 46.5% | 46.5% | 28% |
| Breakeven point | 4077 | 4077 | 9124 |
| Margin of Safety | 2903 | 111 | - 2144\* |

* A negative margin of safety indicates that this scenario is operating below the break even point.

The price reduction is too great and reduces the contribution margin by over 60% and makes this option not viable. The vendor should not reduce the price unless he can be assured of a large increase in sales above the current normal level. He should consider advertising or other cheaper promotions, but this price drop is too great.

Chapter 5 Short-term decision making

1. Explain why opportunity cost is relevant in short-term decision making.

**Answer:** Opportunity cost is the value associated with the next best alternative course of action that a manager could take. So if you choose to use a car to set up a free taxi service for your guests, the opportunity cost would be the benefit you could no longer gain from either selling or leasing the car instead. It is relevant because it reflects the implications of going ahead with the decision, and one that is often forgotten. Other opportunity costs could be interest lost in money now being diverted to invest in machinery rather than outsourcing.

1. A Vangelis Boats Tours in Chania, Crete, operates three different boat trips a day, they are facing falling numbers of passengers and one boat trip appears to be making a loss. The owner’s son argues that they should stop operating this trip.

What should they do, continue to operate all trips or cease the loss making trip?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Total | Trip A | Trip B | Trip C |
|  | € | € | € | € |
| Actual Sales | 323,140 | 75,500 | 120,800 | 126,840 |
| Variable Costs  | 219,978 | 52,850 | 82,144 | 84,984 |
| Overheads | 85,560 | 13,800 | 27,600 | 44,160 |
| Profit | **17,602** | **8,850** | **11,056** | **-2,304** |
|  |  |  |  |  |
| Maximum Passengers per Trip | 310 | 50 | 100 | 160 |

**Answer:** The relevant information is that which changes as a result of the decision. Overheads relate to lease of a large jetty, insurance and administration and marketing costs, none of these will change in the short run.

Contribution from each boat trip is:-

Trip A = €22,650

Trip B = €38,656

Trip C = €41,856

Ceasing trip C, will result in an overall loss of €24,254 rather than a profit of €17,602 and so they should continue to run all boat trips in the short term.

Chapter 6 Pricing

1. Explain the difference between mark up and margin.

**Answer:** Mark-up is an amount added to costs to provide a basis for setting prices, it is calculated as a percentage of costs, usually used in cost plus pricing techniques.

Margin isan allowance for profit, which is calculated as a percentage of selling price, this often utilised when establishing prices in a market orientated setting.

Both mark-up and margin represent profit but a 40% mark-up is a very different value to a 40% margin, as this example shows:-

Sales £15,000 margin of 40% = £6,000, in the same scenario.

Costs would be £9,000, and mark-up of 40% would yield £3,600 allowance for profit. So to achieve the same allowance for profit the mark-up percentage would have to be 66.66%. (Costs £9,000 x 66.66% = 5,999.99r). Mark-up and margin are different ways to calculate an allowance to cover profit.

1. Hubbard formulae is a full cost pricing scheme that additionally makes an allowance of return on investment. From the data below calculate the average room rate, i.e. price for a hotel room, that must be charged to cover all costs and generate the necessary return on investment.

Rooms Department Expenses

Payroll € 880,000

Other departmental expenses € 125,500

Unallocated Expenses

Utilities € 160,500

Administration and marketing € 248,850

Maintenance and repairs € 75,600

Interest and depreciation € 60,000

Profits from other operating departments include:- Food and Beverage €168,850, Spa and Health Club €11,500 and income from retail Franchises €15,600

The hotel has 150 rooms and an occupancy of 65%, the directors want to achieve a 8% return on their €5,500,000 investment. Ignore taxation and fixed charges.

**Answer:**

|  |  |
| --- | --- |
| **Rooms Dept. operating expenses** |  |
| Payroll | 880,000 |  |
| Other departmental exp. | 125,500 | 1,005,500 |
|  |  |  |
| **Unallocated costs** |  |  |
| Utilities | 160,500 |  |
| Administration and Marketing | 248,850 |  |
|  |  |  |
| Repairs & maintenance | 75,600 | 484,950 |
| **Operating expenses sub total** |  | 1,490,450 |
|  |  |  |
| **Return on capital employed** |  |  |
| Capital employed | 5,500,000 |  |
| 10% return required after tax | 8% | 440,000 |
|  |  |  |
| Interest and Depreciation |  | 60,000 |
|  |  |  |
|  |  |  |
|  |  |  |
| **Deduct any profits from other department** |  |
| Food & Beverage | 165,850 |  |
| Spa and Health Club | 11,500 |  |
| Shop Franchises | 15,600 | -192,950 |
|  |  |  |
| **Total amount to be realized from room sales to cover costs and the required return on capital**  |   | £1,797,500 |
|  |  |  |
| **Calculation to establish average daily room rate** |
| Amount realised from room sales | A | £1,797,500 |
| Rooms available for sales |  | 150 |
| No. available annually (x 365) | 365 | 54,750 |
| reduce to reflect average occupancy (65%) | 65% |
| No. of rooms nights to be occupied B | 35,588 |
| Average room rate 'A divided by B' | £50.51 |

Chapter 7 Revenue and yield management

1. What are the key differences between RevPAR and GOPAR, explain why managers need to pay attention to both metrics.

**Answer:** RevPAR only reflects the sales revenue generated from the room, yet customers may or may not partake of other services and use other facilities, GOPPAR reflects the overall effect of customer behaviour including room purchase and other services such as Food and Beverage, Spa and health club. Segmentation helps us understand the customer behaviour and thus optimise sales to customer who will also contribute to profit in other areas of the hotel.

1. Think about all the businesses that use Revenue Management techniques, list these products and services and identify what characteristics they all share.

**Answer:**  Airlines, Restaurants, Hotels, Cruise Ships, Car Rental, some Train and Bus services. All these business are services, with fluctuating demand, perishable product/service, relatively fixed capacity, advanced sales are common.

Chapter 8 Costing and customer profitability analysis

1. For a sector of your choice (either Events Hospitality or Tourism) identify the sorts of products that are often bundled together and those which are sold separately. Explain the implications for managers.

**Answer**:

|  |  |  |
| --- | --- | --- |
| **Sector** | **Bundled Products** | **Individual Products** |
| Events | VIP Package | Event entry, programme, food drink, merchandising and perhaps travel |
| Hospitality | Half Board accommodation | Room, breakfast, dinner, bar, in room entertainment, spa treatments, golf course fees |
| Tourism | Packaged Holiday | Flight, accommodation, transport travel insurance, excursions, car hire |

Implications: Different customer groups or segments will use facilities differently, the accounting information system needs to be able to track usage to identify true costs by segment.

1. Complete the following table and explain what it the results reveal to managers.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Complete the table** |   |   | **CORPORATE** | **LEISURE** |
| Activities | Activity drivers | ABC rate | Frequency of activity | Cost | Frequency of activity | Cost |
|  |  |  |  |  |  |  |
| Check in/out | No. of rooms/customers | £29.80 | 1 | £29.80 | 1 |   |
| Room cleaning | No. of days/time per day | £31.55 | 3 |   | 3 |   |
| Room service | No. of calls | £22.78 | 4 |   | 0 |   |
| Breakfast Service | No. of Breakfasts | £9.75 | 3 |   | 3 | £29.25 |
| Meal Service | No. of Meals | £13.60 | 2 |   | 3 | £40.80 |
| Bar Service | No of items sold | £2.90 | 5 | £14.50 | 6 |   |
|   |   |   |   |   |   |   |
|   | Total Customer activity costs |   |   |   |   |   |
|   | Direct costs |   |   | £150.32 |   | £85.65 |
|   | Total Costs (direct and Indirect) |   |   |   |   |   |
|   | Total Revenues |   |   | £515.80 |   | £289.56 |
|   | Profit Margin |   |   |   |   |   |
|   | Relative Profitability |   |   | % |   | % |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   |   | **CORPORATE** | **LEISURE** |
| Activities | Activity drivers | ABC rate | Frequency of activity | Cost | Frequency of activity | Cost |
|  |  |  |  |  |  |  |
| Check in/out | No. of rooms/customers | £29.80 | 1 | £29.80 | 1 | £29.80 |
| Room cleaning | No. of days/time per day | £31.55 | 3 | £94.65 | 3 | £94.65 |
| Room service | No. of calls | £22.78 | 4 | £91.12 | 0 | £0.00 |
| Breakfast Service | No. of Breakfasts | £9.75 | 3 | £29.25 | 3 | £29.25 |
| Meal Service | No. of Meals | £13.60 | 2 | £27.20 | 3 | £40.80 |
| Bar Service | No of items sold | £2.90 | 5 | £14.50 | 6 | £17.40 |
|   |   |   |   |   |   |   |
|   | Total Customer activity costs |   |   | £286.52 |   | £211.90 |
|   | Direct costs |   |   | £150.32 |   | £85.65 |
|   | Total Costs (direct and Indirect) |   |   | £436.84 |   | £297.55 |
|   | Total Revenues |   |   | £515.80 |   | £289.56 |
|   | Profit Margin |   |   | £78.96 |   | -£7.99 |
|   | Relative Profitability |   |   | 15% |   | -3% |

**Answer**

That leisure guest are loss making at current pricing levels, management need to reduce cost of activities, increase guest spend in any area or increase rates, to improve profits.

Chapter 9 The use of budgets in organisations

1. Two young graduates, Koji and Jaki, have decided to start their own business, a pop-up Sushi bar by the river Seine in Paris, which attracts tourists and local people throughout the summer. They have been asked by the bank manager to produce a budget for the first six months of their business with a view to applying for a small bank loan to fund their start up phase. They have gathered together the following data:-

Operating costs

Insurance €1,650 per annum

Pitch Fee €1,200 per month

Marketing €1,500 one off payment for advertisement and fliers

Food costs 35%

Packaging 5%

Other information:-

1. The van (second hand) was purchased up front for € 4,500.
2. Both Koji and Jaki brought an equal sum of cash into the business venture amounting to €3,000 each .
3. The mobile kitchen was rented at €1,200 per month, with an initial deposit of € 600.
4. Chairs and tables were purchased to encourage for customers to use at a cost of €500, these are not expected to last beyond a year and will need replacing in 12 months.
5. Insurance was paid 6 months in advance on the first day of the period.
6. Pitch fees were paid one month in advance on the first day of the month.
7. Food and Packaging are variable costs, they plan to hold a small amount of stock €650, of mainly non perishable items, but all food will be purchased and delivered fresh every day. Suppliers allow 30 days credit.
8. Marketing expenses relate to a one off advertisement and the production of fliers which were all distributed in the first few months of trading.
9. They will both be working in the business, so will not need to hire any staff.

Your are required to:-

1. Produce a cash budget, income statement and statement of financial position from the data above.
2. What other information do you think they need to consider and perhaps include in their forecasts.

**Answer:**

Cash Budget for six months

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | **Month 1** | **Month 2** | **Month3** | **Month4** | **Month 5** | **Month 6** | Total |
| **Cash brought Forward** | 0 | 1,595 | 2,652 | 4,914 | 7,546 | 11,103 |   |
| Cash In |   |   |   |   |   |   |   |
| Sale Cash | 5,920 | 6,475 | 7,030 | 7,400 | 8,325 | 8,325 | 43,475 |
| Initial Investment | 6,000 |   |   |   |   |   |   |
|   |   |   |   |   |   |   |   |
| *Total Cash Received* | 11,920 | 6,475 | 7,030 | 7,400 | 8,325 | 8,325 |   |
|   |   |   |   |   |   |   |   |
| Cash Payments |   |   |   |   |   |   |   |
| Purchases |   | 3018 | 2368 | 2368 | 2368 | 2368 | 12,490 |
| Insurance | 825 |   |   |   |   |   | 825 |
| Marketing | 1500 |   |   |   |   |   | 1,500 |
| Pitch Fees | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 7,200 |
| Rental of Mobile Kitchen | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 7,200 |
| Deposit for Mobile Kitchen | 600 |   |   |   |   |   | 600 |
| Van | 4500 |   |   |   |   |   | 4,500 |
| Tables and Chairs | 500 |   |   |   |   |   | 500 |
|   |   |   |   |   |   |   | 0 |
| *Total Cash Payments* | £10,325 | £5,418 | £4,768 | £4,768 | £4,768 | £4,768 |   |
|  |   |   |   |   |   |   |   |
| **Balance Carried Forward** | £1,595 | £2,652 | £4,914 | £7,546 | £11,103 | £14,660 |   |

|  |
| --- |
| **Budgeted Income Statement for the six months** |
|  |  |  |
| Sales | 43,475 |  |
| Cost of Sales | 14,208 |  |
| **Gross Profit** | 29,267 | 67.3% |
|  |  |  |
| *Less expenses* |  |  |
| Insurance | 825 |  |
| Marketing | 1,500 |  |
| Pitch Fees | 7,200 |  |
| Rental of Mobile Kitchen | 7,200 |  |
| Depreciation Van | 563 |  |
| Depreciation Table/Chairs | 250 |  |
| *Total expenses* | 17,538 | 40.3% |
|  |  |  |
| **Net profit** | 11,730 | 27.0% |
|  |  |  |
| **Budgeted Statement of Financial Position As At the end of July** |
|  |  |  |  |  |
| Fixed Assets | Cost | Dep | Net |  |
| Van | 4,500 | 563 | 3,938 |  |
| Chairs and Tables | 500 | 250 | 250 |  |
|  | 5,000 | 813 | 4,188 |  |
| Current Assets |  |  |  |  |
| Stock |  | 650 |  |  |
| Deposit for Mobile Kitchen | 600 |  |  |
| Cash in bank |  | 14,660 |  |  |
|  |  |  | 15,910 |  |
| Total Assets |  |  | 20,098 |  |
|  |  |  |  |  |
| Equity and Liabilities |  |  |  |  |
| Investments from Owners | 6,000 |  |  |
| Profit/Loss |  | 11,730 | 17,730 |  |
|  |  |  |  |  |
| Current Liabilities |  |  |  |  |
| Food Creditors |  | 2,368 |  |  |
| Other Liabilities |  | 0 |  |  |
|  |  |  | 2,368 |  |
| Total Equity and Liabilities |  | 20,098 |  |

1. What other information do you think they need to consider and perhaps include in their forecasts.

**Answer:**  Koji and Jaki have not made any allowance labour costs, although they do not intend to employ staff, they must make allowances to pay themselves a small salary to cover their living costs. Without an allowance for labour costs the forecast is missing a key cost item and the bank manager will not accept the forecasts as complete.

Adding labour costs of only €600 per month each would reduce the profit to €4,730.

1. List the different types of variances that can be revealed in catering establishment, when a flexed budget is calculated, suggest what action an manager could take in each case to reduce negative variances.

**Answer:**

Sales volume variance – Consider marketing campaign or price promotions, although these will impact upon selling price and overall expenses. Also train staff in upselling to increase sales.

Selling price variance – look at menus in detail investigate sales mix, try to sell more expensive menu items. Also investigate whether too many price promotions are being used.

Food volume variance – Check adherence to standard menus and food and waste control in the kitchens, check quality if suppliers to see if food quality can be a factor.

Food price variance – check suppliers haven’t increased prices, look at commodities adapt menu to utilise seasonal foods and cheap produce where possible without compromising quality.

Chapter 10 Event and function management accounting techniques

1) Identify some of the key features of an event that make financial planning more difficult and increase risk. What can event organisers do to mitigate these factors?

**Answer**

|  |  |
| --- | --- |
| Events are not continuous and are usually limited to a specific date and venue. | Marketing is very important, building loyalty to annual events, being aware of competing events. |
| Event organisers need to procure capacity and make commitments usually long before the ticket sales occur. | Need for careful cash flow planning, try to increase early ticket sales to achieve breakeven early as possible in planning cycle. |
| Demand is difficult to forecast. | Need to run scenarios in planning phase, be prepared to cut back on spending is sales fail to materialise. Find alternative income streams in addition to tickets and merchandisers, use sponsorship money to cover key costs and share financial risk |
| Relationships with suppliers are not continuous, difficult to negotiate discounts etc. | Build relationships with suppliers, attempt to lock suppliers in so they are also dependent on the festival/event being successful |

2) One strategy for reducing risk in event management is to operate many events in different sectors and geographic regions. Visit the website of Tarsus, ITE and Livegroup and see how the type of events vary, how these large companies have many different clients in different industrial sectors, also note how the way they do business is very different.

Chapter 11 Financial analysis of performance

1. Calculate the cash operating cycle for this hospitality business for 2012 and 2011. 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  | € 1,298,000 | € 1,354,400 |
| % Sales on Credit | 18% | 21% |
| Cost of sales % | 40% | 40% |
| Closing stock figure | € 14,650 | € 13,544 |
| Debtors  | € 20,452 | € 29,751 |
| Creditors | € 49,635 | € 47,769 |
|   |   |   |
| Closing Stock 2010 | € 12,997 |   |

**Answer**

|  |  |  |
| --- | --- | --- |
| Cash Operating Cycle Calculation | **2012** | **2011** |
| **Inventory Turnover** |   |   |
| Average Inventory | 14097 | 13270.5 |
| Cost of Sales | € 519,200 | € 541,760 |
| Days | 9.91  | 8.94  |
| **ARCP** |   |   |
| Accounts Receivable | € 20,452 | € 29,751 |
| Credit Sales | € 233,640 | € 284,424 |
| Days | 31.95  | 38.18  |
| **APPP** |   |   |
| Accounts Payable | € 49,635 | € 47,769 |
| Credit Purchases | € 520,306 | € 542,307 |
| Days | 34.82  | 32.15  |
|   |   |   |
| **Cash Operating Cycle** |   |   |
| Days | 7.04  | 14.97  |

Yes, the proportion of credits sales has reduced and the accounts receivable has improved, although stock turnover is slightly longer it is still very tight and we have squeezed two extra days of credit out of our suppliers. It is important that these gains have been achieved without affecting customer or supplier relations

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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**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 |

Hotel D has the best occupancy but the lowest sleeper night ratio, this hotel should try to target double occupancy booking without sacrificing occupancy.

Hotel A has the highest rate and the highest sleeper-nigh ratio resulting in the best yield overall.

This comparison shows that hotels should not concentrate only on occupancy or rate, but look at the balance between them that yields the best overall productivity.

To complete a fuller analysis more information is needed about the hotels.

Chapter 12 Working capital management

1. The annual demand for a bottle of expensive champagne is 120 units. The item costs £150 per unit to purchase, the holding cost for one unit is 10% of the unit cost and ordering costs are £300 per order. The supplier offers 3% discount for orders of 60 units or more and 5% for orders of 90 units or more. What is the cost-minimising order size?

**Answer**

**Tracy, please insert answer**

1. Cash management is an essential element of any business.
2. What are the costs of holding cash and dangers of holding too little cash?

(5 marks)

1. What does a cash flow forecast show and how can it aid the management of cash?

(8 marks)

1. Identify and explain operational procedures that can be utilised to manage cash within an operation. (12 marks)

(BAHA stage three – Strategic Management Accounting Paper July 2011)

**Answer**

**Tracy, please insert answer**

Chapter 13 Business finance

1. A hotel is looking to replace Kitchen equipment as part of a refurbishment.
2. Discuss the merits and costs associated with appropriate sources of finance for this purpose.

(12 marks)

1. From the data shown below calculate the weighted average cost of capital

(7 marks)

|  |  |  |
| --- | --- | --- |
| **Source** | **Amount (in £000)** | **Cost/expected return** |
| Ordinary shareholders | 25,000 | 16% |
| Preference shareholders | 15,000 | 9% |
| Lender 1 | 25,000 | 12% |
| Lender 2 | 20,000 | 14% |

1. What are the issues related to having this level of borrowing for a company?

(6 marks)

(BAHA Stage Three – Strategic Management Accounting (SMA) July 2011)

**Tracy, please insert answer**

1. Management contracts and Franchising are two specific forms of finance used within the hospitality industry. Compare and contrast the two, giving illustrative examples to support the points you have made.

Chapter 14 Capital investment appraisal

1. When using Discounted Cash flow approaches, explain why cash flows are used rather than profit figures.

**Answer:**

Accounting profits are calculated utilising the accruals accounting method of accounting and so do not reflect the exact timing of cash inflows and outflows, for example investments are spread over many years using depreciation and some incomes can be deferred to future years. For the purposes of accessing capital project we need to know the exact timing of benefits and costs, so cash flows are always used. Importantly if accounting profits were used then the depreciation deducted would result in the loss of value of the asset being integrated twice into the calculations.

1. Jacques Villas S.A. is holiday company that offers packaged villa holidays in France and other destinations in the Mediterranean. They are considering investing in a new computers to improve the speed of their information systems, they currently subscribe to external providers for access to global distribution systems and the internet, but they have a strategy for increasing their network of home workers and need to invest in more up-to-date desk top machines.

The cost of investment is €120,000 once implemented this will yield a saving of costs from year 2 onwards of €28,000 per annum. The computers have a useful life of 8 years and will have a zero disposal value.

Your are required to calculate

1. The NPV, if cost of capital is 12%
2. The Internal rate of Return
3. Payback Period
4. Would you recommend they go ahead with the project, the companies WACC is 13% and why?

**Answer:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   |   | **Discount Rate** |  | **Discounted Cash Flows** |   |
| **Years** | **Invest** | 12% | 16% | **12%** | **16%** |
| 0 | -120000 | 1 | 1 | -120,000 | -120,000 |
| 1 | 0 | 0.8929 | 0.8621 | 0 | 0 |
| 2 | 30000 | 0.7972 | 0.7432 | 23,916 | 22,296 |
| 3 | 30000 | 0.7118 | 0.6407 | 21,354 | 19,221 |
| 4 | 30000 | 0.6355 | 0.5523 | 19,065 | 16,569 |
| 5 | 30000 | 0.5674 | 0.4761 | 17,022 | 14,283 |
| 6 | 30000 | 0.5066 | 0.4104 | 15,198 | 12,312 |
| 7 | 30000 | 0.4523 | 0.3538 | 13,569 | 10,614 |
| 8 | 30000 | 0.4039 | 0.305 | 12,117 | 9,150 |
|   |   |   |   | 2,241 | -15,555 |
|   |   | **IRR =** | 12.50% |   |   |

|  |  |  |  |
| --- | --- | --- | --- |
| **Payback** |   |   |   |
| **Years** | **Invest** | **Cumulative Cash flows** |   |
| 0 | -120000 | -120000 |   |
| 1 | 0 | -120000 |   |
| 2 | 30000 | -90000 |   |
| 3 | 30000 | -60000 |   |
| 4 | 30000 | -30000 | Payback after 4 yrs |
| 5 | 30000 | 0 |   |
| 6 | 30000 | 30000 |   |
| 7 | 30000 | 60000 |   |
| 8 | 30000 | 90000 |   |

The project should be undertaken as it has a relatively short payback the IRR is below the WACC, the NPV is positive. In addition non financial issues of customer service and organisation effectiveness would categorise this project as a necessary improvement, companies would often pursue these even when the financial analysis is not as positive.

Chapter 15 Performance measurement

1. The following profit statement is for a hotel with 100 rooms.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Profit Statement (£,000)** |  |  |  |  |  |
|   | **Sales** | **Cost of Sales** | **Gross Profit** | **Labour** | **Net Margin** |
| **Rooms** | 1650 | 0 | 1650 | 330 | 1320 |
| **Food** | 900 | 333 | 567 | 198 | 369 |
| **Beverage** | 450 | 153 | 297 | 81 | 216 |
| **Total** | 3000 | 486 | 2514 | 609 | 1905 |
| **Salaries** |  |  |  |  | 390 |
| **Other expenses** |  |  |  |  | 630 |
| **Interest** |  |  |  |  | 240 |
|  |  |  |  |  | 1260 |
| **Net profit before taxation** |   |   |   |   | 645 |

1. Calculate the departmental GP, & Net Margin for each department and calculate the proportion of sales from each department and the overall net profit before taxation.

(10 marks)

1. Given the following benchmark data supplied by Head Office analyse the performance of the hotel, using ratio analysis to support points made. (15 marks)

|  |  |
| --- | --- |
|  | Benchmark |
| Total sales (£,000) | £3,200 |
| Room sales % | 50% |
| Food sales % | 30% |
| Beverage sales % | 20% |
| Food CoS% | 35% |
| Beverage CoS % | 30% |
| Rooms Net Margin | 82% |
| Food Net Margin | 44% |
| Beverage Net Margin | 48% |
| Net profit before taxation (£,000) | £768 |
| Net profit before taxation % | 24% |

BAHA Stage Three – Strategic Management Accounting Exam Paper February 2010

**Tracy, please insert answer**

1. Criticism is made of only using financial ratios to measure performance. How might the use of multi-dimensional performance measurement tools improve performance measurement?

**Answer**

Focus management attention on items that driver performance rather than on results reflected in financial reports.

Draw attention to a range of facets of organisation performance rather than merely financial performance, such as customer satisfaction and staff retention.

Provide links between strategy and operations, help managers understand the implications of their decisions.

Encourage long-term perspective rather than short-term financial gain or cost cutting.

Helps identify the trade-offs and connections between elements of performance, e.g. cost cutting and service quality, price rises and customer expectations.

Chapter 16 strategic management accounting

1. “*strategic Management accounting should be a decision support system providing relevant information to the appropriate decision maker*” (BAHA unit 9)
2. Explain the key differences between the roles of management accounting and financial accounting. (10 marks)
3. “Information needs to be meaningful and relevant to the user”. With illustrative examples, show how management accounting information can aid operational managers in various hotel management roles. (15 marks)

(HOSPA stage 3 strategic management accounting paper July 2011)

**Tracy, please insert answer**

1. Discuss the importance of strategic accounting and how this compares to traditional accounting. Use illustrative hospitality examples to support your work. (25 marks)

(HOSPA stage 3 strategic management accounting paper Feb 2011)

**Tracy, please insert answer**

Chapter 17 Critical success factors and management information needs

1. Firstly, in the context of a corporate hotel, what do you think are the most important CSF’s that should be monitored in the Front Office, Conference and Banqueting and Food and Beverage Departments.

Secondly, read Brotherton 2004[[1]](#footnote-1) article published in Service Industries Journal and reflect on how your intuitive ideas compare with his empirical results.

**Answer:**

Front Office

 Staff attitudes

 Accurate and efficient reservations system

 Enquiry handling

 Staff appearance

 Pricing, yield and profit

Conference and banqueting

 Attention to detail

 Enquiry handling

 Diary/reservation management Flexibility of facilities

 Quality of facilities

Food & Beverage (Service)

 Staff attitudes & appearance

 Quality of food & drink

 High level of service

 Service response time

 Improved sales

Extracted from Brotherton 2004:33

1. How might the critical success factors for an event differ between a community event and a mega event?

**Answer:**

|  |  |  |
| --- | --- | --- |
| CSF | MEGA event | Community Event |
| Leadership | National or Regional Government agency | Community partnerships, agencies and charities and local government |
| Skills | Professional Management and staff supported by volunteers | Semi- professional or volunteer management supported by volunteers |
| Bidding | Competitive bidding, long lead times | N/A |
| Branding | Event ownership and sponsorship more important than destination | Branding grounded in destination or cause |
| Infrastructure | International transport links, purpose built facilities | Regional transport links, hiring existing venues and facilities |

Adapted from - Raj and Musgrave (2009) Event Management and Sustainability Wallingford, CABI. Page 105

Chapter 18 Sustainability and environmental management accounting

1. What are the financial implications of environmental issues?

**Answer:**

* Companies may face liabilities in relation to cleaning up contaminated land.
* Hotels may come across Asbestos when making repairs and improvement to older buildings.
* Environmental policies can have a cost saving effect, although many involve initial capital investment.
* Events companies may be required to incur extra cost to restore or even improve sites following major events due to stakeholder pressure.
* Companies can gain market share by developing effective environmental management systems and promoting these to their customers.
* Companies who have already invested in environmental initiatives may get overtaken by developments and thus loose their competitive advantage.
1. What are the key areas covered by environmental accounting?

**Answer:**

Accounting for contingencies and risks, valuing assets and capital project planning, analysis costs such as electricity, water usage and other environmental initiatives, providing regular reporting on cost savings, carrying out cost benefit analysis of environmental initiatives.

Chapter 19 not-for-profit organisations

1) In what way do the revenues of not for profit entities often vary from commercial companies?

**Answer**

Revenues are often not as stable, multiple sources of revenues and other inputs.

Pricing is not market lead but mission lead, except in the trading arms of NFP organisations.

Charities often use sponsors to supplement trading income and keep prices down or offer free services.

2) What factors motivated the decision by the Department for Culture Media and Sport (DCMS) in 2001 to stop charging entry fees for national museums and what was the impact.

**Answer**

Visitor number increased between 30% and 270%, particular beneficiaries were regional museums such as the National Museums Liverpool whose visitor number increased by 269.77% (DCMS figures accessed at <http://www.culture.gov.uk/>).

1. Brotherton (2004) full reference provided in text [↑](#footnote-ref-1)