



SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF HOSPITALITY AND TOURISM MANAGEMENT

UNIT CODE: BHM 423, UNIT NAME: MANAGEMENT

ACCOUNTING FOR HOSPITALITY

September – December 2018/2019 End Semester Exam - Time: 2 Hours

Instructions: Answer Question ONE (Compulsory) and any other TWO questions.

QUESTION ONE [COMPULSORY]

- a) Describe the difference between management accounting and financial accounting [12 Marks]
- b) A company has three production departments and two services departments. The overhead analysis sheet provides the following totals of the overheads analyzed to production and service department.

Production department	kshs.
X	48000
Y	42000
Z	30000
Service department	
1	14040
2	18000

The expenses of the service department are apportioned as follows:

	X	Y	Z	1	2
Service department 1	20%	20%	50%	-	10%
Service department 2	40%	20%	20%	20%	-

Required.

Using repeated distribution method allocate the service overheads to production department

[8 Marks]

- c) AC limited is a small company, which undertakes a variety of jobs for its customers. The cost statements for the department is as follows:

Sales		750000
Costs		
Direct materials	100000	
Direct wages	<u>50000</u>	
Prime cost	150000	
Production overhead	<u>300000</u>	
	450000	
Selling&admin	160000	<u>610000</u>
Profit		<u>140000</u>

Budgeted data

Labour hours for the year	25000
Machine hours for the year	15000

The company has received an order to produce job A56 the relevant data for the job is as follows:

Direct material	250
Direct wages	200
Prime cost	450
Labour hours required	80
Machine hours required	50

Required

- i) Calculate by different methods five overhead (production) absorption rate

[5 Marks]

- ii) Determine the total production cost of job A56 using the best overhead absorption rate

[5 Marks].

QUESTION TWO.

Maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance cost is primarily a function of machine hours worked in the various production departments.

The maintenance cost incurred and the actual machine hours worked during the months of January, February, March and April 2013 were as follows:

Month	Machine hours in Production departments	Maintenance department's Costs Sh.
January	800	350
February	1,200	350
March	400	150
April	1,600	550

Required:

- a) Determine the cost estimation function using:
 - i High-low method. [5 Marks]
 - ii Regression analysis [5 Marks]
- b) Using the regression function estimate:
 - i The maintenance costs that would have been incurred if the machine hours were expected to be 900 in the month of May 2013. [1 Mark]
 - ii The maximum machine hours that would have been worked If the maintenance cost incurred had been limited to Sh.400,000 for the month of May 2013. [4 Marks]

QUESTION THREE

i) A manufacturing firm has three departments. The firm has a factory budget for the next financial year commencing 1st June 2012 as follows:

		kshs '000'
Factory maintenance department	A	300
	B	200
	C	400
Consumable stores department	A	800
	B	100
	C	600
Power		2000
Rates		2400
Heating and lighting		1200
Insurance: building		1500
Machinery		1000
Motor vehicles		600
Depreciation: machinery		600
Motor vehicle		300

The following information is also provided:

Department	A	B	C
Effective power (KW)	40%	35%	25%
Area occupied (m ²)	300	400	300
Book value of buildings ("000")	20000	10000	20000
Book value of machinery ("000")	25000	10000	15000
Book value of motor vehicles ("000")	10000	30000	10000
Labour hours	500	1000	500

Required.

Prepare an overhead analysis sheet.

[15 Marks]

QUESTION FOUR

- (a) Highlight the assumptions of cost-volume-profit (C-V-P) analysis, [4 Marks]
- (b) Mwito Club is a charitable organization based in Nairobi. For the last 20 years, the club has held an annual dinner and dance event with the primary aim of raising funds to help the less fortunate members of the society. This year, there is concern that an economic recession may adversely affect the success of the event with a fall in the number of guests attending and sale of advertising space in the published events program. A study of past experience, current prices and quotations shows that the following costs and revenues will apply for the event:

Revenue

- Dinner and dance

Sale of dinner and dance tickets: Shs. 5,000 per ticket.

Sale of raffle tickets: Shs. 800 per ticket.

Photographs: Shs. 100 per photograph.

- Events programme

Advertising space: Shs. 70,000 per page.

Costs

- Dinner and dance

	Shs.
Hire of premises	210,000
Music band and entertainers	840,000
Raffle prizes	790,000
Hire of a photographer	50,000
Food per person (subject to a minimum of 4,000 guests)	2,400

- Events programme

A fixed cost of Shs. 4,000,000 and a variable cost of Shs. 5,000 per page.

A committee appointed to assess the likely outcome of the event has come up with the following data from the club's records:

Number of tickets sold	Number of past events
2,500 to 3,500	4
3,501 to 4,500	6
4,501 to 5,500	8
5,501 to 6,500	<u>2</u>
	<u>20</u>

Number of events programme pages sold	Number of past events
240	4
320	8
400	6
480	<u>2</u>
	<u>20</u>

Required:

- (i) The expected profit from the event. (Assume one raffle ticket and one photograph per attendant). [6 Marks]
- (ii) Describe how cost-volume-profit (C-V-P) analysis can be applied in absorption costing. [5 marks]

QUESTION FIVE

The Marima Manufacturing Company produces four products; W, X, Y and Z using the same plant and processes.

The following information relates to the company:

Product	W	X	Y	Z
Volume (units)	1,000	10,000	1,200	14,000
Material cost/unit (Sh.)	10	10	32	34
Direct labour/unit	1	1	4	3
(hours)	$\frac{1}{2}$	$\frac{1}{2}$	2	3
Machine time/unit	6	6	24	18
(hours)				
Labour cost/unit (Sh.)				

The cost accountant analysed the production overheads recorded under the following headings:

Overhead costs:	Sh.'000'
Factory overhead (machine-oriented activity)	74,848
Set-up costs	8,710
Material costs:	
Cost of ordering materials	3,840
Materials handling costs	15,160
Administration costs for spare parts.	17,200

Overhead costs are absorbed by products on a machine hour rate of Sh.9.60 per hour giving an overhead cost per unit for the products as follows:

Product	W	X	Y	Z
Shillings	2.40	2.40	9.60	14.40

Investigations into the production overhead activities for the period reveal the following totals:

Product	W	X	Y	Z
Number of set-ups	2	12	4	16
Number of material orders	2	16	2	16
Number of times material was handled	4	20	6	24
Number of spare parts used	4	10	2	8

Required:

- (i) Unit costs per product using activity-based costing tracing costs to production units by means of cost drivers. **[10 Marks]**
- (ii) Comment briefly on the differences disclosed between overheads traced by the present system and those traced by activity based costing. **[5 Marks]**