FEEDBACK TUTORIAL LETTER

ASSIGNMENT 1

SECOND SEMESTER 2017

FINANCIAL MANAGEMENT IN HOSPITALITY & TOURISM

[FMH420S]
Dear Student,

Thank you for submitting your first assignment on time. It was our pleasure to mark it. If your marks are good, I hope this will motivate you to work even harder. If you are disappointed with your marks, please do not give up now. Remember you still have assignment two to try and make up for this.

At the same time we would like to remind you that by doing your assignment on your own, and not copying it from other students or asking someone to do it for you will only be to your benefit in the coming exams.

Remember to read thoroughly through the questions before answering. Always try to answer as completely as possible, provide all the facts. Do not simply write down the answer, but show all your calculations. Avoid making unnecessary calculation mistakes and always write down the initial formula for any calculation.

Use this opportunity to revise the questions in Assignment 1 with the assignment-marking guide in hand. Give attention to the remarks of the marker-tutor in your assignment book. If there is anything that you are still unsure of, do not hesitate to contact a market-tutor.

We are looking forward to your next assignment.

Regards,

Mr. L. Odada
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Email: lodada@nust.na
ASSIGNMENT 1

QUESTION 1 [20 Marks]

a) As the financial manager of a large listed company operating a chain of supermarkets throughout Southern Africa, the types of decisions, which need to be made by the financial manager would include:

Investment Decisions

- At a store level, it would include the purchase of additional equipment, vehicles and non-current assets, although in many instances this responsibility may be handed down to the store or area manager.
- At the higher level, it would include the following types of decisions:
  - To expand by opening new stores in new areas and regions.
  - To refurbish and expand existing stores.
  - To expand by moving into countries outside of Southern Africa.
  - To purchase existing businesses which may have potential.
  - To decide on the appropriate product range and whether the company should introduce or expand house products.

Financing Decisions

- Whether to finance the investments with new issues of equity shares. Consideration will be given to issues of control, dilution of existing shareholders ownership and whether it will increase risks or returns.
- Alternatively, finance could be raised through long-term loans or the issue of debentures or notes, or if the investments have a short duration, short term financing. Such funds can be accessed through Investment and Commercial Banks.

(Consider any other reasonable answers. Maximum = 6 marks)
b) The classification of the costs will be as follows:

**Production costs:**
- Factory heat and light✓
- Factory rent and rates✓
- Salaries of production workers✓

**Selling and distribution costs:**
- Sales staff salaries✓
- Maintenance costs for delivery vehicles✓
- Salaries of sales staff✓
- Depreciation of delivery vans✓

**Administration costs:**
- Depreciation of office computers✓
- Depreciation of office equipment✓

c) **Concentration Banking** is the arrangement used by the firms, wherein the funds from all the regional banks in different locations get collected into the single bank account.✓

- First of all, the places are identified where company's major customers are placed and then the local bank accounts are opened at each location.✓

- Once the accounts are opened, the local collection agents or the bank branch is identified where all the cheques are collected from the customers at the respective locations.✓

- The remittances from the customers can be collected either in person or through the post. Once the cheques are collected, they are deposited in the local banks for the clearance.✓

- On the realization of cheques, the funds are transferred to the head office bank account (concentration account) through any telegraphic/electronic transfer schemes✓
QUESTION 2 [15 Marks]
a) Determine the number of jumps to break even in respect of model A and model B. 

\[ \text{BEP in jumps} = \frac{\text{Fixed costs}}{\text{Contribution per jump}} \]

Model A
\[ = \frac{389,325}{100 - 13} \]
\[ = 4,475 \text{ jumps} \]

Model B
\[ = \frac{423,950}{135 - 13} \]
\[ = 3,475 \text{ jumps} \]

b) Determine with regard to model A and model B, how many jumps would ensure an annual net profit before tax of N$302,325.

\[ \text{Target profit in jumps} = \frac{(\text{Fixed costs} + \text{Target profit})}{\text{Contribution per jump}} \]

Model A
\[ = \frac{389,325 + 302,325}{100 - 13} \]
\[ = \frac{691,650}{87} \]
\[ = 7,960 \text{ jumps} \]

Model B
\[ = \frac{423,950 + 302,325}{135 - 13} \]
\[ = \frac{726,275}{122} \]
\[ = 5,953 \text{ jumps} \]

c) Based on your calculations in (a) and (b) above, decide which model should be acquired and why.

Model B would be more profitable as it has a lower BEP than Model A.

d) State three factors that your friend should take into account before deciding which model to acquire, other than merely the estimated profitability of each model.

- Ease of operations, transportability and accessibility of the respective models;
- Confirmation of customer attitudes, affordability and anxiety towards jumps of 45 metres and 60 metres respectively in terms of both models;
- Risk linked to the respective models, based on the expected margin of safety.
**QUESTION 3**

Calculate how much cash is expected to be received from customers from March until May.

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<thead>
<tr>
<th></th>
<th>March</th>
<th>April</th>
<th>May</th>
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<tbody>
<tr>
<td><strong>Jan sales</strong></td>
<td>N$108 000✓</td>
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<tr>
<td>R450 000 x 60% x 40%</td>
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<td><strong>Feb sales</strong></td>
<td>N$115 500✓</td>
<td>N$84 000✓</td>
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<td>R350 000 x 60% x 55%</td>
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<tr>
<td>R350 000 x 60% x 40%</td>
<td></td>
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<tr>
<td><strong>March sales</strong></td>
<td>N$168 000✓</td>
<td>N$138 600✓</td>
<td>N$100 800✓</td>
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<tr>
<td>R420 000 x 40%</td>
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<tr>
<td>R420 000 x 60% x 55%</td>
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<tr>
<td>R420 000 x 60% x 40%</td>
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<tr>
<td><strong>April sales</strong></td>
<td>N$128 000✓</td>
<td>N$105 600✓</td>
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<tr>
<td>R320 000 x 40%</td>
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<tr>
<td>R320 000 x 60% x 55%</td>
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<tr>
<td><strong>May sales</strong></td>
<td></td>
<td>N$120 000✓</td>
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<tr>
<td>R300 000 x 40%</td>
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<td><strong>TOTAL MARKS = 50</strong></td>
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