CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF TOURISM MANAGEMENT

MTOM 841: FINANCIAL MANAGEMENT IN TOURISM

STREAMS: MTOM **TIME: 3 HOURS**

DAY/DATE: MONDAY 12/07/2021 **8.30 A.M. – 11.30 A.M.**

INSTRUCTIONS:

- **Answer ALL questions.**
- **Do not write anything on the question paper.**

QUESTION ONE

(a) Upendo Ltd. has provided the following balance sheet as at 30th April 2004.

	Sh. '000'		Sh. '000'
Cash	200	Accounts payable	400
Debtors	400	Taxes payable	400
		Long-term debt	800
		Share capital	3,200
	4,800		4,800

The cost of equity is 18 per cent and the after tax cost of debt is 12 per cent.
You are required to calculate the Weigted Average Cost of Capital. (10 marks)

(b) Mr. Kamanjan has been injured by his neighbors' horse. He has sued the neighbor and the court has ruled that the neighbor compensates Mr. Kamanja Sh. 40,000 per year for the next four years. The neighbor wants to make an immediate payment to Mr. Kamanja. If the prevailing interest rate is 8%, how much should Mr. Kamanja accept right away? (10 marks)

(c) Discuss the importance of corporate governance. (10 marks)

QUESTION TWO

Kiwanda Ltd. is considering the purchase a new machine. Two alternative machines, Pesi TZO and Upesi MO2, which will cost Sh. 6,000,000 and Sh. 7,000,000 respectively are available in the market. The cash flow after taxation of each machine are as follows:

Year	Cash flow Sh. Pesi TZO	Upesi MO2
1	600,000	1,800,000
2	1,800,000	2,400,000
3	2,000,000	3,000,000
4	3,000,000	1,800,000
5	2,400,000	1,600,000

Kiwanda's cost of capital is 12 percent per annum.

Required:

(a) Compute the Net Present Value of each machine. (10 marks)

(b) Assuming that each machine represents a project:

(i) Compute the return Kiwanda Ltd. expects to earn from each of the two projects. (6 marks)

(ii) Comment on the use of the results obtained in (a) and (b) (i) above in selecting between the two projects. (4 marks)

QUESTION THREE

A company has a policy of distributing 40% of its earnings as dividends every year. In the year ended 30th June 2014, its total earnings after tax and preference dividends were Sh. 8,000,000. The company has 400,000 outstanding ordinary shares. The company's rate of return o investments is 12% and earnings are projected to grow at the rate of 5% per annum in to the foreseeable future.

Required

(i) Calculate the earnings per share at 30th June 2014. (5 marks)

(ii) Calculate the retention ratio. (5 marks)

(iii) Calculate the market value of the share as at 30th June 2014. (5 marks)

(iv) Price earnings ratio. (5 marks)

QUESTION FOUR

(a) The valuation of ordinary shares is more complicated than the valuation of bonds and preference shares. Explain the factors that complicate the valuation of ordinary shares. (5 marks)

(b) A company has issued 10% preference shares. The dividends paid in the current period amount to Sh. 50 per preference share. Calculate the value of the company's preference shares. (5 marks)

(c) Discuss at least five sources of financing. (10 marks)
