



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT
SCIENCES

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN
BACHELOR OF SCIENCE IN HOSPITALITY AND TOURISM MANAGEMENT

SHT 403: HOSPITALITY AND TOURSIM FINANCIAL MANAGEMENT
ORGANIZATIONS

DATE: 5/6/2017

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Why would a firm experience hard capital rationing?
- b) A company has 4 independent projects which have the following information:

Project	Initial cost	Present Value of Cash Inflows
A	Shs.35m	Shs. 53m
B	Shs.40m	Shs. 63m
C	Shs.65m	Shs. 103m
D	Shs. 48m	Shs.80m

Additional Information:

- i) The company has a capital limitation of Shs.100m. the cost of capital is 10% and any surplus funds can be invested at 12% p.a return on investment in perpetuity.
- ii) All the projects are indivisible.

Required:

Determine the optimal project combinations.

- c) K. LTD produces a single product with a selling price of Sh.20 and a variable cost of Sh.12. Fixed costs are Sh.120,000 per annum. you are required to determine the following:
- i) Contribution to Sales Ratio.
 - ii) Break-even point in units and in value.
 - iii) The number of units to be sold to achieve a profit of Sh.40,000 per annum.

QUESTION TWO (20 MARKS)

- a) Calculate the Internal Rate of Return(IRR) of a project whose initial cost is shs. 450 million and is expected to generate cashflows amounting to shs 70 million p.a over its 10 years of useful life.
- b) Mjengo Limited intends to invest in either machine KX40 or KY50. Each of these machines costs shs. 200,000 and have an estimated economic life of 10 years and no scrap value. The net returns after tax but before depreciation for the two machines are as follows:

Year	KX40	KY50
	Shs.	Shs.
1	40,000	60,000
2	50,000	40,000
3	30,000	50,000
4	10,000	30,000
5	20,000	20,000
6	30,000	18,000
7	15,000	14,000
8	10,000	8,000
9	5,000	3,000
10	30,000	30,000

Calculate the Accounting Rate of Return for each of the machines and advise the management on the machine to purchase.

QUESTION THREE (20 MARKS)

A company has an investment opportunity costing shs.40, 000 with the following expected net cash flows (i.e. after taxes and before depreciation):

Year	1	2	3	4	5	6	7	8	9	10
Net cash flows(shs.000)	7	7	7	7	7	8	10	15	10	4

Using 10% as the cost of capital (rate of discount), determine the following:

- i) Net present value at 10% discounting factor
- ii) Profitability index at 10% discounting factor
- ii) Internal Rate of Return(IRR) –Rediscount at 15% discounting factor.

QUESTION FOUR (20 MARKS)

The management of Dawamu ltd is evaluating 5 investment projects whose expected cash flows are shown below:

	1/1/2006	31/12/2006	31/12/2007	31/12/2008
Project	Shs (000)	shs(000)	shs(000)	shs(000)
A	(60,000)	30,000	25,000	25,000
B	(30,000)	(20,000)	25,000	45,000
C	(40,000)	(50,000)	60,000	70,000
D	0	(80,000)	45,000	55,000
E	(50,000)	10,000	30,000	40,000

Additional information

- i) None of the 5 projects can be delayed or brought forward.
- ii) All the projects are divisible
- iii) **the required rate of return is 15%.**

Required:

Using the NPV approach determine which projects should be undertaken. (20 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the limitations of the Accounting Rate of Return (ARR) as a method of appraising projects.
- b) Explain the characteristics of capital Budgeting.
- c) Explain the limitations of Break-even analysis.
- d) Explain the determinants of the concept of time Value of Money.