



SCHOOL OF TOURISM AND HOSPITALITY
MASTER OF HOSPITALITY BUSINESS MANAGEMENT
END OF MODULE EXAMINATION
MHBM 8202: CORPORATE FINANCE FOR HOSPITALITY

DATE: Friday, 25th November 2022

DURATION: 3 Hours

INSTRUCTIONS:

1. This examination consists of **FIVE** Questions.
2. Answer **Question ONE [COMPULSORY]** and any other **TWO** questions.
3. The Formula Sheet is provided at the end of the examination paper and Time Value of Money Tables are also attached

Question One (Compulsory)

[50 Marks]

- (a) Briefly explain FOUR main roles of a Finance Manager. **(8 Marks)**
- (b) Explain the concept of Agency Theory and the role of corporate governance in solving the agency problem **(10 Marks)**
- (c) A hotel is reviewing three requests for services, to provide accommodation and conference facilities to three clients. This will require refurbishing existing facilities (Initial Investment) to serve the clients for the next five years. The hotel can only serve one client, meaning the hotel will only choose one client. The maximum budget is sh18 million. The hotel uses a weighted average cost of capital of 15% to evaluate such projects.

The following cash flows apply to the three requests.

	Client 1	Client 2	Client 3
	sh.000	Sh.000	Sh.000
Initial Investment	10,000.00	15,000.00	18,000.00
Cash inflows:			
Year 1	6,000.00	5,000.00	3,000.00
Year 2	4,000.00	5,000.00	4,000.00
Year 3	3,000.00	5,000.00	5,000.00
Year 4	2,500.00	5,000.00	7,000.00
Year 5	2,500.00	5,000.00	8,000.00

Required

Advise on which client should be selected based on the following:

- (i) How soon it will take to recover the initial investment **(12 Marks)**
- (ii) The net present value of the cash flows **(12 Marks)**
- (iii) The value for money **(8 Marks)**

Question Two**[25 Marks]**

- (a) Tourist Hotel Company (THC) is planning to acquire Five Star Hotel (FSH) company. Discuss THREE main motives of THC for acquiring FSH **(6 Marks)**
- (b) FSH is about to pay sh.5 dividend. This dividend has been growing at the rate of 6% p.a. and is expected to continue growing at the same rate into the future. After this payment the next dividend will be paid in a year's time. Using the dividend model, estimate the market price of FSH if equity holders expect a return of 12%. **(9 Marks)**
- (c) Once THC acquires FSH, THC is worried that it may not have enough cash in the short term to pay dividends. Apart from investment opportunities, explain FIVE other factors that may influence the ability of THC to pay dividends **(10 Marks)**

Question Three**[25 Marks]**

- (a) Briefly explain TWO sources of short-term finance and TWO sources of long-term finance of a business **(8 Marks)**
- (b) (i) Distinguish between money markets and Capital markets **(4 Marks)**
 (ii) Discuss FOUR functions of financial markets **(4 Marks)**
- (c) Pridebim Hotel is considering taking a loan of \$2 million from the bank to finance the expansion and revamping its current facilities. The loan will be paid back in 5 equal annual installments at the end of each year, at an interest rate of 8%.

Required

Compute the annual installment and prepare a loan amortization schedule **(9 Marks)**.

Question Four**[25 Marks]**

- (a) Briefly discuss the accounting process to prepare financial statements **(10 Marks)**
- (b) The Finance Manager of Wemo Hotels is evaluating data of two shares listed on the stock exchange: Hightech and Lowtech.

	Hightech	Lowtech
Expected Return	17.50%	5.50%
Standard Deviation	25.86%	11.56%
Correlation between Hightech and Lowtech	-0.16	

The finance manager is not decided on whether to invest in Hightech, or Lowtech or both (with a portfolio in the ratio of 60%:40%).

Required

- (i) Which company will the manager choose to invest based on profits? **(2 Marks)**
- (ii) Which company will the manager choose to invest based on risk? **(2 Marks)**
- (iii) Which company will the manager choose to invest based on coefficient of variation? **(2 Marks)**
- (iv) Compute the expected return if the manager is to invest in the two shares. **(4 Marks)**
- (v) Compute the risk if the manager is to invest in both shares. **(5 marks)**

Question Five**[20 Marks]**

- (a) Explain FIVE factors that influence the working capital of a hospitality organization. **(10 Marks)**
- (b) Siwaka Plaza Hotel would like to estimate inventory costs for sausages that is proving to be popular with customers.
You are given the following information:
Annual Demand = 450 sausages per day assuming a year has 360 days (D)
Ordering Costs = sh.3,000/- Per Order from farmers choice (Co)
Purchase price per unit = sh.30/- (P)
Holding Cost per unit = 10% of the purchase price (Ch)
- Required: Compute the:**
- (i) Economic Order Quantity **(4 Marks)**
(ii) The Holding costs **(2 Marks)**
(iii) The Ordering costs **(2 Marks)**
(iv) The total inventory costs for sausages **(2 Marks)**
- (c) Radisson Inn Hotel provides high quality conference facilities. A few corporate clients have approached the hotel for use of the facilities and if possible, Radisson to extend the facilities on credit. Highlight FIVE factors that Radisson should evaluate before extending credit services to a corporate client. **(5 Marks)**

TOTAL = 100 MARKS; WEIGHT = 50%

Formula Sheet

Some relevant formulas are provided in the TVM Tables

Additional formulas

Variance

$$s^2 = \frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n - 1}$$

Portfolio return and Portfolio variance (Standard Deviation is the Square root of variance)

$$E(R_p) = w_1 E(R_1) + w_2 E(R_2)$$

$$\sigma_p^2 = w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2w_1 w_2 \rho_{1,2} \sigma_1 \sigma_2$$

Present Values of Perpetuities

	Constant	Growing
Ordinary	PV = A_1/r	PV = $A_1 / (r-g)$
Due	PV = $A_0 + A_1/r$ Where $A_1 = A_0$	PV = $A_0 + A_1 / (r-g)$ Where $A_1 = A_0 \times (1+g)$

$$\frac{Q}{2} = \frac{D}{Q}$$

$$Q \times Q = 2 \times D$$

$$Q^2 = 2D$$

$$Q^2 = 2D$$

$$Q = \sqrt{\frac{2D}{C}}$$