Roll No												

PRESIDENCY UNIVERSITY
BENGALURU

SCHOOL OF LAW
END TERM EXAMINATION - JAN 2023

Semester : Semester I - 2022
Date : 12-JAN-2023
Course Code : BBL2001
Time : 1.00PM - 4.00PM
Course Name : Sem I - BBL2001 - Financial Management
Max Marks : 100
Program : BBA LLB (Hons.) / BA LLB (Hons.)
Weightage : 50%

Instructions:
(i) Read all questions carefully and answer accordingly.
(ii) Question paper consists of 3 parts.
(iii) Scientific and non-programmable calculator are permitted.

PART A

ANSWER ALL THE FOLLOWING QUESTIONS **10 X 2 = 20M**

1. What are the major types of financial Management decisions that business firms take ? Explain.
(CO1) [Knowledge]

2. Illustrate the concept of the internal rate of return in business.
(CO2) [Knowledge]

3. What is profitability index? Which is a superior ranking criterion, profitability index or the net present value?
(CO3) [Knowledge]

4. What is capital budgeting? Why is it significant for a company?
(CO3) [Knowledge]

5. Define cost of capital? Explain its importance in financial decision-making.
(CO4) [Knowledge]

6. The equity capital is cost free.' Do you agree or not? Give reasons.
(CO4) [Knowledge]

7. How is the cost of debt computed? How does it differ from the cost of preference capital?
(CO4) [Knowledge]

8. How is the weighted average cost of capital calculated? What weights should be used in its calculation?
(CO5) [Knowledge]

9. A compnay issued zero-coupon bonds, face value of ₹100 at a discount rate of 30 percent. Compute the cost of bond if there are to be redeemed after 6 years at face value .
(CO5) [Knowledge]

10. How is trend analysis used to evaluate the financial health of an organization?illustrate
(CO5) [Knowledge]

PART B

ANSWER ALL THE FOLLOWING QUESTIONS **4 X 10 = 40M**

11. The following two Projects. Calculate their NPV at 9 per cent and IRR. Do you find a difference in project ranking as per these two criteria? Why? Which project will you choose?

Project flows	Project P	Project Q
C0	-840	-840
C1	700	70
C2	350	420
C3	70	760

(CO3) [Comprehension]

12. A company issues 10 per cent irredeemable preference shares. The face value per share is ₹100, but the issue price is ₹95. What is the cost of a preference share? What is the cost if the issue price is ₹105? show the calculations

(CO4) [Comprehension]

13. X Company decided to sell a new issue of 7 years 15 percent bonds of ₹100 each at par, and will pay ₹100 principal to bondholders at maturity. What is the cost of debt?

a. If debt issued at par value (₹100)
b. If debt issued at discount (₹94)
c. corporate tax is 35%

(CO4) [Comprehension]

14. Assuming that a firm pays tax at a 50 % rate, Calculate the after-tax cost of capital in the following cases:

a. 8.5 per cent preference share sold at par.
b. A perpetual bond sold at par, coupon rate of interest being 7 per cent.
c. A ten-year, 8 per cent, ₹1000 par bond sold at ₹950 less 4 per cent underwriting commission.
d. A preference share sold at ₹100 with a 9 per cent dividend and a redemption price of ₹110 if the company redeems it in five years.
e. An ordinary share selling at a current market price of ₹120, and paying a current dividend of ₹9 per share, which is expected to grow at a rate of 8 per cent.

An ordinary share of a company, which engages no external financing, is selling for ₹50. The earnings per share are ₹7.50 of which sixty per cent is paid in dividends. The company reinvests retained earnings at a rate of 10 per cent.

(CO5) [Comprehension]

PART C

ANSWER ALL THE FOLLOWING QUESTIONS **2 X 20 = 40M**

15. Calmex is situated in North India. It specializes in manufacturing overhead water tanks. The management of Calmex has identified a niche market in certain Southern cities that need a particular size of water tank, not currently manufactured by the company. The company is therefore thinking of producing a new type of overhead water tank. The survey of the company's marketing department reveals that the company could sell 120,000 tanks each year for six years at a price of ₹700 each. The company's current facilities cannot be used to manufacture the new-size tanks. Therefore, it will have to buy new machinery. A producee has offered two options to the company. The first option is that the company could buy four small machines with the capacity of manufacturing 30,000 tanks each at ₹15 million each. The machine operation and manufacturing cost of each tank will be ₹535. Alternatively, Calmex can buy a larger machine with a capacity of 120,000 units per annum for ₹120 million. The machine operation and manufacturing costs of each tank will be ₹400. The company has a required rate of return of 12 per cent. Assume that the company does not pay any taxes.
Questions

a. Which option should the company accept? Use the most suitable method of evaluation to give your recommendation and explicitly state your assumptions.
b. Why do you think that the method chosen by you is the most suitable method in evaluating the proposed investment? Give the computation of the alternative methods.

(CO3) [Application]

16. Trend analysis is used to evaluate each line item on the income statement and balance sheet. How is this analysis prepared for the following company?

Coca-Cola Company Income Statement
Year Ended December 31
(Amounts are in million dollars)

	2020	2019
Net Sales	35119	30990
Cost of goods sold	12693	11088
Gross margin	22426	19902
Selling and administrative expenses	13158	11358
Other operating expenses	819	313
Operating income	8489	8231
Interest expense	733	355
Other Income	6477	988
Income before taxes	14193	8864
Income Tax	2384	2040
Net Income	11809	6824

Balance Sheet of Coca-Cola
(Amounts are in million dollars)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	11199	9151
Marketable securities	138	62
Accounts receivable	4430	3758
Merchandise inventory	2650	2354
Other current assets	3162	2226
Noncurrent assets		
Long term investments	9706	8731
Property, plant and equipment	14727	9561
Intangible assets	26909	12828
Total assets	72921	48671
Liabilities and shareholder's equity		
Current liabilities		
Account payable	8859	6657
Loans payable	8100	6749
Other liabilities	1549	315
Non- current liabilities		
Long term debt	14041	5059
Other liabilities	9055	4545
Shareholder's Equity		
Common Stock	10937	9417
Retained Earnings	49592	42084
Accumulated other income	(1450)	(757)
Treasury stock	(27762)	(25398)
Total liabilities and shareholder's equity	72921	48671

(CO4) [Application]

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