

2013

M. Com.

3rd Semester Examination

FINANCIAL SERVICES

PAPER — COM-301

Full Marks : 50

Time : 2 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Unit—I

[Marks : 20]

1. Answer any two questions : 5×2
- (a) Discuss, in brief, the role of any two merchant banking institutions which are related to primary market only. 5
- (b) Write about any four sources of consumer finance with a brief description of the way each such source provides fund to the borrowers. 5

(Turn Over)

- (c) X company Ltd. has entered into a lease agreement for an equipment costing Rs. 750 lakh with the lessor. The lease is non-concealable for a period of 5 years. Lease rental for the first year is Rs. 400 lakh which is to reduce by 10% every year till the end of the lease term. Lease rental is paid at the end of each year. The incremental borrowing rate is 16% p.a. and the marginal rate of tax in which range the company falls is 40%. Guaranteed residual value is Rs. 40 lakh and unguaranteed residual value is Rs. 80 lakh. Show the calculation of allocating unexpired finance charge in the books of X company Ltd. in the 5 years of lease following the "sum-of-the year digits" method. 5
- (d) Write a note on the existing controversy between the I.T. Department circular and the As 19 issued by the I.C.A.I. as regards treatment of depreciation on the leased asset. 5

2. Answer any *one* question from the following : 10×1

- (a) M Company Ltd. is considering a proposal for borrowing from a financial institution to buy a machine. It has also an option to take the machine in a financial lease term, the annual rent of which will be 20% of the cost, lease term being 5 years, and repair and maintenance cost being Rs. 2 lakh p.a. If the cost of the machine is Rs. 20 lakh, scrap value is Rs. 1 lakh, effective working life of the machine is 5 years, depreciation method is straight line, incremental borrowing rate is 16% p.a., and marginal corporate tax rate is 30%, advise the company as to 'borrow and buy' the machine or take it on lease. Loan from financial

institution is repayable on the terms of annual interest payment at the year-end when it is due and principal repayment at the end of the term. 10

- (b) (i) Distinguish between the nature of the fund-based financial services and free-based financial services with examples.
- (ii) What is the principal difference between an instalment purchase and a financial lease transaction? Discuss.
- (iii) Discuss, in brief, the role of Depository (including the DPs) both in primary market and secondary market as a merchant banking institution.

3+3+4

Unit--II

[Marks : 20]

3. Answer any two questions : 5×2
- (a) Discuss the guidelines for extending refinance support to Housing Finance Companies.
- (b) What are the different stages of Venture Capital Financing? Discuss in brief.
- (c) Discuss the important services provided by a Factor.
- (d) Briefly discuss the process of rating a debt instrument by CRISIL.
4. Answer any one of the following : 10×1
- (a) (i) What do you mean by Recourse Factoring? How does it differ from the without Recourse Factoring?

- (ii) Discuss the factors that affect assignment of credit rating of a security. 5+5
- (b) (i) ABC Co. Ltd. has launched a new type of condenser circuit. Its present annual sale is Rs. 2 crores. However, the company expects an annual growth of 20% p.a. for next five years. The company earn Profit after tax @ 40% on sales. Price earning multiple of similar company is 24. Relevant discount factor during the period is 12%.
- ABC is willing to share 40% of its profit with any Venture Capital Fund (VCF). How much capital the company expects from VCF to contribute for 5 years ?
- (ii) How does a Venture Capital Fund exits from its investment at the investee company. 6+4

[Internal Assessment : 10 Marks]
