

2015

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 : 2×5
- (a) Discuss the importance of financial services with examples. 5
- (b) Distinguish between fund-based and fees-based financial services with one example under each category. 5

(Turn Over)

- (c) Mention any four factors which may influence the demand for consumer finance. 5
- (d) Describe the activities of any one merchant banking institution which is not related to primary market. 5

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

- (a) X Co. Ltd. leases out a machine, costing ₹ 50 lakh to Y Co. Ltd. for a period of 5 years in a single agreement with a provision for residual value guaranteed by Y Co. Ltd. amounting ₹ 5 lakh. Lease rent amounts to 250/1000. Repair and maintenance cost on an average per year during the period of lease is expected to be ₹ 1 lakh. Incremental borrowing rate is 18% and marginal corporate tax rate is 50%. Show possible ledger accounts for the first two years and financial reporting for the first one year only in the books of Y Co. Ltd. Effective working life of the machine is 5 years and 'Sum-of-the year digits' method is applicable. 10
- (b) DB Ltd. manufacture steel products. The company is planning to diversify and add a new product line. The company can either buy the required machinery or get it on lease.

The machine can be purchased for ₹ 15,00,000. It is expected to have a useful life of 5 years with salvage value of ₹ 50,000 after the expiry of its life. The purchase can be financed by 20% loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year end lease rentals of ₹ 4,50,000 for 5 years. Advise the company, which option it should choose. You may assume the following :

- (i) The machine will constitute a separate block for depreciation purposes. The company follows w.d.v. method of depreciation being 25%.
- (ii) Tax rate is 20% and cost of capital is 18%.
- (iii) Lease rentals are to be paid at the end of the year.
- (iv) Maintenance expense estimated at ₹ 30,000 per year is to be borne by the lessee. 10

Unit—II

[Marks : 20]

3. Answer any *two* questions : 2×5
- (a) Briefly discuss the functions of a factor.
 - (b) Discuss the various stages of Venture Capital Financing.

- (c) Distinguish between Factoring and Bill discounting.
- (d) Discuss the different housing finance schemes of HFIs in India.

4. Answer any *one* question of the following : 1×10

- (a) (i) What are the benefits of credit rating services ?
(ii) Discuss the factors that affect assignment of credit rating of a security. 5+5
- (b) (i) What are the essential areas to be covered by a VCU to write a business plan for Venture Capital ?
(ii) Define Conventional Venture Capitalist Valuation method. Explain the steps involved under the method. 6+4

[Internal Assessment : 10 Marks]
