

M.Com. 3rd Semester Examination, 2010

FINANCIAL SERVICES

PAPER—CM-2101

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate 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 of the following : 5 x 2

- (a) Write a short note on 'depository' services, describing its scope both in primary and secondary market.

5

(Turn Over)

- (b) Elucidate the inter-relationship between financial institutions (intermediaries) and financial service providers. 5
- (c) Describe the role of 'underwriters' as a Merchant banker. What is the role of 'broker to an issue' in the primary market issue management ? 3 + 2
- (d) Distinguish between financial lease and operating lease. 5

2. Answer any *one* question of the following : 10 x 1

- (a) Y Co. Ltd. let out an asset costing Rs.100 lakh to X Co. Ltd. at an annual rent of Rs.300 per Rs.1000. The asset has an effective working life of 8 years. However, the lease period is non-renewable and fixed for 6 years. Guaranteed residual value is 10% of the cost of the asset. Repair and maintenance cost amounts to Rs.10 lakh per annum. Depreciation is allowed by the

tax authority on straight line method. If the incremental borrowing rate is 15% and the marginal rate of corporate tax is 40%, show ledger accounts in the books of Y Co. Ltd. for the first two years of lease. 10

- (b) X Co. Ltd. is considering a proposal to take an asset on lease from Y Leasing Co. Ltd.. Lease period is 5 years but need not be renewed on each year-end. Lease rental amounts to Rs. 250 per Rs.1000 on outstanding basis. Cost of the asset is Rs.35 lakh. X Co. Ltd. can borrow the cost of the asset to buy it from any banker @ 16% p.a.. Loans are repayable in 5 equal annual instalments. Repair and maintenance costs amount to Rs.2 lakh p.a. and accrue at the end of a year. Straight line method of depreciation is admissible. Corporate marginal rate of tax is 40%. Advise X Co. Ltd. whether it is viable to accept the lease proposal. Life of the asset is 5 years. 10

UNIT-II

[Marks : 20]

3. Answer any *two* questions of the following : 5 x 2
- (a) Mention the benefits of credit rating from the view point of investors and company.
 - (b) What are the objectives of National Housing Bank to promote housing finance in India ?
 - (c) What are the factors considered by venture capitalists while evaluating new project ?
 - (d) Write a short note on ICRA.
4. Answer any *one* question of the following : 10 x 1
- (a) (i) What does 'investment nurturing' mean ? What are its objectives ?
(ii) Describe the different styles of investment nurturing. (2 + 4) + 4
 - (b) (i) Distinguish between Factoring and Bill Discounting.

(ii) A manufacturing firm has a total sales of Rs.200 lacks of which 60% is made on credit and its average collection period is 3 months. The past experience indicates that bad-debt losses are around 2% on credit sales. The firm spends Rs. 250000 on administering its sales which include salaries of on officer and two clerical personnel who handle credit checking, collection etc. A factor is prepared to buy the firms receivables by charging 2.5% commission. The factor will pay advance to the firm at an interest rate of 18% p.a. after withholding 10% as reserve.

You are required to compute the net advance payable to the firm and as a financial consultant you advice which course of action the firm should have taken.

5 + 5

[*Internal Assessment* : 10 Marks]
