			Marks	BL	PO	CO
OR	iii.	X Ltd. has a total sale of 3.2 crores and its average collection period is 90 days. The past experience indicates that bad-debt losses are 1.5% on Sales. The expenditure incurred by the firm in administering its receivable collection efforts are 5,00,000. A factor is prepared to buy the firm's receivables on non-recourse basis by charging 2% Commission. The factor will pay advance on receivables to the firm at an interest rate of 18% p.a. after withholding 10% as reserve. Calculate the effective cost & rate of factoring to the firm assuming 360 days in a year.	**6**	5	3	4
Q.6		Attempt any two:				
	i.	Explain the concept of venture capital, its importance in the start-up ecosystem.	**5**	5	3	4
	ii.	Discuss about the different exist styles of venture capital companies?	**5**	3	3	5
	iii.	Explain the Process of credit rating.	**5**	5	2	5

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Total No. of Questions: 6 *Total No. of Printed Pages:4*

Enrollment No....................................

Faculty of Management Studies

End Sem Examination Dec 2024

MS5EF16 Financial Services

Programme: MBA Branch/Specialisation: Management/ Finance

Duration: 3 Hrs. **Maximum Marks: 60**

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d. Assume suitable data if necessary. Notations and symbols have their usual meaning.

			Marks	BL	PO	CO	PSO
Q.1	i.	Which type of NBFC does not fall under the definition of a non-banking financial institution by the RBI? (a) Asset Finance Companies (AFCs) (b) Infrastructure Finance Companies (IFCs) (c) Insurance companies (d) Investment companies	**1**	1	1	1	
	ii.	Non-banking financial companies (NBFCs) that do not accept public deposits are called- (a) Non-deposit accepting or holding companies (b) Small finance companies (c) Regional rural banks (d) Asset management companies	**1**	1	1	1	
	iii.	Which of the following is NOT a type of leasing? (a) Finance lease (b) Operating lease (c) Leveraged lease (d) Factoring	**1**	1	2	2	
	iv.	Which type of lease transfers substantial ownership risks and rewards to the lessee? (a) Operating lease (b) Finance lease (c) Leveraged lease (d) Capital lease	**1**	1	2	2	
	v.	What is one disadvantage of hire purchase? (a) Immediate high cash outflow (b) Ownership remains with the hirer from the start (c) Higher overall cost due to interest (d) Lack of flexibility in ownership transfer	**1**	1	3	3	

vi. Which method is used to evaluate hire purchase decisions? **1** 1 2 3

(a) Payback period (b) Tax analysis

(c) Net Present Value (NPV) (d) Hire cost analysis

vii. What does "Bill Discounting" mean in the context of factoring? **1** 1 4 4

(a) Financing long-term assets

(b) Selling bills of exchange to a bank or financial institution at a discount

(c) Offering rebates to customers on early payments

(d) Writing off bad debts from financial statements

viii. What distinguishes "Recourse Factoring" from "Non-recourse Factoring"? **1** 1 2 4

(a) In recourse factoring, the factor has no liability for bad debts.

(b) In recourse factoring, the seller bears the risk of bad debts.

(c) In non-recourse factoring, the seller retains ownership of receivables.

(d) Both involve the seller bearing bad debt risks

ix. Which of the following is a credit rating agency in India? **1** 1 2 5

(a) Moody's Investor Services

(b) Standard & Poor's (S&P)

(c) CRISIL

(d) Fitch Ratings

x. Which of the following is NOT a stage of venture capital financing? **1** 1 3 5

(a) Seed capital (b) Development capital

(c) Leveraged buyout (d) First round financing

Q.2 i. Explain the term "Financial Services." **2** 2 1 1

ii. Discuss the classification of NBFCs based on their activities and regulatory framework. Provide examples of different types of NBFCs. **8** 3 2 1

OR iii. How do fund-based and fee-based financial services together shape the financial ecosystem? **8** 4 5 1

Q.3 i. Define the term "Operating Lease". **2** 2 5 1

ii. What are the difference between leasing and hire purchase? Explain any eight. **8** 2 6 2

OR iii. A Ltd.is in the business of manufacturing steel utensils. The firm is planning to add a new product line. The firm can either buy the required machinery or get it on lease. The Machine can be purchased for Rs.3,45,000 having a life of 5 years, salvage value Rs. 45,000. The purchase can be finance by 14% loan repayable in equal installments. Alternatively, the machine can be taken one year lease rental for Rs.1,20,000 for 5 years. Depreciation to be calculated on straight line method. tax 40% **8** 5 4 2

Advice the company regarding the option it should go for?

Year	01	02	03	04	08
P.v Factor at 18%	0.516	0.718	0.609	0.516	0.437

Q.4 i. What do you mean by term hire purchase? And what are the rights of hirer in hire purchase system? **3** 4 4 2

ii. Mr. Shyam acquired 1st January, 2001 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of 76.000 each, the first instalment being due on 1st July, 2011. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer. **7** 3 3 3

OR iii. What are the income tax aspect for both vender and hirer in hire purchase system? Also explain advantages of hire purchase. **7** 5 2 3

Q.5 i. Differentiate between factoring and forfeiting. **4** 5 1 3

ii. Explain the types of factoring services. **6** 3 2 4

Scheme of Marking

MEDI-CAPS UNIVERSITY Knowledge is Power	Faculty of Management Studies End Sem Examination Dec 2024 Financial Services (T) - MS5EF16 (T)
	Programme: MBA — Branch/Specialisation:

Note: The Paper Setter should provide the answer wise splitting of the marks in the scheme below.

Q.1	i)	Answer: c) Insurance companies	**1**
	ii)	**Answer:** a) Non-Deposit Accepting or Holding Companies	**1**
	iii)	**Answer:** D. Factoring	**1**
	iv)	Answer: B. Finance Lease	**1**
	v)	Answer: C. Higher overall cost due to interest	**1**
	vi)	Answer: C. Net Present Value (NPV)	**1**
	vii)	Answer: B. Selling bills of exchange to a bank or financial institution at a discount	**1**
	viii)	Answer: B. In recourse factoring, the seller bears the risk of bad debts.	**1**
	ix)	Answer: C. CRISIL	**1**
	x)	Answer: C. Leveraged Buyout	**1**
Q.2	i.	As per Explaination – 2 marks	
	ii.	Regulatory frame work – 2, types – 6	
OR	iii.	Fund – 4 marks, fee based – 4 marks	
~~OR~~	~~iv.~~		
Q.3	i.	Meaning – 2 marks	
	ii.	Each difference 1 mark = 8 marks	
OR	iii.	Correct calculation = 8 marks	
Q.4	i.	Meaning 1 mark, Rights – 2 marks	
	ii.	Correct calculation = 8 marks	
OR	iii.	Income Tax aspect – 3 marks	
		Advantage – 4 marks	
Q.5	i.	Difference – each 1 mark = 4 marks	
	ii.	Each type 1 mark = 6 marks	
OR	iii.	Correct calculation – 6 marks	
Q.6			
	i.	1 + 4 marks = 5 marks	
	ii.	1 mark each – 5 marks	
	iii.	Correct process – 5 marks	

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P.T.O.

Q.4 (ii) Statement showing cash value of the machine acquire Hire-Purchase basis :- (1)

	Instalment Amt.	Interest @5% Half Yearly (10% p.a.) =5/105 =1/21	Principal Amt (in each Instalment)
5th Instalment Less:- Interest	76,000 (3619) 72,381	3619	72,381
Add: 4th Instalment Less:- Interest	(+) 76,000 1,48,381 -7066 1,41,315	7066	(76,000 - 7066) = 68,934
Add: 3rd Instalment Less: Interest	(+) 76,000 2,17,315 - 10,348 2,06,967	10,348	(76,000-10,348) = 6,5652
Add: 2nd Instalment Less: Interest	(+) 76,000 2,82,967 (-) 13,475 2,69,492	13,475	(76,000-13,475) => 62,525
Add: 1st Instalment Less: Interest	(+) 76,000 345,492 (-) 16,452	16,452	(76,000-16,452) => 59,548
	3,29,040	50,960	3,29,040

The Cash Purchase Price of Machine is Rs. 3,29,040

Q.3(iii) Solution.

calculation of Depreciation.

$$\text{Depreciation} = \frac{\text{cost} - \text{Scrap}}{\text{Life of the Asset}}$$

$$= \frac{345000 - 45000}{5}$$

Rs = 60,000 every year

Q. PV factor at 14%

$$0.877 + 0.769 + 0.675 + 0.592 + 0.519 = 3.432$$

$$\text{Annual Installment} = \frac{3,45,500}{3,432}$$

= Rs = 1,00,525

Calculation of cash out flow

Year	Loan Amt	Interest 14%	Principal	Installment
01	3,45,000	48,300	52,225	1,00,525
02	292,775	40,989	59536	100525
03	233239	32,653	67,872	100525
04	165,367	23,151	77,374	100525
05	87993	12532	87993	100525

Calculation of cash out flow After Tax:-

Year	Dep.	Interest 14%	total	Tax (40%)	cash outflow (Inst-Tax)	14% PV fac.	Net cash out flow.
01	60,000	48,300	1,08,300	43,320	57,205	0.877	50,168
02	60,000	40,989	1,00,989	40395	60,130	0.769	46,239
03	60,000	32,653	92,653	37,061	63,464	0.675	42,838
04	60,000	23,151	83,151	33,260	67,265	0.592	39,820
05	60,000	12,532	72,532	29,012	71,513	0.519	37,115
							total = 216,180

total cash out flow = 216,180

Less 5th year salvage value = (-) 23 335

(45000 × 0.519)

Net cash out flow under Buying option = 1,92,825 Rs/-

3

2) Calculation of Present Value After tax under Lease option.

Year	Lease Rental	Tax (40%)	Net cash Out flow	14% P.V. Factor	Net cash out flow
01	1,20,000	48,000	72,000	0.877	63,144
02	1,20,000	48,000	72,000	0.769	55,368
03	1,20,000	48,000	72,000	0.675	48,600
04	1,20,000	48,000	72,000	0.592	42,624
05	1,20,000	48,000	72,000	0.519	37,368
				total =	2,47,104.

Net cash out flow under Lease option = Rs 2,47,104

Suggestion :- Buying option is Recommended since Present Value under Buying option is Less than Leasing option.

Q.5 OF (iii) Solution.

Particulars	Rs.
Average Level of Receivables = 3,20,00,000 × $\frac{90}{360}$	80,00,000
factoring commission = 80,00,000 × $\frac{2}{100}$	1,60,000
factoring Reserve = 80,00,000 × $\frac{10}{100}$	8,00,000
Ammount available for Advance = Rs (80,00,000 − (1,60,000 + 8,00,000))	70,40,000
Factor will deduct his intrest @18%. = $\frac{\text{Rs } 70,40,000 \times 18 \times 90}{100 \times 360}$	Rs 3,16,800
Advance to be Paid = (70,40,000 − 3,16,800)	67,23,200

Annual cost of Factoring to the film :- (4)

	Rs/-
Factoring commision Rs $(1,60,000 \times \frac{360}{90})$	6,40,000
Intrest charges (Rs $3,16,800 \times \frac{360}{90}$)	12,67,200
total	19,07,200
Firm's Saving on taking factoring services	Rs
cost of credit administration saved.	5,00,000
cost of Bad Bebts Rs $(3,20,000 \times \frac{1.5}{100})$ avaided	4,80,000
total	9,80,000
Net cost to the firm Rs (19,07,200 - 9,80,000)	9,27,200
Effective rate of Intrest to the firm = Rs $\frac{9,27,200 \times 100}{67,23,200}$	13.79%