

Total No. of Questions: 6

Total No. of Printed Pages:3

Enrollment No.....



Faculty of Management Studies
End Sem Examination Dec-2023

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.

- Q.1 i. Which of the following is not a fee-based financial service? **1**
(a) Corporate counselling (b) Lease financing
(c) Profit management (d) Issue management
- ii. Discounting of bills of exchange is an attractive _____ **1**
based financial service provided by the finance companies.
(a) Fee (b) Fund
(c) Opinion (d) Capital
- iii. A short-term lease which is often cancellable is known as- **1**
(a) Finance Lease (b) Net Lease
(c) Operating Lease (d) Leverage Lease
- iv. For a lessor, a lease is a- **1**
(a) Investment decision
(b) Financing decision
(c) Dividend decision
(d) None of these
- v. The features of hire purchase: **1**
(a) The possession of goods is given to the buyer immediately.
(b) The ownership in the goods remains with the vendor till the last instalment is paid.
(c) The seller can repossess the goods in case of default in payment
(d) All of these


[2]

- vi. Ownership of goods under hire purchase agreement is transferred at the time of: **1**
 (a) Payment of down payment
 (b) Payment of first instalment
 (c) Full & Final payment of last instalment
 (d) None of these
- vii. The factor assumes credit risks associated with the _____. **1**
 (a) Collection of accounts (b) Collection of securities
 (c) Collect the fund (d) Collect the goods
- viii. Which of the following is a type of factoring where the factor does not assume the credit risk for the debts being factored? **1**
 (a) Recourse factoring (b) Non-recourse factoring
 (c) Invoice discounting (d) Reverse factoring
- ix. _____ is a long-term risk capital to finance high technology projects which involve risk but at same time has strong potential for growth. **1**
 (a) Venture capital (b) Hedge finance
 (c) Merchant banker (d) Hire purchaser
- x. Functions of a factor exclude- **1**
 (a) Credit rating (b) Credit recording
 (c) Credit administration (d) Credit financing
- Q.2 i. Define financial services. **2**
 ii. “NBFCs are doing functions similar to banks”, Agree or disagree? Elaborate **3**
 iii. Discuss about the various types of financial services. **5**
- OR iv. Explain the various fund based and fee based financial services available in India. **5**
- Q.3 i. Differentiate between leasing and hire – purchase. (Any four) **4**
 ii. What is leasing? Elaborate the various types of leasing. **6**
- OR iii. From the following information given below you are required to advice about leasing out the asset: **6**
 (a) Cost of equipment Rs. 4,00,000
 (b) Average cost of capital to the lessor 12%
 (c) Depreciation (allowable) 20% on original cost

[3]

- (d) Expected life of asset 5 years
 (e) Salvage value nil
 (f) Lease rent payable at the end of 5 years Rs. 1,50,000
 (g) Corporate tax (applicable to lessor) 50%
 P. V. of annuity of Rs. 1 for 5 years at 12% is Rs. 3.605.
- Q.4 i. What is hire purchase? Explain the features of hire purchase **4**
 ii. Briefly explain the framework of evaluation of a hire purchase transaction from the point of view: **6**
 (a) Hirer (b) Finance Company
- OR iii. Asha purchased a truck on hire purchase system. As per the terms he is required to pay Rs. 70,000 down, Rs. 53,000 at the end of first year, Rs. 49,000 at the end of the second year, and Rs. 55,000 at the end of the third year. Interest is charged @ 10% p.a. You are required to calculate the total cash price of the truck and the interest paid with each instalment. **6**
- Q.5 i. Explain any three advantages of factoring. **3**
 ii. Explain the term factoring. What are the types of factoring. **7**
- OR iii. Distinguish between factoring, forfeiting & bill discounting. **7**
- Q.6 Attempt any two: **5**
 i. Discuss the various stages of venture capital financing. **5**
 ii. Elaborate the benefits of credit rating to investors, rated company, Intermediaries and business world. **5**
 iii. Write short note on any two: **5**
 (a) ICRA (b) CRISIL (c) CARE

Scheme of Marking

	<p style="text-align: center;">Faculty of 0 End Sem Examination Dec-2023 Financial Services (T) - MS5EF16 (T)</p>	
	Programme: MBA	Branch/Specialisation:

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

Q.1	i)	Which of the following is not a fee-based financial service? (b) Lease financing	1
	ii)	Discounting of bills of exchange is an attractive -----based financial service provided by the finance companies. (b) Fund	1
	iii)	A short-term lease which is often cancellable is known as (c) Operating Lease	1
	iv)	For a lesser, a lease is a (a) Investment decision	1
	v)	The features of hire purchase: (d) All of these	1
	vi)	Ownership of goods under hire purchase agreement is transferred at the time of: (c) Full & Final payment of last instalment	1
	vi)	The factor assumes credit risks associated with the ----- (a) Collection of accounts	1
	vi)	Discounting of bills of exchange is an attractive ----- based financial service provided by the finance companies. (b) Fund	1
	ix)	----- is a long term risk capital to finance high technology projects which involve risk but at same time has strong potential for growth. (a) Venture capital	1
	x)	Functions of a factor exclude. (a) Credit rating	1
Q.2	i.	Define Financial Market? <i>Services -</i>	2

		As per explanation	
	ii.	NBFCs are doing functions similar to banks. What is difference between banks & NBFCs? Meaning NBFC <i>as per</i> 1 Mark Differences <i>as per explanation on</i> 2 Mark	3
	iii	What is a Financial System? Describe the Structure and Functions of the Financial System. Meaning <i>7 types of services</i> 1 Mark Structure <i>1 & 5</i> 2 Mark Functions 2 Mark	5
OR	iv	Explain the various fund based and fee based financial services available in India. <i>2 1/2</i> <i>2 1/2</i> Proper Explanation 5 Mark	5
Q.3	i.	What kind of equipment can be leased? Evaluate leasing by highlighting its advantages & disadvantages? Kinds of Lease 1 Mark Advantages & Disadvantages 3 Mark	4
	ii.	What is Leasing? Elaborate the various types of Leasing. Meaning 1 Mark Types 5 Mark	6
OR	iii	Answer In operating leases, cash payments are sometimes different from year to year. However, unless some aspect of the lease or the leased property is different over time, the same amount of revenue and expense must be recognized in each year. In this lease, \$12,000 will be paid over a three-year period. Therefore, since there is no indication that the lease or the leased property is different during these years, a revenue should be recorded by the lessor and an expense should be recorded by the lessee of \$4,000 per year (\$12,000 total payment allocated over three years). (True)	6
Q.4	i.	What is hire purchase? Explain the features of hire purchase Meaning 2 Mark Features 2 Mark	4
	ii.	Briefly explain the framework of evaluation of a hire purchase transaction from the point of view : a) Hirer b) Finance Company	6

AA

		As per explanation																					
OR	iii	1) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$	6																				
		(2) Calculation of Interest and Cash Price																					
		<table border="1"> <thead> <tr> <th>No. of instalments</th><th>Amount due at the time of instalment</th><th>Interest</th><th>Cash price</th></tr> </thead> <tbody> <tr> <td>[1]</td><td>[2]</td><td>[3]</td><td>[4]</td></tr> <tr> <td>3rd</td><td>55,000</td><td>1/11 of 55,000 = 5,000</td><td>50,000</td></tr> <tr> <td>2nd</td><td>*99,000</td><td>1/11 of 99,000 = 9,000</td><td>90,000</td></tr> <tr> <td>1st</td><td>**1,43,000</td><td>1/11 of 1,43,000 = 13,000</td><td>1,30,000</td></tr> </tbody> </table> <p>Total cash price = ₹ 1,30,000 + 70,000 (down payment) = ₹ 2,00,000.</p> <p>* ₹ 50,000 + 2nd instalment of ₹ 49,000 = ₹ 99,000.</p> <p>** ₹ 90,000 + 1st instalment of ₹ 53,000 = ₹ 1,43,000.</p>	No. of instalments	Amount due at the time of instalment	Interest	Cash price	[1]	[2]	[3]	[4]	3rd	55,000	1/11 of 55,000 = 5,000	50,000	2nd	*99,000	1/11 of 99,000 = 9,000	90,000	1st	**1,43,000	1/11 of 1,43,000 = 13,000	1,30,000	
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Q.5	i.	How is Forfeiting advantageous? As per explanation	3																				
	ii.	Explain the term Factoring. What are the types of factoring?	7																				

		Meaning Types	2 Mark 5 Mark	
OR	iii	Distinguish between Factoring, Forfeiting & Bill Discounting? Meaning At least 5 differences	2 Mark 5 Mark	7
	Q.6			
	i.	Discuss the various stages of venture capital financing? As per explanation		5
	ii.	Elaborate the benefits of credit rating to investors, rated company, Intermediaries and business world? As per explanation		5
	iii	Write Short note on (any two): a) ICRA b) CRISIL c) CARE	2.5 Mark 2.5 Mark 2.5 Mark	5

Q-3

III

Financial Evaluation from lessors Point of view
solution

① calculation of cash out flow

cost of equipment - Tax Advantages

$$40000 - \text{NIL} = 40000 \text{ (cash outflow)}$$

② calculation After Tax Cash ~~out~~ inflow

• Lease Rental 15000

• Less: Dep 8000

→ EBT 7000

• Less: Tax @ 50% 3500

→ EAT 35000

• Add: Depreciation 8000

Cash inflow(AT) 11500

③ calculation of PV of cash outflow

Year	Cash Outflow	PV Discount Factor @ 12%	PV cash outflow (Rs)
0	40000	1	40000

④ calculation of PV cash INFLOW

1-5	11500	3.605	414575
-----	-------	-------	--------

⑤ calculation of NPV

PV cash Inflow - PV cash outflow

$$414575 - 40000$$

$$\text{NPV} = 14575 \text{ (NPV)}$$

NPV is Positive it is suggested to lease out the assets.

Q. 4

III

Aasho

① Ratio of Int. and Amount due

$$\text{Ratio of Int. and Amount due} = \frac{\text{Rate of Interest}}{100 + \text{Rate of Interest}}$$

$$= \frac{10}{110} = \frac{1}{11}$$

② calculation of Interest and Cash Price

1 No of Instalments	2 Amt due at the time of Instalment	3 Int	4 Cash Price
3 rd	55 ru	$\frac{1}{11}$ = 5000	50 ru
2 nd	99 ru	9000	90 ru
1 st	143 ru	743 ru	130 ru

$$\text{Total Cash Price} = 130 \text{ ru} + 70 \text{ ru} = 200 \text{ ru}$$

$$50 \text{ ru} + 2^{\text{nd}} \text{ Instalment of } 49 \text{ ru} = 99 \text{ ru}$$

$$90 \text{ ru} + 1^{\text{st}} \text{ Instalment of } 53 \text{ ru} = 143 \text{ ru}$$

∴ Total Cash Price is 200 ru/-