

2013

Office

[This question paper contains 4 printed pages.]

Sr. No. of Question Paper : 1633

Roll No.....

Unique Paper Code : 101401

Name of the Paper : Financial Services

Name of the Course : BFIA

Semester : IV

Duration : 3 Hours

Maximum Marks : 75



Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer All Questions.
3. Marks are indicated against the question.

1. Welsh Limited is faced with a decision to purchase or acquire on lease a mini car. The cost of the mini car is Rs. 1,54,852. It has a life of 5 years. The mini car can be obtained on lease by paying in advance equal lease rentals annually. The leasing company desires a return of 12% percent on the gross value of the asset. Welsh Limited can also obtain 100 percent finance from its regular banking channel. The annual rate of interest will be 18% percent and the loan will be paid in 5 annual equal installments, inclusive of interest, each instalment becoming due at the beginning of the year. The effective tax rate of the company is 40 percent. For the purpose of taxation, it is to be assumed that the asset will be written off over a period of 5 years on a straight line basis.

(a) Advise Welsh Limited about the method of acquiring the car.

P.T.O.

- (b) What should be the annual lease rental to be charged by the leasing company to match the loan option ? (15)

2. (i) Classify and justify the lease classification :

Option 1

Company Leasing has approached Company ABC to lease equipment from it for five years (non-cancelable lease). The annual payment would be \$20,000. The discount rate implied in the lessor's implied rate is 6%. Company ABC has an incremental borrowing rate of 7%. After the five-year period, the asset will be transferred to the lessor, which it will sell for scrap.

Option 2

Company L&R has also approached Company ABC to rent equipment from it. Under the term of the rental agreement, Company ABC will rent the equipment from Company L&R for an annual fee of \$20,000. This equipment has an estimated useful life of 10 years. (5)

- (ii) Explain pricing of a financial service. How a service like credit rating would be priced ? (10)

3. (i) Under an advance factoring arrangement First Factor limited (FFL) has agreed to advance a sum of Rs. 10m against the receivables purchased from HUL. The factoring agreement provides for an advance payment of 80% of the value factored receivables and for guaranteed payment after three months from the date of purchasing the receivables. The advance carries a rate of interest of 12% pa compounded quarterly and the factoring commission is 1% of the value of factored receivables. Both the interest and commission are collected up-front.

(a) Compute the amount actually made available to HUL.

(b) Calculate the effective cost of funds made available to HUL.

(4+4=8)

(ii) What is the significance of credit rating ? Explain the role of rating agency in modern era. (7)

4. (i) "Indian Financial Services are of Global standard". Do you agree ? Justify your statement. (6)

(ii) ABX finance offers a hire purchase plan for its corporate borrowers on the following terms :

Rate of interest	10% flat
Repayment period	4 years
Frequency of payment	monthly in arrear
Down Payment	20%

(a) Calculate the effective rate of interest pa using (i) the trial and error approach and (ii) the approximation formula. (4+2=6)

(b) If the hirer decides to make the final payment at the end of 30th installment, decide the amount of payment after rebate. (3)

5. Distinguish between the followings (**any six**) :

(a) Dry lease Vs Wet Lease

(b) Import lease Vs Cross boarder lease

(c) Flat rate Vs Effective rate

(d) Compounding rate Vs Discounting rate

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- (e) Fund based services Vs Fee based services
- (f) Credit Rating Vs Credit Ranking
- (g) Deposit Linked Plan Vs Down payment Plan

(6×2.5=15)

(100)