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# SCANNER™ Appendix

CS Final (Old Course)

Gr.-II Dec - 2009

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## PAPER'S

### Paper - 4 : Financial, Treasury and Forex Management

#### Chapter - 1 : Nature and Scope of Financial Management

2009 - Dec [1] {C} (a) Comment on the following :

- (i) Economic value added represents real profit.
  - (iv) There is a conflict of goals between management and owners.
- (5 marks each)

#### Chapter - 2 : Capital Budgeting Decisions

2009 - Dec [5] (a) A company is considering two mutually exclusive projects. The company uses certainty equivalent approach. Estimated cash flows and certainty equivalents for each project are as follows :

Year	<u>Project-1</u>		<u>Project-2</u>	
	Cash Flow	Certainty Equivalent	Cash Flow	Certainty Equivalent
0	-30,000	1.00	-40,000	1.00
1	15,000	0.95	25,000	0.90
2	15,000	0.85	20,000	0.80
3	10,000	0.70	15,000	0.70
4	10,000	0.65	10,000	0.60

Which project should be accepted, if the risk-free discount rate is 15% ?

(10 marks)

2009 - Dec [7] Asin Ltd. manufactures a special chemical. It is thinking of replacing its existing machine by a new machine, which would cost Rs.25 lakh. The company's current production is 80,000 units, and if the new machine is

bought, it is expected to increase to 1,00,000 units. The selling price of the product would remain unchanged at Rs. 80 per unit. The following is the cost of producing one unit of the product using both the existing and new machines :

	<i>Cost Per Unit (Rs.)</i>		
	<i>Existing Machine (80,000 units)</i>	<i>New Machine (1,00,000 units)</i>	<i>Difference</i>
Material	30.0	25.5	(4.5)
Wages and salaries	20.5	15.0	(5.5)
Supervision	8.0	10.0	2.0
Repairs	4.5	3.0	(1.5)
Power and fuel	6.2	5.7	(0.5)
Depreciation	0.1	2.0	1.9
Allocated corporate overheads	<u>4.0</u>	<u>5.0</u>	<u>1.0</u>
	<u>73.3</u>	<u>66.2</u>	<u>(7.1)</u>

The existing machine has an accounting book value of Rs.40,000, and it is fully depreciated for tax purposes. It has remaining economic life of 5 years. The supplier of the new machine has offered to accept the old machine in exchange for Rs.1,00,000. However, the market price of the old machine today is Rs.60,000 and Rs. 15,000 after 5 years. New machine has a life of 5 years and a salvage value of Rs.1,00,000 at the end of its economic life. Tax rate is 30% and WDV depreciation rate is 25%. The after-tax required rate of return is 20%. Decide whether new machine should be purchased. (20 marks)

### Chapter - 3 : Capital Structure

**2009 - Dec [2]** (a) Priyanka Ltd. intends to establish a warehouse so as to exploit the present market situation. The initial cost of project is expected to be Rs. 30 lakh and the life of such warehouse will be 5 years. The funds will be provided by the business house, required to be repaid over a period of 5 years at an interest rate of 15% per annum. The operating cost is estimated at Rs. 6 lakh in the first year and is expected to increase at the rate of Rs.50,000 every year.

It is proposed to fix storage charges rate in such a way that income over a period of five years covers the initial investment of Rs.30 lakh as well as the operating cost.

The occupancy of the warehouse is expected to be 9,000 MT in the initial year and will increase by 250 MT in each of the following year.

You are required to find out storage rate to be charged per MT/month so as to break-even in this project. Ignore income-tax. Residual value of the project is estimated to be Rs. 3,60,000. (10 marks)

**2009 - Dec [3]** (a) Business India Ltd. requires Rs. 12 lakh to support its increased volume of activities. Presently, its earnings before interest and tax amount to Rs. 2 lakh. The General Manager (Finance) of the organisation has forwarded three proposals for meeting the requirement of these funds :

<i>Source of Funds</i>	<i>Proposal-I</i>	<i>Proposal-II</i>	<i>Proposal-III</i>
Equity capital	10,00,000	6,00,000	2,00,000
Debt	2,00,000	6,00,000	10,00,000
Interest slab applicable to loan is as under :			
Loan upto Rs. 2,50,000	10% p.a.		
Loan from Rs. 2,50,001 to Rs. 6,25,000	14% p.a.		
Loan from Rs. 6,25,001 to Rs. 10,00,000	16% p.a.		
Tax rate	35%		

The market price of a share of the company is Rs.40 which is expected to come down to Rs.25 a share, if the market borrowings exceeds Rs.7,50,000.

From among the above proposals, you are required to suggest the most profitable proposal from shareholders' view point. (10 marks)

(b) Royal Ltd. is an all equity financed company with a market value of Rs.35 lakh and cost of equity ( $K_e$ ) = 20%. The company wants to buy-back equity shares worth Rs. 8 lakh by issuing and raising 10% perpetual debt of the same amount. Rate of tax may be taken as 35%. Applying the MM model (with taxes), how would the capital restructuring affect the following :

- (i) Market value of Royal Ltd. (2 marks)
- (ii) Cost of equity ( $K_e$ ). (4 marks)
- (iii) Weighted Average Cost of Capital (WACC) of the company. (4 marks)

**2009 - Dec [4]** Differentiate between of the following :

- (i) 'Financial leverage' and 'operating leverage'. (5 marks)

**Chapter - 6 : Working Capital Management and Control**

**2009 - Dec [1] {C}** (a) Comment on the following :

- (iii) Current asset policy and current asset financing reflect working capital policy.
- (v) The concept of Economic Order Quantity (EOQ) is losing its importance for the companies managing their business strategically. (5 marks each)

**2009 - Dec [2]** (b) Ash Ltd. follows collection policy as detailed below :

- (i) 10% of the sales is collected in the same month.
- (ii) 20% of the sales is collected in the 2<sup>nd</sup> month.
- (iii) 40% of the sales is collected in the 3<sup>rd</sup> month.
- (iv) 30% of the sales is collected in the 4<sup>th</sup> month.

Sales of the company for the first three quarters of the year are as follows:

<i>Month of Quarter</i>	<i>Quarter-I</i>	<i>Quarter-II</i>	<i>Quarter-III</i>
1	15,000	7,500	22,500
2	15,000	15,000	15,000
3	<u>15,000</u>	<u>22,500</u>	<u>7,500</u>
Total	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>
No. of working days	90	90	90

You are required to work out average age of receivables. (10 marks)

**Chapter - 7 : Security Analysis and Portfolio Management**

**2009 - Dec [4]** Differentiate between of the following :

- (ii) 'Markowitz model' and 'Sharpe index model'. (5 marks)

**2009 - Dec [6]** Write notes on the following :

- (i) Semi-strong efficient market.  
(iii) Assumptions of technical analysis. (5 marks each)

**Chapter - 8 : Financial Services**

**2009 - Dec [4]** Differentiate between of the following :

- (iii) 'Immobilisation' and 'dematerialisation'. (5 marks)

**Chapter - 9 : Project Planning and Control**

**2009 - Dec [6]** Write notes on the following :

- (v) Project implementation. (5 marks)

**Chapter - 10 : Derivatives**

**2009 - Dec [1] {C}** (a) Comment on the following :

- (ii) Sensex is a barometer to economic progress of a nation. (5 marks)

**2009 - Dec [4]** Differentiate between of the following :

- (iv) 'Hedging' and 'speculation'.  
(v) 'Forward' and 'futures'. (5 marks each)

**2009 - Dec [5]** (b) A share of Deepika Ltd. is currently selling for Rs.120. There are two possible prices of the share after one year—Rs.132 or Rs.105. Assume that risk-free rate of return is 9% per annum. What is the value of a one-year call option (European) with an exercise price of Rs.125? (5 marks)

**Chapter - 11 : Treasury Management**

**2009 - Dec [6]** Write notes on the following :

- (iv) Objectives of treasury management. (5 marks)

**Chapter - 12 : Forex Management**

**2009 - Dec [5]** (c) Presently, one US \$ is worth 140 Japanese Yen in the spot market. The interest rate in Japan on 90 days government securities is 4% per annum. If the interest rate parity theorem holds true and 3-month forward rate is 138 Yen per US \$ what is the implied interest rate in USA ? If the actual interest rate is 7% per annum in USA, what action would follow ?

(5 marks)

**2009 - Dec [6]** Write notes on the following :

- (ii) Capital account convertibility. (5 marks)

<b>Paper - 5 : Corporate Restructuring Law and Practice</b>
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**Chapter - 1 : Introduction**

**2009 - Dec [5]** (a) "Mergers and amalgamations are not only means of corporate growth, but are an alternative to organic growth." Comment.

(8 marks)

**2009 - Dec [8]** Write notes on the following :

- (v) Internal reconstruction. (4 marks)

**Chapter - 2 : Strategies**

**2009 - Dec [8]** Write notes on the following :

- (iv) Strategic planning (4 marks)

**Chapter - 3 : Mergers and Amalgamations**

**2009 - Dec [1] {C}** (a) Explain, with reference to judicial precedents, whether in the scheme of arrangement by way of amalgamation, High Court, while sanctioning the scheme, can change/modify — (i) the appointed date; and (ii) the share exchange ratio fixed by the Board of directors and approved by the stakeholders. (6 marks)

**2009 - Dec [2]** (a) Speed Call Ltd. and Clear Call Ltd. are two listed companies engaged in the business of telecommunication. The companies are not making profit and hence market prices of their shares have gone down. A substantial portion of their share capital is held by the Central Government as well as some public financial corporations. The Central Government wants to amalgamate the aforesaid two companies into a single company. Examine the powers of the Central Government to amalgamate the two companies in public interest as per the provisions of the Companies Act, 1956. (8 marks)

(b) Arrow Ltd. was merged with Horizon Ltd. under a scheme of amalgamation. Some workers of Arrow Ltd. refused to join as workers of Horizon Ltd. and claimed compensation on the ground of premature termination of their services. Horizon Ltd. resists the claim of the workers on the ground that their services have been transferred to Horizon Ltd. in view of the order of amalgamation and merger and hence the workers must join the services of Horizon Ltd. and cannot claim any compensation. Decide on the basis of legal provisions and decided cases(s), if any, whether the contention of the workers is justified. (8 marks)

**2009 - Dec [3]** (a) Distinguish between 'statement' under section 393(1) and 'explanatory statement' under section 173. (4 marks)

(b) At the court convened meeting of the secured creditors for approval of the proposed scheme of arrangement, out of 3 secured creditors, 2 secured creditors voted in favour of the proposed scheme of arrangement and objections were raised by one of the secured creditors that the company (petitioner) has failed to disclose the material facts in the 'statement' under section 393 (1) and in the petition under sections 391-393. The petitioner company sought sanction of the scheme of arrangement with secured creditors of the company contending that since the company was incurring loss, it was not to repay the debts due to the secured creditors. Examine the objection and its maintainability. (4 marks)

**2009 - Dec [4]** Attempt the following citing relevant provisions of law and judicial pronouncements :

- (i) Whether a transfer of immovable property under a scheme of arrangement attracts stamp duty ?
- (ii) Can one of the member of the creditors seek re-classification and postponement of class meeting ?
- (iii) Whether the court can do the valuation of shares on its own in the scheme of amalgamation ?
- (iv) What are the consequences if the order made by High Court under section 394 is not duly stamped ? (4 marks each)

**2009 - Dec [6]** (a) What is the procedure to be followed for variation of rights of shareholders ? (8 marks)

**2009 - Dec [8]** Write notes on the following :

- (iii) Compromise and arrangements (4 marks)

#### **Chapter - 4 : Takeovers**

**2009 - Dec [5]** (b) what do you mean by the term 'takeover' ? What are the objectives which takeover seeks to achieve ? Briefly state how the takeover of a listed company is regulated in India. (8 marks)

**2009 - Dec [6]** (b) What are the contents and disclosures required to be made in a public announcement to be given in the newspaper by the acquire under the SEBI Takeover Code ? (8 marks)

#### **Chapter - 7 : Valuation of Shares and Business**

**2009 - Dec [7]** Explain the following :

- (i) Eligibility to participate in Employees' Stock Option Scheme (ESOS).
- (ii) Pricing under ESOS. (4 marks each)

**2009 - Dec [8]** Write notes on the following :

- (i) Valuation of shares (4 marks)

#### **Chapter - 8 : Corporate Demergers/Splits and Divisions**

**2009 - Dec [7]** Explain the following :

- (v) Various modes of demerger. (4 marks)

**Chapter - 10 : Financial Restructuring****2009 - Dec [8]** Write notes on the following :

- (ii) Financial restructuring in the context of over-capitalised and under-capitalised companies (4 marks)

**Chapter - 11 : Alliances****2009 - Dec [7]** Explain the following :

- (iii) Different type of strategic alliances.
- (iv) Factors to be kept in mind while managing an alliance. (4 marks each)

**Chapter - 12 : Legal Documentation****2009 - Dec [3](c)** Draft the explanatory statement required to be annexed with the resolution for preferential allotment of shares to the promoters, their relatives and associates by a listed company. (8 marks)**Chapter - 14 : Objective Questions****2009 - Dec [1](b)** State, briefly citing relevant provisions of the law, whether the following statements are correct or incorrect :

- (i) In case of transfer/sale of undertaking, compliance of section 293(1) (a) is a must.
- (ii) Separate petition for amalgamation needs to be filed by the transferee company even when the transferor company (100% subsidiary of transferee company) has already filed the petition.
- (iii) SEBI Takeover Code is not applicable to any arrangement or reconstruction including amalgamation or merger or demerger under any Indian/foreign law or regulation.
- (iv) The court has power to order winding-up of a company while considering its scheme of arrangement .
- (v) Buy- back of shares can be a part of scheme of arrangement.
- (vi) Unsecured creditors who may have filed suits or obtained decrees shall be deemed to be of the same class as of other unsecured creditors.
- (vii) Debentureholders enjoy different position as compared to secured creditors in a scheme of amalgamation. (2 marks each)

**Paper - 6 : Banking and Insurance Law and Practice****Chapter - 1 : Introduction to Banking****2009 - Dec [4]** (b) Illustrate nature of complaints considered by the Banking Ombudsman. (3 marks)**Chapter - 2 : Relationship between Banker and Customer****2009 - Dec [2]** Attempt the following :

- (ii) List the documents required by banks as per the know your customer (KYC) norms while opening accounts of companies.

- (iii) "Bank acts as a trustee to its customers." Elaborate. (5 marks each)

**Chapter - 3 : Law and Procedure Governing Banking Instruments**

**2009 - Dec [3]** Attempt the following :

- (i) Discuss the effects of 'account payee' crossing and 'not negotiable' crossing of a cheque. (5 marks each)
- (iv) List out the parties involved in a 'letter of credit' and also state their roles and responsibilities. (5 marks each)

**2009 - Dec [4]** (c) "For a cheque payable to order purport to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course." Comment. (3 marks)

(e) Distinguish between 'demand bill' and 'usance bill'. (3 marks)

**Chapter - 4 : Management of Assets and Liabilities**

**2009 - Dec [2]** Attempt the following :

- (i) "Effective and efficient management of advances portfolio is the key to successful banking." Comment. (5 marks)

**2009 - Dec [3]** Attempt the following :

- (ii) Give a brief account of asset-liability management process in banking.
- (iii) What is the role of treasury management department of a bank with respect to its own funds management ? (5 marks each)

**Chapter - 5 : Lending Policies**

**2009 - Dec [4]** (d) Differentiate between 'pledge' and 'hypothecation'. (3 marks)

**Chapter - 6 : Development Banking**

**2009 - Dec [2]** Attempt the following :

- (iv) What are the various constituents of financial markets ? How are these regulated ? (5 marks)

**Chapter - 9 : Banking Sector Reforms in India**

**2009 - Dec [4]** (a) Write a short note on State co-operative banks set-up in India. (3 marks)

**Chapter - 10 : Risk and Insurance**

**2009 - Dec [5]{C}** (c) Distinguish between the following :

- (ii) 'Morale hazard' and 'moral hazard'. (2 marks)

**Chapter - 11 : Insurance - Meaning, Nature and Significance**

**2009 - Dec [8]** Write short notes on the following :

- (vi) Accounting standards for insurance companies. (3 marks)

**Chapter - 12 : Life Insurance**

**2009 - Dec [5]{C}** (a) Diwan takes out an insurance policy on his wife's life and later gets a divorce. Is he entitled to the proceeds of the insurance policy upon the death of his former wife ? Give reasons in support of your answer. (2 marks)



(c) Distinguish between the following :

- (i) 'Term plan' and 'endowment plan'. (2 marks)

**2009 - Dec [6]** Attempt the following :

- (iii) What is convertible term insurance plan ? At what period of time the option of conversion can be exercised? (5 marks)

**2009 - Dec [7]** Attempt the following :

- (i) What are the demographic assumptions needed in pricing an insurance product ? (5 marks)

**2009 - Dec [8]** Write short notes on the following :

- (i) Nominee in case of death of an insured. (3 marks)

**Chapter - 13 : General Insurance**

**2009 - Dec [5]{C}** (b) Anup sells his house to Naresh and a fire occurs before the insurance on the house is cancelled. Can Anup claim the insurance amount? Give reasons in support of your answer. (2 marks)

**2009 - Dec [6]** Attempt the following :

- (iv) What are five major exclusions under the cover of the standard fire and special perils policy ? (5 marks)

**Chapter - 14 : Accident and Motor Insurance**

**2009 - Dec [5]{C}** (c) Distinguish between the following :

- (iii) 'Third party policy' and 'comprehensive policy'. (2 marks)

**2009 - Dec [7]** Attempt the following :

- (iii) State the provisions related to filing of compensation suits under the motor vehicle insurance. (5 marks)

**2009 - Dec [8]** Write short notes on the following :

- (ii) Underlying principles of motor vehicle insurance policies (3 marks)

**Chapter - 15 : Deposit and Credit Insurance**

**2009 - Dec [6]** Attempt the following :

- (i) What coverage is available under the public liability insurance policy? What other add on benefits can be taken by paying additional premium? (5 marks)

**2009 - Dec [7]** Attempt the following :

- (iv) Explain 'credit derivatives' with few examples. (5 marks)

**Chapter - 18 : Risk Management**

**2009 - Dec [6]** Attempt the following :

- (ii) "The first function of a risk manager is to identify all pure loss exposures." Explain. (5 marks)

**2009 - Dec [8]** Write short notes on the following :

- (iv) Risk management insurance (3 marks)

**Chapter - 19 : Insurance Surveyorship****2009 - Dec [7]** Attempt the following :

- (ii) State the role of claim examiners in life and health insurance business. (5 marks)

**2009 - Dec [8]** Write short notes on the following :

- (v) Licensing of surveyors and loss assessors (3 marks)

**Chapter - 20 : Company Secretary vis-a-vis Insurance****2009 - Dec [8]** Write short notes on the following :

- (iii) E-insurance (3 marks)

**Chapter - 21 : Objective Questions****2009 - Dec [1] {C}** (a) Name the apex institution in the following areas :

- (i) Agriculture and rural development
- (ii) Export sector
- (iii) Housing sector
- (iv) Depository services
- (v) Currency note printing. (1 mark each)

(b) Choose the most appropriate answer from the given options in respect of the following :

- (i) Prime leading rate is determined by—
  - (a) RBI
  - (b) Each bank
  - (c) The Finance Minister, Govt. of India
  - (d) Money market.
- (ii) Repo rate is prescribed by the Reserve Bank of India in—
  - (a) Credit and monetary policy
  - (b) Economic survey
  - (c) Annual budget
  - (d) Annual general meeting.
- (iii) Foreign exchange reserves consist of—
  - (a) Gold
  - (b) Foreign currency assets
  - (c) Special Drawing Rights (SDRs)
  - (d) All of the above.
- (iv) Money at call and at short notice in India are granted—
  - (a) To Bill Brokers
  - (b) To Stock Brokers
  - (c) By one bank to another
  - (d) By RBI to the government.
- (v) Focus of Narasimhan Committee-II has been on reforms in—
  - (a) Corporate sector
  - (b) Financial sector

- (c) Banking sector  
(d) Infrastructure sector. (1 mark each)
- (c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :
- (i) \_\_\_\_\_stamps are affixed on printed forms, like hypothecation deed, pledge agreement, letter of guarantee, etc.
- (ii) \_\_\_\_\_are permitted to raise capital through the issue of GDRs or ADRs within the limits prescribed for FDI by the Government of India.
- (iii) \_\_\_\_\_is risk capital supplied to high technology growing companies particularly in the form of equity participation.
- (iv) Rural banking institutions under the Banking Regulation Act, 1949 are regulated by \_\_\_\_\_.
- (v) The current Cash Reserve Ratio (CRR) prescribed by the Reserve Bank of India is \_\_\_\_\_. (1 mark each)
- (d) State with reasons in brief, whether the following statements are correct or incorrect :
- (i) Every cheque is a bill of exchange.
- (ii) Rate of interest charged by banking companies is subject to scrutiny by courts.
- (iii) Co-operative banks function within a given area.
- (iv) The banker's lien is not barred by the limitation laws.
- (v) An increase in Statutory Liquidity Ratio (SLR) by the Reserve Bank of India increases liquidity of the commercial banks. (1 mark each)
- 2009 - Dec [5]{C}** (d) State, with reasons in brief whether the following statements are correct or incorrect :
- (i) Self-insurance is the same as insurance.
- (ii) Liability can be insured.
- (iii) Marine insurance is crowned as mother of all insurances.
- (iv) An insurance company can predict events more accurately if the frequency of occurrence is high.
- (v) Insurable interest and principle of utmost good faith are applicable to the life insurance contract.
- (vi) With respect to credit insurance and claim, the protracted default occurs within 90 days from the original due date. (1 mark each)
- (e) Choose the most appropriate answer from the given options in respect of the following :
- (i) IRDA had categorised the licensing of surveyors into—
- (a) One category
- (b) Two categories
- (c) Three categories
- (d) Four categories.

- (ii) Those who primarily plan and schedule the work required to process a claim are—
- (a) Claim examiners
  - (b) Claim adjustors
  - (c) Insurance agents
  - (d) Insurance companies.
- (iii) The minimum paid-up equity capital required for registration to carry on business of life insurance or general insurance is—
- (a) Rs.100 crore
  - (b) Rs.200 crore
  - (c) Rs.500 crore
  - (d) Rs.1,000 crore.
- (iv) As per IRDA norms, for fire insurance business what percentage of the amount of premium, net of re-insurance, received or receivable during the preceding twelve months is required to be set aside towards reserve for unexpired risk—
- (a) 50%
  - (b) 100%
  - (c) 20%
  - (d) None of the above.
- (1 mark each)

**Shuchita Prakashan (P) Ltd.**

25/19, L.I.C. Colony, Tagore Town,  
Allahabad - 211002

Visit us : [www.shuchita.com](http://www.shuchita.com)

