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SCANNER™ Appendix

CS Professional Programme
Module-II Dec - 2009

INDEX

PAPER'S

Paper - 3 : Financial, Treasury and Fores Management

Chapter - 1 : Nature and Scope of Financial Management

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

(i) Financial sector acts as conduit for the transfer of financial resources from net savers to net borrowers. (5 marks)

2009 - Dec [4] (a) Distinguish between the following :

(iii) 'Business risk' and 'financial risk'. (5 marks)

Chapter - 2 : Capital Budgeting Decisions

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

(ii) Under capital rationing, the standard net present value (NPV) decision rule no longer holds true. (5 marks)

2009 - Dec [5] Alfa Ltd. is in the business of manufacturing bearings. Some more product lines are being planned to be added to the existing system. To manufacture the planned product lines, the firm needs a machine which if purchased outright will cost Rs. 10,00,000. Modern Hire-Purchase and Leasing Co. has offered two proposals as below:

Proposal - I (Hire-Purchase)

Rs. 2,50,000 will be payable on signing of the agreement. Three annual installments of Rs. 4,00,000 will be payable at the end of each year starting from year first. The ownership of the machine will be transferred automatically at the end of third year. The company will be able to claim depreciation on straight line basis with zero salvage value.

Proposal - II (Lease)
Rs. 20,000 will be payable towards initial service fee upon signing of the agreement which is tax-deductible expense. Annual lease rental of Rs. 4,32,000 is payable at the end of each year starting from the first year for a period of three years.
Evaluate the above two proposals and advise the company as to which proposal implies lesser cost given that tax-rate is 35% and discount rate is 20%. (*Calculations may be rounded off to Rupee*.) (20 marks)

Chapter - 3 : Capital Structure Decision

2009 - Dec [2] (c) Monark Ltd . is considering two alternative financial plans to start a new project. In Plan-I, it is likely to issue equity shares of Rs.16 lakh and 13% preference capital of Rs. 4 lakh. In Plan-II, the company will issue equity shares of Rs. 8 Lakh, 13% preference capital of Rs. 4 lakh, and 15% debentures of Rs. 8 lakh. The face value of equity shares in both plans is Rs. 10. Tax rate is 30%.
You are required to determine level of EBIT at which the EPS would be same under both the plans. (4 marks)

2009 - Dec [7] Write notes on the following :
(iii) Optimal capital structure (5 marks)

Chapter - 4 : Sources of Finance

2009 -Dec [1] {C} Comment on the following:
(iv) Apart from the retention of profits and capitalising the accumulated earnings, the bonus shares serve several other objectives. (5 marks)

2009 - Dec [7] Write notes on the following :
(iv) Financing cost escalation (5 marks)

Chapter - 5 : Dividend Policy

2009 - Dec [7] Write notes on the following :
(ii) Factors affecting dividend policy of a firm (5 marks)

Chapter - 6 : Working Capital Management and Control

2009 -Dec [1] {C} Comment on the following:
(iii) Most businesses need cash funds to meet contingencies. (5 marks)

2009 - Dec [2] (a) Mona Machines Ltd. has provided you the following information for the year 2008:

Production for the year	...	69,000 units
Finished goods in store	...	Average 3 months
Raw materials in store	...	Average 2 months' consumption
Work-in progress (assume 50% completion stage with full material consumption)	...	Average 1 month
Credit allowed by creditors	...	Average 2 months

Credit given to debtors (assume at selling price	... Average 3 months
Selling price per unit	... Rs. 50
Raw material cost	... 50 % of selling price
Direct wages	... 10% of selling price
Overheads	... 20% of selling price

Company keeps Rs. 1,00,000 in cash. There is regular production and sale cycle, and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of production cycle. You are required to calculate working capital requirement of Mona Machines Ltd. (10 marks)

2009 - Dec [3] (a) Vaibhav Ltd. is engaged in manufacturing of machines used in construction. It is considering the possibility of purchasing from a supplier a component it now makes. A supplier has agreed to supply the component in the required quantities at a unit price of Rs. 18. The transportation and insurance charges are Re.1 per unit.

Presently, the company produces the component from a single raw material in economic lots. of 3,000 units at a cost of Rs. 4 per unit. The average annual demand is 40,000 units. The annual holding cost for company is Re.0.50 per unit and it has set a minimum stock level of 800 units. The direct labour costs of the component are Rs. 12 pre unit . The company also hires a machine at a rate of Rs. 400 per month on which the components are produced . Suggest whether the company should produce or procure the component. (14 marks)

2009 - Dec [6] (b) Following facts are available for Astro Ltd. :

(i) Cash turnover rate is 5;

(ii) Annual cash outflow is Rs. 1,75,000; and

(iii) Accounts payable can be stretched by 12 days.

What would be the effect of stretching accounts payable on the minimum operating cash requirements ? If the firm can earn 10% on its investments, what would be the savings on cost ? (*Assume 360 days in a year*.) (6 marks)

Chapter - 7 : Security Analysis and Portfolio Management

2009 - Dec [4] (a) Distinguish between the following :

(iv) 'Efficient portfolio' and 'optimal portfolio'. (5 marks)

2009 - Dec [6] (a) The following data is related to Raman Ltd. :

Year	*Raman Ltd. Average Share Price*	*Dividend Per Share*	*Nifty Average Index*	*Nifty Dividend Yield*	*Return on Government Stock*
3	278	14	2,600	4%	8%
2	294	17	2,990	6%	10%
1	326	18	3,040	6.5%	9%
Current	370	20	3,280	6.5%	9%

Calculate —

(i) Expected return on shares of Raman Ltd.; and

(ii) Beta (β) value using Capital Asset Pricing Model (CAPM).(14 marks)

Chapter - 8 : Financial Services

2009 - Dec [4] (a) Distinguish between the following :

(i) 'Factoring' and 'bill discounting'.

(ii) 'Operating lease' and 'finance lease'. (5 marks each)

2009 - Dec [7] Write notes on the following :

(i) Financial instruments used for venture financing (5 marks)

Chapter - 9 : Project Planning and Control

2009 - Dec [7] Write notes on the following :

(v) Domestic resource cost. (5 marks)

Chapter - 12 : Forex Management

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

(v) Foreign exchange risk can be managed both internally and externally.

(5 marks)

2009 - Dec [2](b) Silver Oak Ltd, an Indian company, is mainly engaged in international trade with US and UK. It is currently 1st January. It will have to make a payment of $7,29,794 in the coming six months time. The company is presently considering the various alternatives in order to hedge its transactional exposure through its London office. The following information is available;

Exchange Rates :

$/£ Spot rate	:	1.5617–1.5773
6-month $ forward rate	:	1.5455–1.5609

Money Market Rates	*Borrow*	*Deposit*
	(%)	(%)
US Dollar	6	4.5
Sterling	7	5.5

Foreign currency option prices (Cents per £ for contract size £ 12, 500) :

Exercise Price	*Call Option (June)*	*Put Option (June)*
$1.70/£	3.7	9.6

Suggest which of the following hedging option is the most suitable for Silver Oak Ltd:

(i) Forward exchange contract

(ii) Money market

(iii) Currency option. (6 marks)

2009 - Dec [3](b) Two companies Rita Ltd. and Gita Ltd. are considering to enter into a swap agreement with each other. Their corresponding borrowing rates are as follows:

Name of Company	*Floating Rate*	*Fixed Rate*
Rita Ltd.	LIBOR	11%
Gita Ltd.	LIBOR+0.3%	12.5%

Rita Ltd. requires a floating rate loan £8 million while Gita Ltd. requires a fixed rate loan of £ 8 million.

(i) Show which company had advantage in floating rate loans and which company has a comparative advantage in fixed loans.

(ii) If Rita Ltd. and Gita Ltd. engage in a swap agreement and the benefits of the swap are equally split, at what rate will Rita Ltd. be able to obtain floating finance and Gita Ltd. be able to obtain fixed rate finance? Ignore bank charges. (6 marks)

2009 - Dec [4] (a) Distinguish between the following :

(v) 'Translation risk' and 'transaction risk'. (5 marks)

Paper - 4 : Corporate Restructuring and Insolvency

Chapter - 1 : Introduction

2009 - Dec [2] (a) "Section 391 is a boon to the corporate restructuring". Critically examine the statement and discuss the relevant provisions relating to corporate restructuring. (8 marks)

Chapter - 2 : Strategies

2009 - Dec [1] (d) Grow Well Ltd. wants to adopt strategic planning to ensure its growth in the present day highly competitive scenario. As part of the management team, you are assigned with the role of highlighting the essential features such a planning should have. Suggest the features which you consider are vital for any strategic planning. (4 marks)

Chapter - 3 : Mergers and Amalgamations

2009 - Dec [2](b) Will the court sanction a scheme of amalgamation where companies to the scheme tend to reshuffle their objects clause in the memorandum of association? Support your answer with case law. (4 marks)

2009 - Dec [3] (a) Whether in a scheme of arrangement the meeting of shareholders and creditors can be dispensed with ? Supplement your answer with the help of case law. (4 marks)

(c) Explain whether the transferee company is required to increase its authorised share capital by following the procedure laid down in the Companies Act, 1956 even though after amalgamation its authorised share capital is sufficient to issue shares to the shareholders of transferor company. (4 marks)

(d) Briefly state whether permission of the Reserve Bank of India is necessary for the compromise and arrangement of non-banking finance company (NBFC) with a bank. (3 marks)

2009 - Dec [5] (b) Gopal has acquired shares in Aadil Ltd., but he is yet to be registered as a member. He has made an application to the court for modification in the scheme proposed under section 391. Is he entitled under the Companies Act, 1956 to move such an application ? (4 marks)

Chapter - 4 : Takeovers

2009 - Dec [2] (c) Relax Movies Ltd. is going for takeover of another company. Your advice is sought whether the company has to go for mandatory bidding . Advise with reference to the SEBI (Substantial Acquisition of Shares and Takeovers) Regulation, 1997. (3 marks)

2009 - Dec [3] (b) Whether non-compliance with the disclosure and related requirement is a violation of the SEBI Takeover Code ? Give your answer by referring to case law. (4 marks)

2009 - Dec [4](b) Draft a suitable Board resolution with respect to takeover for the following :

(i) Appointment of a merchant banker.

(ii) Opening of an Escrow account. (3 marks each)

2009 - Dec [5] (a) What are the safeguards incorporated in takeover process so as to ensure that shareholders get their payments under the offer or receive back their share certificates ? (4 marks)

Chapter - 5 : Funding of Mergers and Takeovers

2009 - Dec [1] (b) Distinguish between 'management buy-out' and 'management buy-in'. (3 marks)

2009 - Dec [4] (a) Discuss 'funding through rehabilitation finance' as a source of funds for mergers/takeovers. (6 marks)

(c) Can shareholders seek an amendment to the swap ratio in the scheme of merger ? Supplement your answer by referring to case law. (3 marks)

Chapter - 9 : Financial Restructuring

2009 - Dec [1] (c) A company whose shares were listed on a stock exchange for 3 months as on the relevant date made preferential allotment at Rs. 100 per share. On completing the period of 6 months of being listed on the stock exchange, the company recomputed the share price based on the guidelines issued by SEBI in this respect and price of share so recomputed came to Rs. 150 per share. The company demanded additional amount of Rs. 50 per share from the allottees of shares. Is the action of the company justified ? Give reasons. (4 marks)

2009 - Dec [5] (c) The capital structure of Johar Ltd. is as follows :

— 5 lakh equity shares of Rs. 10 each fully paid-up

— 10 lakh equity shares of Rs. 10 each on which Rs. 5 is paid-up.

— Free reserves of Rs. 3 crore.

The Board of directors of the company has passed a resolution authorising the buy-back of shares worth Rs. 40 lakh for the financial year 2009-10. Is the Board of directors empowered to do so ? Give reasons. (4 marks)

Chapter - 10 : Revival and Restructuring of Sick Companies

2009 - Dec [6] (c) Amir Bank has issued a bank guarantee for and on behalf of Madhuri Ltd., an industrial company in connection with loans granted to the company. The company became sick. While the proceedings before Board for Financial and Industrial Reconstruction (BIFR) is going on, the beneficiary of the bank guarantee invoked it and demanded payment from Amir Bank. The bank has sought your expert opinion in the matter. Give your opinion based on legal provisions and judicial decisions. (5 marks)

2009 - Dec [7] (a) Explain the role of BIFR and the concerned High Court in winding-up of a sick industrial company mentioning the relevant provisions of the law and judicial decision(s). (5 marks)

Chapter - 13 : Securitization and Debt Recovery

2009 - Dec [5] (d) Abhay Ltd. has filed a petition before the High Court of Bombay for sanction of a scheme of amalgamation with Gel Well Ltd., and the petition is posted for hearing to Monday, the 8th March, 2010. The court has ordered to serve notice of the hearing of the petition on the creditors. As the Company Secretary of Abhay Ltd., draft the notice. (3 marks)

2009 - Dec [6] (a) Laxmi Bank Ltd. has approached you for your professional advice about the rights available to it for enforcing the security interest under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. Highlight the rights and the advantages to the bank by resorting to that mode of recovery citing the relevant provisions of said Act. (5 marks)

(b) Kuber Bank Ltd. has obtained a decree from a civil court to recover an amount of Rs. 20 lakh with 12% interest and the court has allowed it to proceed against ‘the commercial building given as security for the loan. Can the decree be treated as a debt under the SARFAESI Act, 2002 ? Cite the relevant provisions of law in support of your answer. (5 marks)

2009 - Dec [7] (c) Recovery Officer under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 has issued an order and the defendant wants to challenge the order. What will be your advice to the defendant based on the relevant provisions in the Act? (5 marks)

2009 - Dec [8] (b) Debt Recovery Tribunal (DRT) has passed an interim order attaching the property of the defendant. The defendant wants to challenge this order on the ground that DRT has no power to pass interim orders. Explain the legal provisions in this regard. (5 marks)

Chapter - 14 : Winding-Up

2009 - Dec [7] (b) There was an agreement between a company having its registered office at Delhi with its creditors having their office at Mumbai. It contained a clause that in case of dispute between them, only the courts in Mumbai will have the jurisdiction. On the basis of the clause, the creditors filed a winding-up petition before High Court of Bombay. The company has asked your professional opinion in the matter. How will you advise the company?

(5 marks)

2009 - Dec [8] (a) The trade union of workers of a company has filed a winding-up petition of their company. State the legal position citing relevant case law.

(5 marks)

(c) As the Company Secretary of a company, mention your duties in respect of compulsory winding-up. (5 marks)

Chapter - 16 : Objective Questions

2009 - Dec [1] {C} (a) State whether the following statements are correct or incorrect citing briefly relevant provisions of the law :

(i) Court cannot refuse to sanction a scheme of arrangement which has been approved by majority of shareholders/creditors of the companies concerned.

(ii) Court would not insist on prior approval of stock exchange(s) while sanctioning a scheme of arrangement.

(iii) The word 'amalgamation' or 'merger' is not defined anywhere in the Companies Act, 1956.

(iv) The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 also apply to acquisition of global depository receipts (GDRs.) or American depository receipts (ADRs).

(v) Filing of draft letter of offer with SEBI should be deemed or construed as conclusive evidence that the same has been vetted or approved by SEBI.

(vi) An offer made by the acquirer can be withdrawn unconditionally at any time without any demur or resistance of any party since the acquirer is at liberty to withdraw his offer.

(vii) The order of court sanctioning the scheme of arrangement is final and effective. Companies need not do any thing thereafter in respect of courts sanction. (2 marks each)

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