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ISBN : 978-81-7666-598-6

SCANNER™ Appendix

CS Final Gr. II (Old Syllabus)

June - 2009

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PAPER'S

Paper - 4 : Financial Treasury Forex Management

Chapter - 2 : Capital Budgeting Decisions

2009 - June [2] (a) The management of Techno Craft Ltd. is evaluating the following data of a capital project :

	<i>Project "GEE"</i>				
Annual cost saving (<i>Rs.</i>)					80,000
Useful life (<i>Years</i>)					5
Internal rate of return (%)					12
Profitability index (<i>PI</i>)					1.270457697
NPV					?
Cost of capital					?
Cost of project					?
Payback					?
Salvage value					0

Find the missing values considering the following table of discount factors only :

Discount factor	13%	12%	9%	6%	3%
1 Year	0.885	0.893	0.917	0.943	0.971
2 Year	0.783	0.797	0.842	0.890	0.943
3 Year	0.693	0.712	0.772	0.840	0.915
4 Year	0.613	0.636	0.708	0.792	0.888
5 Year	<u>0.543</u>	<u>0.567</u>	<u>0.650</u>	<u>0.747</u>	<u>0.863</u>
	<u>3.517</u>	<u>3.605</u>	<u>3.889</u>	<u>4.212</u>	<u>4.580</u>

(10 marks)

2009 - June [3] Distinguish between of the following :

- (iv) 'Capital budgeting' and 'capital rationing'. (5 marks)

2009 - June [4] (a) Glow Ltd. is considering to acquire an additional computer to supplement its time-share computer services to its clients. It has two options –

- (i) To purchase the computer for Rs. 22,00,000.
- (ii) To lease the computer for 3 years from a leasing company for Rs. 5,00,000 as annual lease rent plus 10% of gross time-share service revenue. The agreement also requires an additional payment of Rs. 6,00,000 at the end of the third year. Lease rent are payable at the year end, and the computer reverts to the lessor after the contract period.

The company estimates that the computer under review now will be worth Rs. 10,00,000 at the end of third year. Forecast revenues are –

<i>Year</i>	<i>Rs.</i>
1	22,50,000
2	25,00,000
3	27,50,000

Annual operating costs (excluding depreciation/lease rent of computer) are estimated at Rs. 9,00,000 with an additional Rs. 1,00,000 for start-up and training cost at the beginning of the first year. These costs are to be borne by the lessee. Glow Ltd. will borrow at 16% interest to finance acquisition of computer; repayments are to be made according to the following schedule :

<i>Year-end</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
	<i>(Rs.)</i>	<i>(Rs.)</i>	<i>(Rs.)</i>
1	5,00,000	3,52,000	8,52,000
2	8,50,000	2,72,000	11,22,000
3	8,50,000	1,36,000	9,86,000

The company uses straight line method to depreciate its assets and pays 50% tax on its income.

The management of Glow Ltd. approaches you, as the Company Secretary, for advice. Which alternative would you recommend and why?

(10 marks)

Chapter - 3 : Capital Structure

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

- (ii) Financial leverage is caused due to fixed financial costs. (5 marks)

2009 - June [3] Distinguish between of the following :

- (iii) 'Weighted average cost of capital' and 'marginal cost of capital'.

(5 marks)

- (v) 'Capital structure' and 'financial structure'.

(5 marks)

2009 - June [5] (c) Consider the following information of Sunrise Ltd.

		<i>Rs. in Lakhs</i>
EBIT	—	2,000
EBT	—	600
Fixed cost	—	1,400

Calculate the percentage of change in EPS, if sales increase by 2%.

(6 marks)

Chapter - 4 : Sources of Company Finance

2009 - June [5] (a) DEF Ltd. with a paid-up capital of Rs. 25 crore divided into shares of Rs. 10 each has securities premium balance of Rs. 20 crore and retained earnings of Rs. 100 crore. The current market price of its share is Rs. 60.

Different options before the company are –

- Bonus issue 1 : 5
- Stock split 2 : 1
- Reverse split 1 : 2

It seeks your advice as to the best option it should adopt so as to maximise the market price per share. Also compute the following under each of the above option :

- (i) Total equity capital of the company.
- (ii) Market price per share.
- (iii) Number of shares outstanding.
- (iv) Face value per share.

(8 marks)

Chapter - 5 : Dividend Policy

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

- (i) The optimum dividend policy should strike a balance between current dividends and future growth.

(5 marks)

Chapter - 6 : Working Capital Management and Control

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

- (iv) Permanent working capital financed by current liabilities has its pitfalls.

(5 marks)

2009 - June [4] (b) JKL Ltd. has obtained the following data concerning the average working capital cycle for other companies in the same industry :

	<i>Days</i>
Raw material turnover	20
Credit received	40
Work-in-progress turnover	15
Finished goods stock turnover	40
Debtor's collection period	60

Using the following information, you are required to calculate the current working capital cycle and briefly comment on it :

	<i>Rs. in Thousands</i>
Sales	3,000
Cost of sales	2,100
Purchases	600
Average raw material stock	80
Average work-in progress	85
Average finished goods stock	180
Average creditors	90
Average debtors	350

(10 marks)

Chapter - 7 : Security Analysis and Portfolio Management

2009 - June [2] (b) A Portfolio Manager (PM) has the following four stocks in his portfolio :

<i>Security</i>	<i>No. of Shares</i>	<i>Market Price Per Share (Rs.)</i>	β
Varun Shipping Ltd. (VSL)	10,000	50	0.9
Chowgle Steamship Ltd. (CSL)	5,000	20	1.0
Mercatorlines Ltd. (ML)	8,000	25	1.5
Aurbindo Pharma Ltd (APL)	2,000	200	1.2

Compute the following :

- Portfolio beta.
- If the PM seeks to reduce the beta to 0.8, how much risk free investment should he bring in?
- If the PM seeks to increase the beta to 1.2, how much risk free investment should he bring in?

(10 marks)

2009 - June [3] Distinguish between of the following :

- 'Semi-strong form theory' and 'strong form theory' of efficient market.

(5 marks)

Chapter - 8 : Financial Services

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

- (v) Models of depository (5 marks)

Chapter - 9 : Project Planning and Control

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

- (iii) Important aspects for successful monitoring of a project (5 marks)

Chapter - 10 : Derivatives

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

- (v) Forward exchange rates are always at premium or discount to spot rates. (5 marks)

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

- (ii) Participants in the derivative market
- (iv) Marked-to-market settlement for futures (5 marks each)

Chapter - 12 : Forex Management

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

- (iii) Economic exposure implies change in value of a firm due to unanticipated change in exchange rates. (5 marks)

2009 - June [3] Distinguish between the following :

- (i) 'Direct quote' and 'indirect quote'. (5 marks)

2009 - June [5] (b) In International Monetary Market (IMM), an international forward bid on 15th December for one Euro (€) is \$ 1.2816. At the same time, the price of IMM € future for delivery on 15th December is \$ 1.2806. The contract size of futures is € 62,500. How could the dealer use arbitrage to profit from this situation and how much profit is earned? (6 marks)

2009 - June [6] STU Ltd. has to make a US \$ 5 million payment in three months time. The required amount in dollars is available with VWX Ltd. Management of the company decides to invest them for three months and following information is available in this context :

- The US \$ deposit rate is 9% per annum.
- The sterling pound deposit rate is 11% per annum.
- The spot exchange rate is \$ 1.82/pound.
- The 3-month forward rate is \$ 1.80/pound

Answer the following questions -

- (i) Where should the company invest for better returns?
- (ii) Assuming that the interest rates and the spot exchange rate remain as above, what forward rate would yield an equilibrium situation?
- (iii) Assuming that the US interest rate on the spot and forward rates remain as above, where should the company invest if the sterling pound deposit rate were 15% per annum?

- (iv) With the originally stated spot and forward rates and the same dollar deposit rate, what is the equilibrium sterling pound deposit rate?
(20 marks)

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

- (i) Elements of forex management (5 marks)

Paper - 5 : Corporate Restructuring Law and Practice

Chapter - 1 : Introduction

2009 - June [1] {C} (b) Why a company has to undertake corporate restructuring exercise? (6 marks)

Chapter - 2 : Strategies

2009 - June [2] (a) What are the various defence strategies which a target company can adopt to defend itself from hostile takeovers? (8 marks)

2009 - June [5] (a) What do you mean by 'core competence' and 'distinctive competence' ? How are they relevant for strategy formulation ? Explain with examples. (8 marks)

Chapter - 3 : Mergers and Amalgamations

2009 - June [1] {C} (a) Do you think mergers and acquisitions have been deployed as a strategic choice by present era corporate enterprises ? State your views with reasons. (6 marks)

2009 - June [2] (c) Sumi Ltd. and Muni (P) Ltd. have finalised a scheme of arrangement. The registered offices of both the companies are located in Kolkata. A joint petition is proposed to be filed before the High Court for sanction of the scheme. State whether it is legally tenable. (4 marks)

2009 - June [7] (b) What are the key dimensions of the 'integration process'? (4 marks)

2009 - June [8] (a) Explain the provisions regarding convening of general meeting as per court's direction with reference to merger/amalgamation of two companies. (8 marks)

Chapter - 4 : Takeovers

2009 - June [4] (b) State the provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 regarding substantial acquisition of shares. What would be the penalty for non-disclosure of substantial acquisition of shares and takeovers ? (8 marks)

2009 - June [8] (b) "Indirect acquisition of shares of a listed company is outside the jurisdiction of takeover regulations." Express your opinion in the light of legal provisions and decided case laws, if any. (8 marks)

Chapter - 5 : Revival and Restructuring of Sick Companies

2009 - June [5] (d) The incidence of sickness for a company under the Sick Industrial Companies (Special Provisions) Act, 1985 is by reference to the date on which the company was granted the certificate of commencement of business. Do you agree with this statement ? (2 marks)

2009 - June [7] (c) "Once an order of winding-up is made by the High Court acting on the opinion of BIFR, the BIFR ceases to have any power to pass any order or give any directions." Do you agree with this statement? Support your answer with relevant case law. (4 marks)

Chapter - 7 : Valuation of Shares and Business

2009 - June [5] (b) From the following information supplied to you, determine the market value of equity shares of Shakun Ltd. as per Walter's Model.

EPS	Rs.5
Dividend Paid	Rs. 3,00,000
No. of shares outstanding	1,00,000
Price-earnings ratio	8
Rate of return on investment	0.15

Are you satisfied with the dividend policy of Shakun Ltd. ? Comment.

(4 marks)

2009 - June [6] (a) Green Ltd. is contemplating the purchase of White Ltd. The information pertaining to both the companies are given below :

<i>Company</i>	<i>No. of Equity Shares</i>	<i>Market Value Per Share</i> (Rs.)
Green Ltd.	3,00,000	30
White Ltd.	2,00,000	20

The EPS for Green Ltd. is Rs.4.00 and for White Ltd. is Rs. 2.25. Managements of both the companies are discussing two alternative proposals for exchange of shares as indicated below :

I→in proportion to the relative earnings per share of two companies.

II→0.5 share of Green Ltd. for one share of White Ltd.

You are required to –

- (i) calculate the EPS after merger under the two alternatives; and
 - (ii) show the impact of EPS for the shareholders of the two companies under both the alternatives. (10 marks)
- (b) "Valuation of shares and fixation of exchange ratio in an amalgamation of companies is a matter of commercial judgement and the courts should not sit in judgement over it." Comment. (6 marks)

Chapter - 9 : Post Merger Re-organisation

2009 - June [2] (b) Enumerate the factors required to measure the success of any merger. (4 marks)

Chapter - 10 : Financial Restructuring

2009 - June [5] (c) What is the time limit for buy-back of shares ? (2 marks)

2009 - June [7] (a) Shubham Ltd., a listed company now propose to buy-back 20% of its paid-up capital. The articles of association of the company do not allow for buy-back. You happen to be the Company Secretary of the company and the Board has asked you to prepare a note with draft resolutions.

(8 marks)

Chapter - 11: Alliances

2009 - June [4] (a) In October, 2008, JIM Airways, the No. 1 Indian private operator, and its fierce competitor, KIM Airlines have announced forging of an alliance to share infrastructure, Jointly procure ATF.....

You are required to answer the following questions :

- (i) why the two fierce competitors forged a strategic alliance ?
- (ii) what should they keep in mind while managing the alliance ?

(8 marks)

Chapter - 13 : Case Studies

2009 - June [3] Attempt the following citing relevant legal provisions and case law, if any :

- (i) Rule 67 of the Companies (Court) Rules, 1959 stipulates that an application under section 391 shall be submitted supported by an affidavit. Rule 69 of the Companies (Court) Rules, 1959 directs that upon hearing of the summons, the Judge shall give such directions as he may think necessary in respect of sundry matters including the aspect of determining the values of the creditors/members of any class as the case may be..... State whether full details of all the creditors should be given in the petition.
- (ii) Corporate structures are complex and it is not unusual that a company incorporated in India will have its ultimate parent company located in a different country. As global acquisitions have an impact on Indian companies, which law should take precedence ? Should it be Indian takeover regime or the law which governs the activities of such companies incorporated outside India ?

- (iii) Is sanction of the court necessary for a scheme of amalgamation wherein the petitioner company had no secured creditors and all unsecured creditors had accorded their approval to the proposed scheme alongwith the shareholders of both the companies ? The official liquidator also did not have any objection to the scheme.
- (iv) The shareholders of Ravi Ltd. and Minakshi Ltd. are the same set of persons. These two companies merged and formed Bhuvan Ltd. The management now claims that since both the transferor and transferee are the same set of people, there is no transfer and hence no liability to stamp duty. Comment. (4 marks each)

Chapter - 14 : Objective Questions

2009 - June [1] {C} (c) State whether the following statements are true or false citing briefly relevant provisions of the law :

- (i) The expression 'reconstruction' is nowhere used in the Companies Act, 1956.
- (ii) Accounting Standard-14, issued by the ICAI, classifies mergers into two categories, amalgamations in the nature of mergers and amalgamations in the nature of purchase.
- (iii) Stamp duty is payable on an order issued by the Board for Industrial and Financial Reconstruction (BIFR).
- (iv) There is no need for a notice to be given to the Central Government once again, when court proceeds to pass final order to dissolve the transferor company. (2 marks each)

Paper - 6 : Banking and Insurance Law and Practice**Chapter - 1 : Introduction to Banking**

2009 - June [2] Attempt the following :

- (i) List down some of the strengths of the Indian banking system. (5 marks)

Chapter - 2 : Relationship between Banker and Customer

2009 - June [3] Attempt the following :

- (ii) "The bank is not required to give prior notice to the borrower before exercising its right of lien." Examine the statement. (5 marks)
- (iii) How does the relationship of banker and customer terminate ? In what way it terminates by process of law ? (5 marks)

Chapter - 3 : Law and Procedure Governing Banking Instruments

2009 - June [1] {C} (b) Bhumika received a cheque of Rs. 51,000 as a gift from Vivek. Later on, the cheque was dishonoured. State whether Bhumika can bring an action against Vivek for dishonour of the cheque. (4 marks)

2009 - June [2] Attempt the following :

- (iii) What is 'cheque truncation'? What type of cheques can be presented in the cheque truncation system? (5 marks)

2009 - June [3] Attempt the following :

- (i) Explain the significance of endorsements. (5 marks)

Chapter - 4 : Management of Assets and Liabilities

2009 - June [2] Attempt the following :

- (iv) What are the factors affecting interest rates in the market? Discuss them in brief. (5 marks)

2009 - June [4] Write short notes on the following :

- (i) Sources of income of banks
(ii) Inter-bank call market
(iii) Elements of prudential norms (3 marks each)

Chapter - 5 : Lending Policies

2009 - June [1] {C} (a) Nav Chetan bank has given a hypothecation advance against inventory to Rajani Enterprises. In a periodical checking, the stocks are found short by the bank. The bank allows more finance to make good the shortage. Is the bank's action correct? Give reasons for your answer.

(4 marks)

2009 - June [2] Attempt the following :

- (ii) How do banks minimise the risk involved in lending funds? (5 marks)

2009 - June [3] Attempt the following :

- (iv) What do you mean by 'intangible securities'? What precautions must be taken while sanctioning unsecured advances. (5 marks)

Chapter - 6 : Development Banking

2009 - June [4] Write short notes on the following :

- (vi) Specialised development financing institutions (3 marks)

Chapter - 8 : Law relating to Bank Regulation

2009 - June [4] Write short notes on the following :

- (vii) Banker's books (3 marks)

Chapter - 9 : Banking Sector Reforms in India

2009 - June [4] Write short notes on the following :

- (iv) Off-shore banking centres
(v) Gold Bond Scheme (3 marks each)

Chapter - 10 : Risk and Insurance

2009 - June [6] Attempt the following :

- (i) " Uncertainty is the very core of the concept of risk". Explain the statement. (5 marks)

Chapter - 11: Insurance- Meaning, Nature and Significance

2009 - June [5] {C} (a) There are 1,000 persons who are all aged 50 years and are healthy. It is expected that of these, 10 persons may die during the year. If the economic value of the loss suffered by the family of each dying person is taken to be Rs. 20,000, explain how these 1,000 persons may share the risks in cases of 10 persons through pooling of funds. (4 marks)

(c) Comment on the following :

- (i) Only pure risks are insurable.
(ii) Insurance provides funds for investments.
(iii) 'Good faith' in insurance contract means absence of fraud or deceit. (1 mark each)

2009 - June [6] Attempt the following :

- (ii) Describe the role of the 'Insurance Ombudsman' in resolving the complaints relating to settlement of insurance claims. (5 marks)

2009 - June [7] Attempt the following :

- (iv) What are the options to the insurer to decide on the values to be insured? (5 marks)

2009 - June [8] Attempt the following :

- (i) Write a note on 'underwriting agents for insurance sector'.
(iii) What is the 'business of insurance' done by insurance companies ? (3 marks each)

Chapter - 12 : Life Insurance

2009 - June [6] Attempt the following :

- (iv) What are the prospects of 'annuity business' being done by life insurers? (5 marks)

2009 - June [7] Attempt the following :

- (i) State the "legal position about children's assurances. Whether the child has insurable interest in the life of parents? (5 marks)

2009 - June [8] Attempt the following :

- (iv) What is 'free look period in life insurance contracts (3 marks)
(v) State the concept of 'human life value'. (3 marks)

Chapter - 13 : General Insurance

2009 - June [5] {C} (b) On what basis the insurable interest arise under the following circumstances:

- (i) Owner of a building and bank as a mortgagee.
(ii) Warehouse and keeper of goods.

- (iii) Renting the building by landlord to a tenant.
 - (iv) Employer to pay compensation to employees for accidents.
- (1 mark each)

Chapter - 14 : Accident and Motor Insurance

2009 - June [7] Attempt the following :

- (ii) What factors are considered in deciding the compensation by the Motor Accident Claims Tribunal (MACT) ? (5 marks)

Chapter - 15 : Deposit and Credit Insurance

2009 - June [8] Attempt the following :

- (ii) Write a note on 'credit derivatives'. (5 marks)

Chapter - 16 : General Insurance Corporation

2009 - June [6] Attempt the following :

- (iii) What are the provisions relating to cancellation of registration of an insured bank under the Deposit Insurance and Credit Guarantee Corporation Act, 1961 ? (5 marks)

Chapter - 17 : Marine Insurance

2009 - June [8] Attempt the following :

- (vi) What is 'sue and labour clause' in a marine insurance policy? (3 marks)

Chapter - 18 : Risk Management

2009 - June [7] Attempt the following :

- (iii) What are the major advantages of retention technique in a risk management programme ? (5 marks)

Chapter - 21 : Objective Questions

2009 - June [1] {C} (c) State, with reasons in brief, whether the following statements are correct or incorrect :

- (i) High interest rates in the economy for a long time may hit the growth scenerio.
- (ii) Liquidity is the cornerstone of banking operations.
- (iii) Under irrevocable letter of credit, interest of confirming bank is not protected.
- (iv) Credit Information Bureau of India Ltd. (CIBIL) helps to facilitate avoidance of adverse selection of borrowers. (1 mark each)

2009 - June [1] {C} (d) Choose the most appropriate answer from the given options in respect of the following :

- (i) As per section 17 of the Indian Stamp Act, 1899, instruments executed in India are required to be stamped –
 - (a) Before execution
 - (b) After execution

- (c) Before or at the time of execution
- (d) All of the above.
- (ii) Which of the following is called 'core capital' of a bank –
 - (a) Tier-I capital
 - (b) Tier-II capital
 - (c) Hybrid capital
 - (d) Subordinated debts.
- (iii) If a cheque is dishonoured for insufficiency of funds in the account, the drawer of the cheque is liable for –
 - (a) Imprisonment
 - (b) Fine
 - (c) Both (a) and (b)
 - (d) None of the above.
- (iv) Which of the following mode is useful for bulk transfer of funds from one account to many accounts and *vice-versa* –
 - (a) EFT
 - (b) RTGS
 - (c) ECS
 - (d) None of the above.

(1 mark each)

2009 - June [1] {C} (e) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure (s) :

- (i) _____ per cent of advances of a bank should go to the designated priority sector, *viz.*, agriculture, small industries and small units.
- (ii) Rural and semi-urban branches of banks are to maintain a credit-deposit ratio of at least _____ per cent of their deposits.
- (iii) _____ per cent of the advances to priority sector should go to the weaker sections of the community.
- (iv) A cheque has _____ parties.

(1 mark each)

2009 - June [5] {C} (d) Choose the most appropriate answer from the given options in respect of the following :

- (i) Which division of the life policy document lays down the mutual obligations of the two parties –
 - (a) Preamble
 - (b) Operative clause
 - (c) Proviso
 - (d) Schedule.
- (ii) Transfer of rights and remedies of the insured to the insurer who has indemnified the insured in respect of the loss is known as –
 - (a) Assignment
 - (b) Subrogation

- (c) Contribution
- (d) Indemnification
- (iii) In life and health insurance companies, claim representatives are typically called –
 - (a) Claims adjusters
 - (b) Appraisers
 - (c) Claims examiners
 - (d) Investigators. (1 mark each)

2009 - June [5] {C} (e) State, with reasons in brief, whether the following statements are correct or incorrect :

- (i) Life insurance only requires that insurable interest should exist at the time of entering the contract.
- (ii) A joint life declaration is not necessary to create a joint interest in the policy.
- (iii) The object of insurance is to provide indemnity for such losses as are caused by insured perils.
- (iv) Fire insurance policy issued under Indian tariff covers risk of fire peril, but does not cover other risks.
- (v) If the insured property happens to be insured also under marine policy, the fire policy will pay any losses in excess of the amount recoverable under marine policy.
- (vi) Reinsurance is the insurance of the risk assumed by the insurer. (1 mark each)

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