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Fourth Semester M.B.A. Degree Examination, May/June 2017
(Choice Based Credit System)
BUSINESS ADMINISTRATION
Financial Services

Time : 3 Hours

Max. Marks : 70

Instruction : Answer all Sections.

SECTION – A

(2×10=20)

Note : Answer any two questions. Each question carries 10 marks. Answer to the questions should not exceed six pages.

1. Explain the various new instruments introduced in new issue market.
2. Critically analyse the present position of the financial service sector in India and state the challenges it has to face in the years to come.
3. Explain the services of Merchant Bankers.

SECTION – B

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Note : Answer any three questions. Each question carries 12 marks. Answer to the questions should not exceed six pages.

4. Bring out and explain the relevance of nationalization of banks in the changing scenario.
5. Discuss the components of Indian financial system.
6. Describe the changing trends in Indian insurance sector.
7. A Corporate customer wants to acquire an equipment worth Rs. 15,00,000. A finance company offers a hire purchase deal to the customer and expects ten equated instalment paid at the end of the year. The finance company charge interest at a flat rate of 15 percent. Compute the cost of hire purchase assuming 40 percent corporate tax rate, straight line method of depreciation. Follow sum-of-the-digit method to distribute the interest over the years.

P.T.O.



8. The following financial ratios and other details are available for a company :

Ratio/Year	1	2	3	4	5
Net profit/Sales	0.734724	0.422364	0.131623	0.122262	0.761948
Net profit/Fixed asset	0.225996	0.168467	0.459584	0.635443	0.367391
Net profit/Total asset	0.826245	0.593674	0.126667	0.149943	0.574439
Sales/Net worth	1.733935	2.193587	2.212156	2.263566	2.594243
Sales/Net working capital	2.373457	3.3766	3.286212	4.215657	1.67777
Current Ratio	4.83432	3.496916	2.319111	2.383795	2.642236
Acid test Ratio	2.846154	2.295154	1.768539	1.712132	2.981366
Fixed asset/Net worth	0.565953	0.549881	0.49656	0.435517	0.427112
Total debt/Net worth	0.233267	0.348316	0.494497	0.548884	0.351488
Total debt/Total asset	0.487864	0.445717	0.673752	0.748986	0.387774

In the past the company issued redeemable debenture and repaid it on maturity. Government policies are in favour of the industry and it is expected for another ten years. A famous and recognized auditor is appointed to the board of management. The management of the company is well appreciated in the industry. CSR policy of the company is appreciated by the government and other agencies. At present the company wants to expand its business and wish to issue debentures worth Rs. 5 crore. Rate the new issue of debentures and justify your rating.

SECTION – C

(1×14=14)

(Compulsory)

Note : Answer to the question should **not** exceed **six** pages. This question carries **fourteen** marks.

9. A company is thinking of installing an equipment. It is to decide whether the equipment is to be purchased outright (through 14% flat rate of borrowings), or to be acquired on lease rent basis.

The firm is in the 35 per cent tax bracket. The other data available is as follows :



Purchase of computer :

- Purchase price, Rs. 20 lakh
- Annual maintenance, Rs. 50,000 per year paid at the end of the year.
- Expected useful economic life, 6 years
- Depreciation, straight-line method
- Salvage value, Rs. 2,00,000

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Leasing of equipment :

- Lease charges (to be paid at the end of the year), Rs. 4,50,000
- Maintenance expenses, to be borne by lessor

You are required to advise the company as to whether it should purchase the equipment, or acquire it on lease. Use effective interest rate method to allocate interest over the years.
