

ASSIGNMENT

MBA –IV SEMESTER

SUBJECT: MERCHANT BANKING AND FINANCIAL SERVICES

SUBJECT CODE: MF 0008

CREDITS: 2 – MAX.MARKS 30

NOTE: Answer all the questions and each question carries 10 marks

1. A) Briefly state the differences between commercial banks and Merchant Bankers (6 Marks)

B) What is the concept of securitization (4 Marks)

2. A) What are the different instruments dealt in Treasury market? Briefly explain them. (5 Marks)

B) A company in which public are interested substantially, has been offered certain heavy machinery on lease for a period of 5 years. The lease rent of Rs.7500 per annum and at the end of the lease, the machinery would be sold to the assessee for Re.1. If the company were to buy the machinery outright at present, it would cost it Rs.3,00,000. You are required to advise on the course of action which would bring the maximum tax advantage. (5 Marks)

3. A) What are the differences between lease and hire purchase transactions? (3 Marks)

B) J Ltd., proposes to acquire a machine on 1st April 2006 for its business. It will cost about Rs.1,50,000. It is expected to have a working life of 3 years. Scrap value of the machine will be Rs.40,000. If the machine is purchased through borrowed funds, the rate of interest is 15% p.a. The loan is repayable in three annual installments of Rs.50,000 each. If the machine is acquired through lease, the rent would be Rs.60,000 per annum. Profits before depreciation and tax, is expected Rs.1,00,000 every year. Rate of depreciation is 15% and average rate of tax may be taken at 33.66%. J Ltd., seeks your advice whether it should

i) acquire the machine through own funds or borrowed funds

ii) take it on lease.

(7 marks)

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SET II

SUBJECT: MERCHANT BANKING AND FINANCIAL SERVICES

NOTE: Answer all questions and each question carries TEN marks

1. A) Who are regarded as Merchant bankers? State the depository services rendered by them.

(5 Marks)

B) State the tax (Sales tax and income tax) issues in case of hire purchase transactions?(5 Marks)

2. Discuss the procedure involved in public issue of securities of a new corporate enterprise.

3. A) What are the personal factors of customers that influence marketing of financial products ?

B) Excellent Company Ltd. has an investment plan amounting to Rs.250 lakh. The tax relevant rate of depreciation of the Excellent company is 25% ;its marginal cost of capital and marginal cost of debt are 16% and 20% respectively. The company falls in the tax bracket of 33.66% of income tax.

The company is considering two different alternatives for its capital expenditure. In the case of hire purchase plan, the interest is 16%; the down payment is 20% and the rest in 36 equated monthly installments.

In the other plan of leasing, the rentals are payable at Rs.28 ptpm, in advance. The primary lease period can be assumed to be 5 years. Assume that the SOYD method is used to allocate total charge for credit under hire purchase plan. The net salvage value of the equipment after 3 years can be assumed to be Rs.50 lakh. Which alternative -leasing or hire purchase should the company

use and why?

(5 Marks)

