Roll No. .... Final New Syllabus — JUL 2021

Paper - 6 B

Financial Services & Capital Markets

Total No. of Questions – **5**

Total No. of Printed Pages – **32**

Time Allowed – **4** Hours

Maximum Marks – **100**

SPB

Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

Answers in respect of Multiple Choice Questions are to be marked on the OMR answer sheet only.

Answer to other questions to be written in the descriptive type answer book.

Answer to MCQs, if written in the descriptive type answer book will not be evaluated.

Please ensure to answer the MCQs relevant to questions as attempted in the descriptive answer book.

Candidates may use calculator.

Marks

Case Study : 1

(A) Given below are the data pertaining to XYZ Mutual Fund as at 31st March, 2021. You are a Mutual Fund Advisor for the XYZ Mutual Fund. Mr. W visits your office to seek advice on investing in Mutual Fund and understanding the various concepts of Mutual fund. Since you are a Mutual Fund Advisor for the XYZ Mutual Fund and are having data as at 31st March, 2021. During discussions many questions/queries raised by Mr. W were discussed, Mr. W was, apprised that Average expenses ratio (including management fees) comes to 2.79 % including GST :

Particulars	Quantity (No's)	Value (₹) ('000)
Unit Capital :		
Outstanding at the beginning of the year	3,45,41,899.760	3,45,418
Issued during the year	7,25,36,310.229	7,25,363
Redeemed during the year	89,88,725.450	89,887
Outstanding at the end of the year	**9,80,89,484.539**	**9,80,894**
Reserve & Surplus		
Unit Premium Reserve		
Balance at the beginning of the year		(4,205)
Net Premium /Discount on issue/redemption of units		1,08,026
Balance at the end of the year		1,03,821

Unrealized Appreciation Reserve		
Balance at the beginning of the year		6,650
Change in unrealized appreciation in value of Investments		15,072
Balance at the end of the year		21,722
Retained Surplus		
Balance at the beginning of the year		8,23,521
Transferred to Revenue account		(2,235)
Surplus transferred from revenue account		20,55,254
Balance at the end of the year		28,81,010
Total Reserves		**30,06,553**
Current Liabilities		
Amount due to AMC for Management Fees		2,125
Others		55
Sundry Creditors of units redeemed by investors		
Lateral Shift Payable		513
Others		23
Contract for purchase of investments		3,53,825
Unit Application pending allotment		75
Investor education expenses provision		66

 Marks

Other Current Liabilities		2989
Investments		
Listed Debentures and Bonds		15,25,775
Government Securities		23,41,287
Total		**38,67,062**
Other Current Assets		
Balances with Banks in Current Accounts		8,681
Sundry debtors for units issued to investors		
– Lateral shift receivable		53
– Others		26
Inter -scheme receivables		775
Outstanding and accrued income		95,266
Collateralized Lending		3,75,255
Total		**4,80,056**
Money market Instruments		225
Debentures and Bonds		66,428
Deposits		55,265
Government Securities (Including Treasury Bills)		1,25,625
Collateralized Lending		7,750
Total		**2,55,293**

Marks

(B) Mr. X, an industrial chemist with 15 years of experience, has recently been appointed to the post of Chief Executive Officer (CEO) of P Ltd., a listed company. He has previously been employed in the company as Research Director. In preparation for his new assignment he has been trying to get to grips with the concept of corporate governance and all that it entails. The board of P Ltd. comprises of total ten directors (including one woman director), six non-executive directors and five were considered independent. The board is responsible for overseeing strategy, approving major corporate initiatives and reviewing performance. There are three board committees - the Audit Committee, Remuneration Committee and Investors Grievance Committees. However, there is no Nomination Committee. As you being the Chartered Accountant and Compliance Officer of P Ltd., Mr. X is seeking your assistance to clarify some issues of concern in respect of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015.

Provide the correct option to the following questions :

1.1 Which is not the type of Mutual Fund on the basis of "Structure" ? **2**

(A) Equity Schemes;

(B) Debt Schemes;

(C) Open Ended Funds;

(D) Equity and Debt Schemes.

1.2 Which ratio instead of measuring it against any type of risk, measures it against only downside risk in the portfolio ? **2**

(A) Sharpe Ratio;

(B) Treynor Ratio;

(C) Sortino Ratio;

(D) None of the options.

Marks

1.3 Minimum Net worth requirement of the Asset Management Company (AMC) as per SEBI (Mutual Funds) Regulations, 1996 : 2

(A) ₹ 50 Million;

(B) ₹ 50 Billion;

(C) ₹ 50 Lacs;

(D) ₹ 50 Crores.

1.4 Net assets of a Mutual Fund Scheme will consider : 2

(A) Market Value of Investments;

(B) Book Value of Investments;

(C) Market Value of the Investments adjusted for expected credit losses;

(D) Book Value of the Investments without adjusting for credit losses.

1.5 Under a Systematic Investment Plan, which of the following is NOT TRUE : 2

(A) Unit holders can invest on a monthly basis whatever amount they can save;

(B) Investors can invest only a pre-specified amount every period, say monthly, quarterly or half yearly;

(C) If an investor has subscribed ₹ 3,000 in quarterly payments for a 3 years SIP, he can choose to step up this amount to ₹ 4,000 from the second year;

(D) Even where the SIP amount in a financial year does not exceed ₹ 50,000 an investor cannot invest in cash.

Marks

Answer the following :

1.6 (a) On inquiry regarding investment in Treasury Bills, you apprised that fund had invested in Treasury Bills of face value ₹ 1,50,000 each amounting to ₹ 10 Crores, Mr. W suggested if the average annualized yield calculated based on 90 days as on 31st March, 2021 was 9.37%. Comment upon the statement of Mr. W. **3**

(b) During discussions of Mr. W with you, Mr. W was keen to know the drawbacks in investing in Mutual Funds, whilst he is keen to know all the issues relating to return and concentration of risk in particular. Explain briefly. **3**

(c) Considering the scenario of XYZ Mutual Fund is currently placed (Under performing), Mr. W had already made an investment in XYZ Mutual Fund, advice Mr. W if he should exist the Mutual Fund Scheme. He also wants to know what are all the various situations in which exits should be considered from a Mutual Fund Scheme for future reference. **3**

(d) Mr. W inquired why there is a fraction amount in the number of units column in Mutual Fund Product ? **2**

1.7 You have been asked to prepare a brief report for Mr. X on the board composition of P Ltd. with respect to the Companies Act, 2013 and SEBI (LODR) Regulations, 2015. Also advise whether Mr. X should be Chairman of the Company. **4**

Marks

Case Study : 2

XCS Ltd., a company involved and engaged in the profession of Topographical surveys, geotechnical investigation, river survey and preparation of detailed project reports and detailed engineering works for various Infrastructure projects. Mr. PKK is the CEO & Managing Director of the company. XCS Ltd. also designs and builds highly engineered products for Automation and dredging work. With its impeccable design, engineering and manufacturing facilities in Bhutan, China and India, the company is able to meet customers' requirements in many countries. XCS Ltd. has 1000 employees across all of its locations. There are 50 companies in the XCS Ltd. corporate family.

Everything was going well in the company. However, in a surprising development capital market regulator ordered the impounding of about ₹ 10 crore from XCS Ltd. Managing Director and CEO Mr. PKK in an insider trading case.

The reason for this impounding order was that a sum of ₹ 10 crore being the notional loss avoided on account of trades carried out during the period when the price sensitive information is unpublished. The watchdog had conducted an investigation into possible insider trading in the shares of XCS Ltd. during the period from August-November 2018.

During the probe, it was found that Mr. PKK, being the CEO and Managing Director of XCS Ltd., had traded the company's shares while being in possession of UPSI (Unpublished Price Sensitive Information).

It was observed that the consolidated quarterly financial results of XCS Ltd. were communicated to the stock exchanges after the trading hours on November 11, 2018, and XCS Ltd. shares fell on the immediate succeeding trading day on November 15, 2018.

It was also alleged that Mr. PKK, having traded on the basis of UPSI, avoided loss on account of fall in price of shares due to the announcement of the said quarterly consolidated financial results of XCS Ltd. Therefore, the amount of loss avoided by Mr. PKK in aggregate, including interest through trading in shares of XCS Ltd, amounted to over ₹ 10 crore.

Marks

It was, prima facie, observed that the pre-trading approval was not taken for the required number of shares for which sale order was placed. Further, a designated person shall not apply for pre-clearance of any proposed trade if such person is in possession of UPSI even if the trading window is open, the watchdog said in its order.

Since Mr. PKK was the Managing Director and 'a connected person', prima facie, he violated the provisions of SEBI (Prohibition of Insider Trading) Regulations, 2015, the order said. In view of the above, it can be said that Mr. PKK engaged in insider trading, which helped him to avoid loss due to a fall in stock prices of the company after its consolidated quarterly report was published.

Insider trading takes place when the buyer happens to have additional information about stock performance that is not available to the general public. It can be both legal and illegal, depending on when the trade is taking place. It is deemed unethical when trading happens when the information is still private, tilting the trade in favour of one party. These types of trading come with harsh consequences and may attract penalty from regulators. SEBI being the regulator keeps close monitoring to track such trades to prevent few traders from manipulating the market.

In the case of XCS Ltd., the regulator was investigating a case from 2018. The SEBI (Prohibition of Insider Trading) Regulations, 2015, which clearly states that insider trading is an unethical practice resorted by those in possession of certain unpublished information relating to a company to profit against general investors who don't have access to such information. It has listed the following people in its monitoring list in connection with any insider trading activity :

- Directors of the company
- Key personnel in Managerial positions
- People in the positions of Vice Presidents, General Managers, Dy. General Managers, Asst. General Managers
- Employees who have access to sensitive financial information/documents. All employees from Finance, Legal & Company Secretarial, HR & IT departments irrespective of grade will come under monitoring.
- All Personal Assistants and Secretaries to the Directors and Other Senior Officials.
- Dependents of all the employees of the above categories.

Impounding order by SEBI in insider trading case is announced against MD and CEO of XCS Ltd. as per the above list of people. It suggests that he used the UPSI knowledge to trade stocks to avoid a loss that occurred the following day when stock prices toppled after company's performance report was published.

On November 11, 2018, company's financial performance report was shared with the exchange after trading hours, following which stock prices of XCS Ltd. shares tumbled on November 15. In the case of XCS Ltd. CEO, no pre-trading approval was taken, which led to the inquiry and subsequent seizing order for XCS Ltd.

Brief financials of the company as at year ending

(₹ in Lacs)

Particulars	31st March 2021	31st March 2020	31st March 2019	31st March 2018	31st March 2017
Assets	1624.00	1571.68	1584.00	1304.76	1134.67
Liabilities	1624.00	1571.68	1584.00	1304.76	1134.67
Equity	242.58	242.58	242.58	242.58	242.58
Net Profit	95.68	70.61	137.95	136.68	157.49
Cash from Operating activities	86.87	75.79	(35.47)	17.33	(5.16)
Revenue	1010.56	945.56	1065.73	1174.93	1258.63
Expenses	906.79	829.06	852.54	936.13	986.68
ROE (%)	3.68	2.90	5.69	5.63	6.49

Shareholding Summary for XCS Ltd.

Type	**Holding**
Promoter	48.8
MF	10.6
FII	14.4
Public	26.2

In a related development the SEBI during investigation under the provisions of SEBI (Prohibition of Insider Trading) Regulations, 2015 found XYZ Bank Limited ("Bank") a bank listed on BSE Limited for violation of the regulations. It was found that some of the employees of the Bank, who were in possession of unpublished price sensitive information ("UPSI") of the Bank and other listed companies including XCS Ltd. with whom the Bank deals, after which they were consequently restricted from dealing in securities of the Bank and such other listed companies including XCS Ltd.

Marks

Multiple Choice Questions :

Choose the most appropriate answer :

2.1 It was alleged that Mr. PKK, having traded on the basis of UPSI, on account of fall in price of shares due to the announcement of the said quarterly consolidated financial results of XCS Ltd : **2**

(A) avoided loss;

(B) made loss;

(C) avoided profit;

(D) None of these.

2.2 The meaning of "Board" as defined in SEBI (Prohibition of Insider Trading) Regulations, 2015 means : **2**

(A) Board of Directors of Company;

(B) Securities and Exchange Board of India;

(C) Stock Exchange;

(D) None of the options.

2.3 The reason Mr. PKK violated the provisions of SEBI (Prohibition of Insider Trading) Regulations, 2015 was ________. **2**

(A) Delayed pre-trading approval was taken for the required number of shares for which the sale order was placed;

(B) Pre-trading approval was not taken for the required number of shares for which the sale order was placed;

(C) Post-trading approval was taken for the required number of shares for which the sale order was placed;

(D) No approval was taken at all for the required number of shares for which the sale order was placed.

Marks

2.4 Under which Act words and expressions used and not defined in SEBI (Prohibition of Insider Trading) Regulation, 2015 shall not have the same meaning as assigned in this legislation : 2

(A) The Depositories' Act, 1996;

(B) The Companies Act, 2013;

(C) The Securities Contract (Regulation) Act, 1956;

(D) The Income Tax Act, 1961.

2.5 An insider who is continuously in possession of unpublished price sensitive information is entitled to formulate a trading plan and present it to the ______ for approval. 2

(A) Stock Exchange;

(B) SEBI;

(C) Compliance Officer;

(D) Audit Committee.

2.6 Is there any obligation imposed on the CEO and the MD of XCS Limited under the SEBI (Prohibition of Insider Trading) Regulations, 2015 ? If yes, then explain with the help of the SEBI Regulations. 4

2.7 (a) Is there a bar on insiders from trading in securities of a company when in possession of UPSI under the SEBI (Prohibition of Insider Trading) Regulations, 2015 ("PIT Regulations") ? 2

(b) What is the presumption under the PIT Regulations regarding trading in securities by an insider (employees of the Bank) when he is in possession of UPSI ? Explain in detail the circumstances of Innocence. 5

(c) Are deals under the Discretionary Portfolio Management Scheme on behalf of the employees of the Bank or their relatives in compliance with the provisions of the PIT Regulations ? 4

Marks

Case Study : 3

(A) A company PQR Limited is planning an IPO of say, 100,000 shares, at a book-built price of ₹ 100, resulting in an IPO size of ₹ 100,00,000. As per the SEBI (ICDR) Regulations, 2018, the over-allotment component under the Green Shoe mechanism could be up to 15% of the IPO, i.e. up to 15,000 shares, i.e. Green Shoe shares. Prior to the IPO, the stabilizing agent (Mr. X) would borrow such number of shares to the extent of the proposed Green Shoe shares from the pre-issue shareholders. These shares are then allotted to investors along with the IPO shares. The total shares issued in the IPO therefore stands at 115,000 shares. IPO proceeds received from the investors for the IPO shares, i.e. ₹ 100,00,000 – 100,000 shares at the rate of ₹ 100 each, are remitted to the Issuer Company, while the proceeds from the Green Shoe Shares (₹ 15,00,000, being 15,000 shares × ₹ 100) are parked in a special Escrow Bank Account, i.e. Green Shoe Escrow Account. During the price stabilisation period, if the share price drops below ₹ 100, the stabilising agent (Mr. X) would utilise the funds lying in the Green Shoe Escrow Account to buy back these shares from the open market.

(B) PA Ltd. is a company engaged in assembly and distribution of Heavy Motor Vehicles (HMV). The company sources orders for such vehicles through network of marketing agents. Based on the order, requisite auto parts are imported from foreign suppliers and assembled into HMVs and delivered to the clients.

The outbreak of second wave of COVID 19 pandemic had an adverse impact on the business volume. The outbreak not only caused operational hindrances for supply from European Countries but also low demand in the Indian Auto Market.

With the success of vaccination drive and relief in lockdown measures, the auto segment is promising growth and potential. The market expects more people to buy own vehicles or use private transport for their day to day conveyance needs rather public transport options which are crowded and pose contamination risk.

G India, a NOIDA based startup seeds an idea of using technology to connect with professional working class in Delhi-Faridabad-NOIDA route for their daily conveyance needs. G India has launched an App where such professionals can provide info about their work timings, location etc. so that they can be aggregated for conveyance through Private vehicles.

G India intends to ply 40 seater Air-conditioned luxury private Buses for such professionals for their daily work commute. The Buses are designed to provide Wi-Fi, laptop charging point and privacy curtains that the executives can utilize the commuting hours for work, calls, emails etc.

G India approaches PA Ltd. for procuring 50 such Buses for their start up. After understanding the requirement of G India, PA Ltd. proposes a 40 seater luxury Bus which shall be imported from Germany and assembled and delivered in India by PA Ltd.

G India likes the proposal and agrees on the design, layout and cost for the Buses. G India informs PA Ltd. about two issues faced by them :

(i) They are located in a special economic zone and therefore exempted from Taxation, thus they cannot claim depreciation or any tax benefit on the Buses.

(ii) They do not have enough capital to pay upright for purchase of these Buses.

G India therefore propose if these Buses can be provided under a lease instead of an outright sale. PA Ltd. was not very comfortable with the idea as they have never done leasing of vehicles before. However, the company could not afford to loose business from G India. They agree to respond to G India on the proposal after checking with their financial advisor.

PA Ltd. approaches you for your advice on leasing the vehicles to G India. Below information is provided to you regarding imported Air-conditioned luxury private Buses.

Marks

Particulars	Cost Involved
Cost of Import of parts for each Bus	EUR 50,000 (FX Rates EURUSD : 1 : 1.22 USD INR 1 : 73)
Custom Duty including GST	40%
Other technical cost of Assembly per Bus	INR 3,50,000
Overheads per Bus	INR 40,000
Local taxes per Bus	INR 30,000
Taxation rate for PA Ltd.	25% Corporate Tax
Rate of Depreciation	30% SLM
Estimated Life	5 years
Margin of profit	20%

The PA Ltd. received a rebate of an amount equal to the Other technical cost of Assembly from the State Government as part of the Make in India initiative. The rebate is received as soon as the Buses are led from the Assembly workshop.

A leading NBFC has agreed to provide finance to PA Ltd. @ 16% p.a. for 5 years over hypothecation of Buses.

Multiple Choice Questions :

3.1 For instance what would have been the annual lease payable if PA Ltd. is located in a special economic zone as well with no taxation for 4 years. **2**

(A) INR 24,56,978.86;

(B) INR 26,94,763.12;

(C) INR 27,03,271.96;

(D) INR 28,16,386.70.

Marks

3.2 Where the Lessee has the right to purchase the leased assets after the expiry of initial lease period at an agreed price is : 2

(A) Lease with lessee having residual benefits;

(B) Lease with purchase options;

(C) Lease with sale options;

(D) None of the options.

3.3 From a Lessors' perspective the lease financing proposal should be accepted only if : 2

(A) Computed IRR of cash flows is more than the required cut-off rate or Cost of Capital;

(B) Computed IRR of cash flows is more than the pre-tax cost of borrowing;

(C) Computed NPV of the cash flows is negative;

(D) Computed NPV of the cash flows is more than the sum of Initial Cash flow and Terminal Cash flow.

3.4 What would be revised profit margin for PA Ltd. if G India agrees to pay not more than INR 9,90,000 as annual lease for each Bus : 2

(A) 19.57%;

(B) 17%;

(C) 22.89%;

(D) Loss.

Marks

3.5 What is the lowest annual lease PA Ltd. can quote to G India so as to not incur any loss on the transaction. 2

(A) INR 12,76,465.48;

(B) INR 12,79,645.48;

(C) INR 12,75,922.48;

(D) INR 12,74,965.48.

3.6 What the annual lease per Bus shall PA Ltd. charge to G India so as to have no economic impact if an outright sale would have been executed. 6

Assume lease is payable at the end of each year and life of each Bus is 5 years.

3.7 Comment upon the three situations under Green Shoe Option : 9

- **Situation #1 :** where the stabilising agent (Mr. X) manages to buyback all of the Green Shoe Shares, i.e., 15,000 shares.
- **Situation #2 :** where the stabilising agent (Mr. X) manages to buyback none of the Green Shoe Shares.
- **Situation #3 :** where the stabilising agent (Mr. X) manages to buyback some of the Green Shoe Shares, say 10,000 shares.

Case Study : 4

(A) Following are the financial details of DEF Limited for the year ending 31st March, 2021 :

DEF Limited Balance Sheet as at 31st March, 2021

Particulars		As at 31st March, 2021 (₹ in Crores)
A	**EQUITY AND LIABILITIES**	
1	**Shareholders' funds :**	
	(a) Share Capital	1,500.00
	(b) Reserves and Surplus	3650.00
	Sub-total (1)	**5,150.00**
2	**Non-Current Liabilities :**	
	(a) Long-term borrowings	480.00
	(b) Other Long term liabilities	110.00
	(c) Long-term provisions	56.00
	Sub-total (2)	**646.00**
3	**Current Liabilities :**	
	(a) Short-term borrowings	33.50
	(b) Trade Payable	655.00
	(c) Other Current Liabilities	7.50
	(d) Short-term provisions	9.85
	Sub-total (3)	**705.85**
	Total	**6,501.85**

Marks

B	ASSETS	
1	**Non-current assets :**	
	(a) Fixed Assets	
	(i) Tangible assets	2,400.00
	(ii) Intangible assets	186.55
	Sub-total (1)	**2,586.55**
	(b) Non-current investments	415.30
	(c) Long-term loans and advances	585.00
	(d) Other non-current assets	155.00
	Sub-total (2)	**1,155.30**
2	**Current assets :**	
	(a) Current investments	13.00
	(b) Inventories	750.00
	(c) Trade Receivables	325.00
	(d) Cash and cash equivalents	986.00
	(e) Short-term Loans and advances	55.00
	(f) other current assets	631.00
	Sub-total (3)	**2,760.00**
	Total	**6,501.85**

Other Point : The Management of the DEF Limited discussed various issues associated with Buy-back of shares in their meeting of Board of Directors regarding compliance of SEBI (Buy Back of Securities) Regulations, 1998 and Companies Act, 2013 including filing of returns with SEBI and Registrar of Companies. The Board also discussed appointment of Merchant Banker(s)/Registrar. After appointment of Merchant Banker(s)/Registrar by the Board of Directors, the Merchant Banker(s) were asked to make presentation on Buy-back process. Subsequently the Merchant Banker made detailed presentations to the management on Buy-back of shares and specified securities detailing compliance of SEBI (Buy Back of Securities) Regulations,1998 and Companies Act, 2013.

Final Points relating to buy-back of Shares :

(1) DEF Limited Issued 10% p.a. Bonds in 2005 at discount of 5% for total amount of ₹ 10,00,00,000/- (₹ Ten Crores) redeemable in 2025 i.e. for 20 years and interest is payable on yearly basis. Out of ₹ 10 Crores bonds company issued ₹ 1 Crore bonds under Call Protection. These Bonds have been shown under Long Term Borrowings.

(2) Current interest rates are about to 7.5 % p.a.

(3) Share capital is fully paid up at ₹ 10 each.

(4) DEF Limited's Shares are trading at BSE and NSE.

(5) Reserve and surplus includes ₹ 1,200/- (Rupees one thousand twelve hundred Crores) free reserve of DEF Limited.

(6) DEF Limited pass resolution at board meeting held as on 15th June, 2020 and passed special resolution of buy back of shares in general meeting held on 15th July, 2020 and giving result of postal ballot.

Marks

(7) One of the Tax and Financial Consultants give knowledge of call features for bonds to DEF Limited. They told that DEF Limited can "call in" the bonds and repay them at predetermined price before maturity. Also giving knowledge that company can issue new bond with "call protection" i.e. they are guaranteed not to be called for five to ten years or other period specify.

(8) DEF Limited wants to expand its business and starting new manufacturing of product X and for that it incorporates one new company i.e. KLM Limited and offers shares via book building method. KLM Limited appoints merchant banker as book runner lead manager. KLM Limited opened its offer for 5 days which may be extended to 10 working days for all corporate and for 3 days which is minimum working days for all non-corporates.

(9) If DEF Limited buy back its shares via tender offer, then price will be ₹ 300 per share.

(10) DEF Limited come to know that if we go for buy back we have to give disclosures under the Companies Act which contains full and complete material facts, necessity of buy back, the class of shares, amount to be invested, time limit of completion of buy back etc.

(11) The management of DEF Limited was unaware of Escrow account, however the merchant banker have apprised the management regarding mandatory requirement of opening of Escrow account.

(12) The management apprised the merchant banker that there is no requirement of extinguishment of shares and reporting requirement to SEBI as per SEBI (Buy Back of Securities) Regulations, 1998 and Companies Act, 2013.

Marks

Multiple Choice Questions :

4.1 DEF Limited shall on amount spent on shares buy backs will be shown in statement of cash flows in the : 2

(A) Operating Activities;

(B) Financing Activities;

(C) Leasing Activities;

(D) None of the options.

4.2 If the Extract of Balance Sheet of DEF Ltd. consists of : 2

Equity Share Capital – ₹ 6,00,000 of ₹ 10 each

12% Preference Share Capital – ₹ 1,00,000 of ₹ 100 each

14% Debenture Capital – ₹ 3,00,000 of ₹ 100

What is the maximum equity share capital and number of equity shares that can be bought back ?

(A) ₹ 1,80,000 and 18,000 equity shares;

(B) ₹ 1,50,000 and 15,000 equity shares;

(C) ₹ 1,20,000 and 12,000 equity shares;

(D) None of the options.

4.3 What is the maximum upto which DEF Limited can buy back ? 2

(A) ₹ 400 Crores;

(B) ₹ 600 Crores;

(C) ₹ 902.50 Crores;

(D) ₹ 670.50 Crores.

Marks

4.4 What will be the last date of buy-back if DEF Limited buy back its shares amounting to ₹ 110 Crores ? **2**

(A) 14th July, 2020

(B) 14th June, 2020

(C) 15th June, 2020

(D) 15th July, 2020

4.5 The ________ components of the Escrow account may be maintained in an _______ account. **2**

(A) Credit, non-interest

(B) Credit, Cash Credit

(C) Saving, Current

(D) Cash, Interest bearing

4.6 What in your opinion the merchant banker of DEF Limited would have apprised the management of DEF Limited in their presentation regarding conditions and requirements for Buy-back of shares and specified securities detailing compliance of SEBI (Buy Back of Securities) Regulations, 1998 and Companies Act,2013. ? **5**

4.7 From the case study given above answer of following questions :

(a) What is the maximum amount by which DEF Limited can buy-back its shares from the open market? What will the maximum amount that DEF Limited can buy back without passing special resolution in general meeting and instead of passing special resolution for that what DEF Limited have to do ? **2**

(b) "The management of DEF Limited was unaware of opening of Escrow account, however the merchant banker have apprised the management regarding mandatory requirement of opening of Escrow account." Explain briefly. **4**

(c) "The management apprised the merchant banker that there is no requirement of extinguishment of shares and reporting requirement to SEBI as per SEBI (Buy Back of Securities) Regulations, 1998 and Companies Act, 2013." Analyse the veracity of the statement. **4**

Case Study : 5

Mr. AJ and Ms. SJ both engineers by profession conceived an idea to step a project in the State of Uttarakhand. The project involves setting up of a manufacturing unit to produce polypropylene wheel cores that are used in castors and wheels and advanced perform making machines. The project also involves technological up gradation as it switches to use of state of art high speed injection molding machines using multiple strokes thus ensuring internationally acceptable quality standards. It has been 5 years and they are proud owners of a Company named HPL.

The project involves setting up of a manufacturing unit to produce polypropylene wheel cores that are used in castors and wheels and advanced perform making machines. The project also involves technological up gradation as it switches to use of state of art high speed injection molding machines using multiple strokes thus ensuring internationally acceptable quality standards.

Cost and Means of Finance

Cost of project				
Land				2200000
Building				12500000
Plant & machinery, (imported)				
(i) PP wheel machine and mold	USD	80000		
	@	70	**5600000**	
Duty & other expenses			**840000**	6440000
(ii) PET molding machine II with mold				4700000
(iii) PET molding machine-III with mold				2700000
Ancillary equipment's				4875000
Office equipment's				300000
Contingencies				500000
Initial working capital				500000
Total				**34715000**

Marks

Means of finance

Term loan from Bank	23733250
Promoters contribution	10981750
Total	**34715000**

Working capital requirement (Estimated Figures)

		Margin	Prom.	Bank	Total
R.M STOCK	3000000	25	750000	2250000	3000000
F.G STOCKS	3500000	25	875000	2625000	3500000
DEBTORS	6000000	50	3000000	3000000	6000000
			4625000	7875000	
Less : own sources at the end of first year.				800000	
Net				7075000	

HPL has been getting bulk orders and generating revenue. With an employee count of 78 under the leadership of AJ and SJ, the Company has so far witnessed growth and profits.

In the meeting of Board of Directors held in the month of December 2020. The Board noted from MIS and realizes that as the business has expanded, they had less time available to focus on credit control. Collections from accounts receivable has deteriorated and despite high profits, Company is using more of Cash Credit facility of existing ₹ 1 Crore to pay for business expenses that became due sooner than they get paid. They need cash flow to pay employees, vendors and cover other business expenses. The Board of Directors decided to again approach their bank for assistance.

Marks

Brief financial information was placed in the meeting of Board of Directors :

Particulars	Amount (₹)
Projected Sales	900,00,000
Trade Receivables	100,00,000
Cash & Cash Equivalent	5,50,000
Trade Payables	25,00,000
Short Term Provisions	2,15,000
Short Term Borrowings	2,25,500
Estimated Current Assets (Total)	500,00,000
Estimated Current Liabilities (Total)	200,00,000

Other Information presented before the Board of Directors :

- Estimated Annual credit sales shall be ₹ 1.2 crore (approx.) and estimated average collection period is 50 days.
- The past experience indicates that bad debt losses are around 2% of credit sales.
- The Board of Directors considers 365 days in a year.

Based on the Company's performance record, the bank was ready to sanction additional fund-based working capital limit of 2 Crores and interest rate is Base Rate 15% +2% p.a, payable at monthly basis.

However, the Directors were not convinced with idea of additional cash credit from bank and insisted to look for other alternatives. They were referred to a local firm specializing in credit management consultancy DEF

Associates. It suggested that they either employ a credit monitoring manager or factor accounts receivable. Factoring was new the Directors of HPL. The DEF Associates suggested EA to HPL for factoring services who specializes in Domestic Factoring Services also suggested "In factoring, the factor not only finance trade debts but also performs various other functions". Secondly the factoring is expected to save ₹ 50,000 in administration costs and also to eliminate all bad debt losses. EA was known to provide factoring services involving advancing 80% of the receivables at 12% p.a. and 2% factoring commission.

Since the concept of Factoring is a new concept. During the meeting with EA, EA explained along with regulatory aspects of Factoring, the whole process to the Directors of HPL through steps as well as flow chart as given below :

The process of factoring invoices includes the following steps :

(1) Sell goods to customers on credit terms and generate invoices.

(2) Submit invoices to the factoring company.

(3) Factoring company advances your business cash based on a percentage of invoice value.

(4) The business pays interest on the percentage advanced.

(5) The factoring company manages the collection of accounts receivables.

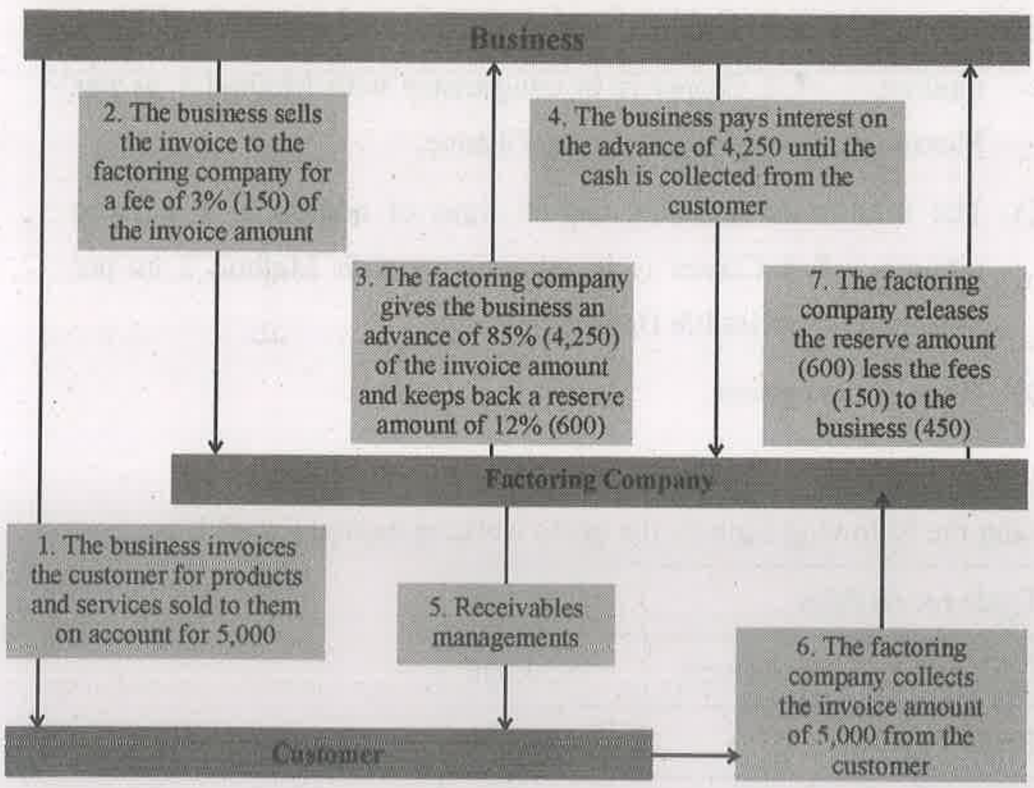
(6) Factoring company collects the accounts receivable from the customer.

(7) Factoring company pays your business the balance of the invoice after deducting a commission fee based on a percentage of the invoice value.

Flow Chart of Factoring Receivables Process :

To explain the process of factoring receivables, we have set out the seven steps involved in the flow chart diagram below using typical example values based on accounts receivables invoices of ₹ 5,000.

Factoring Accounts Receivable



While the discussion was going on with EA, HPL received an international order ₹ 5 Crores, big enough in terms of contribution to profits. This led the Company to approach GA, a firm specializing in international factoring services for hiring their services in context of international orders. The Board of Directors ratified the appointment of EA for Domestic Factoring Services without verification of regulatory requirements.

Marks

Provide the correct option to the following questions :

5.1 Based upon financial information which was placed in the meeting of Board of Directors of HPL held in the month of December, 2020, which statement is correct, assuming no current bank borrowing and ? **2**

(A) The fund-based working capital limit of additional ₹ 2 crore totaling ₹ 3 Crores is in congruence with turnover method;

(B) The fund-based working capital limit of additional ₹ 2 crore totaling ₹ 3 Crores is in congruence with Method 1 as per Maximum Permissible Banking Finance;

(C) The fund-based working capital limit of additional ₹ 2 crore totaling ₹ 3 Crores is in congruence with Method 2 as per Maximum Permissible Banking Finance;

(D) None of the options.

5.2 Using the following figures, the gross working capital for HPL is : **2**

Trade receivables	100,00,000
Cash and cash equivalents	5,50,000
Trade Payables	14,00,000
Short term provisions	2,15,000
Short term borrowings	2,25,000

(A) ₹ 1,00,00,000;

(B) ₹ 87,10,000;

(C) ₹ 91,50,000;

(D) ₹ 1,05,50,000.

Marks

5.3 All the following statements are correct about two factor international factoring except : 2

(A) The responsibilities relating to book-keeping and collection of debts remain vested with the import factor;

(B) Import factor provides the credit protection in case of financial inability on the part of any of the debtors;

(C) Factoring commission is shared by export factor with import factor at mutually agreed rate;

(D) The export factor bases his credit decision on the financing standing of the availing bank.

5.4 If another firm, True factor Financial Services agreed to factor HPL receivables involving advance 80% of the receivables at 10% p.a. and 2% factoring commission as per information available in case study. The amount remitted to HPL is : 2

(A) 12,82,192;

(B) 13,15,068;

(C) 12,64,628;

(D) 11,53,973.

5.5 Net factoring cost in case of True Factor Financial Services above is : 2

(A) 5.95%;

(B) 6.19%;

(C) (18.94)%;

(D) (2.56)%.

Marks

5.6 HPL received an international order, big enough in terms of contribution to profits. The factoring firm, EA, specialized in domestic factoring only. This led the Company to approach GA, a firm specializing in international factoring services for hiring their services in context of international orders. 5

The Directors of the Company were skeptical whether it will be advantageous to hire the services of GA in respect of international orders or they should opt for Forfeiting. Explain in brief.

5.7 (A) While discussing about factoring, the manager of the local firm specialising in credit management consultancy mentions: 5

"In factoring, the factor not only finance trade debts but also performs various other functions". Justify this statement.

(B) "The Directors of HPL have not verified the regulatory requirements before appointing EA for Factoring Services". Justify this statement. 5
