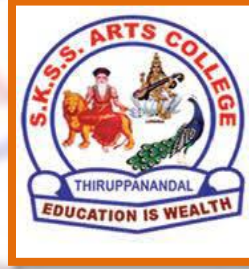




ஸ்ரீ-ல-ஸ்ரீ காசிவாசி சுவாமிநாத சுவாமிகள் கலைக் கல்லூரி  
தருய்னந்தாள் - 612504  
**S.K.S.S ARTS COLLEGE, THIRUPPANANDAL - 612504**



## QUESTION BANK

*Title of the Paper*

# FINANCIAL SERVICES

**Course: III B.Com.,**

**Sub. Code: 16CCCCM15**

**Semester: VI**

*Prepared by*



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## **CORE COURSE – XV**

### **FINANCIAL SERVICES**

#### ***UNIT – I***

Financial services – Meaning – Classification – Financial products and services – Challenges facing the financial service sector – Merchant banking– Meaning – Functions– SEBI Guidelines – Scope of merchant banking in India. NBFCs – RBI guidelines.

#### ***UNIT – II***

Hire purchase – Meaning – Features – Process – Hire purchase and credit sales – Hire purchase vs Installment purchase – Banks and hire purchase business – Hire purchase and transport industry – Leasing – Concept – Steps involved in leasing – Lease vs Hire purchase – Types of lease – Problems and prospects of leasing in India.

#### ***UNIT – III***

Mutual funds – Meaning – Types – Functions – Advantages – Institutions involved – UTI, LIC, Commercial banks – Entry of private sector – Growth of mutual funds in India – SEBI Guidelines – AMC.

#### ***UNIT – IV***

Venture capital – Meaning – Features – Methods of venture capital financing – Modes of venture financing – Venture capital investment process – Factors determining venture investment – Exit mechanism – Advantages of venture capital – Issues of Indian venture capital industry.

#### ***UNIT – V***

Factoring – Concepts – Significance – Types – Factoring mechanism – Factoring vs bills discounting – Factoring in India – Forfaiting – Meaning – Forfaiting vs Export factoring – Problems of Forfaiting/ factoring.

## UNIT – I

### CHOOSE THE CORRECT ANSWER

1. The market for short term loan is called
  - (a) Money market
  - (b) Call money market
  - (c) Treasury bill market
  - (d) Acceptance market
  
2. The market for extremely short period loan is called
  - (a) Call money market
  - (b) Money market
  - (c) Treasury bill market
  - (d) Acceptance market
  
3. Stock exchange are an integral part of
  - (a) Primary market
  - (b) Secondary market
  - (c) Wholesale market
  - (d) Retail market
  
4. Securities contracts (Regulation) Act was passed in
  - (a) 1955
  - (b) 1956
  - (c) 1957
  - (d) 1958
  
5. Securities scam by Harshad Mehta took place during
  - (a) 1990-91
  - (b) 1991-92
  - (c) 1992-93
  - (d) 1993-94
  
6. An arrangement whereby it is possible for an investor to apply for the shares without having to pay for them and where the investor could make payment for shares when allotted to him.
  - (a) Stock invest
  - (b) Equipref invest
  - (c) Euro issues investment
  - (d) DDB investment
  
7. These are the bonds issued with a detachable warrant and are redeemable after a notified period.
  - (a) Secured premium notes
  - (b) Non convertible debenture
  - (c) Commercial paper
  - (d) "Equipref"

8. The issues of equity shares of a body corporate is made to the existing shareholders as a pre-emptive right is called
- (a) Public issue
  - (b) Rights issue
  - (c) Private placement
  - (d) Stock invest
9. Gilt edged market is
- (a) Government securities market
  - (b) Industrial securities market
  - (c) Primary market
  - (d) Secondary market
10. SEBI Act was enacted in
- (a) 1992
  - (b) 1993
  - (c) 1994
  - (d) 1995

**Answers:** 1. (a) 2. (a) 3. (b) 4. (b) 5. (b) 6. (a) 7. (a) 8. (b) 9. (a) 10. (a)

### SHORT QUESTIONS (2 MARKS)

11. What is financial service environment?
12. Name the players in the financial service market.
13. Define interest rate.
14. Define the term merchant banking.
15. Who are merchant bankers?
16. What is corporate counselling?
17. What is project counselling?
18. What is pre investment studies?
19. What is issue management?
20. What is portfolio management?

### PARAGRAPH QUESTIONS (5 MARKS)

21. What are the features of interest rate?
22. How is interest rate determined? Illustrate.
23. Outline the policy initiative as regards external capital flows.
24. List the activities forming part of corporate counseling.
25. List the activities forming part of project counseling.
26. What are the components of pre investment studies?
27. What are the importance of financial service?
28. Write a descriptive note on NBFC in India.
29. Identify the main area covered under the foreign currency financing.
30. What are the services rendered by mutual fund in India?



## ESSAY TYPE QUESTIONS (10 MARKS)

31. Describe the classification of financial product service.
32. Describe the force that influences the dynamics of a financial service sector of a company.
33. Discuss the various macroeconomic aggregates that affect the financial sector policy initiative in India.
34. Discuss the detail various function performed by merchant banker in India.
35. Explain the function of financial service.
36. Discuss the SEBI frame work for registration of merchant banker.
37. Explain the role of a merchant banker in the capacity of a lead manager.
38. Discuss the nature and scope of merchant bankers.
39. Discuss the various types of financial services.
40. Explain any three components of financial services.

## UNIT – II

### CHOOSE THE CORRECT ANSWER

1. This is mode of financing the price of the goods to be sold on a future date
  - (a) Hire purchase
  - (b) Installment sale
  - (c) Leasing
  - (d) Credit sale
2. In the hire purchase the depreciation is charged on the assets in the books of the
  - (a) Hire purchase
  - (b) Hire vendor
  - (c) Both hire purchase and hire vendor
  - (d) Finance company
3. In hire purchase depreciation is charged on the
  - (a) Cash price of the assets
  - (b) Hire price
  - (c) Cost less depreciation value
  - (d) Notional cost of the assets
4. In the hire purchase, property in the goods passes on the hirer on the payment of the
  - (a) Deposit
  - (b) Down payment
  - (c) Lost installment
  - (d) None of these
5. In hire purchase each installment consist of
  - (a) Interest only
  - (b) Principal
  - (c) Both interest and principal
  - (d) Rentals only

6. It is stipulation which is essential to the main purpose of the hire purchase contract .
- Condition
  - Warranty
  - Doctrine
  - Fitness
7. The finance company should select hire purchase alternative if its net present value is
- Less than that of lease financing
  - Equal to that of lease financing
  - More than that of lease financing
  - None of these
8. To realise the investment so as to make a profit or minimises losses is the purpose.
- Exit
  - Early fledgling
  - Fledgling
  - Floatation
9. This is an involuntary exit forced on the venture capital institution
- Liquidation
  - Takeout
  - Earnout
  - Floatation
10. It is the sale of the equity stake of a venture capital institution to a new investor including another venture capital fund
- Take out
  - Trade sale
  - Earn out
  - Buy out

**Answers:** 1. (a) 2. (a) 3. (a) 4. (c) 5. (c) 6. (a) 7. (c) 8. (c) 9. (c) 10. (a)

### SHORT QUESTIONS (2 MARKS)

- What is meant by hire purchase financing?
- How is the term hire purchase define under the provisions of the Hire purchase Act 1972?
- What is add- on rate of interest?
- What is flat rate of interest?
- What is effective rate of interest?
- What is meant by decision?
- What is finance income?
- What is net annual lease charge?
- Define leasing.
- What is leveraged lease?

### PARAGRAPH QUESTIONS (5 MARKS)

21. What are the features of a hire purchase contract?
22. What are the rights of hire under the provisions of hire purchase act 1972?
23. Explain the different types of interest rates used in hire purchase financing.
24. Explain the steps in the calculation of effective rate of interest?
25. How is interest calculated under the sum of year digits method?
26. How are hire purchase transactions reported in the books of account?
27. Write a note on tax benefits involved in HP transactions.
28. Summarise the advantages and limitations of leasing.
29. Explain different Kinds of leasing.
30. Distinguish between domestic lease and international lease.


### ESSAY TYPE QUESTIONS (10 MARKS)

31. Bring out the points of distinction between lease financing and hire purchase financing.
32. Explain the different methods of calculating interest in a hire purchase.
33. What are the contents of hire purchase agreement?
34. What are the differences between hire purchase and instalment sale?
35. Discuss the main characteristics of hire purchase.
36. Explain the accounting and reporting.
37. Define hire purchase agreement, and explain hire purchase conditions.
38. Write contents of a typical lease agreement.
39. Discuss "ownership is divorced from the economics use of the leased asset".
40. Explain problems and prospects of leasing in India.

### UNIT – III

#### CHOOSE THE CORRECT ANSWER

1. The enduring relationship between the venture capital institutions and venture capital undertaking and the activity role by the former in the management of the latter is termed as
  - (a) Investment nurturing
  - (b) Disinvestment
  - (c) Exit
  - (d) Structuring the deal
2. In conditional loan, the charge on sale is known as
  - (a) Royalty
  - (b) Interest
  - (c) Dividend
  - (d) Revenue multiplier
3. The passive role played by the venture capital fund in investment nurturing particularly formulating strategies or policy matters is referred to as
  - (a) Hands on
  - (b) Hands off
  - (c) Hands holding
  - (d) Exit

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4. It is the extra gain received by the general partners in a limited partnership form of venture capital institutions.
    - (a) Carried interest
    - (b) Deep discount
    - (c) Capital contribution
    - (d) Management fee
  5. Generally highly leveraged instruments should be valued at
    - (a) Cost
    - (b) Fair value
    - (c) Market value
    - (d) Exit value
  6. A method of marketing securities of a company whereby its employees are encouraged to take up share and subscribe to it is known as
    - (a) Stock option
    - (b) Rollover
    - (c) Bidding
    - (d) Stabilizing mechanism
  7. Where the marketing of securities takes place through intermediaries such as issue houses, stock broker and others is known as
    - (a) Offer for sale
    - (b) Private placement
    - (c) Bought out deal
    - (d) Book building
  8. The securities of subject to a lock-in period
    - (a) Unsubscription of non transferability
    - (b) Excess contribution
    - (c) Minimum contribution
    - (d) Composite issue
  9. The process of price discovery
    - (a) Book building
    - (b) Brought out deal
    - (c) Private placement
    - (d) Green shoe option
  10. The first issue of equity share to the public by an unlisted company is
    - (a) IPO
    - (b) GSO
    - (c) SA
    - (d) IDR

**Answers:** 1. (a) 2. (c) 3. (c) 4. (a) 5. (c) 6. (a) 7. (a) 8. (a) 9. (a) 10. (a)



### SHORT QUESTIONS (2 MARKS)

11. What is mutual fund?
12. What is meant by trustee?
13. What is an income fund?
14. What is a growth fund scheme?
15. What is an equity fund scheme?
16. What is a fund-of-fund?
17. What are gilt fund?
18. What are index fund?
19. What is an AMC?
20. What is NAV?

### PARAGRAPH QUESTIONS (5 MARKS)

21. Describe the features and the role of mutual fund.
22. Explain the mutual funds beneficial?
23. How are open-ended scheme of mutual fund different from the close-ended scheme of mutual fund?
24. Explain the mechanism of mutual fund operation.
25. What are the functions of a custodian in a mutual fund management?
26. What are the functions of a trustee in a mutual fund management?
27. What are the SEBI requirements of AMC?
28. What are the functions of AMC?
29. What are the functions of registrars and transfer agents appointed by the AMC?
30. What are the functions of lead manager?

### ESSAY TYPE QUESTIONS (10 MARKS)

31. Explain the working mechanism of AMC.
32. How is NAV calculated? Explain.
33. How is a mutual fund evaluated under the "Sharpe Model"? Describe.
34. What are the different types of mutual fund?
35. Enumerate the various cases of slow growth of mutual funds in India.
36. How are mutual fund scheme classified?
37. Discuss the working of mutual fund in India?
38. Elaborate the system of managing mutual fund in India.
39. Describe the portfolio management process in mutual fund.
40. How can one evaluate the performance of mutual fund? Explain.

## UNIT – IV

### CHOOSE THE CORRECT ANSWER

1. It is a financial intermediary between investor looking for high potential return and entrepreneurs who need institutional capital as they are not yet ready to go to the public.
  - (a) Venture institution
  - (b) Management buy out
  - (c) Turn around
  - (d) Software company
2. Seed capital is the stages of financing in
  - (a) Pre start up
  - (b) Start up
  - (c) Second round financing
  - (d) Later stage financing
3. This implies transfer of management control
  - (a) Mezzanine
  - (b) Buy outs
  - (c) Bridge
  - (d) Hands off
4. It involves buying the control of a sick company
  - (a) Mezzanine
  - (b) Buyouts
  - (c) Buying
  - (d) Turnaround
5. It is a stage when the product or service is commercialized for the first time in association with a venture capital institution.
  - (a) Pre-start up
  - (b) Start up
  - (c) Maturity
  - (d) Decline
6. It is a quasi-equity instrument without any predetermined repayment schedule or interest rate
  - (a) Term loan
  - (b) Conditional loan
  - (c) Consortium loan
  - (d) Conventional loan
7. These are issued at a large discount to their maturity value
  - (a) Coupon bonds
  - (b) Zero interest bonds
  - (c) Secured premium notes
  - (d) Deep discount bonds

8. These are redeemable at a premium in lump sum or installments, have zero interest rate and carry a warrant against which equity share can be acquired.
- (a) Income debts
  - (b) Zero interest bonds
  - (c) Secured premium notes
  - (d) Deep discount bonds
9. These instrument carry an uniform low rate of interest plus a royalty on sales
- (a) Income notes
  - (b) Conventional loans
  - (c) Conditional loans
  - (d) Secured premium notes
10. It refers to continuous and constant involvement in the operation of the investee company which is institutionalized in the form of representation of the board of directors.
- (a) Hands-on nurturing
  - (b) Hands off nurturing
  - (c) Hands-holding nurturing
  - (d) All of these

**Answers:** 1.(a) 2.(c) 3.(b) 4.(b) 5.(a) 6.(a) 7.(c) 8.(a) 9.(c) 10.(d)

### **SHORT QUESTIONS (2 MARKS)**

11. What is venture capital?
12. What is venture capital fund?
13. State any two advantages of venture capital.
14. What is seed capital?
15. What is risk capital foundation?
16. What is national equity fund for small entrepreneurs?
17. What is earn-out?
18. What is an investment trust?
19. What is an investment company?
20. What is an offshore investment company?

### **PARAGRAPH QUESTIONS (5 MARKS)**

21. What are the characteristic features of venture capital?
22. How is venture capital investment evaluated under the conventional method?
23. Explain the growth of venture capital.
24. What are the stages involved in venture capital financing?
25. How a venture capital firm evaluates a borrowing company?
26. What are the advantages of venture capital?
27. Distinguish between venture capital and development capital.
28. Distinguish between venture capital, seed capital and risk capital.
29. What are the factors taken into account by the venture capitalists for appraising projects?
30. What are the factors to be considered while making fundamental analysis of a venture?



## ESSAY TYPE QUESTIONS (10 MARKS)

31. Discuss the different methods of evaluation venture capital investments.
32. What are the issue and challenges of venture capital financing in India?
33. Give an account of the venture capital funds operating in India.
34. Elaborate on the various stages of venture capital financing.
35. How is venture capital proposals analyzed? Explain.
36. Explain the different types of buy-outs.
37. Describe the different styles of venture financing.
38. How is venture capital companies organized? Explain.
39. Discuss the different exit methods available to venture capital financing companies.
40. State the advantages of buy-outs.

### UNIT – V

#### CHOOSE THE CORRECT ANSWER

1. Providing resources to finance receivables is
  - (a) Factoring
  - (b) Discounting
  - (c) Forfeiting
  - (d) Credit rating
2. A financial institution that purchases receivables from business firms is
  - (a) Factor
  - (b) Banker
  - (c) Creditor
  - (d) Guarantor
3. The factoring which provides the entire spectrum of services namely collection, credit protection, sales ledger administration and short term finance is
  - (a) Advance factoring
  - (b) Non -recourse factoring
  - (c) Old line factoring
  - (d) Recourse
4. Parties to factoring are domiciled in the same country
  - (a) Domestic factoring
  - (b) Cross border factoring
  - (c) Export factoring
  - (d) International factoring
5. A form of financing of receivables pertaining to international trade is
  - (a) Forfeiting
  - (b) Factoring
  - (c) Forfeiting
  - (d) Discounting
6. The first factoring company that started its operations is april 1991 is
  - (a) SBI FACS
  - (b) Can bank factors ltd
  - (c) Foremost factors ltd
  - (d) Global trade finance ltd



7. Two factor system of factoring refers to
  - (a) International factoring
  - (b) Full factoring
  - (c) Domestic factoring
  - (d) Non -recourse factoring
8. Discounting accommodation bill is known as
  - (a) Kite flying
  - (b) Sugar coating
  - (c) Window display
  - (d) Rosy picture
9. Bills drawn by contractors on government departments are called
  - (a) Supply bills
  - (b) Accommodation bills
  - (c) Endorsed bills
  - (d) Time bills
10. The margin between the ready money paid and the face value of the bill is
  - (a) Discount
  - (b) Interest
  - (c) Premium
  - (d) Commission

**Answers:** 1.(a) 2.(a) 3.(b) 4.(a) 5.(a) 6.(a) 7.(a) 8.(a) 9.(a) 10.(a)]

### **SHORT QUESTIONS (2 MARKS)**

11. Define factoring
12. What is domestic factoring?
13. State the functions of factoring.
14. What is bills discounting?
15. What is discount factoring?
16. What is forfeiting?
17. What is cross-border factoring?
18. What is full service factoring?
19. Distinguish between factoring and bills discounting.
20. State any two problems of factoring.

### **PARAGRAPH QUESTIONS (5 MARKS)**

21. Explain with a chart the mechanism involved in factoring.
22. Explain the features of factoring.
23. How do you distinguish factoring from off-balance sheet financing?
24. Explain the modus operandi as regards cross border factoring.
25. What are the salient features of with recourse factoring?
26. What are the salient features of without recourse factoring?
27. What are the advantages of factoring?
28. What are the disadvantages of factoring?
29. What are the components of cost of factoring?
30. What are the problems of forfeiting?

### ESSAY TYPE QUESTIONS (10 MARKS)

31. Elaborate the different types of factoring.
32. Discuss the functions of various players in a factoring arrangement.
33. Explain the functions of a factor.
34. Give an account of factoring in the Indian context.
35. Discuss the operational profile of the Indian factoring.
36. Discuss the operational problems of the Indian factoring.
37. What are the advisory services rendered by a factor?
38. State the RBI guidelines as regards factoring.
39. Distinguish between forfeiting and export factoring.
40. Write a detailed note on the content of factoring.

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