ca final strategic financial management practice manual

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No part of the material contained in this website may be reproduced or transmitted in any form or by any means, electronic, technical, photocopying, recording or otherwise, or stored in any retrieval system of any nature without the written permission of the ICAI. Related documents Gst book pages 1 to 323 Lecture notes 112 Practice Manual for Strategic FInancial Management SFM MCQs GST Exec Prog Budgeting question Budget and budgetary control Reliefs AND Advance TAX Questions Preview text 5 Indian Capital Market BASIC CONCEPTS 1. Introduction Indian financial market consists of capital market, money market and the debt market. 2. Capital Market The capital markets are relatively for greater than one year maturity financial instruments e.g. bonds and stocks. 3. Primary Market A market where new securities are bought and sold for the first time is called the New Issues market or the IPO market. Secondary Market A market in which an investor purchases a security from another investor rather than the issuer, subsequent to the original issuance in the primary market. There are many similarities and differences between Primary Market and Capital Market Stock Exchange and Its Operations Stock exchange is a place where the securities issued the Government, public bodies and Joint Stock Companies are traded. 4. Leading Stock Exchanges in India a Bombay Stock Exchange Limited BSE It is the oldest stock exchange in Asia.The Trading System BOLT is a proprietary system of the Exchange and is BS certified. The surveillance and clearing and settlement functions of the Exchange are ISO certified. b National Stock Exchange NSE It was promoted leading Financial Institutions at the behest of the Government of India and was incorporated in November 1992. It uses satellite communication technology to energize participation from around 320 cities spread all over the country. NSE can handle up to 6 million trades per day in Capital Market segment.http://shinies.ru/img/lib/foodsaver-professional-iii-manual.xml

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NSE is one of the largest interactive VSAT based stock exchanges in the world. Today it supports more than VSATs. 5. Leading Stock Exchanges Abroad a New York Stock Exchange NYSE was established in 1792. Each day on the The Institute of Chartered Accountants of India Indian Capital Market 5.2 NYSE trading floor an auction takes place. Open bid and offers are managed on The Trading Floor Exchange members acting on behalf of institutions and individual investors Buy and sell orders for each listed security meet directly on the trading floor in assigned locations. Prices are determined through supply and demand. Stocks buy and sell orders funnel through a single location, ensuring that the investor, no matter how big or small, is exposed to a wide range of buyers and sellers. b Nasdaq It is known for its growth, liquidity, depth of market and the most powerful, technologies. Nasdaq National Market companies include some of the largest, best known companies in the world. 6. c London Stock Exchange Established in 1760. Dealing in shares is conducted via an trading facility operated Cazenovia and Company. It provides a range of services for companies as well as for investors and also regulates the markets to give protection to investors and companies to maintain its reputation for high standards and integrity. Functions of Stock Exchanges a Liquidity and Marketability of b Fair Price c Source for Long term d Helps in Capital and 7. e Reflects the General State of Economy. Stock Market Index a Features Representative of entire Stock Market. Replacement of one share with other share. Flagship BSE Sensex and NSE

Nifty b Computation of Index Index Value Index on Previous Day X 8.http://angkoronetour.com/userfiles/foodsaver-repair-manual.xml

Total market capitalisation for current day Total capitalisation of the previous day Settlement and Settlement Cycle SEBI introduced a new settlement cycle known as the settlement This cycle starts and ends on the same day and settlement take place on the days where X is 2 days, which is the business days from the date of the transactions. NSE and BSE follow this cycle. 9. Clearing Houses Charged with the function of ensuring guaranteeing the financial integrity of each trade. The Institute of Chartered Accountants of India Indian Capital Market 5.4 denominated instrument on an international stock exchange and yet have rights in foreign shares. 12. Derivatives It is a financial instrument which derives its value from some other financial price. This financial is called the underlying. Stock Options A privilege, sold one party to another, that gives the buyer right not an obligation, to buy call or sell put a stock at an agreed upon price within a certain period on or a specific date regardless of changes in its market price during that period. Stock Index Futures Stock index futures may be used to either speculate on the equity general performance or to hedge a stock portfolio against a decline in value. Stock Index Option A call or put option on a financial index. Investors trading index options are essentially betting on the overall movement of the stock market as represented a basket of stocks. 14. Option Valuation Techniques a Binomial Model The Binomial Model breaks down the time to expiration into The Institute of Chartered Accountants of India 5.5 Strategic Financial Management potentially a very large number of time intervals, or steps. Where The variables are S X t r v current stock price strike price of the option time remaining until expiration, expressed as a percent of a year current continuously compounded interest rate annual volatility of stock price the standard deviation of the shortterm returns over one year.

A deeply call will have a delta very close to a deeply call will have a delta very close to 1. The formula for a delta of a European call on a paying stock is The Institute of Chartered Accountants of India 5.7 Strategic Financial Management National status on a permanent basis the Government of India and operational since 26th November 2002. 18. OTC Derivatives It is a derivative contract which is privately negotiated. OTC trades have no anonymity, and they generally do not go through a clearing corporation. OTC Interest Rate Derivatives OTC interest rate derivatives include instruments such as forward rate agreements FRAs, interest rate swaps, caps, floors, and collars FRA It is a forward contract that sets terms for the exchange of cash payments based on changes in the London Interbank Offered Rate LIBOR. Final settlement of the amounts owed the parties to an FRA is determined the formula Payment NRR Where, N the notional principal amount of the RR Reference Rate for the maturity specified the contract prevailing on the contract settlement FR Forward and dtm maturity of the forward rate, specified in days FRA Days DY Day count basis applicable to money market transactions which could be 360or 365 days. Interest rate swaps They provide for the exchange of payments based on differences between two different interest Interest rate caps, floors, and collars They are agreements that require one party to make payments to the other when a stipulated interest rate, most often a specified maturity of LIBOR, moves outside of some predetermined range. Question 1 Write a note about the functions of merchant banker. Answer Functions of Merchant Bankers The basic function of merchant banker or investment banker is marketing of corporate and other securities. In the process, he performs a number of The Institute of Chartered Accountants of India Indian Capital Market 5.8 services concerning various aspects of marketing, viz.

, origination, underwriting, and distribution, of securities. During the regime of erstwhile Controller of Capital Issues in India, when new issues were priced at a significant discount to their market prices, the merchant job was limited to ensuring press coverage and dispatching subscription forms to every corner of the country. Question 2 Write short note on Asset Securitisation. Answer Asset Securitisation Securitisation is a process of transformation of illiquid asset into security which may be traded later in the open market. It is the process of transformation of the assets of a lending institution into negotiable instruments. The term refers to both switching away from bank intermediation to direct financing via capital market money market, and the transformation of a previously illiquid asset like automobile loans, mortgage loans, trade receivables, etc.This is a method of recycling of funds. It is beneficial to financial intermediaries, as it helps in enhancing lending funds. Future receivables, EMIs and annuities are pooled together and transferred to an special purpose vehicle SPV. These receivables of the future are shifted to The Institute of Chartered Accountants of India Indian Capital Market 5.10 security specified the Union Government. In India Companies are required to extinguish shares bought back within seven days. In USA Companies are allowed to hold bought back shares as treasury stock, which may be reissued. A company buying back shares makes an offer to purchase shares at a specified price. Shareholders accept the offer and surrender their shares. The following are the management objectives of buying back securities i To return excess cash to shareholders, in absence of appropriate investment opportunities. ii To give a signal to the market that shares are undervalued. To increase promoters holding, as a percentage of total outstanding shares, without additional investment.

Thus, buy back is often used as a defence mechanism against potential takeover. iv To change the capital structure. b Insider Trading The insider is any person who accesses the price sensitive information of a company before it is published to the general public. Insider includes corporate officers, directors, owners of firm etc.Even, persons who have access to information due to their relationship with the company such as internal or statutory auditor, agent, advisor, analyst consultant etc.Insider trading practice is the act of buying or selling or dealing in securities as a person having unpublished inside information with the intention of making abnormal and avoiding losses. This inside information includes dividend declaration, issue or buy back of securities, amalgamation, mergers or take over, major expansion plans etc. The word insider has wide connotation. An outsider may be held to be an insider virtue of his engaging himself in this practice on the strength of inside information. Insider trading practices are lawfully prohibited. The regulatory bodies in general are imposing different fines and penalties for those who indulge in such practices. Based on the recommendation of Sachar Committee and Patel Committee, SEBI has framed various regulations and implemented the same to prevent the insider trading practices. Recently SEBI has made several changes to strengthen the existing insider Trading Regulation, 1992 and new Regulation as SEBI Prohibition of Insider Trading Regulations, 2002 has been introduced. Insider trading which is an unethical practice resorted those in power in corporates has manifested not only in India but elsewhere in the world causing huge losses to common investors thus driving them away from capital market. Therefore, it is punishable. Question 5 Write short note on Stock Lending Scheme. The Institute of Chartered Accountants of India 5.

11 Strategic Financial Management Answer Stock Lending In the legal title of a security is temporarily transferred from a lender to a borrower. The lender retains all the benefits of ownership, other than the voting rights. The borrower is entitled to utilize the securities as required but is liable to the lender for all benefits. A securities lending programme is used the lenders to maximize yields on their portfolio. Borrowers use the securities lending programme to avoid settlement failures. Securities lending provide income opportunities for and creates liquidity to facilitate trading strategies for borrowers It is particularly attractive for large institutional shareholders as it is an easy way of generating income to offset custody fees and requires little involvement of time. It facilitates timely settlement, increases the settlements, reduces market volatility and improves liquidity. The borrower deposits collateral securities with the approved, intermediary. In case the borrower fails to return the securities, he will be declared a defaulter and the approved intermediary will liquidate the collateral deposited with it. In the event of default, the approved intermediary is liable for making good the loss caused to the lender. The borrower cannot discharge his liabilities of returning the equivalent securities through payment in cash or kind.

Current Status in India National Securities Clearing Corporation Ltd.Stock Holding Corporation of India, Deutsche Bank and Reliance are the other three stock lending intermediaries registered with SEBI. Under NSCCL system only dematerialized stocks are eligible. The stock lending system is screen based, thus instantly opening up participation from across the country wherever there is an NSE trading terminal. The transactions are guaranteed NSCCL and the participating members are the clearing members of NSCCL.

The main features of NSCCL system are i The session will be conducted every Wednesday on NSE screen where borrowers and lenders enter their requirements either as a purchase order indicating an intention to borrow or as sale, indicating intention to lend. ii Previous closing price of a security will be taken as the lending price of the security. The fee or interest that a lender gets will be market determined and will be the difference between the lending price and the price arrived at the ALBM session. iv Corresponding to a normal market segment, there will be an ALBM session. v Funds towards each borrowing will have to be paid in on the securities lending day. vi A participant will be required to equal to the total value of the securities The Institute of Chartered Accountants of India 5.13 Strategic Financial Management fact, if there is not much demand the issue may be deferred and can be rescheduled after having realised the temper of the market. Question 7 Explain the term for Answer Offer for sale is also known as bought out deal BOD. It is a new method of offering equity shares, debentures etc., to the public. In this method, instead of dealing directly with the public, a company offers the through a sponsor. The sponsor may be a commercial bank, merchant banker, an institution or an individual. It is a type of wholesale of equities a company. A company allots shares to a sponsor at an agreed price between the company and sponsor. The sponsor then passes the consideration money to the company and in turn gets the shares duly transferred to him. After a specified period as agreed between the company and sponsor, the shares are issued to the public the sponsor with a premium. After the public offering, the sponsor gets the shares listed in one or more stock exchanges. The holding cost of such shares the sponsor may be reimbursed the company or the sponsor may get the profit issue of shares to the public at premium.

Thus, it enables the company to raise the funds easily and immediately. As per SEBI guidelines, no listed company can go for BOD. A privately held company or an unlisted company can only go for BOD. A small or medium size company which needs money urgently chooses to BOD. It is a low cost method of raising funds. The cost of public issue is around in India. But this method lacks transparency. There will be scope for misuse also. Besides this, it is expensive like the public issue method. One of the most serious short coming of this method is that the securities are sold to the investing public usually at a premium. The margin thus between the amount received the company and the price paid the public does not become additional funds of the company, but it is pocketed the issuing houses or the existing Question 8 Explain the terms ESOS and ESPS with reference to the SEBI guidelines for The Employees Stock Option Plans ESOPs. Answer ESOS and ESPS ESOS 1. ESPS Meaning Employee Stock Option Scheme means a Employee Stock Purchase Scheme means a scheme under which the company grants scheme under which the company offers option to employees.The Institute of Chartered Accountants of India Indian Capital Market 2. 5.14 Certificate Certificate to be placed at each No such Certificate is required. AGM stating that the scheme has been implemented as per the guidelines and in accordance with the special resolution passed. 3. Transferability It is not transferable. 4. It is transferable after lock in period. Consequences of failure The amount payable may be forfeited. If Not applicable. the option is not vested due to nonfulfillment of condition relating to vesting of option then the amount may be refunded to the employees. 5. Lock in period Minimum period of 1 year shall be there between the grant and vesting of options. Company is free to specify the lock in period for the shares issued pursuant to exercise of option. One year from the date of allotment.

If the ESPS is part of public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to any lock in. Question 9 What is the procedure for the book building process. Explain the recent changes made in the allotment process. Answer The modern and more popular method of share pricing these days is the BOOK BUILDING route. After appointing a merchant banker as a book runner, the company planning the IPO, specifies the number of shares it wishes to sell and also mentions a price band. Investors place their orders in Book Building process that is similar to bidding at an auction. The willing investors submit their bids above the floor price indicated the company in the price band to the book runner. Once the book building period ends, the book runner evaluates the bids on the basis of the prices received, investor quality and timing of bids. Then the book runner and the company conclude the final price at which the issuing company is willing to issue the stock and allocate securities. Traditionally, the number of shares is fixed and the issue size gets determined on the basis of price per share discovered through the book building process. Public issues these days are targeted at various segments of the investing fraternity. Companies now allot certain portions of the offering to different segments so that everyone gets a chance to participate. The segments are traditionally three qualified institutional The Institute of Chartered Accountants of India Indian Capital Market 5.16 required but is liable to the lender for all benefits such as dividends, rights etc. The basic purpose of stock borrower is to cover the short sales i.e. selling the shares without possessing them. SEBI has introduced scheme for securities lending and borrowing in 1997. Advantages 1 Lenders to get return as lending charges from it, instead of keeping it idle.

2 Borrower uses it to avoid settlement failure and loss due to auction. 3 From the of market this facilitates timely settlement, increase in settlement, reduce market volatility and improves liquidity. 4 This prohibits fictitious Bull Run. The borrower has to deposit the collateral securities, which could be cash, bank guarantees, government securities or certificates of deposits or other securities, with the approved intermediary. In case, the borrower fails to return the securities, he will be declared a defaulter and the approved intermediary will liquidate the collateral deposited with it. In the event of default, the approved intermediary is liable for making good the loss caused to the lender. The borrower cannot discharge his liabilities of returning the equivalent securities through payment in cash or kind. National Securities Clearing Corporation Ltd. NSCCL, Stock Holding Corporation of India SHCIL, Deutsche Bank, and Reliance Capital etc.NSCCL proposes to offer a number of schemes, including the Automated Lending and Borrowing Mechanism ALBM, automatic borrowing for settlement failures and case case borrowing. Question 12 How is a stock market index calculated. Indicate any two important stock market indices. Answer 1. A base year is set alongwith a basket of base shares. 2. The changes in the market price of these shares is calculated on a daily basis. 3. The shares included in the index are those shares which are traded regularly in high volume. 4. In case the trading in any share stops or comes down then it gets excluded and another shares replace it. 5. Following steps are involved in calculation of index on a particular date Calculate market capitalization of each individual company comprising the index. Calculate the total market capitalization adding the individual market capitalization of all companies in the index. The Institute of Chartered Accountants of India 5.

17 Strategic Financial Management Computing index of next day requires the index value and the total market capitalization of the previous day and is computed as follows Index Value Index on Previous Day X It should also be noted that Indices may also be calculated using the price weighted method. Here the share the share price of the constituent companies form the weights. However, almost all equity indices are calculated using the market capitalization weighted method. Total market capitalisation for current day Total capitalisation of the previous day Each stock exchange has a flagship index like in India Sensex of BSE and Nifty of NSE and outside India is Dow Jones, FTSE etc. Question 13 What is a depository. Who are the major players of a depository system. What advantages does the depository system offer to the clearing member. Answer i A depository is an organization where the securities of a shareholder are held in the form of electronic accounts in the

same way as a bank holds money. The depository holds electronic custody of securities and also arranges for transfer of ownership of securities on the settlement dates. ii Players of the depository system are Depository Issuers or Company Depository participants Clearing members Corporation Stock brokers Clearing Corporation Investors Banks Advantages to Clearing Member Enhanced liquidity, safety, and turnover on stock market. Opportunity for development of retail brokerage business. Ability to arrange pledges without movement of physical scrip and further increase of trading activity, liquidity and profits. The Institute of Chartered Accountants of India 5.19 Strategic Financial Management v It facilitates and thus deepens the market.

II For the Investor i It reduces the risks associated with the loss or theft of documents and securities and eliminates ii It ensures liquidity speedy settlement of It makes investors free from the physical holding of iv It reduces transaction and v It assists investors in securing loans against the securities. For the Corporate Sector or Issuers of Securities i It provides upto date information on names and ii It enhances the image of the It reduces the costs of the secretarial iv It increases the efficiency of registrars and transfer and v It provides better facilities of communication with members. Question 16 Write short note on Green shoe option. Answer Green Shoe Option It is an option that allows the underwriting of an IPO to sell additional shares if the demand is high. It can be understood as an option that allows the underwriter for a new issue to buy and resell additional shares upto a certain quantity. Looking to the exceptional interest of investors in terms of of the issue, certain provisions are made to issue additional shares or bonds to underwriters for distribution. The issuer authorises for additional shares or bonds. In common parlance, it is the retention of to a certain extent. It is a special feature of In the international practices are followed. In the Indian context, green shoe option has a limited connotation. SEBI guidelines governing public issues contain appropriate provisions for accepting subject to a ceiling, say, 15 per cent of the offer made to public. In certain situations, the option can even be more than 15 per cent. Examples IDBI had earlier with their Flexi bonds Series 4 and 5. This is a debtinstrument. Each of the series was initially floated for 750 crores. SEBI had permitted IDBI to retain an excess of an equal amount of 750 crores. ICICI had launched their first tranche of safety bonds through unsecured redeemable The Institute of Chartered Accountants of India Indian Capital Market 5.

20 debentures of 200 crores, with a green shoe option for an identical amount. More recently, Infosys Technologies has exercised the green shoe option to purchase upto additional ADSs representing equity shares. This offer initially involved 5.22 million depository shares, representing 2.61 million domestic equity shares. Question 17 i What are derivatives ii Who are the users and what are the purposes of use. Enumerate the basic differences between cash and derivatives market. Answer i Derivative is a product whose value is to be derived from the value of one or more basic variables called bases underlying assets, index or reference rate. The underlying assets can be Equity, Forex, and Commodity. ii Users Purpose a Corporation To hedge currency risk and inventory risk b c Individual Investors Institutional Investor For speculation, hedging and yield enhancement. For hedging asset allocation, yield enhancement and to avail arbitrage opportunities. d Dealers For hedging position taking, exploiting inefficiencies and earning dealer spreads. The basic differences between Cash and the Derivative market are enumerated belowIn cash market tangible assets are traded whereas in derivate markets contracts based on tangible or intangibles assets likes index or rates are traded. a In cash market tangible assets are traded whereas in derivative market contracts based on tangible or intangibles assets like index or rates are traded. b In cash market, we can purchase even one share whereas in Futures and Options minimum lots are fixed. c Cash market is more risky than Futures and Options segment because in and risk is limited upto d Cash assets may be meant for consumption or investment. Derivate contracts are for hedging, arbitrage or speculation. e The value of derivative contract is always based on and linked to the underlying security. However, this linkage may not be on basis.

From the practice manual given on this page, students can practice infinite number of questions and gain conceptual clarity. It also acts like a CA Final scanner where students can practice multiple past attempt questions. These are the best material to prepare for the CA Final exams. Toppers in every interview suggest students to read through Study Material and Practice Manual provided by ICAI. Remember, last month before the exam is very crucial and this should be very carefully utilise. Hence, read the last months tips for Exam preparation. Everyone is not made for CA, similarly every CA student is not aiming to attain rank but if you are among those few students who are dreaming to be the topper in CA Final then read our strategy to get rank in CA Final. Also Read Don't Forget to Fill CA Final Exam Form Nov 2020 Examination.CA Final June 14, 2018 September 27, 2018 What to Do After Failing in CA So Many Times CA Final September 18, 2018 August 18, 2020 ICAI CA Final Study Material 2020 Download Now Leave a Reply Cancel reply Your email address will not be published. Check all the detail Here. May 26, 2018 August 5, 2020 CA Foundation 10 Secrets to Sure Shot Success in CA Foundation May 25, 2018 August 5, 2020 CA Foundation Procedure to Apply for Error Corrections in CA Foundation 2020. May 24, 2018 August 18, 2020 CA Foundation Strategy for CA Foundation Exam Preparation May 24, 2018 August 18, 2020 CA Foundation 7 Quick Tips for CA Foundation Students During Exam May 22, 2018 August 18, 2020 CA Foundation ICAI CA Foundation Registration and Eligibility Nov 2020 Examination. May 22, 2018 August 10, 2020 CA Foundation How to Clear CA Foundation With 100% Certainty May 21, 2018 August 18, 2020 CA Foundation Download the latest ICAI CA Foundation Syllabus Nov 2020. They are practice question paper which ICAI publish on their website to help students understand the pattern and level of question coming in exams.