2015

DDE

M.Com. Part–II Examination

COMMERCE

PAPER--VI

Full Marks : 100

Time : 4 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Write the answer question of each Half in <u>separate books</u>.

First Half

(*Direct and Indirect Tax*)

[Marks : 50]

Answer Q. No. 1 and any *two* from the rest.

1. Answer any *four* questions : 4×5

   (a) Explain the terms capital income and revenue income with two examples for each.

   (b) You are required to compute the book profit from the following information given by Health Limited :

Net Profit as per Profit and Loss Account – Rs. 5,55,500

Some of the items debited include :

Salaries and wages – Rs. 1,50,000

Depreciation : Normal – Rs. 35,000

: Due to revaluation – Rs. 9,500

Consultation fees – Rs. 45,000

Provision for ascertained liability – Rs. 5,250

Provision for dividends – Rs. 29,500

Wealth tax – Rs. 33,900

Some of the Credited item include :

Transfer for investment Fluctuation Reserve – Rs. 20,000

Transfer from Revaluation reserve – Rs. 15,000

(c) Any company has to pay tax on all types of income in India. Discuss the chargeability of income in this regard.

(d) What do you understand by gross total income ? Explain with the help of an illustration.

(e) An expense in order to be allowed as deduction in computing business income has to fulfill certain conditions. Discuss.

(f) Explain the term 'Indian company'. How does it differ from a domestic company ?   3+2

(g) Describe the term 'deemed dividend'.

(h) Discuss the importance of asset valuation in computation of wealth tax.

2. (a) Expansion Ltd. has three plants (plant X, Y and Z) in its first block of asset (having depreciation rate as 10%). The written down value of the block on April 01, 2013 is Rs. 10,50,000. It added plant A, costing Rs. 3,96,000 to the block on September 10, 2013. Subsequently, on January 22, 2014, it sold plant Y for Rs. 4,95,000. Calculate the written down value of the block at the end of the financial year 2013-14 along with the depreciation chargeable for the year.

(b) In some cases despite having a block of asset, no depreciation may be allowed to be charged for a year in certain cases. Discuss those cases.

(c) Name any five deductible business expenses.

(3+2)+5+5

3. (a) Discuss the cases where a guest house, residential house or a commercial building is not treated as an asset under the Wealth Tax Act.

(b) Explain the taxability of assets held by a minor child as per the Wealth Tax Act.

9+6

4. (a) Welcome Ltd., an Indian company, got incorporated on September 10, 2013 and commenced its production from January 10, 2014. In the financial year 2012-13, the following expenses were incurred by the company :

(i) Market survey by a reputed firm – Rs. 2,10,000

(ii) Preparation of feasibility report – Rs. 1,25,000

(iii) Preparation of project report (by itself) – Rs. 88,000

(iv) Legal charges for preparation of documents (by a legal firm) – Rs. 55,500

(v) Printing costs of the Memorandum and Articles of Association (from a printing house) – Rs. 25,800

(vi) Registration fees – Rs. 22,000

Of all the above expenses, the legal firm that prepared the documents was not approved by the Income tax authorities. It is also mentioned that :

• Cost of the project – Rs. 90,00,000 *and*
• Capital employed – Rs. 82,00,000

In such a situation, you are required to determine the preliminary expenses allowable for deduction under section 35D of the Income Tax Act.

(b) Write down the provisions under the Act relating to allowance of additional depreciation.   11+4

5. (a) As per the Central Sales Tax (CST) Act, 1956, when is a sale or purchase said to take place outside a state ?

(b) Write down the provisions under the CST Act relating to registration of dealers.

(c) Give a brief note of the CST rates applicable to different categories.   4+6+5

Second Half

(*Security Management*)

[Marks : 50]

Answer Q. No. 6 and any *two* from the rest.

6. Answer any *four* of the following :   4×5

(a) In evaluating different investment avenues, what are the important factors that you should keep in mind ?

(b) Write a short note on the investment environment.

(c) Explain the meaning of money market. Name any two money market instruments.   3+2

(d) What do you understand by portfolio selection problem ? Discuss.

(e) Can systematic risk be reduced to zero ? Give your comments. Also, explain the term 'beta' which is a measure of this risk.

(f) Valuation of securities is extremely important to both issuers and investors. Explain.

(g) Discuss the assumptions of the Capital Asset Pricing Model.

(h) What is a capital market line ? Explain with the help of a diagram.

7. (a) Explain the major points of difference between active portfolio revision and passive portfolio revision strategy.

(b) Briefly explain the Markowitz Mean-variance model?

(c) For an equity having a constant growth rate of dividend, show that :

$P_0 = D_1/(k_e - g)$, where P_0, D_1, k_e and g are standard notations.

8. (a) Explain the following terms :

(i) Relative strength index and trend in the context of technical efficiency.

(ii) Fundamental analysis.

(iii) Strong form of market efficiency. 5+5+5

9. (a) The following information is given for three mutual funds Raksha, Suraksha and Paisa :

Mutual Fund	Average quarterly portfolio returns (%)	Beta value
Raksha	12	0·5
Suraksha	20	1·2
Paisa	14	1·5

It is also mentioned that the risk-free rate of return is 7·2% and the return on the Nifty during the last quarter was 15%.

You are required to evaluate the three funds using the Jensen's performance measure. 6

(b) Security market line helps to identify mispricing in securities. Discuss with the help of a diagram. 5

(c) Portfolio performance depends a lot on stock selection and market timing. Elaborate the statement. 4

(a) Following is the information about two securities M and N : 5+5+5

Particulars	Security M	Security N
Mean return	15%	18%
Standard deviation of returns	20%	15%
Beta	0·65	0·78
Correlation coefficient	+ 0·70	

You are required to :

(i) Identify the better security ;

(ii) Compute the covariance between the two securities.

(b) Give is the data for two securities A and B :

Security	Return (%)	Standard deviation
A	10	20
B	20	10

(i) You are required to determine the maximum and minimum portfolio standard deviation that is possible assuming that the investment in the two securities is in the ratio of 2:3.

(ii) What should be the ratio of investment between the two securities in order to reduce the portfolio variance to zero, assuming that the correlation coefficient is perfectly negative?

(c) With the help of a diagram, explain in brief how the indifference curve map will differ for two investors, one risk averse and the other risk-lover.

4+(5+3)+3

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