

2007

COMMERCE

**(Investment Management and
Tax Management)**

PAPER-VII

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.

First Half

Investment' Management)

[Marks : 50]

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

1. Answer any *four* of the following 5x4
- (a) Distinguish between ordinary investment and ordinary speculation. Is there any other kind of speculation ?
Discuss, in brief.
 - (b) Which are the methods of security trading currently **in operation** in Indian Stock Markets ? Discuss in brief.
 - (c) **Following** are the returns (**in % age**) with respective **probabilities** from securities A and B :

(Turn Over)

Using coefficient of variation, which security does appear to be more risky?

Security A

Security B

Return (in % age)	Probability	Return (in % age)	Probability
10	0.30	11	0.20
12	0.40	13	0.30
14	0.30	15	0.30
		17	0.20

- (d) Following are the returns (in % age) with respective probabilities from securities M and N :

Security M

Security N

Return (in % age)	Probability	Return (in % age)	Probability
9	0.20	8	0.30
11	0.25	10	0.30
13	0.25	12	0.20
15	0.30	14	0.20

Coefficient of correlation of returns between securities M and N is + 0.65.

If an investor invests 60% of his investment in security M and balance in the other security, calculate portfolio risk.

- (e) What are the points of benefit of holding the shares in the dematerialisation (demat.) form by the investor ? Discuss.
- (f) Write a short note On 'NSE'.

- (g) Draw a bar chart from the following information available about share prices and volume of a particular share, X.

Day	Opening Price Rs.	Closing Price Rs.	High Price Rs.	Low Price Rs.	Volume (in '000 units)
1	55	62	68	52	53.5'
2	53	60	60	53	45.7
3	55	60	62	55	47-
4	56	61	63	54	49
5	55	62	62	54	48.5
6	56	63	64	54	49
7	55	62	65	55	55

- (h) Discuss the organization and management of a mutual fund institution in brief.
2. Describe the instruments of Indian money market with their respective features. 15.
3. (a) Distinguish between forward trading and backward trading.
- (b) Mr. B agrees to buy 100 'x' shares from Mr. S. @ Rs. 300 per share. Trading date is 15.05.2007, Tuesday. The stock exchange is NSE (fixed settlement was on Tuesday, currently on rolling settlement). Show the amount of profit or loss under the following three circumstances to Mr. B and Mr. S, if Mr. S requests to carry forward the transaction and Mr. B agrees to such request against a contango (badla) rate of 20% p.a.

- Circumstances : (i) **5% price rise on the next settlement date.**
 (ii) **no change in price on the next settlement date, and**
 (iii) **5% fall in price on the next settlement date.**

Assume : Scrip-form of existence of shares, fixed-settlement of securities and badla' trading (though, presently banned in India).

- (c) **Discuss the main elements on which an option buyer and an option writer trade (or bargain).** 3+9+3

- 4. (a) Mr. I thinks about investment in convertible debentures of Z Co. Ltd. Which are under offer of sale. The convertible debentures are of Rs. 100 face value and carry a coupon rate of interest of 12%. Interest is paid annually at the end of each year. The debentures are non-optionally convertible into equity shares after 5 years from the time of issue. Conversion rate is 5 : 1. Face value of equity shares is Rs.. 10. The expected stream of dividends from equity shares is given as follows :**

For the first 5 years : @ 10%

For the next 5 years : @ 12%

After that : @ 13% (with a provision of annual growth rate of 10%)

If cost of capital is 15%, calculate

- (i) **Investment value of the convertible debentures**
 (ii) **If the convertible debentures are offered for sale @ Rs. 75 each, what should be Mr. I's decision?**

Assume, Mr. I's marginal income-tax rate is 30%.

- (b) **Write a short note on 'Warrant'.** (10+2)+3

5. (a) Describe theoretically the steps involved in the process of calculation of beta'.
(b) Describe the various components of fundamental security analysis.
(c) Discuss the various components of systematic risk.

5+5+5

Second Half

(Tax Planning and *Tax Management*)

[Marks : 50]

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

6. Answer any four of the following 5 x 4

- (a) **Explain the meaning** of 'Summary Assessment'.
- (b) **Discuss** the importance of Sec. 72A in the case of amalgamation.
- (c) What are the circumstances under which the Chief, Commissioner and Director General (Investigation) can reduce or waive the penal interest under sections 234A, 234B and 234C ?
- (d) AB Ltd. submitted the volume of income relating to the Assessment year, 2006-07 on 25th October, 2006 declaring an income of Rs. 5,10,000. Subsequently, it was found that it had claimed depreciation of Rs. 1,20,000 under Section 32 (from the accounts maintained under the Companies Act). The depreciation allowed u/s. 32 as per the Income Tax Act. was Rs. 1,00,000. What remedy is available to the company?

- (e) Calculate the amount of interest payable under section 234C in the case of Apple Ltd. for the Assessment year, **2006-07 from the information given below**

	Rs.
Income declared as per return	8,80,000
Advance tax paid	
June 11, 2005	30,000
September, 15, 2005	40,000.
December 14, 2005	72,500
March 10, 2006	1,05,000
Tax deducted at source	5,000

- (f) Specify, **with reasons**, whether the following acts can be treated as an act of tax management, tax planning or tax evasion-
- (i) **Rohan is a working partner of Y Industries. He is entitled to a salary of Rs. 12,000 per month. He treats this as salary so as to claim deductioxi under section 16.**
 - (ii) **An industrialist decides to set up an industrial undertaking in the North-Eastern Region to avail of the benefits under section IOC.**
 - (iii) **Peacock Ltd. installed an air-conditioner at the residence of one of its directors. However, it treats the same as if it has fitted in a factory in order to claim higher depreciation.**
- (g) Write a short note on company in which the public is substantially interested.
- (h) **A Company is engaged in the development and sale of computer software applications. It has started a new undertaking for which approval as a hundred percent export-oriented undertaking has been obtained from the CBDT. From the following information, you are**

required to compute deduction under section 10B in respect of the Assessment Year 2006-07

	Rs. (in lakh)
Total profit of the company during the previous year	40
Total turnover (including export sales)	400
Consideration received in respect of export of software received in convertible foreign exchange within 6 months of the end of the previous year.	180
Sale proceeds credited to a separate account in a bank outside India with the approval of RBI	30
Telecom and insurance charges attributable to export of software	15
Travelling expenses incurred in foreign exchange to provide technical assistance to a client outside India	5

7. (a) Mr. Ashish Roy, an individual furnishes the following **information** for the financial year 2005-06.

	Profit	Loss
	(Rs.)	(Rs.)
Salary income	60,000	—
Income from House Property :		
House A	15,000	—
House B	—	19,000
House C	—	10,000
Profits and Gains from Business or Profession		
Business 1	5,000	
Business 2	14,000	
Business 3 (speculative)		22,000
Business 4		20,000
		<i>(Contd.)</i>

	Profit (Rs.)	Loss (Rs.)
Capital gains:		
Short term capital gain	12,000	—
Short term capital loss	—	5,000
Long-term capital loss		9,000
Long-term capital loss (relating to the Assessment Year, 1995-96)	—	2,500
Income from other sources :		
Lottery	25,000	—
Loss from owning race horses	—	8,000
Income from card game	1,500	—

You are required to determine the net income of Mr. Roy for the Assessment Year, 2006-07.

- (b) State briefly the factors that influence the management decision relating to owning or leasing of a fixed asset. 10+5
8. (a) Explain the provisions of Sec. 115 JB relating to Minimum Alternate Tax. 10
- (b) The accounts of Sharmi Ltd., an Indian Company for the year ended 31.3.2006 prepared in accordance with the provisions of Part II and III of Schedule VI to the Companies Act, 1956 reveals the following-

Rs. (in lakh)	
PAT but prior to depreciation	220
Less : Depreciation for the year	20
Net profit after depreciation	20
Less : Provision for loss of Z Ltd its subsidiary	15
Balance	185

As per its books, the company has unabsorbed **business loss of Rs. 22 lakh** for the assessment year 2004-05 and **Rs. 33 lakh** for the assessment year, 2005-06. The unabsorbed depreciation as per books are **Rs. 25 lakh** and **Rs. 35 lakh**. The carried forward **business losses eligible for set-off** under the Income-Tax Act for **these two years are Rs. 27 lakh** and **Rs. 40 lakh** respectively.

For the current year, **income-tax debited** is **Rs. 5 lakh** and depreciation **allowable** as per Income-Tax Act is **Rs. 28 lakh**.

Compute the tax payable by Sharmi Ltd. for the Assessment Year 2006-07.

- 9. (a) What are the points of difference between tax avoidance and tax evasion?**
- (b) Discuss the liability for tax deduction at source in the following cases : . .**
- (i) AP Textiles Ltd., pays Rs. 1,500 per month to a doctor for attending an outpatient clinic at its factory premises.**
 - (ii) Aishwarya won the first prize in a lottery ticket on 01st January, 2006. The prize consisted of a cash prize of Rs. 5,00,000 and a Maruti Alto worth Rs. 3,00,000.**
 - (iii) A turf club awards a jackpot of Rs. 3,00,000 to the winner of the "Fastest Runner" race-horse contest.**
 - (iv) West Bengal Government pays Rs. 50,000 as commission to 'Lucky Agency' on sale of its lottery tickets.**

5+10

10. (a) Explain briefly the provisions relating to the payment of advance tax.

(b) Mr. Madan Agarwal, a businessman pays the following installments of advance tax during the financial year 2005-06 :

	Rs.
On 15th September, 2005	NIL
On 15th December, 2005	NIL
On 15th March, 2006	20,000
On 28th March, 2006	10,000

The return of income which is filed on 10th December, 2006 shows an income of Rs. 4,25,000. On the same date, he paid Rs. 55,000 (Rs. 50,000 by way of tax and Rs. 5,000 by way of total interest).

However, the assessment which got completed on 20th February, 2007 shows an income of Rs. 4,80,000. Mr. Agarwal is entitled for a tax credit of Rs: 15,000 on account of tax deducted -at source.

You are required to determine the balance amount payable by the assessee.

5+10