2008

COMMERCE

(*Investment Management and
Tax Management*)

PAPER—VII

Full Marks : 100

Time : 4 hours

The figures in the right-hand margin indicate 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* questions of the following: 5 × 4

(a) Distinguish among NAV, POP and Repurchase price of mutual fund schemes.

(b) The following closing price information is available about the equity shares of X Co. Ltd. :

Day	Closing price (in Rs.)	Day	Closing price (in Rs.)
1	25	9	23
2	27	10	21
3	28	11	23
		12	24
4	27	13	25
5	29	14	22
6	26	15	23
7	27	16	21
8	24	17	23

Reversal criterion = Rs. 3, Take box size measuring Re. 1. Draw point and figure chart.

(c) Describe the various moving average calculations used in the technique of modern technical analysis.

(*Continued*)

(d) On 15.02.2008, Mr. B purchased an option to sell 100 ACC shares (at an exercise price of Rs. 200 and on the exercise date, 15.05.2008) from Mr. S. Mr. B paid an option premium of Rs. 5 per share. What will be Mr. B's decision if

   (i) price rises by Rs. 10 on the exercise date,

   (ii) price remains the same on the exercise date, and

   (iii) price declines by Rs. 10 on the exercise date.

(e) What is Investment? Is investment different from speculation? Explain.

(f) Differentiate between capital and money market securities.

(g) Briefly explain the sources of investment risk.

(h) Write a short note on 'warrants'.

(4)

2. (a) Describe the various types of mutual fund schemes.

   (b) Write a short note on 'Mutual Fund in India'.

   (c) Describe any one measure of portfolio performance which is applicable to mutual fund schemes. $9 + 3 + 3$

3. (a) Describe the constituents of primary market and secondary market.

   (b) Write a short note on 'Dematerialisation'.

   $10 + 5$

4. (a) The following information is available relating to two securities, M and N:

Security M		Security N	
Returns (in % age)	Probability	Returns (in % age)	Probability
8	0·33	7	0·10
10	0·34	8	0·20
12	0·33	9	0·30
	1·00	10	0·20
		11	0·10
		12	0·10
			1·00

(*i*) Calculate expected returns and standard deviations of returns from securities, *M* and *N*. Which security should you advise for investment?

(*ii*) If an investor keeps 40% of his fund in security *M* and balance 60% of his fund in securities *N*, and if the correlation coefficient of returns from securities *M* and *N* is — 0·50, calculate portfolio return and portfolio risk.

(*b*) Write short notes on 'Yield to maturity' and 'Coefficient of Variation' of a security's returns.   (3 + 2) + (3 + 3) + (2 + 2)

5. (*a*) Discuss the three levels of market efficiency.

(*b*) XYZ Co. has common shares outstanding in the market with price earnings ratio of 15. The annual expected growth in earnings, dividends and price is 7 per cent. The earnings per share is Rs. 2·5, the dividend payout is 60% and the investor wants to hold the stock for 4 years. The required rate of return is 15 per cent. What would be the present value of the share?

(c) What is fundamental analysis ? Narrate the major points of difference between technical analysis and fundamental analysis. $3 + 6 + (2 + 4)$

SECOND HALF

(*Tax Planning and Tax Management*)

[*Marks* : 50]

Answer Q. No. 6 and any *two* from the rest taking *one* from each Group

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

(a) Show in the form of a diagram the linkages between Corporate Planning and Corporate Tax Planning in Functional Areas.

(b) R. Pvt. Ltd. submits the following information :

	P.Y.2004-05		P.Y.2005-06		P.Y.2006-07	
	Rs.		Rs.		Rs.	
Business income/loss	(-) 1,50,000		(-) 2,50,000		(+) 5,00,000	
Unabsorbed depreciation	80,000		40,000		—	
Share-holding as on the	P	35	P	35	P	35
last day of the previous	Q	20	Q	20	Z	20
year in the form of (%)	R	15	T	15	T	15
	S	30	U	30	U	30

Can the losses of P.Ys 2004-05 and 2005-06 be set off against the income of P.Y. 2006-07 ?

(c) Write notes on - Tax on distributed profits of domestic companies, in addition to income-tax, under section 115-0. Is there any penalty for non payment of such additional income-tax under section 115 P ?

(d) A company purchased scientific research equipment for Rs. 1,00,000 during the previous year 1997-98 and claimed deduction of Rs. 1,00,000 under section 35 for the A.Y. 1998-99. The company sold the equipment, without using it for purposes other than scientific research, in the P.Y. 2004-05 for Rs. 1,65,000.

Mention the tax treatment of the above transaction and suggest any tax planning measure to avoid the impact of section 41 (3).

(e) Explain the term ' amalgamation ' as defined in sec. 2 (1B) of the Income-Tax Act.

(f) Mr. Ashis Gupta, a resident individual, was simultaneously employed by two companies *AB* Ltd. and *PQ* Ltd. during the previous year 2006-07 on a part time basis. He received a salary @ Rs. 15,000 per month from *AB* Ltd. and @ Rs. 12,500 per month from *PQ* Ltd.. How is tax to be deducted in the given case?

(g) During the financial year 2006-07 Mrs. Y (aged 35 years) pays the following instalments of advance-tax.

	Rs.
On September 13, 2006	5,000
On December 15, 2006	11,500
On March 15, 2007	30,000
On March 20, 2007	45,000

Mrs. Y filed the return of income Rs. 6,05,000 on 15 th May, 2007. Assessment was completed on 15 th December, 2007 and the income found on assessment was Rs. 6,25,000. Rs. 16,000 has already been deducted as tax at source.

On the basis of information given above, compute interest under section 234 C.

(Continued)

(*h*) P Ltd. and Q Ltd., both being Indian companies, desire to merge together. The position of losses and allowances of P Ltd. are as follows:

Assessment Year	Unabsorbed Trading loss (Rs. in lakh)	Unabsorbed depreciation (Rs. in lakh)
2004–05	—	1·5
2005–06	—	0·5
2006–07	2	0·75
2007–08	3	1·75

Q Ltd. is a profit making company. What would be the tax implications if Q Ltd. merges with P Ltd. when amalgamation does not satisfy the conditions of Sec. 2(1B) and 72A?

GROUP—A

Answer any *one* question

7. An asset costing Rs. 1,00,000 is to be acquired by a company. There are two alternatives available to the company. First one is buying the asset by taking a loan

of Rs. 1,00,000 repayable in five equal instalments of Rs. 20,000 each along with interest of 14 per cent p.a. and the second one is leasing the asset with an annual rental of Rs. 30,000 for five years. The lessor charges 1 per cent as processing fees in the first year. Lease rentals, processing fees, interest on loan as well as the principal amounts are payable at the year end. Assume tax rate as usual for the assessment year 2007-08, rate of depreciation as 15% and the expected internal rate of return as 10%.

Suggest which alternative is better.

P/V factor at 10%

Years	1	2	3	4	5
P/V Factor	·909	·826	·751	·683	·621

15

8. (*a*) What are the essential conditions for availing deduction in respect of employment of new workmen under section 80 JJAA ?

(*b*) As on 31st March 2006, the regular workers employed by an industrial company were 1200. During the previous year 2006-07, the following workers were employed :

(*i*) Casual workmen on 05.04.06   100

    (*Continued*)

(*ii*) Workmen through contract labour
on 10.05.06   200

(*iii*) With effect from

01.05.06 employed by the company   150
01.06.06 employed by the company   50
15.07.06 employed by the company   100
15.10.06 employed by the company   40

Compute the deduction under Sec. 80 JJAA if the salary of each new workman is Rs. 3000 per month.   15

GROUP — B

Answer any *one* question

9. (*a*) Mr. Bumba Chowdhury, a resident individual (aged 40 years) estimated his income from business to be Rs. 2,25,000 for the previous year 2006-07. He, however, also earned the following:

Short-term capital gain on sale of shares
(on 10th November, 2006)   Rs. 22,000
Long-term capital gain
(on 26th December, 2006)   Rs. 1,00,000

Winnings from lottery

(on 25th March, 2007)   Rs. 50,000

Tax has been correctly deducted at source on lottery income.

Yor are required to calculate the different instalments of advance tax to be paid on different dates.

(b) Write a short note on reassessment of income.

(c) X Ltd., an Indian company earned business income of Rs. 2,40,000 for the previous year 2006-07. It sold shares of ITC and had a short-term capital gain of Rs. 20,000 on 04th December, 2006. It is also liable to pay interest under sections 234A, 234B and 234C of Rs. 2,540, Rs. 8,000 and Rs. 11,200 respectively. During the financial year 2006-07 the company paid an advance tax of Rs. 16,240 and tax deducted at source was Rs. 2,250.

Calculate the self-assessment tax payable under section 140A at the time of filing return.   6 + 4 + 5

10. (a) Discuss the provisions in the Income Tax Act relating to revised return.

(b) Arjun Ltd., an Indian company filed the return of income on 15th February 2008 for the assessment year 2007-08. It paid self-assessment tax of Rs. 67,360 on the same date, the computation of which is shown below :

	Rs.
Income as per return	3,00,000
Tax on returned income	1,00,980
Add : Interest—	
under section 234 A	2,276
under section 234 B	6,259
under section 234 C (correctly computed)	1,900
	1,11,415
Less : Pre-paid taxes—	
Advance tax	35,000
Tax deducted at source	9,060
Total	67,355
Total (rounded off)	67,360

Assessment is completed on 25th April, 2008 and the income is found to Rs. 3,40,000.

You are required to calculate the balance amount payable.   5 + 10