

2009

COMMERCE

*(Investment Management and Tax Planning
& 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 other from the rest

(Turn Over)

1. Answer any *four* from the following questions : 5×4

(a) Can portfolio risk be made zero? Explain with the help of portfolio risk calculation formula. 5

(b) Write a short note on 'Industry Analysis' as a part of fundamental security analysis. 5

(c) Calculate the present value of a debenture from the viewpoints of a company and also from an investor on the basis of the following information : 5

Coupon rate = 12% p.a., interest being paid annually at the end of each year.

Corporate tax rate = 40% (marginal).

Face value = Rs. 100.

The company issued the debentures one year ago at a discount of 10% and will redeem after four years from now at a premium of 15%.

Floation cost amounted to 2%.

Investors' marginal income tax rate = 30%.

(d) Write a short note on 'Treasury Bill'. 5

(e) Following figures are available for two mutual funds as stated below :

<u>Fund</u>	<u>Actual portfolio return (in % age)</u>	<u>Risk-free rate (in % age)</u>	<u>s.d.</u>	<u>beta</u>
<i>M</i>	20	10	8	0.80
<i>N</i>	30	10	10	1.20

Applying Sharpe and Treynor ratios, rank the two funds in order of risk-adjusted return. 5

(f) Distinguish between investing and speculating. Can the same stock be purchased as a speculation and as an investment? Explain. 3 + 2

(g) What are the components of return on a typical investment? Distinguish between realised return and expected return. 3 + 2

(h) Explain the nature of equity securities. Distinguish between 'equity' and 'stock'. 2 + 3

2. (a) Describe the modern security trading methods in the segment in which securities are actually traded.

(b) Explain the meaning of the following terms in relation to the options method of trading :

Put option, Exercise date, Exercise price, Option writer, Option premium.

(c) Discuss the economic advantages of holding shares in demat. segment in comparison to physical segment. 6 + 5 + 4

3. The following information is available about the share prices of one security, X.

<u>Day</u>	<u>Opening Price</u>	<u>Closing Price</u>	<u>High Price</u>	<u>Low Price</u>
	Rs.	Rs.	Rs.	Rs.
1	20	22	23	19
2	21	23	24	20
3	22	24	25	21
4	23	25	26	22

<u>Day</u>	<u>Opening Price</u>	<u>Closing Price</u>	<u>High Price</u>	<u>Low Price</u>
	Rs.	Rs.	Rs.	Rs.
5	23	26	26	23
6	20	26	28	20
7	23	27	28	23
8	22	26	28	22
9	24	26	29	23
10	26	26	29	23
11	27	26	29	24
12	28	25	30	25
13	30	25	31	24
14	32	26	32	24
15	34	27	34	27

(a) You are required to prepare a line chart from the above information.

(b) You are also required to prepare a simple bar chart and candlestick bar chart with the help of the above information.

(c) Taking reversal criterion as Rs. 2 and box size as Re. 1, also prepare a Point and Figure (*P & F*) chart based on the closing prices.

(d) Discuss the limitations of all the above charts in brief and suggest the best chart with reason.

$$2 + (3 + 4) + 3 + 3$$

4. From the following information available about the share prices of one security, Y and the market index, X , calculate beta coefficient of Y and also statistically test the result.

12 + 3

Day	<u>Market Index, X</u>				<u>Share Price of Security Y</u>			
	<u>O</u>	<u>C</u>	<u>H</u>	<u>L</u>	<u>O</u>	<u>C</u>	<u>H</u>	<u>L</u>
1	2000	2200	2300	1900	100	120	140	90
2	2200	2300	2300	2000	110	120	130	110
3	2200	2200	2400	2200	130	120	130	110
4	2100	2000	2200	2000	120	110	130	110
5	2200	2000	2300	2000	120	110	120	100
6	2100	2200	2200	2100	110	120	130	100
7	2000	2100	2300	1900	110	120	120	100
8	2200	2300	2400	2100	120	130	140	110
9	2400	2300	2600	2100	140	130	150	120
10	2400	2200	2500	2100	130	120	130	110
11	2500	2400	2600	2300	140	120	150	120
12	2500	2600	2600	2300	150	150	160	150
13	2600	2500	2700	2400	150	160	170	140
14	2500	2400	2800	2300	160	120	160	120

Day	<u>Market Index X</u>				<u>Share Price of Security Y</u>			
	<u>O</u>	<u>C</u>	<u>H</u>	<u>L</u>	<u>O</u>	<u>C</u>	<u>H</u>	<u>L</u>
15	2500	2400	2700	2400	170	160	180	160
16	2400	2800	2800	2300	180	170	190	150
17	2600	2500	2800	2500	190	200	200	180
18	2500	2400	2500	2400	180	170	190	160

Given : Values of it statistic at degrees of freedom 16 and 18 are 2.921 and 2.878 respectively at 1% Level of significance. [O = Opening value, C = Closing value, H = High value and L = Low value.]

5. (a) Describe the organization structure of a mutual fund institution.
- (b) Distinguish between closed-end and open-end investment schemes.
- (c) Describe any four types of mutual fund under its classification on the basis of nature.
- (d) What are the advantages of managed portfolios ?

4 + 3 + 5 + 3

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 x 4

(a) What is Tax Planning? What are its objectives?
Mention the areas where tax
planning can be successfully used.

(b) Book profits of a company for the assessment
year 2008-09 is supposed to be Rs. 10,00,000,
whereas its total income as per provisions of
Income-tax Act for the same assessment year
is Rs. 1,50,000.

Find out the amount of tax payable by the
company for the A. Y. 2008-09 giving necessary
notes of your working.

(c) X Y Z Ltd. is a closely-held company and Z beneficially holds 15 percent of share capital. The company gives a bona fide loan of Rs. 10,00,000 to Z on April 10, 2007 for $1\frac{1}{2}$ months at the rate of 10 per cent p.a. The accumulated profits on March 31, 2007 is Rs. 6,90,000. Z repays the loan with interest in due time and hence did not agree to pay dividend tax under section 194. If there is no other alternative, Z agrees to pay proportionately on his share holding. In the meantime the company declares dividend and Z becomes entitled to receive Rs. 50,000.

Show the tax treatment of the above transactions under section 2(22)(e).

- (d) Write notes on Residential Status of a Company under section 6(3).
- (e) You are required to cite any five cases where it is compulsory to mention PAN.
- (f) Discuss in brief the provision relating to best judgement assessment as per Sec. 144 of the Income Tax Act.

(g) Mrs. Kankana Ganguly (aged 67 years)
furnishes the following information to you :

Declared income as per return Rs. 3,30,000

Interest payable: Rs.

u/s 234 A	470		
u/s 234 B	750		
u/s 234 C	<u>500</u>	Rs.	1,720

Pre-paid taxes :

Advance tax	Rs.	8,000
Tax deducted at source	Rs.	4,500

You are asked to discuss the provisions regarding adjustment of amount against interest and tax payable if the assessee pays Rs. 5,200 as self-assessment u/s 140 A.

(h) Mr. Anjan Kumar, a resident individual (aged 45 years) submits his return of income on 5th October, 2008 for the Assessment Year 2008-09 disclosing an income of Rs. 5,00,000. The amount of advance tax paid during the year 2007-08 was Rs. 40,000. Tax deducted at source is Rs. 10,000. The assessment which gets completed on 10th May, 2009 shows an income of Rs. 5,80,000.

You are required to calculate the amount of interest u/s 234 A as per assessment.

GROUP—A

Answer any *one* question : 15 x 1

7. A company wants to raise capital of Rs. 25,00,000 for a project where earning before interest and taxes shall be 30% of capital employed. The company can raise debt capital @ 12% p.a. Suggest which of the following three alternatives should it opt for :

(a) Rs. 25,00,000 to be raised by equity capital

(b) Rs. 20,00,000 by equity and Rs. 5,00,000 by loans

(c) Rs. 5,00,000 by equity and Rs. 20,00,000 by loans.

The company shall distribute the entire amount of profits as dividend. Assuming the total income of the company for tax purposes exceeds Rs. 1 crore, aggregate tax rate for the A.Y.2008-09 is 33.99% and tax on dividend is 16.995%.

15

8. (a) What are the tax incentives allowed under the Income-tax Act in connection with location of New Business ?

(b) What conditions are to be satisfied for availing deduction in respect of profits and gains of certain undertakings in North-Eastern states under Sec. 80-IE applicable from the assessment year 2008-09 ? How is the amount of deduction calculated ?

7 + (5 + 3)

GROUP—B

Answer any *one* of the following 15 × 1

9. (a) How will tax be deducted at source in the following cases ?

(i) West Bengal Government pays a sum of Rs. 85,000 as commission to its agent in Kolkata.

(ii) Mr. Ankit wins a lottery of Rs. 2,50,000 in cash along with a Maruti Alto valuing Rs. 3,00,000.

(iii) Mrs. Shilpa wins a Maruti ZEN in a lottery draw. The value of the car is Rs. 3,50,000.

(iv) An insurance company pays commission totalling amount Rs. 25,000 to its agent for procuring insurance business.

(b) Mr. Kaushik Roy an individual files his return of income on 15th October, 2008 for the assessment year 2008-09. He deposits Rs. 12,650 as self-assessment (under section 140 A) the detailed calculation of which is given below :

	Rs.
Tax on declared income of Rs. 2,40,000	22,660
<i>Less</i> : Advance tax paid	8,000
Tax deducted at source	<u>3,520</u>
	<u>11,520</u>
	11,140
 <i>Add</i> : Interest—	
u/s 234 A	333
u/s 234 B	777
u/s 234 C	<u>400</u>
	<u>1,510</u>
Total (rounded off)	<u><u>12,650</u></u>

Assessment is completed on April 10, 2009 and the income is found to be Rs. 2,88,000.

You are required to calculate the balance amount payable.

6 + 9

10. (a) Discuss the provisions relating to advance tax.

(b) Mrs. Jhumur Maity (age 35 years) estimates her income to be Rs. 3,00,000 for the previous year 2007-08. After paying her first instalment on 10th September, she fortunately earned a lottery income of Rs. 40,000 on 1st December, 2007 on which tax has been deducted at source. In the next year, on 10th March, 2008 she earned Rs. 1,00,000 as long-term capital gain by selling a house property.

You are required to calculate different instalments of advance tax.

(c) Discuss any two cases where transfer of capital assets in amalgamation shall not be considered as "transfer".

5 + 6 + 4