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Reg. No:.....

Name: .....

FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE  
 Fourth Semester MCOM Degree Examination, March/April 2021  
**MCM4C14 – Financial Derivatives and Risk Management**  
 (2019 Admission onwards)

Time: 3 hours

Max. Weightage : 30

eightage

**Section-A**

**Answer any four questions. Each question carries 2 Weightage.**

1. Distinguish between Vanilla options and Exotic Options?
2. What do you mean by forwards?
3. What is risk?
4. Explain cost of carry model?
5. Define swap?
6. What is open interest?
7. Write a note on intrinsic value and time value?

**(4 x 2 =8 Weightage)**

**Section-B**

**Answer any four questions. Each question carries 3 weightage.**

8. Write a note on evolution of derivatives?
9. Discuss the criticism and misuse of derivatives?
10. What is forward contract? Discuss its advantages and disadvantages?
11. Define put call parity relationship? Discuss the importance or uses of put call parity relationship?
12. Explain the trading mechanism of swap contracts?
13. Suppose that you write a put contract with a strike price of Rs 40 and an expiration date in three months. The current stock price is Rs 41 and the contract is on 100 shares. What have you committed yourself to? How much could you gain or lose?
14. Define Binomial Option Pricing Model? Discuss the different methods of BOPM?

**(4 x 3= 12 Weightage)**

### Section-C

Answer any two questions. Each question carries 5 weightage

- 15 Explain Black-Scholes model for the valuation of European call option. How is this different from valuation of put option?
16. "Derivative securities and their trading have much significance in the modern economic environment" Discuss
- 17 "Currency swaps can be used to convert asset/liabilities from one currency to another" Explain with suitable example.
- 18 Discuss the fundamental option strategies with suitable examples?

(2x 5 = 10 Weightage)

FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE  
 Fourth Semester MCOM Degree Examination, March/April 2021  
 MCM4C15 – Income Tax Law Practice and Tax Planning II  
 (2019 Admission onwards)

Time: 3 hours

Max. Weightage 30

**Part A**

*Answer any four questions.  
 Each question carries 2Weightages.*

- 1 Who can be a partner of a firm?
2. What are the tax concessions available in case of demerger to resulting company?
- 3 What are the deductions available to a firm when it satisfies Sec.185?
4. What is meant by public cum private trusts?
- 5 State the difference between AOP and BOI.
6. Mythili Ltd. begins to manufacture articles in the previous year 2016-17 in a special Economic Zone. From the following information determine the amount deductible u/s 10 AA.

|                                   | ₹. (in Lakhs) |
|-----------------------------------|---------------|
| Sales of the unit in S.E.Z        | 6             |
| Export Sales of the unit in S.E.Z | 4             |
| Total sales of the company        | 15            |
| Total profit of the company       | 3.5           |
| Profit of the unit in S.E.Z       | 1.5           |

- 7 From the following information, compute tax payable by Tripti Ltd. for the A/Y 2020-21

|                                                                     | ₹.        |
|---------------------------------------------------------------------|-----------|
| Business income from sale of securities                             | 8,50,000  |
| Other Business income                                               | 10,00,000 |
| Long Term Capital Gains                                             | 4,00,000  |
| Securities transaction tax paid (not deducted from business income) | 1,50,000  |

(4 x 2= 8 Weightages)

## Part B

Answer any four questions.  
Each question carries 3 Weightages.

8. Explain the tax incentives for exporters?
9. What are the salient features of assessment of joint stock companies?
10. Explain the tax planning in relation to inter corporate dividend.
11. The business income of a firm before charging the following is Rs. 4,40,000:

|                                                       | ₹.       |
|-------------------------------------------------------|----------|
| Remuneration to working partners as per deed          | 2,40,000 |
| Brought forward business loss                         | 3,00,000 |
| Unabsorbed depreciation                               | 1,00,000 |
| Unabsorbed capital expenditure on scientific research | 60,000   |

Calculate the taxable income of the firm.

12. During the previous year 2019-20, a charitable trust derived the following income.

Voluntary contribution ₹.41,10,000 (out of this ₹.20,90,000 is for specific direction that it shall form part of the corpus of the trust) and income from property held in trust ₹.2,00,000. The trust spent ₹.2,19,610 (it includes a sum of ₹.10,000 donated to a charitable trust) and sets apart ₹.7,46,000 for the purpose of construction of charitable hospital up to March 31, 2023.

Determine the taxable amount of the trust on an assumption that out of the accumulated amount of ₹.7,46,000 the trust utilizes ₹.4,65,000 up to March 31, 2024 for the purpose of construction of charitable hospital. Further, out of the accumulated amount of ₹.7,46,000, a donation of ₹.50,000 is given to another trust.

13. Bright Ltd., a domestic company possesses huge reserves. It wants to distribute deferred dividends of ₹.100 crore to its equity shareholders. For this purpose, it may issue 3 year 10% redeemable preference shares or 3 year 10% redeemable debentures. Keeping in view the following information, suggest the company whether it should issue bonus shares or bonus debentures so that the tax liability of the company and its shareholders is reduced assuming that:

1. Company is liable to pay tax @30% on its income and 20% on dividend distribution to shareholders.
2. Shareholders are liable to pay tax on interest income @30%.

14. Explain the tax planning provisions in respect of backward areas.

(4 x 3 = 12 Weightages)

### Part C

Answer any two questions.

Each question carries 5 Weightages.

5. The Kisan Urban Consumers' Co-operative Society, Cochin received the following incomes for the year ending 31<sup>st</sup> March 2020; determine tax payable.

|                                                                                                                                     | ₹.       |
|-------------------------------------------------------------------------------------------------------------------------------------|----------|
| (a) Business Profits                                                                                                                | 1,18,000 |
| (b) Dividend from BSNL India Ltd (net)                                                                                              | 2,400    |
| (c) Interest on Fixed Deposits with Cochin Co-operative Bank                                                                        | 3,000    |
| (d) Interest on Fixed Deposits with Cochin Co-operative Bank(net)                                                                   | 9,000    |
| (e) Rent from letting ½ portion of the building owned by the society. Remaining Portion is used by the society for its own business | 3,600    |
| (f) Profit from cottage industry                                                                                                    | 25,000   |

While computing Business Profits, ₹.400 for municipal taxes, ₹.200 for Ground rent and ₹.400 for Fire Insurance Premium were deducted in respect of the whole house.

The society had donated ₹.5,000 by cheque for the repairs of Taj Mahal, a place of historic importance, not deducted in computing income.

6. From the following information, determine whether the assessee should purchase an asset or take on lease.

Rate of Tax: 26%

Cost of capital: 12%

Depreciation rate (income tax): 25%

Lease rent: ₹.32,000 p.a. for 5 years (Per ₹.1,00,000)

Present value of ₹.1/- discounted @12% is as follows:

Year I=0.893    Year II=0.797    Year III=0.712    Year IV=0.636    Year V=0.567

Make any other suitable assumption, if necessary.

17. Maruthi Ltd., a closely held Indian company is engaged in the business of processing of meat and meat products. The following information for the Financial year 2019-2020 are given:

#### Statement of Profit & Loss ₹.

|                                        |                  |
|----------------------------------------|------------------|
| Sale proceeds of goods (Domestic sale) | 22,23,900        |
| Sale proceeds of goods (Export sale)   | 5,76,100         |
| Other receipts                         | <u>2,00,000</u>  |
| Total                                  | <u>30,00,000</u> |

|                                         |                  |           |
|-----------------------------------------|------------------|-----------|
| Less: Expenses                          |                  |           |
| Depreciation                            | 4,24,000         |           |
| Salary & wages                          | 2,10,000         |           |
| Entertainment expenditure               | 15,000           |           |
| Travelling expenditure                  | 36,000           |           |
| Income Tax                              | 3,50,000         |           |
| Outstanding custom duty                 | 17,500           |           |
| Provision for unascertained liabilities | 70,000           |           |
| Proposed Dividend                       | 60,000           |           |
| Loss of subsidiary company              | 30,000           |           |
| Fees paid to tax expert                 | 21,000           |           |
| Salary to Managing Director             | 1,80,000         | 14,13,500 |
| Net Profit                              | <u>15,86,500</u> |           |

For the tax purpose, the company wants to claim the following:

- Deduction u/s 80IB(30% of N/P)
- Excise duty pertaining to 2016-17 paid during 2019-20 (amount actually paid is ₹.75,500)
- Permissible depreciation is ₹.5,36,000.
- The company wants to set off the following losses.

|                         | For Tax Purpose | For accounting Purpose |
|-------------------------|-----------------|------------------------|
| B/F Loss of 2015-16     | ₹.11,80,000     | ₹.2,40,000             |
| Unabsorbed depreciation | -----           | ₹.5,000                |

Compute tax liability of the company.

18. A and B wants to start a business. They have two options for selecting for selecting a form of organization, partnership firm or a private company. The estimated profits of which, before the following deductions are ₹.6,96,000.

1. Remuneration ₹.20,000 p.m. each by the firm and ₹.25,000 p.m. each by the company.
2. Each will give a loan to the business of ₹.2,00,000 @12% p.a.
3. Contribution as capital ₹.2,00,000 each. On this, interest will be paid @12% p.a. However the company cannot pay interest on it.
4. The profits after tax will be distributed equally as profits/dividends.

Assume that the company is liable to pay income tax @ 25% .Suggest whether they should form a partnership firm or a private company.

(2 x 5= 10 Weightages)

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FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE

Fourth Semester MCOM Degree Examination, March/April 2021

MCM4EF03 – International Finance

(2019 Admission onwards)

Time: 3 hours

Max. Weightage : 30

**Section-A**

**Answer any four questions. Each question carries 2 weightage**

1. What are cross rates?
2. What is meant by SRF?
3. What is multilateral netting?
4. What is meant by turnkey project?
5. The spot exchange rate between INR and USD is 47.13/USD and the one-month forward rate is 47.91/USD. Calculate forward premium or discount?
6. What is the International Fisher relation?
7. Distinguish between foreign exchange exposure and foreign exchange risk.

**(4 x 2= 8 weightage)**

**Section-B**

**Answer any four of the questions. Each question carries 3 Weightage**

8. Describe the role played by IMF in resolving financial crisis in the global economic system.
9. What are the crucial aspects in negotiating a syndicated bank loan?
10. What is hedging by invoice currency?
11. What is a depository receipt? Describe the different types of depository receipts.

12. A New York bank is currently offering these spot quotes:

USD/JPY : 110.25/111.10;

USD/AUD: 1.6520/1.6530.

At the same time, a bank in Sydney is quoting: AUD/JPY: 68.30/69.00. Is there an arbitrage opportunity? Consider this sequence of transactions:

a) Sell Yen, buy US dollars and then sell US dollars and buy Australian Dollars. Do both these transactions in New York and

b) Sell the Australian Dollars for yen in Sydney?

13. The following are the interest rates and spot rates of exchange;

Spot rate: USD/INR 45.45/50. Interest rates in India: 10 - 10.25% p.a, interest rates in the US: 07 - 7.25% p.a. If interest rate parity holds, what are the forward quotes?

14. What is meant by exchange rate overshooting? What is the economic explanation underlying such behavior?

(4 x 3 = 12 weightage)

### Section C

Answer any two questions. Each question carries 5 weightage.

15. Describe the Purchasing Power Parity (PPP) Theory. Explain the forms of PPP theory

16. Explain the approaches to evaluate cross-border investment projects.

17. Explain the methods by which interest rate exposure can be managed?

18. What is international financial market? Describe the important international money market and capital market instruments?

(2 x 5 = 10 weightage)



FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE

Fourth Semester MCOM Degree Examination, March/April 2021

MCM4EF04 – Advanced Strategic Financial Management

(2019 Admission onwards)

Time: 3 hours

Max. Weightage : 30

**Section A**

**Answer any four questions. Each question carries Two Weightage.**

1. What is Economic Value Added approach?
2. What do you understand by ‘financial leverage’? Is it same as ‘gearing’?
3. Discuss in brief the various types of takeovers.
4. What is direct leasing?
5. Write a note on ‘trading on equity’
6. What is optimal capital structure?
7. ABC Limited has equity market capitalization of ₹ 1,000 crore in the current year. Its equity capital and accumulated losses are of ₹ 1,500 crore and ₹ 300 crore respectively. Determine its MVA.

**(4 x 2 = 8 Weightage)**

**Section B**

**Answer any Four Questions. Each question carries Three Weightage**

8. What is the market-to-book value? What are its determinants?
9. What factors determine the value of an option?
10. Compare operating lease with financial lease.
11. X Ltd is operating with an existing capital consists of ₹ 200 lakh equity fund having 16 per cent cost and of ₹ 150 lakh 14 percent debt. With the help of the following data, determine its EVA:  
Sales Revenue ₹ 600 lakh, Operating Cost ₹ 350 lakh, Interest Cost ₹ 21 lakh, Earnings before tax ₹ 229 lakh, Taxes (at 40%) ₹ 91.6 lakh and Earnings after taxes ₹ 137.4 lakh
12. The following information relates to ABC Ltd:

|                              |             |
|------------------------------|-------------|
| Paid-up equity capital       | ₹ 20,00,000 |
| Earnings of the company      | ₹ 2,00,000  |
| Dividend paid                | ₹ 1,60,000  |
| Price-earnings ratio         | 12.5        |
| Number of shares outstanding | 20,000      |

Find out whether the company’s dividend pay-out ratio is optimal, using Walter’s model.

13. The current price of a company's share is ₹ 75 and dividend per share is ₹ 5. Calculate the dividend growth rate, if its capitalization rate is 12 per cent.
14. The following data relates to two companies P and Q:

| Details                   | Company P | Company Q |
|---------------------------|-----------|-----------|
| Number of equity shares   | 20,000    | 10,000    |
| Profit after tax          | ₹ 60,000  | ₹ 20,000  |
| Price-earning (P/E) Ratio | 20        | 12        |
| EPS                       | ₹ 3       | ₹ 2       |

Company P is considering the purchase of Company Q in exchange of 1 share in 'P' for every 2 shares held in 'Q'. Illustrate the impact of merger on earnings per share assuming that there would be synergy benefits equal to 25 per cent increase in the present earnings after tax due to merger.

(4 x 3 = 12 Weightage)

### Section C

Answer any Two Questions. Each question carries Five Weightage

15. "A firm should follow a policy of very high dividend pay-out" Do you agree? Why or why not?
16. What is meant by financial leverage? How does it magnify the revenue available for equity shareholders?
17. X Ltd. wants to takeover Y Ltd. and the financial details of both the companies are as below:

| Liabilities                       | X Ltd    | Y Ltd    | Assets         | X Ltd    | Y Ltd    |
|-----------------------------------|----------|----------|----------------|----------|----------|
| Equity share Capital of ₹ 10 each | 2,00,000 | 1,00,000 | Fixed Assets   | 2,44,000 | 70,000   |
| Prof. share Capital               | 40,000   | -        | Current Assets | 1,02,000 | 52,000   |
| Security Premium                  | -        | 4,000    |                |          |          |
| P&L Account                       | 76,000   | 8,000    |                |          |          |
| 10% Debentures                    | 30,000   | 10,000   |                |          |          |
| Total                             | 3,46,000 | 1,22,000 | Total Assets   | 3,46,000 | 1,22,000 |

| Details                                  | X Ltd  | Y Ltd  |
|------------------------------------------|--------|--------|
| Profit after tax and preference dividend | 48,000 | 30,000 |
| Market Price per share                   | 24     | 27     |

You are required to determine the share exchange ratio to be offered to the shareholders of Y Ltd., based on (i) net asset value, (ii) EPS, (iii) market price. Which would be preferred from the point of view of X Ltd.

18. From the information given below, you are required to advise about leasing out of the asset:

|                                                           |                      |
|-----------------------------------------------------------|----------------------|
| Cost of equipment                                         | ₹ 4,00,000           |
| Average cost of capital to the lessor                     | 12%                  |
| Depreciation (allowable)                                  | 20% on original cost |
| Expected life of the asset                                | 5 years              |
| Salvage value                                             | Nil                  |
| Lease rent payable at the end of each of 5 years          | ₹ 1,50,000           |
| Corporate tax (applicable to lessor)                      | 50%                  |
| P.V. of an annuity of Re. 1 for 5 years at 12% is ₹ 3.605 |                      |

(2 x 5 = 10 Weightage)