

FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE
 Fourth Semester MCOM Degree Examination, April 2022
 MCM4C14 – Financial Derivatives and Risk Management

(2019 Admission onwards)

Time: 3 hours

Max. Weightage : 30

Section-A

Answer any four questions. Each question carries 2 Weightage.

1. What do you mean by covered call?
2. Explain the difference between hedging, speculation and arbitrage?
3. Define the term mark to market?
4. What is the difference between a long forward and a short forward position?
5. State the difference between commodity futures and financial futures?
6. What is Swap?
7. Define ITM, ATM and OTM?

(4 x 2 = 8 Weightage)

Section-B

Answer any four questions. Each question carries 3 weightage.

8. "Swap is a private agreement between two parties in which both parties are obligated to exchange some specified cash flows at periodic intervals" Explain?
9. Write a note on butterfly spread?
10. Define Derivatives? Write a note on various importance of derivatives?
11. Define put call parity relationship? Discuss the importance or uses of put call parity relationship?
12. Explain how margins protect investors against the possibility of default?
13. What are the factors responsible for the growth of financial derivatives in India?
14. An investor buys a European put on a share of Rs 4. The stock price is Rs 47 and the strike price is Rs 50. Under what circumstances does the investor make a profit? Under what circumstances will the option be exercised? Draw the diagram showing the variation of the investor's profit with the stock price at the maturity of the option.

(4 x 3 = 12 Weightage)

Section-C

Answer any two questions. Each question carries 5 weightage

15. Compare and contrast Black Scholes model and Binomial option pricing model?
16. Discuss the various strategies of hedging with stock index futures?
17. "An investor bets a substantial change in the price of a stock but is not sure of the direction in which the change would take place" What different strategies involving option would be adopt?
18. Discuss how swaps can be used to manage the risk exposure?

(2x 5 = 10 Weightage)

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Reg. No:

Name:

FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE
Fourth Semester MCOM Degree Examination, April 2022
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 2 Weightages.*

1. What is meant by electoral trust?
2. How does the income tax act define the term *demerger*?
3. What do you mean by BOI?
4. How will you determine the residential status of a company?
5. Explain STT.
6. Out of ₹.30,00,000 share capital of ₹.100 per share, the company reduces ₹.3,00,000 share capital at ₹.10 per share. The profits of the company were ₹.1,50,000 after payment of dividend distribution tax. Mr. Raheem holds 500 shares of the company. Compute the amount of deemed dividend.
7. Venus Ltd. has calculated its Book Profit u/s 115 JB at ₹.95 lakh as against the total income of ₹.30 lakh for the same period as per the statement of P&L of the company. Calculate the amount of tax payable by the company.

(4 x 2 = 8 Weightages)

Part B

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

8. Explain the tax incentives available to an amalgamated company.
9. What factors would you keep in mind while planning with regard to 'Make or Buy'?
10. How is income of a firm assessed when Sec.184 is not complied with?

11. Heera Ltd. wants to raise additional capital of ₹.50,00,000 for a project from which the earning before tax is estimated to be 20%. The company can raise debt funds at rate of 14% p.a. Suggest, which of the following three alternatives should it opt for:

- (a) The entire amount by issuing equity shares.
- (b) ₹.30,00,000 by equity and ₹.20,00,000 by loans.
- (c) ₹.20,00,000 by equity and ₹.30,00,000 by loans.

Assume the company shall distribute the entire amount of profit as dividend and tax rate is 31.2%. Corporate dividend tax rate is 20%

12. From the following information, compute the net tax payable by XYZ Ltd., an A.O.P for the A/Y 2020-21, if X, a member, is liable to pay tax on his income.

	₹.
Income from House Property	30,000
Income from Capital Gain (Long Term Capital Gain)	25,000
Received the amount on Lottery	35,000

13. SAIL Ltd. operates a ship throughout the year. The ship has tonnage of 25,000 and the company is eligible for tonnage tax scheme.

- a) Calculate tonnage tax liability of the company assuming corporate tax rate is 31.2% for the year 2019-20.
- b) What will be your answer if the tonnage is 45,000?
- c) What will be your answer if the ship operates for 300 days only and the tonnage is 60,000?

14. From the following information, compute the total income of a charitable trust and its tax liability for the A/Y 2020-21.

	₹. (in Lakhs)
Income of the trust	10
Donation-Corpus	5
Other voluntary donations	4
Anonymous donations	5
Spent for charitable purpose in India	8

(4 x 3 = 12 Weightages)

Part C

Answer any two questions.

Each question carries 5Weightages.

Explain the tax planning provisions in relation to infrastructure facility.

Green Ltd. a domestic company, has two businesses X & Y. For the last two years business X has been running at a loss wiping out of the entire profits of business Y. At the end of the financial year 2019-20, there are brought forward losses of ₹.8,00,000 and unabsorbed depreciation ₹.5,00,000.

In financial year 2020-21 onwards it is expected that business Y will earn a profit of ₹.5,00,000 annually and if business X is continued at a minimum level there will be an annual loss of ₹.1,00,000 and rate of tax will be 26%.

Please suggest to the management of the company;

- (a) Whether business X should be continued or shutdown.
- (b) If continued for how many years.

A, B & C are partners in a firm sharing profits in the ratio of 3:2:1. Firm's P&L a/c of the year ended 31st March 2020, revealed a net profit of ₹.1,50,00,000 after deduction of the following:

- (i) Salary to A ₹.8,00,000
- (ii) Rent of building owned by A ₹.60,000. Firm's office is situated in this building.
- (iii) Commission paid to A, B and C is ₹.2,00,000, ₹.3,50,000 and ₹.7,00,000 respectively.
- (iv) Interest on capital @20% p.a. to A, B and C ₹.1,50,000, ₹.2,50,000 and ₹.3,50,000 respectively.
- (v) Bonus paid to C ₹.5,00,000.
- (vi) Repairs and renewal of building A ₹.2,00,000; Firm is not responsible to repair the building.
- (vii) Interest on loan given by C's wife out of her Stridhan ₹.3,00,000.
- (viii) Audit fee paid to A's son who is a chartered accountant ₹.20,000.
- (ix) Taxi hire paid to B ₹.25,000. B runs taxi business independently. Firm took his taxi on hire for firm's business.
- (x) Firm donated ₹.80,000 to approved institutions by cheque.

Firm's income of ₹.1,50,00,000 includes ₹.4,50,000 (net) interest received on Government securities.

Compute tax payable by the firm for A/Y 2020-21.

18. Neelagiri Cooperative society Ltd. primarily engaged in the manufacturing of fruit products (Cottage industry); furnishes the following details, calculate tax payable by the society for A/Y 2020-21.

	₹.
Income from manufacturing & marketing of fruit products	80,000
Interest on deposits with District Co-op. Bank	16,000
Income from other business	48,000
Income from collective disposal of labour Members	16,000
Interest received on securities listed in BSE	9,000
LTCG	25,000
Rent received form House Property	10,000
Income from Lottery	12,000
Dividend from BSNL	16,000
Donation to National Illness Fund by cheque	17,000

(2 x 5= 10 Weightages)

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Reg. No:

Name:

FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE

Fourth Semester MCOM Degree Examination, April 2022

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 is cross hedging?
2. What is meant by forfaiting?
3. What is meant by ESF?
4. What is a depository receipt?
5. Explain the term 'CHIPS and CHAPS'
6. Calculate forward premium or discount from the given pair of spot and forward quotes;
GBP/USD Spot: 1.5679/1.5689; GBP/USD one month forward: 1.5543/1.5587.
7. Explain the International Fisher Effect.

(4 x 2 = 8 weightage)

Section-B

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

8. Describe the functioning of Asian Development Bank
9. Which of the advantages of centralization of cash management are related to foreign exchange exposure management?
10. The following are the interest rates and spot rates of exchange;
Spot rate: USD/INR39.45/50. 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?
11. What is transaction exposure? How it is different from translation exposure and from operating exposure?
12. Describe briefly the methods of forecasting exchange rates.

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

USD/JPY: 109.25/110.10;

USD/AUD: 1.6523/1.6530.

At the same time, a bank in Sydney is quoting: AUD/JPY: 68.32/69.08. 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?

14. What is hedging by invoice currency?

(4 x 3 = 12 weightage)

Section C

Answer any two questions. Each question carries 5 weightage.

15. What is risk in cross border investment decisions? Explain how is risk handled in cross border investment projects?

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

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

18. What is interest rate exposure? Explain the methods by which interest rate exposure can be managed?

(2x 5 = 10 weightage)

2M4A22487

(Pages : 3)

Reg. No:

Name:

FAROOK COLLEGE (AUTONOMOUS), KOZHIKODE

Fourth Semester MCOM Degree Examination, April 2022

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 continuing value?
2. What is meant by financial goals of a firm? What are the characteristics of a company's financial goal system?
3. Define operating and financial risk.
4. What do you mean by takeover strategy?
5. What is sale and lease back?
6. What do you mean by strategic financial management?
7. From the following financial ratios (assumed to be constant) determine the growth rate that can be sustained with retentions and external debt financing:
Net profit margin 8 percent, Assets to equity ratio 2.5, Asset to sales ratio 2, target retention ratio 60 percent.

(4 x 2 = 8 Weightage)

Section B

Answer any Four Questions. Each question carries Three Weightage

8. Distinguish between the following:
 - (i) Market Value Added and Economic Value Added
 - (ii) Book Value and Market Value
 - (iii) Weighted Average Cost of Capital and Cost of Equity
9. What is an option? Explain the difference between call option and put option.
10. Discuss the various methods of evaluating the leasing proposal.

11. From the following condensed income statement of ABC Ltd. for the current year determine EVA:

Particulars	Amount (₹ Crore)	Amount (₹ Crore)
Sales revenue		100
Less: Cost of goods sold	40	
Administrative Expenses	4	
Selling Expenses	16	
Interest	10	70
Earnings before taxes		30
Less: Taxes (0.40)		12
Earnings after Taxes		18

The firm's weighted average cost of capital employed (consisting of equity and debt of ₹ 150 crore) is 12 per cent; its cost of equity capital is 15 per cent.

12. The following information relates to ABC Ltd:

Paid-up equity capital	₹ 30,00,000
Earnings of the company	₹ 3,00,000
Dividend paid	₹ 2,40,000
Price-earnings ratio	12.5
Number of shares outstanding	30,000

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 ₹ 200. The company is expected to pay a dividend of ₹ 5 per share with an annual growth rate of 10 percent. If an investor's required rate of return is 12%, should he buy the share?
14. XYZ Company is acquiring PQR Company. XYZ will pay 0.5 of its shares to the shareholders of PQR for each share held by them. The data for the two companies are as given below:

Particulars	XYZ	PQR
Profit after tax (₹ lakh)	150	30
Number of shares (lakh)	25	8
Earnings per share (₹)	6.00	3.75
Market price of share (₹)	78.00	33.75
Price-earnings ratio	13	9

Calculate the earnings per share of the surviving firm after the merger. If the price-earnings ratio falls to 12 after the merger what is the premium received by the shareholders of PQR (using surviving firm's new price)? Is the merger beneficial for XYZ's shareholders?

(4 x 3 = 12 Weightage)

Section C

Answer any Two Questions. Each question carries Five Weightage

15. What is shareholder value creation? Why is the emphasis on the shareholder value creation (SVC) important?
16. What do you understand by a stable dividend policy? Why should it be followed?
17. Sunny leasing is considering to lease out an equipment costing ₹ 10,00,000 for five years, which is the expected life of the equipment, and has an estimated salvage value of ₹ 1,00,000. Sunny Leasing can claim a depreciation of 20% on w.d.v. of the asset but is not eligible for investment allowance. The firm falls under a tax rate of 50% and the minimum post-tax required rate of return is 12%. Calculate the lease rental which the firm should charge.

Present value factor at 12% discount rate is as below:

Year 1 = 0.893; Year 2 = 0.797; Year 3 = 0.712; Year 4 = 0.636; Year 5 = 0.567

Annuity Discount Factor at 12% for 5 years = 3.605

18. Company A is considering the purchase of company B. The following are the financial data of the two companies:

Particulars	Company A	Company B
Number of shares	4,00,000	1,00,000
Earnings per share	₹ 6.00	₹ 4.50
Market value per share	₹ 30.00	₹ 20.00

Assuming that the management of the two companies have agreed to exchange shares in proportion to:

- (i) The relative earnings per share of the two firms;
- (ii) 4 shares of company A for every 5 shares held in company B

Illustrate and comment on the impact of merger on the EPS.

(2 x 5 = 10 Weightage)