

POST-GRADUATE COURSE

Term End Examination — December, 2008

M.Com.

CORPORATE TAX PLANNING & MANAGEMENT

PAPER XVI

Time — 2 hours

Full marks—50  
(Weightage of marks—80%)

*Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.*

Answer one question from each group

12½×4=50

Group - A

1. (a) 'Tax evasion, Tax avoidance and Tax Planning all aim at minimisation of tax liability. So these are equivalent terms'.—Discuss the validity of the statement.
- (b) Tax avoidance is not illegal—Discuss. 7½+5
2. Taxation has a powerful and positive influence in corporate research planning—Explain the significance of the statement. 12½

Group - B

3. A Ltd. an Indian Company wants to raise capital of Rs. 10,00,000 for a project. It has three alternatives.
- Alternative I : Entirely by equity shares
- Alternative II : Rs. 6,00,000 by equity shares and Rs. 4,00,000 by 12% loans.
- Alternative III : Rs. 4,00,000 by equity shares and Rs. 6,00,000 by 12% loans.
- (i) Assuming an E.B.I.T. of 30% of capital employed, suggest which of the alternatives should it opt for on the basis of return on equity share capital.
- (ii) If the E.B.I.T. is 10% of capital employed, would your decision change? Note : Corporate tax rate 35%. 12½
4. What do you understand by Demerged Company and Resulting Company? Discuss the tax incentives in case of demerger available to—
- (i) Demerged Company (ii) Resulting Company and (iii) Shareholders of the Demerged Company. 12½

Group - C

- 5.(a) Tax implication of bonus issue depends on the class of shareholders to whom the bonus share is issued—Discuss.
- (b) Loan or advance given to a shareholder has no tax implication—How far the statement is true? 5+7½
6. In arriving at decision relating to repair / renewal or replacement of an asset, tax provisions have a big role.—Explain with examples. 12½

Inv. → Int. → Cash  
dep. → X → Tax →

(3)

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**Group - D**

7. When an assessee can file an appeal before the Appellate Tribunal ? What procedure the assessee is required to follow in filing the appeal? Is any remedy available against the order of the Appellate Tribunal ?

12½

8. Ambrose Ltd, an Indian Company, requires 40,000 units of component 'A' yearly for manufacturing product 'P'. The company has before it two alternatives :

— —  
— —

Alternative I : Manufacture the component in the factory.

B M

Alternative II : Purchase the component from the market.

If components are manufactured a new machine costing Rs. 1,00,000 (life five (5) years, residual value Rs. 10,000) will have to be purchased. The rate of depreciation is 20%. However the fund has to be borrowed at 15% p.a. repayable in five equal instalments along with interest. Other expenses for manufacturing the component are :

- (i) material cost 40,000 kgs @ Rs. 3 per kg.
- (ii) labour cost : Rs 4 per unit.
- (iii) supervisor's salary : Rs. 3,200 p.m.
- (iv) variable overhead Rs. 80,000.

If the component is purchased, market price p.u. will be Rs. 8.50.

Which option will be better for the company?

Note : Corporate tax rate : 35%.

12½