Post-Graduate Course

Term End Examination – 2006

M. Com.

Corporate Tax Planning and Management

Paper - XVI

Time : Two 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.

Group A

1. (a) Distinguish between "Tax evasion" and "Tax avoidance". "It is said that distinction between Tax Planning and Tax Avoidance is very then and delicate" — Discuss. 10

   (b) Write a note on 'Tax management'. 5

2. P Ltd. wants to expand its capital by Rs. 15,00,000. This additional fund it can raise in any of the following alternatives —

   i) entirely by equity shares.

   ii) Rs. 12,00,000 by equity shares and Rs. 3,00,000 by 12% debt.

   iii) Rs. 3,00,000 by equity shares and Rs. 12,00,000 by 12% debt.

   If expects profit before interest and tax is 30% on capital employed,

   a) Show the amount of cash outflow on account of tax in each of the above alternatives. 10

   b) State, which of the above alternatives would you select and why ? 5

Group B

3. MNC Ltd. is going to lunch a long term project for which purchase of plant and machinery is required to be done. The fund available will not allow to purchase all of them new. So some of them are bound to be secondhand. The plant and machinery to be purchased are — Packing machine, Road transport vehicle, Bottle filling machine and Office appliance. The management of the company wants to make the choice between new and secondhand purchase in such a manner as would enable it to take maximum advantage of tax provisions. As a tax expert what will be your suggestion in this regard so as to minimise tax liability ? 10

4. What is dividend according to section 2(22) of the Income Tax Act ? 10

Group C

5. What are the tax considerations to be taken into account while arriving at the decision relating to repair/renewal or replacement of an asset. 15

6. Kanpur Plastipack Ltd. is in an urgent need for a machinery costing Rs. 3,00,000. Two alternatives are available to the company —

   Alternative 1 : Buying the asset with loan of Rs. 3,00,000 from a bank, repayable in five equal instalments of Rs. 60,000 plus interest @ 12% p.a.

Alternative 2 : Acquire it under a lease agreement as below :

(a) annual lease rental Rs. 80,000, for five years.

(b) Processing fees 1% in the first year.

Instalments, interest, lease rentals & processing fees are payable at the year end. Internal rate of return 10%. Suggest which alternative is better. 15

Group D

7. K Ltd. requires 30,000 units of component-P every year for manufacturing T.V. sets. These components can either be manufactured by the company in its factory or be purchased from the market. In case of manufacturing operation, the company will have to buy a new machine costing Rs. 2,00,000 with a life of ten years. Depreciation on such machine is 25%. Other manufacturing expenses are —

   i) material : 30,000 kgs @ Rs. 3 per kg.
   ii) labour : 45,000 hours @ Re. 0·20 per hour.
   iii) technical supervisor's salary : Rs. 24,000 p.a.
   iv) other variable overheads : Re. 0·80 per unit.

   Annual requirement of component-P is 25,000 units.

   Will it be profitable to make or to buy the component-P, if such components are available in the market at Rs. 3·90 per unit ? 10

8. (a) Who are required to file return of income under sections 139(1), (4A), (4B), (4C) ? 7

   (b) When mistakes can be rectified under section 154 of the Income Tax Act ? 3

(3) PG CO - XVI

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