

Savitribai Phule Pune University
Department of Management Sciences (PUMBA)
Executive MBA
2nd Year (Semester –IV) External Exam April- 2015

405(B)- Risk Management & Taxation Laws

Time: 2hrs.

Marks: 50

- Instructions:** 1. All section carry equal marks
2. Use the separate Ans. Sheet for Section – I & Section - II

**Section – I
(Risk Management)**

1. On December 09, 2002 an investor bought 10 T-Bill futures contracts trading on IMM at 96.72. The initial margin requirement is \$ 2000 per contract with a maintenance margin of \$1500 per contract. The settlement prices of T-Bill futures contract for 9 trading days are as follows:

Date	Settlement Price
December 9 -----	96.75
December 10 -----	96.68
December 11 -----	96.63
December 12 -----	96.59
December 13 -----	96.54
December 16 -----	96.50
December 17 -----	96.55
December 18 -----	96.60
December 19 -----	96.64

On December 20, the investor closes his position when futures price was 96.67. You are **required** to prepare the margin account showing all the cash flows and calculate profit/loss. (Assume no amount is withdrawn from the margin account). (5 marks)

2. Three companies, Alpha, Beta and Gamma required \$100 million each for next five years. The following are the requirement and the costs of borrowings faced by them in different markets:

Company	Requirement	PLR	LIBOR	Fixed \$
Alpha	PLR based \$ funds	PLR + 0.30%	LIBOR + 0.50%	3.35%
Beta	LIBOR based \$ funds	PLR + 0.05%	LIBOR + 0.30%	3.25%
Gamma	Fixed \$ funds	PLR + 0.05%	LIBOR + 0.15%	3.10%

Alpha, Beta and Gamma, not being satisfied with the costs of borrowing at the markets of their choice, have come together to reduce their interest burden. You are **required** to arrange a swap between three

parties in such a way that the benefit of swap is equally divided among the three parties. Also calculate the effective cost of borrowing to each party, after the swap. (5 marks)

3. The common stock of PUTT Corporation has been trading in a narrow price range for the past month and you are convinced it is going to break far out of that range in the next three months. You do not know whether it will go up or down. The current price of the stock is 100 per share and the price of the three month call option at an exercise price of 100 is 10.
- If the risk free interest rate is 10% p.a., what must be the price of a three month put at an exercise price of 100 (Stock pays no dividends)
 - What would be a simple option strategy to exploit your conviction about the stock price's future movements? How far would it have to move in either direction for you to make a profit on your initial investment? (5 marks)
4. Discuss the various approaches that can be adopted to manage financial risks. (10)

Section – I
(Taxation Laws)

Instructions:

- Attempt question 1 mandatorily.
- Attempt any two questions out of remaining.
- Applicable A.Y. is 2014-15
- Support your answers by adequate working notes/ examples

Q1. State the conditions for claiming depreciation u/s 5 Marks

OR

Q1. What is meant by set-off of VAT under Sales Tax law?

Q2. a. State and explain the terms HUF as well as AOP and BOI 5 marks
b. State and explain the concept of deemed to have let out house property. 5 Marks

Q3. a. Mrs Fernandes is a senior citizen. She won a lottery ticket of Rs 150,000 issued by Maharashtra State Govt. The ticket was given to her by her brother. She intends to claim exemption of this prize money under Income tax Act and seeks your advise. 2 Marks

b. Mr Joshi bought a commercial property in his name on 1-Apr-2013 for Rs 75 lac. During the year concerned, the same was leased out to Bharat Bank for total sum of Rs 440,000. He has paid property tax of Rs 38,900 and the property is depreciable @ 10%. Compute the taxable portion of his income under appropriate head. 3 Marks

c. Dr Bora is a practising doctor. During the marriage ceremony of his son who is a practising doctor, he invited 300 patients and their families for party. Dr Bora wants to know whether the cost of these invitees is eligible for claim as business expenditure. 3 Marks

d. Mr Varad and his friends decided to celebrate Ganapati festival & Durga Pooja festival. They formed an informal group and collected Rs 240,000 as voluntary contributions from colony residents. They spent in all Rs 189,000 and surplus of Rs 51,000 is left over. Judge the taxability, if any, of the surplus sum. 2 Marks

Q4 . a. What is the nature of Customs Duty? How the taxable event is derived for this levy. 6 Marks

b. State and explain basic conditions that need to be fulfilled for claiming expenditure under section 37(1) of Income Tax Act. 4 Marks