Roots Institute of Financial Markets
RIFM

Practice Book Part 1
Advanced Financial Planning

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifmindia.com
Web: www.rifmindia.com and www.rifm.in

Forward

Welcome To RIFM

Thanks for Choosing RIFM As Your Guide To Help You In CFP/NCFM Certification.

Roots Institute Of Financial Markets Is An Advanced Research Institute Promoted By Mrs. Deep Shikha CFP^{CM}. RIFM Specializes In Financial Market Education And Services. RIFM Is Introducing Preparatory Classes And Study Material For Stock Market Courses Of NSE , NISM And CFP Certification. RIFM Train Personals Like FMM Students, Dealers/Arbitrageurs, And Financial Market Traders, Marketing Personals, Research Analysts And Managers.

We Are Constantly Engaged In Providing A Unique Educational Solution Through Continuous Innovation.

Wish You Luck……………

Faculty And Content Team, RIFM

Our Team

Deep Shikha Malhotra CFP^{CM}

- M.Com., B.Ed.
- AMFI Certified For Mutual Funds
- IRDA Certified For Life Insurance
- IRDA Certified For General Insurance
- PG Diploma In Human Resource Management

CA. Ravi Malhotra

- B.Com.
- FCA
- DISA (ICA)
- CERTIFIED FINANCIAL PLANNER^{CM}

Vipin Sehgal CFP^{CM}

- B.Com.
- NCFM Diploma In Capital Market (Dealers) Module
- AMFI Certified For Mutual Funds
- IRDA Certified for Life Insurance

Neeraj Nagpal CFP^{CM}

- B.Com.
- AMFI Certified For Mutual Funds
- IRDA Certified For Life Insurance

NCFM Certification in:

- Capital Market (Dealers) Module
- Derivatives Market (Dealers) Module
- Commodities Market Module

Kavita Malhotra

- M.Com. Previous (10th Rank in Kurukshetra University)
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- Certification in all Modules of CFP^{CM} Curriculum (FPSB India)

Exam Pattern

Pattern of Questions in a Case Study											
		Module I		**Module II**		**Module III**		**Module IV**		**Module V**	
		No_Items	Marks	No_Items	Marks	No_Items	Marks	No_Items	Marks	No_Items	Marks
Marks Category	2	2	4	1	2	0	0	1	2	1	2
	3	1	3	1	3	1	3	0	0	1	3
	4	0	0	1	4	0	0	1	4	0	0
	5	0	0	0	0	1	5	2	10	1	5
Total		**3**	**7**	**3**	**9**	**2**	**8**	**4**	**16**	**3**	**10**

- A student who scores 50% or more will pass the examination and anyone who scores below 50% (exclusive) will fail the examination.
- There is no negative marking in the Examination.
- Successful students in the CFP^{CM} Certification examination are not given their scores or ranks as practiced in most international professional certification examinations. However, given the aspiration needs of the students, grades will be provided to the successful students. Unsuccessful students shall get their marks in percentage terms along with the result.
- The following grading system will be used to provide grades.

Grade	Score (Percentage)
A	Equal and above 75%
B	Equal and above 60% and less than 75%
C	Equal and above 50% and less than 60%
Fail	Less than 50%

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Syllabus

Advanced Financial Planning

COURSE DESCRIPTION: This module builds upon the foundations in Financial Planning and the knowledge requirements in Modules 2 to 5 to enable the CFP professional to construct a comprehensive Financial Plan for a client. Miscellaneous topics are also covered in this module.

LEARNING OBJECTIVES: At the end of this module, a student should be able to:

1. Determining the client's financial status by analyzing and evaluating the client's information.
2. Developing and preparing a client-specific Financial Plan tailored to meet the goals and objectives of client, commensurate with client's value, temperament, and risk tolerance.
3. Implement and monitor the Financial Plan.

DETAILED CLASS OUTLINE:

Financial Planning Process

1. Establishing client- planner relationships

   a. Explain issues and concepts related to overall Financial Planning process, as appropriate to the client
   b. Explain services provided, the process of planning, documentation required
   c. Clarify client's and certificant's responsibilities

2. Gathering client data and determining goals and expectations

   a. Obtain information from client through interview/ questionnaire about financial resources and obligations
   b. Determine client's personal and financial goals, needs and priorities
   c. Assess client's values, attitudes and expectations
   d. Determine client's time horizons
   e. Determine client's risk tolerance level
   f. Collect applicable client records and documents

3. Determining the client's financial status by analyzing and evaluating the client's information

A. General

   a. Current financial status (e.g., assets, liabilities, cash flow, debt management)

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

b. Capital needs
c. Attitudes and expectations
d. Risk tolerance
e. Risk management
f. Risk exposure

B. General Needs

a. Emergency funds
b. Children's education
c. Children's marriage
d. Buying real assets like home, car, durables, etc.
e. Future lifestyle needs

C. Special needs

a. Divorce / remarriage considerations
b. Charitable planning
c. Adult dependent needs
d. Disabled child needs
e. Education needs
f. Terminal illness planning
g. Entrepreneurial needs planning

D. Risk management

a. Life insurance needs and current coverage
b. Disability insurance needs and current coverage
c. Medical insurance needs and current coverage
d. Long – term care insurance needs and current coverage
e. Homeowners insurance needs and current coverage
f. Auto insurance needs and current coverage
g. Commercial insurance needs and current coverage
h. Other liability insurance needs and current coverage (e.g., umbrella, professional, errors and omissions, directors and officers)

E. Retirement

a. Current retirement plan tax exposures
b. Current retirement plans
c. Retirement strategies

F. Employee benefits

a. Available employee benefits

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

b. Current participation in employee benefits

G. Investments

a. Current investments
b. Current investment strategies and policies

H. Taxation

a. Tax returns
b. Current Tax strategies
c. Tax compliance status (e.g., estimated tax)
d. Current tax liabilities

I. Estate planning

a. Estate planning documents
b. Estate planning strategies

4. Analyze Client Objectives, Needs and Financial Situation

a. Analysis of relevant information
b. Need for specialist advice
c. Issues that require further clarification

5. Developing and presenting the Financial Plan

A. Developing and preparing a client-specific Financial Plan tailored to meet the goals and objectives of client, commensurate with client's value, temperament, and risk tolerance, covering:

1. Financial position

a. Current statement
b. Projected statement
c. Projected statement with recommendations

2. Cash flow

a. Projections
b. Recommendations
c. Projections with recommendations

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

3. Capital needs at retirement

    a. Projections
    b. Recommendations
    c. Projections with recommendations

4. Capital needs projections at death

    a. Recommendations
    b. Projections with recommendations

5. Capital needs: disability

    a. Recommendations
    b. Projections with recommendations

6. Capital needs: General needs

    a. Recommendations
    b. Projections with recommendations

7. Capital needs: special needs

    a. Recommendations
    b. Projections with recommendations

8. Income tax

    a. Projections
    b. Recommendations
    c. Projections with strategy recommendations

9. Employee benefits

    a. Projections

10. Asset allocation

    a. Statement
    b. Strategy recommendations
    c. Statement with recommendations

RIFM
Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

11. Investment

    a. Recommendations
    b. Policy statement
    c. Policy statement with recommendations

12. Risk

    a. Assessment
    b. Recommendations

13. List of prioritized action items

    a. Presenting and reviewing the plan with the client
    b. Collaborating with the client to ensure that plan meets the goals and objectives of the client, and revising as appropriate

6. Implementing the Financial Plan

    a. Assist the client in implementing and recommendations
    b. Coordinate as necessary with other professionals, such as accountants, attorneys, real estate agents, investment advisors, stock brokers and insurance agents

7. Monitoring the Financial Plan

    a. Monitor and evaluate soundness of recommendations
    b. Review the progress of the plan with the client
    c. Discuss and evaluate changes in client's personal circumstances, (e.g., birth/ death, age, illness, divorce, retirement)
    d. Review and evaluate changing tax law and economic circumstances
    e. Make recommendations to accommodate new or changing circumstances

Miscellaneous Topics

8. Internet Resources

    a. Internet usage and application
    b. Transactions over the net
    c. Issues of security
    d. Financial Planning using the Internet

9. Foreign exchange issues for individuals

    a. Foreign Exchange Management Act (FEMA)

b. Currency risk management

10. Financial Planning for special needs and clients

a. Individual life cycle
b. Financial Planning for unmarried clients, single parents, widows/widowers, etc.
c. Financial Planning for returning Non Resident Indians
d. Other special needs and options (e.g., divorce, bankruptcy)

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Advanced Financial Planning

Index

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

UNIT

1

INTRODUCTION TO FINANCIAL PLANNING

RIFM
Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

17 Ram wants to set aside from today a certain amount every year for meeting Sakshi (her daughter) marriage expenses when she turns 30. (current age 23) Ram has estimated her expenses at Rs. 3 crore at current prices. To accumulate this amount Ram has identified a 10% p.a. interest earning investment which attracts tax @ 33.99 % on the interest earned. Ram wants to know the required sum of money to be aside every year to get the net of tax corpus.

A. Rs. 56.42 lakh
B. Rs. 60.78 lakh
C. Rs. 49.27 lakh
D. Rs. 32.91 lakh

Answer A

Solution

Current age = 23

Marriage age = 30

Year Remaining N = 7

Gross Return on investment = 10%

Rate of Tax = 33..99%

After tax rate of return = 6.601%[10%*(100-33.99)]

Amount required to meet marriage expenses = Rs. 514. 1.5 lakh

[Set end, n=7, i= 8, PV = 3 crore, PMT = 0, FV = SOLVE]

Annual installment to be set aside in FD

[Set begin, n=7, I = 6.60 %, PV = 0, PMT=SOLVE, FV = 514.15 lakh

18 While entering into a relationship with you, Manish assumed that you being a practicing Certified Financial Planner, you are fully able to take care of the execution of all aspects of his Financial Plan , i.e. Taxation, Insurance, etc. As per FPSB India Code of ethics, what is the best proposition in this context?

A. This is the right assumption which can be made about all Certified Financial Planners
B. The scope and limitations of the services of the Certified Financial Planner need to be disclosed in the beginning, specifically in writing, by the Certified Financial Planner to the Client.
C. A Financial Planner is can never take care of all aspects of a Financial Plan.
D. A financial Planner is concerned with only making a financial Plan and not its execution.

Answer B

19 While interacting with you Sachin came to know about your investing style, viz, Direct Equity investment and some schemes of mutual funs. He wants to know whether you can manage some of his money in your investments and assign him appropriate share in the profits thereof. As per FPSB code of ethics is it possible for you?

A. Yes
B. Yes but with prior permissions from FPSB against a written proposal letter from Sachin
C. Yes, but with a proper written agreement in which all terms and condition must be stipulated in advance
D. No

Answer D

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

20 On meeting Akash you find that he appears very disappointed with the financial condition of his life. During discussions he enquired of you the probable reasons that might have severe impact on stock markets. According to you which among the following, would impact the stock markets most severely?

A. A 100 basis points increase in interest rates by RBI
B. A 100 basis points decrease in CRR by RBI
C. Excess trading volumes on stock markets
D. Settlement default by 2 major clients

Answer A

21 Sushma is unaware of the term basis point. In financial context, out of Rs. 100, 1 basis point equals to:

A. Rupee 1 only
B. Rupee .10 only
C. Rupee 0.01 only
D. None of the above

Answer C

22 Dr. Rinkle finds that her Planner, a CFP^{CM} Certificant, has commingled her money with his own money. However he maintains good records and knows how much money belongs to whom. Which of the following principles of Ethics has the CFP^{CM} Certificant violated?

A. Integrity
B. Objectivity
C. Professionalism
D. Fairness

Answer A

23 You had started developing the financial plan for Akash when one day he called you & told that he is no more willing to engage you as his financial planner & asks you to to return all documents & information related to him. As per FPSB India code of ethics, you are supposed to return:

A. All original documents related to him that he handed over to ypu in relation to engagement of work.
B. All original documents including all papers & plans developed by you.
C. Nothing is to be returned as he was wasted your time.
D. It's a matter of choice as to what documents are to be returned.

Answer A

24 During the initial discussion Humesh wants to know from you the nature of compliance by which you are bound to FPSB India's Code of Ethics. You have explained to him that for every practicing CFP certificant it is to adhere to FPSB India's Code of Ethics.

A. Discretionary
B. Mandatory
C. Obligatory
D. Depends upon the country of operation

Answer B

25 Mahesh has heard about the "Rule of 69" but is not familiar with its application. You

explain to him, citing an example, that if any investment doubles in a 12 year time frame, then according to this rule, the applicable rate of interest on this investment would have been close to

A. 5.47%
B. 5.92%
C. 1.80%
D. 4.25%

Answer B

Solution

(69/i)+0.35 = 12
I = 4.9227

61 Which of the followings is a correct interpretation of the rules of Conduct pertaining to the Ethic of Competence?

A. A member compensation shall be fair and reasonable
B. A Member shall keep informed of development in the field of financial planning and participating in continuing education throughout the professional career.
C. The member shall maintain the same standards of communication about the size.
D. The member shall not make a false or misleading communication about the size, scope or areas of competence of the member's practice

Answer B

62 Project A has a 10 percent cost of capital and the following cash flows:

Project A

Year	Cash Flow
1	-Rs.9000
2	3000
3	4500
4	6000
5	1500

What is Project A's payback period?

A. 2.25 years
B. 2.36 years
C. 2.43 years
D. 2.57 years

Answer D

63 If a domestic currency has depreciated

A. Foreign made goods are cheap relative to domestic made goods.
B. Domestic made goods are cheap relative to foreign made goods
C. Government spending is likely to decrease
D. The money supply is likely to increase

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Answer B

64 An increase in volume of investment will not occur if interest rates

A. Remains constant while the government announces new tax concessions on capital additions.
B. Remains constant while corporate income tax is increased
C. Remain constant, while corporate sector exports increases as results of a decrease in personal income tax.
D. None of the above

Answer B

65 Macro Economics is concerned with

A. The level of output of goods and services
B. The general level of prices
C. The growth of real output
D. All of the above

Answer D

66 When interest rates increase,

A. Consumption expenditures tend to increase
B. Investment expenditures tend to increase
C. Investment expenditures tend to increase
D. Government expenditures tend to increase

Answer C

67 A key problem resulting from inflation is:

A. Prices are stable
B. Certainly o future prices
C. A haphazard redistribution of money
D. An increase in the value o money

Answer C

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

UNIT 2

RISK ANALYSIS AND INSURANCE PLANNING

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

7 Ankush employer company is floating a scheme called Children Education Insurance Scheme. In this scheme if Ankush deposits an annual premium of Rs. 25000 for 16 continuous years then after 25 years of the policy commencement, the company is promising a maturity value of Rs. 13 lakh with A life cover for Ankush worth Rs. 5 lakh for the entire term of 25 years. At the age of Ankush the mortality table premium for the term plan is Rs. 4.15 per thousand for the same 25 year term. Ankush wants to know whether it makes financial sense to subscribe to this insurance scheme taking into account the long term return rate expected by him is 12 % p.a.

A. Yes
B. No, it does not make a financial sense
C. No because as per IRDA rules an employee of an insurance company is not entitled to subscribe his/her employer company's policy
D. Yes, provide that insurance company should guarantee the maturity amount

Answer B

Solution

Insurance premium for term Plan = 500x4.15=2075
Saving Component in Children Education Insurance Scheme = 25000-2075=22925

Cash flow

I=12

Cash Editor

1	-22925	14	-22925
2	-22925	15	-22925
3	-22925	16	-22925
4	-22925	17	2075
5	-22925	18	2075
6	-22925	19	2075
7	-22925	20	2075
8	-22925	21	2075
9	-22925	22	2075
10	-22925	23	2075
11	-22925	24	2075
12	-22925	25	2075

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

13	- 22925

NFV = SOLVE = 2687287

The company is promising a maturity value of Rs.13 lakh i.e.below Rs. 2687287 therefore the policy does not make a financial sense.

8 You advise Arun to buy a Rs. 50 lakh life insurance term plan, while filling the proposal form for purchase of this term plan run does not mention details of another Life Insurance policy, taken by him earlier from a different insurance company. In case of any mishap, under which principle the claim of Arun could be questioned by the present Insurer, if facts of his earlier insurance policy become known?

A. Principle of Insurable Interest
B. Principle of utmost good faith
C. Principle of waiver and Estoppel
D. Principle of indemnity

Answer B

9 Ramesh has an accident insurance policy which pays temporary partial Disability (TPD) benefit of Rs. 5000 per week, for up to 104 weeks. He meet with an accident and is disabled and bedridden for 6 months. He has available leave of 4 weeks, after which he is on loss of pay. What benefit amount will he get from the insurance company?

A. Rs. 100000
B. Rs.110000
C. Rs. 220000
D. Rs. 130000

Answer B

10 Monika purchased a ULIP scheme in which she invested Rs 1 lakh per annum regularly for 3 years having paid the third installments a year ago. Monika no longer wants to continue with this plan and wants to know the amount to be received if the policy is surrendered now. You approach the insurance company and get following details:

The premium allocation to the fund is 85% for the first year and 97% in each of te next two years.
Annual fund management charges are 1.5% of the year end corpus.
Policy administration charges are Rs. 720 p.a and Mortality charges are Rs. 1500 p.a both recovered from the year end corpus.
Constant growth of investment experienced in the last three years is 15 % p.a.
Surrender charge is 5% of the corpus outstanding at the time of withdrawal.

A. Rs. 290500
B. Rs. 332785
C. Rs. 338300
D. Rs. 350300

Answer B

Solution

	1st year	**2nd year**	**3rd year**
Premium paid	100000	100000	100000

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Allocation charges	15000	3000	3000
Net amount for investment	85000	97000	97000
(a)Growth end of year @ 15%	97750	219723	357889
Policy charges	720	720	720
Mortality charges	1500	1500	1500
Fund management charges	1466	3296	5368
(b) Total charges ded. Year- end	3686	5516	7588
(a)-(b) growth in the value	94.64	214207	**350300**

Less: 5 % surrender Charge 17515(350300*0.05)
Surrender value of the policy 332785(350300-17515)

11 Meera is a Sports Celebrity. She has heard about professional indemnity policy and would like to know the applicability of this policy in the context of her. According to you ____________.

A. By use of this policy, Meera can assure her sponsors of the performance of her obligations towards them
B. By usr of this policy, Meera can protect her sponsors from the risk of her non-performance in the competitions.
C. This policy can insulate Meera from the unseen loses by the persons having her confidential Financial information.
D. This policy is not applicable in her context

Answer D

12 Sahil 's father while returning from a local post office, became a victim of hit and run motor accident and suffered grievous injuries; though the FIR was lodged the indemnity of the motor vehicle could not be ascertained. Sahil that his father can take the benefit of "Solatium Fund Scheme" of the government of India. What maximum amount can be claimed by Sahil under this scheme?

A. Rs. 50000
B. Rs. 25000
C. Rs. 12500
D. Rs 10000

Answer B

13 You have ascertained that Hari needs a life insurance of at least Rs. 20 lakh on top priority. At his age, a term insurance plan for a 10 year term is available fro annual premium of Rs. 18250 and for a term of 15 years the same is available for an annual premium of Rs. 19850. Though Hari has health problems he is not much concerned about the cost of recurring treatment as he is in the same industry. He is however concerned of getting 'nil' survival benefits in case of term insurance policies, though he can currently afford a high premium for endowment or 'with profit' type of policies. A 'return of premium' policy for a term of 10 years for Rs. 20 lakh sum assured would annually cost Rs. 148200 for his profile. He wants to know which among the following would be the most appropriate policy for him in the current circumstances.

A. Hari should take the term plan for 15 years, which will take care of his liabilities in this period in case he dies prematurely

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

B. Hari should take the term plan for 10 years only as tehg premium outflow here is the least
C. Hari should take the 'return of premium' policy which would yield Rs. 20 lakh to provide for his liabilities when he is around 55 years of age.
D. Hari should take 10 year term policy along with a 10 year 'return of premium' policy to the extent of Rs. 10 lakh to optimize on premium payment while getting survival benefits.

Answer A

14 The market value of Sahil residential property is assessed at Rs. 25 lakh. He purchased the plot 5 years ago for Rs. 2.5 lakh. He started construction last year and incurred a sum of Rs.12.5 lakh. The land prices in that area have appreciated by 150% over the five year period and the cost of construction over the previous year has gone up by 35%. You have advised Sahil to insure his house property. Sahil wants to know for what approximate amount he should insure his house property.
A. Rs. 15 lakh
B. Rs. 17 lakh
C. Rs.23 lakh
D. Rs. 25 lakh

Answer B

Solution

The insurance of house / flat should ideally be taken at the current construction cost, as the land is not perishable in case of fire or other natural calamities.

The cost incurred a year ago = Rs. 1250000
Cost escalation in construction over the last one year = 35%
Current cost of construction= 1687500

15 Sumit's firm was maintaining a Unit Link Defined Benefit Group Superannuation policy for their employees since last 8 years. All of his employees were member of this scheme. Currently this policy has accumulated a cash value of Rs. 42 lakh. Sumit wants to know whether his firm can take a loan on his policy or the firm can surrender this policy.
A. Firm can take a loan on this policy
B. Firm can surrender this policy
C. Both options are available
D. No options is available

Answer D

16 Manav believes that as all of his property is insured, he is not to take much care of those properties. What example does this attitude of Manav represent?
A. Negligence
B. Moral Hazard
C. Morale Hazard
D. Consumer Right

Answer C

17 Assume that during the current year Hunny car collided with his neighbor's car causing damage worth Rs.5000. in such a situation which of the following statements are correct? If

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

he has provided you the following information Vehicle Insurance = Premium Rs.4500 per annum; Excess Rs. 1000: IDV Rs. 340000.

A. The insurance company will pay the damage value less the excess amount.
B. The insurance will cover the entire loss if Hunny is not found to be responsible.
C. The insurance company will cover the entire loss if Hunny is found to be responsible.
D. The insurance company will pay the damage value and the excess amount.

Answer A

18 Assume Karan bought a second hand car in July 2009. Since the insurance premium was due, Karan paid it in the old owner's name. Karan didn't receive the original policy despite repeated requests. The car later mat with an accident causing damages worth Rs. 10000. Karan had not transferred the car in his name, as Karan did not have the original documents. Can the insurer reject his claim?

A. No, as Karan has paid the insurance premium.
B. Claim will be entertained only to the amount of the insurance premium paid.
C. The claim will be entertained after Karan converts the vehicle in his name.
D. The insurance company is well within its right in not accepting the claim from Karan.

Answer D

19 As part of employee welfare, Ramesh purchased a group insurance scheme for all employees of his company. The policy was taken for a sum assured which was 50% of the respective Human Life Value of the employees at the time of talking the policy. Unfortunately one of his key executives died during the policy term. His policy was taken for a sum assured of Rs. 10 lakh by Ramesh's company. Ramesh wants to know the amount of claim payable to the family members of that employee.

A. Rs. 10 lakh
B. Rs. 5 lakh
C. Rs. 2.5 lakh
D. Rs. 20 lakh

Answer A

20 Sonam Proposed to buy another Life insurance policy which also offered Critical Illness Rider for an additional premium. Sonam was considering a sum assured of Rs. 10 lakh for the death benefit and Rs. 2 lakh under Critical Illness. Before finalizing the same Sonam wants to know that in case he is identified with a disease, covered under Critical Illness Rider, after 2 years of having taken the policy, what amount would she receive as claim under the Critical Illness Rider?

A. A sum of Rs. 2 lakh shall be paid when such a disease is identified and certified by a doctor.
B. Actual Expenses, subject to a maximum of the Rider amount, shall be paid after treatment of disease.
C. Rider benefit is available only in case of death of the Insured person by the disease.
D. A sum of Rs. 2 lakh shall be paid when disease is identified and other Rs. 2 lakh shall be paid at the time of death.

Answer A

21 Shilpa's relative, Prateek, met with an accident while driving the car. His car insurance had expired a couple of days before the accident. Shilpa wants to know whether Prateek's claim will be settled by the insurance company in such a situation.

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

A. This is to be seen in light of governing terms and conditions of the expired policy.
B. If the accident occurs within 15 days after the expiry of policy the claim is payable.
C. The cover lapses the moment the policy expires thus denying him any claim.
D. Insurance company will take renewal premium along with penalty and then settle his claim.

Answer A

22 Ravi bought an endowment plan for 35 years on 20 Dec 2003 for a sum assured of Rs. 3 lakh wherein quarterly premium is Rs. 2500. Quarterly premium due in December 2009 for this policy was paid on 06/01/2010. Ravi wants to know what amount of claim would be payable to his nominee under the policy in case he dies today? Vested bonus under the policy in Rs. 120000 including bonus declared after valuation on 31/03/2009. For calculation purposes assume interim bonus paid to Ravi till his death shall be Rs. 40 per thousand sum assured.(Today is 24 Jan 2010)

A. Rs. 4,32,000
B. Rs. 4,24,500
C. Rs.4,37,000
D. Rs.4,34,500

Answer B

Solution

Sum assured	300000	
Premium per quarter	2500	
Bonus	120000	
Interim bonus	12000	300000/1000*40
Total amount due	432000	12000+120000+300000
Unpaid premium	7500 less	(2500*3)
Amount to be paid today	424500	432000-7500

23 Seema has got a proposal for a ULIP plan from his friend, who is an insurance advisor. This plan has the following premium allocation charge:

	Year 1	Year 2&3	Year 4 &5	Year 6 onwards
Premium allocation charge	12%	5%	3%	1%

In addition the following charges shall also be levied;

1. Mortality charge (charged at the beginning of the year) – Rs. 1.51 per thousand sum assured increasing 5% year on year
2. Policy admin charge (charged at the yearend) – Rs. 720 p.a. throughout term
3. Fund Management Charge (charged at the yearend) – 1.75% p.a; throughout term

The proposal envisages that seema invests Rs. 35000 p.a. for 10 years. Premium, less charges, is allocated to the fund. The fund grows @ 10% annually. Proposed sum assured in this ULIP plan is Rs. 5 lakh which remains the same throughout the term. Under the policy term, sum assured and the value of units, both are paid on death.

Seema wants to know in case he opts for the ULIP plan as proposed by his friend what will be the approximate accumulation at the end of 10 years on his survival and what will be

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

claim proceeds if he were to pass away at the end of 5 years since inception of policy?

A. Rs. 5,22,000, Rs. 6,99,000
B. Rs. 5,03,000, Rs. 5,00,000
C. Rs. 5,03,000, Rs. 7,00,000
D. Rs. 5,22,000, Rs. 6,52,000

Answer C

Year	Premium	Premium alloc charge	Premium available for allocaton after PAC	Mortality charge	Premium after PAC & mortality charges	Growth of funds at 10 %	After FMC	Policy Admin Charges	Amount In the kitty after FMC & Policy Admin Charges
1	35000	12%	30800	755	30045	33049.50	32471.13	720	31751.13
2	35000	5%	33250	793	32457	70629.22	69393.21	720	68673.21
3	35000	5%	33250	832	32418	111199.91	109253.91	720	108533.91
4	35000	3%	33950	874	33076	155770.89	153044.90	720	152324.90
5	35000	3%	33950	918	33032	203892.91	200324.79	720	199604.79
6	35000	1%	34650	964	33686	256620.31	252129.46	720	251409.46
7	35000	1%	34650	1012	33638	313552.45	308065.29	720	307345.29
8	35000	1%	34650	1062	33588	375026.22	368463.26	720	367743.26
9	35000	1%	34650	1115	33535	441405.56	433680.96	720	432960.96
10	35000	1%	34650	1171	33479	513083.68	504104.71	720	503384.71

Claim proceeds at the of 5th year 699605 199605+500

Say Rs. 7,00,000

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

UNIT

3

RETIREMENT PLANNING AND EMPLOYEE BENEFITS

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

13 Ishu was contributing Rs. 50000 p.a. in his PPF account since 31-03-1997. Assuming that he has been contributing the same amount every year and his account fetches him a constant interest rate of 8 % p.a. since inception, what is the maximum amount Ishu can withdraw today from his PPF account?(today is 1 may 2010)

A. Rs.7 lakh
B. Rs. 4.16 lakh
C. Rs. 6.05 lakh
D. Nil

Answer B

Year	Date	Op/Bal	Interest	Cl/Bal
1	31-3-1997	0	0	50000.00
2	31-3-1998	50000.00	4000.00	104000.00
3	31-3-1999	104000.00	8320.00	162320.00
4	31-3-2000	162320.00	12985.60	225305.05
5	31-3-2001	225305.60	18024.45	293330.05
6	31-3-2002	293330.05	23466.40	366796.45
7	31-3-2003	366796.45	29343.72	446140.17
8	31-3-2004	446140.17	35691.21	531831.38
9	31-3-2005	531831.38	42546.51	624377.89
10	31-3-2006	624377.89	49950.23	724328.12
11	31-3-2007	724328.12	57946.25	832274.37
12	31-3-2008	832274.37	66581.95	948856.32
13	31-3-2009	948856.32	75908.51	1074764.83
14	31-3-2010	1074764.83	85981.19	1210746.02

Amount that can be withdrawn = 832274x50/100=Rs. 416137

14 Ashok's father had joined the Senior Citizen Savings Scheme on 17-09-09. In light of Ashok desperate financial condition, he is considering withdrawing a partial amount from this deposit without closing the amount. What is the maximum permissible amount that Ashok's father can withdraw from this scheme?

A. Rs. 5 lakh
B. Rs. 10 lakh
C. Rs. 1477500
D. Nil

Answer D

15 Dr. Batra wants to withdraw money from her PPF account which she had opened in the year 2001-02. She wants to know when she can make her first withdrawal from this account.

A. After 31-03-2008
B. After 31-03-2007
C. After 31-03-2006
D. After 31-03-2016

Answer B

Solution
The withdrawals are allowed in the seventh year of opening a PPF account.

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

16 Manish is planning to invest the gift of Rs. 15 lakh, received from his grand father, into a Bank FDR untill his retirement. You have observed that Manish is already in the highest tax bracket. From Tax Planning perpective, how would you propose Manish to put this amount in bank FDR?

A. Manish should gift this amount to his wife & a bank FDR is made in her name.
B. Manish should gift this amount to his father & a bank FDR is made I his father's name .
C. FDR should be made in the name of Manish himslf, as bank FDR is a qualified investment u/s 80C of Income Tax Act.
D. All choices have equal Tax treatment.

Answer B

17 Deepak is considering enrolling fro a part time job with an education institute. The

Salary Break up	Option A	Option B	Option C	Option D
Basic pay	4000	4000	8000	9000
DA	2000	2500	1500	1500
HRA	1500	2000	1000	0
CCA	1000	500	0	0
Transport allowance	1500	500	0	0
Telephone allowance	500	1000	0	0
Toatl pay	10500	10500	10500	10500

insitute is offreing him 4 options whikle deciding the pay package. **Purely from retiremnet benefit** perspective, which one should Deepak opt for?

A. Option A
B. Option B
C. Option C
D. Option D

Answer D

18 Rahul's PPF account was attached by ITO due to non paymnet of income tax dues for the last 3 years. Rahul is upset and wants to challenge this act of ITO in court. He seekls your advice on this issue.

A. Rahul is right, as this act of ITO is not maintainable.
B. Rahul can make a claim on the bank as the account was with the bank & the bank cannot give his money to any claimant without prior authorization.
C. It depends on case to case basis.
D. ITO has the right to attach PPF account for recovery of Tax dues.

Answer D

19 3 years ago Anita's father had invested Rs. 15 lakh in to Senior Citizens Savings Scheme considering it to be a safe instrument offering high rate of assured returns. At present most of the banks are offering a higher rate of return on a 1 year FD. Anita wants to know whether her father can withdraw some money from his Senior Citizens Savings Scheme account and invest in these FDs.

A. Premature withdrawal allowed, however withdrawals are subject to a penalty of 1% of withdrawal amount.
B. Premature withdrawal allowed, however withdrawals are subject to a penalty of

RIFM
Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

1% of deposit amount.
C. Premature withdrawal not allowed under this scheme.
D. Premature withdrawal allowed without any penalty.

Answer C

20 Sunita had bought NSCs worth Rs. 30,000 in March 2004to avail tax benefit during that financial year. He wants to know the maturity amount of these investments and whether the same shall be paid net of TDS?

A. Maturity amount Rs. 48,030; shall be paid without deduction of TDS.
B. Maturity amount Rs. 48,030; shall be paid after deduction of TDS.
C. Maturity amount Rs. 48,253; shall be paid without deduction of TDS.
D. Maturity amount Rs. 48,253; shall be paid after deduction of TDS.

Answer A

Solution:

Interest rate = 8% p.a. compounded semi annually.
Tenure= 6 years
N= 6*2 = 12
I = 8/2 = 4
PV = -30000
FV = 48030
The maturity amount is Rs. 48030 and also there is no tax deducted at sources (TDS)

21 Vijay is a member of Employees Pension schemes, if vijay decides to leave his present job at 32 years of age after 8 years of service what will happen to his existing Pension Schemes?

A. He can either take withdrawal benefit or scheme certificate so that his 8 year service can be added to any future service that he may put in, in any other covered establishment.
B. He cannot take any withdrawal benefit immediately but can add it to any future service that he may put in, in any other covered establishment.
C. He can either take withdrawal benefit or scheme certificate only on complitation 10 years of service.
D. He can take withdrawal benefit only.

Answer A

22 Yogesh has been receiving offers from competing FMCG companies and plans to resign from the present company by the end of March 2010. Yogesh wants to know whether he is eligible for Gratuity Act, 1972 and what shall be the gratuity amount in his case? (Assume his present organization is covered under payment of gratuity Act, 1972 and he has been working is present co's since Dec 2003. His monthly average salary for purpose is Rs. 95000.

A. No as his present employer is an MNC organization
B. Yes, Rs, 328846
C. Yes, Rs. 383653
D. Yes, Rs. 350000

Answer B

Solution

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Yes, Yogesh is eligible for Gratuity under payment of gratuity act
The organization is covered under gratuity act.
Yogesh is in continuous service in this company for more than five years
Calculation as per rule =95000x15x6/26=328846

59 Ms. Simran age 45 years retires at age 50, life expectancy 70, financial planner recommends that she will requires Rs.50000 as house hold expenses in his first month retirement. Inflation is 11% and interest rate is 6%.How much amount she should save in the beginning of every year to achieve the desire goal?

A. Rs.3245823
B. Rs.3352322
C. Rs.3516531
D. Rs.3254004

Answer D

Solution

Step 1:N=70-50=20*12,PV=SOLVE=-19516901,I=-4.5/12,PMT (End) =50000

Step 2:,N=5,FV=SOLVE=19516901,I=6,PMT (Begin) =Solve=3266253,Real rate=[91.06/1.110-1]*100 =-4.5

60 Ms. Aarti has invested Rs. 22000 in a saving instrument maturing after 10 years and gets 2% every year as dividend on it. On its maturity, he receives a sum of Rs. 26200. What rate of interest is realized in his transaction?

A. 8.30%
B. 3.62%
C. 7.28%
D. 9.06%

Answer B

Solution PV=-22000; PMT=440; n=10; FV=26200 Compute 'I'

61 Sneh Lata age 35 years retire at the age of 55, life expectancy 70, and financial planner recommends she requires Rs. 28000 house hold expenses in his first month of retirement. Inflation is 6% and interest rate is 9$%. How much she should save lump sum to achieve the desire standard.

A. Rs. 424523
B. Rs. 235232
C. Rs. 351656
D. Rs. 475804

Answer D

Solution : N=70-55=15*12,PV=solve=-4102955,I=2.83/12,PMT (end) = 28000
Real Rate= [(1.09/1.06)-1]*100=2.83
N=25,PV=solve=-475804.5,I=9,FV=-4102955

62 Mr. Lalit Arora aged 32 years has invested Rs. 1,00,000 in lump sum as part of its Retirement Planning Investment, during its accumulation stage (working life:- till 58

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

years). The fund will grow by 12% per annum compounded annually while during its distribution stage (sunset years:- from 59 years to 75 years). The fund will grow by 9% per annum compounded annually, Inflation throughout the entire tenure is 7% per annum compounded annually. As a Financial Planner, what rate of earnings would you select for the whole tenure to calculate the Retirement Corpus as well as its consumption?

A. Working Life: 12% p.a. and Retired Life: 9% p.a.
B. Working Life: 5% p.a. and Retired Life: 2% p.a.
C. Working Life: 12% p.a. and Retired Life: 9% p.a.
D. Working Life: 12% p.a. and Retired Life: 1.87% p.a.
E. Working Life: 4.46% p.a. and Retired Life: 1.87% p.a.

Answer D

63 The Weight of wheat in the consumption basket of a person is 20%. The price of wheat has gone from Rs. 10 per kg to Rs. 20 per kg. Assuming other costs remaining the same what is the weight of the wheat in the total expense basket now?

A. 20%
B. 25%
C. 30%
D. 33.3%

Answer D

64 A person holds a share as well as a mutual fund scheme in his retirement portfolio in equal porportion. Due to poor market conditions the share prices moves from Rs. 330 to Rs. 290 while the net asset value of the scheme goes from Rs. 13 to Rs. 12.4. What is the total impact on his portfolio?

A. 8.36%
B. 8.56%
C. 8.76%
D. 8.96%

Answer A

65 There is a portfolio that has the following characteristics 30% in direct equity, 40% in equity mutual funds, 25% in debt related instruments and 5% in cash, then this is most likely to represent the profile of

A. Young unmarried individual
B. Middle aged person
C. Person nearing retirement
D. Person just after retirement

Answer A

RIFM
Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

UNIT

4

INVESTMENT PLANNING

RIFM
Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

10 As a financial Planner you have been explaining to Iovish the risk of a portfolio, its analysis and implications. This has raised considerable interest in his mind and he requested you to calculate the risk on his mother's portfolio if the proportion of the higher risk security in the portfolio is increased to 70%? (the portfolio comprises of two securities A and B, their Standard Deviation being 12.26 and 14.58 respectively, while the correlation Coefficient is 0.89)

A. 13.04
B. 184.50
C. 170.26
D. 13.58

Answer D

Solution

Weight of security A = 30%
Weight of security B = 70%
Standard Deviation of security A = 12.26
standard Deviation of security B = 14.58
Correlation Coefficient = 0.89

Standard deviation of portfolio:
(12.26x12.26x0.3x0.3)+(14.58x14.58x0.7x0.7) + (2x0.7x0.3x14.58x12.26x0.89) = 184.5064^$^{(1/2)}$
= 13.58

11 You suggest Gopal to start investing in a Diversified Equity mutual fund by way of SIPs for accumulation of fund (Rs. 1000000) for professional education of Rahul. What amount should Gopal save on a monthly basis if the funds are required at the beginning of 16th year from now?

A. Rs. 4287
B. Rs. 4193
C. Rs. 5555
D. Rs. 4921

Answer A

Solution

Future value of expenses = 1000000x1.06^15=2396558
Effective monthly ROI = 1.097885%[CNVR N=12, I= 14% APR =13.1476]
Monthly Saving required = 4287
[N=180, I=1.097885, FV= 2396558, PMT= SOLVE = -4287]

12 Munish is considering a proposal for investment in commercial real estate property to earn rental income. The following data is available for the property selected by him:

Asking price	: Rs. 2100000
Annual rental income	: Rs. 160000
Insurance expenses	: Rs. 5500
Annual Maintenance	: Rs. 10000
Market yield	: 8%

What according to you is the value of property as per capitalization approach?

A. Rs 2100000
B. Rs. 1806250

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

C. Rs. 2000000
D. Rs. 1940000

Answer B

Solution

Annual rental value = 160000
Less Insurance Expenses = 5500
Less Annual Maintenance expenses = 10000
Net rental value = 144500
Capitalized Value = 144500/0.08 = **1806250**

13 On 10th march 2010 Ravi had taken an open short position of 10 lots of nifty futures, with an average price of Rs. 4450. On 10th march 2010 nifty closed at Rs. 4520. However, he did not square off his position until 11 march 2010 when Nifty dipped to an intraday low of Rs. 4395. He squared off his position of 4 lots at Rs. 4495 & remaining 6 lots on an average price of Rs. 4410. On 11th march 2010 Nifty closed at Rs. 4460. The lot size of a nifty future is 50. What profit or loss was booked by Ravi on his entire position? (assume brokerage and taxes per lot is RS. 50 on each side, while buying as well as selling)

A. Profit of Rs.2000
B. Loss of Rs. 2000
C. Profit of Rs. 3000
D. Loss of Rs. 4000

Answer A

Solution

Loss on square off on 2 lots = 45x50x4 = 9000
Profit on square off on 3 lots = 40x50x3 = 12000
Profit = 3000
Less brokerage and taxes = 50x10x2 = 1000
Net profit = 2000

14 Promod wants to know relative advantages of having exposure to Gold as an asset class through Gold Exchange Traded Funds (Gold ETFs) which can be purchased and traded as units through the Demat A/c. Which of the following is not appropriate in this context?

A. In Gold ETF long term Capital Gains tax is levied after one year of purchase against 3 years in case of physical Gold.
B. In case of an investor holding physical Gold he has to pay wealth Tax after the net wealth crosses a certain limit.
C. Most of the Gold ETF schemes available in India reflect international prices of Gold and are insulated from local demand supply factors.
D. Securities Transaction Tax (STT) is applicable on purchase and sale of Gold ETF

Answer D

15 Year 1 → 2.20 lakh
Year 2 → 4.14 lakh
Year 3 → 6.17 lakh
Year 4 → 6.50 lakh
Year 5 → 7.70 lakh

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Sahil wants to know what IRR he shall earn on his investment from this project.

A. 3.24%
B. 8.65%
C. 12.08%
D. 16.44%

Answer B

Solution

Initial Investment = 3000000/2 = 1500000
FRANCHISE VALUE = 3000000-1500000 =1500000
(3000000X10/100)X5 =1500000

Use CASH Function:
Cash editor

1	-1500000(3000000/2)
2	110000(220000/2)
3	207000(414000/2)
4	308500(617000/2)
5	325000(650000/2)
6	385000+750000 = 1135000(770000/2 = 385000) **IRR= SOLVE= 8.65%**

16 Shammi wants to go abroad on a family vacation tour. A professional tour company is offering him an attractive tour package in which the company is offering him to pay only 10% amount upfront which is Rs. 10000 while the remaining amount may be repaid in 60EMIs of Rs. 2875 each. Shammi wants to know the approximate rate of interest being charged to him on this offer.

A. 18% p.a.
B. 25% p.a.
C. 29% p.a.
D. 32% p.a.

Answer C

Solution

Upfront payment = 10% = 10000
So loan amount is 90 % = 90000

USE CMPD function :
SET : END
N = 5X12
I = SOLVE = 2.44
PV = -90000
PMT = 2875
FV = 0

Therefore, ANNUAL RATE OF INTEREST = 29% (2.44% *12)

17 Rinku is being offered an upfront royalty of Rs. 10 lakh by the doctor, in whose premises he is currently running his medical store, in lieu of leaving his rights and vacating the

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

premises. Rinku wants to know how many months income from the medical store is 40% and the royalty received is invested in a 10% p.a. yielding investment. Assume all profits are withdrawn at the end of every month from the firm.

A. 12 months
B. 13 months
C. 25 months
D. 28 months

Answer D

Solution

SET : END
[N = SOLVE, I = 10/12, PV = 1000000, PMT = +80000, FV = 0]

18 On 21 st january 2010 one of Sachin Client's had an open short position of 100 lots of nifty futures with an average price of Rs. 5699. On 21st january Nifty closed at Rs. 5208. But he did not square off his position until 22nd january 2010 when Nifty dipped to an intra day low of Rs. 4454. His position was squared off at this lowest price. On 22nd january 2010 Nifty closed at Rs. 4912. The lot size of a Nifty future is 50. What profit or loss was booked by Sachin's client on his position?

A. Profit of Rs. 62.25 lakh
B. Loss of Rs. 62.25 lakh
C. Profit of Rs. 37.70 lakh
D. Loss of Rs. 37.70 lakh

Answer A

Solution

Total Shares Held	100x50	5000
Selling Price		5699.00
Buying price		4454.00
Profit per nifty		1245.00
Total profit	1245x5000	6225000

19 Assuming Anil owns a building which he insures along with its contents for Rs. 10 lakh. However the market value of the building and its contents is Rs. 12 lakh. Assuming that the building along with its contents is partially destroyed by fire and the loss assessed is of Rs. 1 lakh What is the amount of money that insurance company would pay as claim reimbuisemet to Anil?

A. Rs. 80000
B. Rs. 83333
C. Rs. 100000
D. None of the above

Answer B

Solution

Amount of claim payable= (1000000*100000)/1200000 = 83333.33

55 Use the information given in the table below to answer the questions. Ignore taxes and

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

transaction costs.

			Time to Maturity			
Share	Current Price	Exercise Price	Call Premium		Put Premium	
			3months	6 months	3months	6 months
A	52	50	3	4	.35	1.05
B	40	45	1	1.25	5.5	6.00
C	35	30	6	6.3	0.45	0.65

Each contract is equal to 100 shares.

1. If you purchase one 3-month call contract on A, what profit or loss will you make at the maturity date if the price of A at that time is Rs.57?
   A. Rs.200
   B. Rs.400
   C. -Rs.460
   D. Rs.500

2. If B's price is Rs.35 at the maturity of the 6-month option, determine the value of five 6-month put contracts at their maturity date.
   A. Rs.2,000
   B. Rs.5,700
   C. Rs.8,200
   D. -Rs.4,000

3. If you had purchased five 3-month call options of C and the price of C's share is Rs.32 at maturity. Determine your profit or loss on the investment.
   A. Rs.1,000
   B. Rs.1,500
   C. -Rs.2,000
   D. -Rs.4,000

4. Your client wrote five 6-month call options on B's share. What is his profit or loss on the options at maturity if the price of B at that time is Rs.43?
   A. Rs.625
   B. -Rs.600
   C. Rs.400
   D. Rs.300

5. If your client had written five 6-month put options on B, what would his profit or loss have been at the maturity of the options if the share price was Rs.43 per share?
   A. Rs.1,000
   B. Rs.2,000
   C. Rs.1,800
   D. Rs.1,500

6. Which of the following options are in the money?
   A. A's 3-month call
   B. B's 6-month put

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

C. C's 6-month put
D. a and b

7. If an investor is bearish on a share, buying a put is usually better than selling short because
   A. The holder's losses can be no more that the put premium if the share price rises, but the short seller's losses could be unlimited in this situation.
   B. The short sale will become worthless after a short period of time but the put will not become worthless.
   C. The short seller must pay any dividends paid by the security the short seller borrowed.
   D. a and b

8. Call option-premiums for a given asset tend to increase when
   A. The price of the underlying asset decreases.
   B. The volatility of the underlying asset decreases.
   C. The time to maturity of the option increases.
   D. a and b.

Answer 1 (B)
Answer 2 (A)
Answer 3 (C)
Answer 4 (A)
Answer 5 (B)
Answer 6 (D)
Answer 7 (A)
Answer 8 (C)

Solution

55(1) The actual cost is Premium paid (Rs300) + Exercise value (50*100) = Rs5300 While the actual market value on the date of exercise is (57*100) = Rs 5700, which leaves a profit of Rs 400.

55(2) Market value after 6 months for five hundred shares of B is (35*500) = 17500
Exercise price after 6 months for five hundred shares of B is (45*500) =22500
Profit in put option is (22500- 3000) = 19500, Rs 3000 is the premium paid for put option.
Value in put option is 19500 – 17500 = Rs 2000.

55(4) Note: Because the market price is lower than exercise price the buyer would prefer to buy in market than to exercise the option. Which leaves the call writer with the profit of premium collected i.e. Rs 625.

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

UNIT

5

TAX PLANNING AND ESTATE PLANNING

RIFM
Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

17 On the occasion of his marriage on 16-04-1999, Manoj's father- in- law gifted him some equity shares. On that day the market value of these shares was Rs. 70500. These shares were purchased by his Father-in-law for Rs. 10000 on 14-12-1992. The issuing company is listed on a stock exchange, which is yet to be recognized by SEBI. On 31-03-2010 Manoj sold his shares fro Rs. 235000, CII for the respective years are as follows: 1991-92 = 199, 1992-93 = 223, 1998-99 = 351, 1999-2000 = 389, 2005-06 =497, 2006-07 = 519, 2007-08 = 551, 2008-09, 2009-10 Calculate tax on capital gains for Manoj, if any? (Ignore Surcharge & Education Cess)

A. NIL
B. Rs. 43750.6
C. Rs. 22500
D. None of the above

Answer B

Solution

Sale Price = 235000
Less : Indexed COA = 16247 (10000x632/389)
Capital gain = 218753
Tax on capital gain = 43750.6 (218753x20/100)

18 In Feb.'2004, Hitesh's Father gifted him stocks of XYZ ltd. Whose fair market value at the date of the gift was Rs. 36000. Hitesh's father had himself purchased the same in 1987 for Rs. 10000 through IPO.If Hitesh sells the shares of XYZ Ltd in Jan 2009 for Rs. 77000 what is the capital gain earned by him? Consider brokerage charges to be Rs. 1500. Cost inflation Index for various years is as below: 1981-82 = 100,1982-83 = 109, 1983-84 = 116, 1984-85 = 125, 1985-86= 133, 1986-87 = 140, 1987-88 = 150, 1988-89 = 161, 1989-90 = 172, 1990-91 = 182, 1991-92 = 199, 1992-93 =223,1993-94= 244, 1994-95 = 259, 1995-96 = 281, 1996-97 = 305, 1997-98 = 331, 1998-99 =351, 1999-00 = 389, 2000-01 406, 2001-02 = 426, 2002-03 = 447, 2003-04 = 463, 2004-05 = 480, 2005-06 = 497, 2006-07 = 519, 2007-08 = 551, and 2008-09 = 582 and 2009-10 = 632.

A. Long term capital gain of Rs. 62929
B. Long term capital gain of Rs. 31641
C. Long term capital gain of Rs. 61850
D. Long term capital gain of Rs. 64817

Answer C

Solution

Sale consideration =77000
Less:- Indexed COA =13650
$\frac{10000 \times 632}{463}$

Less:- brokerage paid = 1500
(exp. on t/f)
Long term capital gain = 61850

20 Ankur's father executed a general power of attorney in Ankur's favor. Now Ankur is thinking to execute a "Holograph Will" on behalf of his father for settlement of all properties belonging to his father. In your opinion what is the legality of this Will?

A. This shall be treated as valid Will.
B. This shall be valid only after its registration with the registrar.
C. This shall be treated as an invalid Will.

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

D. This shall be valid after his father's approval only.

Answer C

21 Assume Preeti receives Rs. 28000 in cash as personal gift from her employer during the FY 2009-10. What are the Tax implications of this amount?

A. Gifts are taxable only if they are received in kind.
B. The entire amount over and above Rs. 25000 is Taxable
C. The entire amount received up to Rs. 50000 is tax free.
D. The entire amount is taxable irrespective of the value.

Answer C

Solution

As per section 56(2) (vi)

22 Gopal has informed you that his wife Bhawna is one of the Managing Directors in his company Apart from salary and perquisites she has also been paid a sum of Rs. 1.67 lakh in the AY 12009-10 towards Director's sitting fee fro attending the board meeting of the company. Gopal wants to know the tax treatment of this payment in the accounts of Bhawna?

A. This will be treated as "Income from Salary."
B. This will be treated as " Income from business or Profession"
C. This will be treated as Income from other sources."
D. This will be tax free income for Bhawna.

Answer C

23 Harry has not prepared any Will as on date. He wants to know in case he dies intestate, as per prevailing Hindu Succession Law in India, which of his existing family member/s can be denied share of his estate in case of a dispute.

A. His Father
B. His mother and father
C. His daughter if she is married.
D. All members have a share on his property on an equitable basis.

Answer A

24 Ravi has told you that his son Dhruv's would be father in law wants to give a sum of RS. 10 lakh to the family on the occasion of Dhruv and Palak's marriage next year. Ravi wants to know from you have should this gift be accepted from Tax Planning perspective?

A. It should be received in Palak's name
B. It should be received in Dhruv's name
C. It should be received in Bhawna's name
D. It should be received in the name of either Dhruv or Palak

Answer D

25 Anita's brother in law is an NRI. He wants Anita to make some investments on his behalf whenever the right opportunity arises. You suggest:

A. Anita's brother in law should prepare a Notarized affidavit in Anita's favor.

RIFM Strong Roots Wide Reach
Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

B. Anita's brother in law should prepare a Special Power of Attorney specifying transactions that can be carried out by Anita.
C. Anita should prepare a General of Attorney that gives him the right to do transactions on behalf of his brother in law.
D. Anita should not get in to such arrangement due to complex tax laws related to NRI investments.

Answer B

47 Rahul was employed with ABC Ltd. He retired w.e.f. 1-2-2010 after completing a service of 24 years and 4 months. He submits-the following information:

Basic Salary	Rs. 10,000 per month (at the time of retirement)
Dearness Allowance	120% of Basic Salary (40% of basic salary forms part of salary as per terms of employment).
Last increment	Rs. 1,000 w.e.f 1-7-2009

His pension was determined at Rs. 6,000 per month. He got 50% of the pension commuted w.e.f. 1-3-2010 and received a sum of Rs. 2,00,000 as commuted pension. In addition to this, he received a gratuity of Rs. 2,40,000 and leave encashment amounting to Rs. 1,12,000 on account of accumulated leave of 240 days. He was entitled to 40 days leave for every year of service.
Compute his Gross Salary for assessment year 20 I0-11 assuming that he is not covered under Payment of Gratuity Act.

A. 478107
B. 366107
C. 641067
D. 411440

Answer A

Solution

Computation of Gross Salary of Rahul
(For the assessment year 2010-11)

	Rs.	Rs.
Basic Salary (9,000 x 3 + 10,000 x 7)		97,000
Dearness Allowance (120%)		1,16,400
Uncommuted Pension (6,000 x 1 + 3,000 x I)		9,000
Commuted Pension		
Amount Received	2,00,000	
Less: Exempt (2,00,000 x 2/1 x 1/3)	1,33,333	66,667
Gratuity:		
Amount received	2,40,000	
Less: Exempt (See note No.1)	1,62,960	77,040
Leave Encashment		
Amount received	1,12,000	
Less: Exempt (See note No.2)	Nil	1,12,000

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Gross Salary 4,78,107

Working Notes
(1) Gratuity shall be exempt to the extent of minimum of following limits:
(i) Actual amount received Rs. 2,40,000
(ii) Half month's average salary for each completed year of service
$\frac{13580}{2} \times 24$ = Rs. 1,62,960
(iii) Specified amount Rs. 3,50,000
AMS = $\frac{97000 + 38800}{10}$ = Rs. 13,580
(2) Leave encashment shall be exempt to the extent of minimum of following limits:

(i) Actual amount received	Rs.1,12,000
(ii) 10 months average salary (10 x 13,580)	Rs.1,35,800
(iii) Cash for unavailed leave calculated on basis of 30 days leave	Nil
(iv) Amount specified	Rs.3,00,000

Total leave entitlement on basis of 40 days	960 days
Less: Accumulated leave	240 days
Therefore, leave availed	720 days
Entitlement on basis of30 days	720 days
Leave availed	720 days
Entitlement to encashment on basis of 30 days	Nil

He can claim relief u/s 89 in respect of Gratuity. commuted pension and leave encashment

48 Mr. Sumit owner of a garment manufacturing unit in Delhi has constructed a residential quarter in the factory premises for his technical supervisor. As the factory runs 24 hours the technical supervisor is required round the clock. Based on the above information which of the following statement is true:

A. Depreciation cannot be claimed as the residential quarter is not used for business.
B. Depreciation can be claimed as the use of residential quarter by the technical supervisor is crucial for the smooth functioning of the business.
C. Both A and B
D. Neither A nor B

Answer B

49 If physical shares are sold through brokers, the date of transfer shall be:

A. The date on which shares are transferred by the company
B. The date of broker's note book
C. The date of broker's note book provided such transaction is followed by delivery of shares.

Answer C

50 Mr. Amit holds 500 shares of ABC Ltd., which were allotted to him on 22-4-1989 @ Rs. 30 per share. On 22-7-2009 ABC Ltd., made right issue to the existing shareholders at the rate of one share for every five shares held @ Rs. 20 per share. Mr. Amit instead of exercising his right to obtain right shares, has exercised his right of renouncement by

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

renouncing the said right entitlement in favour of Mr. Q @ Rs. 13 per right share entitlement on 4-8-2009.
(i) Determine the nature and amount of capital gain, if any, taxable, in the hands of Mr. Amit.

A. NIL
B. 1300
C. 700
D. 2000

Answer B

Solution

		Rs.
(i) Short-term capital gain 13 x 100		1,300
	1,300	

51 Sumit purchased a house property for Rs. 26,000 on 10-5-1962. He gets the first floor of the house constructed in 1967-68 by spending Rs. 40,000. He died on 12-9-1978 property is transferred to Mrs. Sumit by his will. Mrs. Sumit spends Rs. 30,000 and Rs.26,700 during 1979-80 and 1985-86 respectively for renewals/reconstruction of the property .Mrs. Sumit sells the house property for Rs. 12,00,000 on 15-3-2010, brokerage paid by Mrs. R is Rs. 12,000. The fair market value of the house on 1-4-1981 was Rs. 1,60,000.
Find out the amount of capital gain chargeable to tax for the assessment year 2010-11

A. 1040000
B. 1013300
C. 61925
D. 49925

Answer D

Solution

Taxable capital gain		
Sales consideration		12,00,000
Less: Indexed cost of acquisition		
1,60,000*632/100	10,11,200	
Indexed cost of improvement		
26 ,700*632/133	1,26,875	
Expenses on transfer	12,000	11,50,075
Long-term capital gain		49,925

52 AMIT was the owner of the following assets:

	Year of Purchase	Cost (Rs.)	Fair market value as on 1-4-1981 (Rs.)
Gold	1976-77	70,000	91,000
Listed shares in A Ltd.	1972-73	2,73,000	1,82,000

AMIT died on 16-8-1993 and as per his will these assets get transferred to his son B. B. now

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

sells these assets on 10-10-2009 for a total consideration of Rs. 25,00,000 (gold Rs. 19,00,000 and shares Rs. 6,00,000). Find out the amount of capital gains chargeable to tax for the assessment year 2010-11 assuming that shares were sold through a recognized stock exchange and securities transaction tax was paid on such sale. CII for the financial years 1981-82, 1993-94 and 2009-10 is 100,244 and 632 respectively.

A. 1557180
B. 1664295
C. 1771410
D. None of Above

Answer B

	Gold Rs.	Shares Rs.
Sale Consideration	19,00,000	6,00,000
Less: Indexed Cost of Acquisition $(91{,}000 \times \frac{632}{244})$	2,35,705	7,07,115
$(2{,}73{,}000 \times \frac{632}{244})$		
Long-term capital gain/loss 16,64,295	16,64,295	(-) 1,07,115
Net long-term capital gain	16,64,295	

Note.-tong-term capital loss on sale of shares is not allowed to be set off as long term capital gain on such shares is exempt u/s 10(38).

Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Website: www.rifm.in

Roots Institute of Financial Markets (RIFM)

"Every effort has been made to avoid any errors or omission in this book. In spite of this error may creep in. Any mistake, error or discrepancy noted may be brought to our notice, which, shall be taken care of in the next printing. It is notified that neither the publisher nor the author or seller will be responsible for any damage or loss of action to anyone of any kind, in any manner, therefrom.

ROOTS Institute of Financial Markets, its directors, author(s), or any other persons involved in the preparation of this publication expressly disclaim all and any contractual, tortuous, or other form of liability to any person (purchaser of this publication or not) in respect of the publication and any consequences arising from its use, including any omission made, by any person in reliance upon the whole or any part of the contents of this publication.

No person should act on the basis of the material contained in the publication without considering and taking professional advice.

Helpful Books from RIFM

NCFM Modules Practice Books (about 500 Questions per Module) Cost Rs. 800 Per Module

1. *FINANCIAL MARKETS: A BEGINNERS MODULE*
2. *SECURITIES MARKET (BASIC) MODULE*
3. *CAPITAL MARKET (DEALERS) MODULE*
4. *DERIVATIVES MARKET (DEALERS) MODULE*
5. *COMMODITIES MARKET MODULE*
6. *INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT*
7. *OPTION TRADING STRATEGIES*

NISM Modules Practice Books (about 500 Questions per Module) Cost Rs. 800 Per Module

1. *MUTUAL FUND DISTRIBUTORS CERTIFICATION EXAMINATION*
2. *CURRENCY DERIVATIVES CERTIFICATION EXAMINATION*

CFP Certification Modules ---Study Notes (Detailed Study notes as per FPSB syllabus) Cost Rs. 1000 Per Module

1. *INTRODUCTION TO FINANCIAL PLANNING*
2. *INVESTMENT PLANNING*
3. *RISK ANALYSIS AND INSURANCE PLANNING*
4. *RETIREMENT PLANNING*
5. *TAX PLANNING*

CFP Certification Modules ---Practice Books (about 800 Questions per Module) Cost Rs. 1000 Per Module

1. *INTRODUCTION TO FINANCIAL PLANNING*
2. *INVESTMENT PLANNING*
3. *RISK ANALYSIS AND INSURANCE PLANNING*
4. *RETIREMENT PLANNING*
5. *TAX PLANNING*

Advance Financial Planning Module---

Practice Book & Study Notes (Cost Rs. 5000/-)

Roots Institute of Financial Markets (RIFM)
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Web: www.rifm.in