

Sample Paper – 2

(Reference date: 2nd April, 2010)

Ms. Urvashi Solanki, aged 34 years, is Vice President in a Mumbai-based Audit firm. She has twin daughters Revati and Savitri of age 12 years and she is the sole guardian of her children pursuant to her recent divorce. She is currently residing in a rented house. Both her daughters are studying in the 6th Standard. She has approached you, a CFP^{CM} practitioner, for preparing her Financial Plan. She has shared the following financial information with you:

Salary Income:	Annual (Rs. lakh)
Basic Salary	: 36.00
HRA	: 6.00
Conveyance Allowance	: 1.50
Variable Salary	: 7.50

Regular Outgoings	Monthly (Rs.)
Basic Household Expenses	: 47,000
Services availed	: 12,500
School Fees	: 25,000
House Rent	: 50,000
Power, Telecom & Fuel	: 12,500
Car Loan EMI	: 25,585

Other Monthly & Annual cash outflows

SIP – Equity Mutual Fund	: 25,000 (Monthly)
SIP – Balanced Mutual Fund	: 15,000 (Monthly)
Insurance Premium (Term Plan) ¹	: 38,759
Health Insurance Premium ²	: 27,631

¹ (Annual – 3 policies/ Total Cover Rs. 1.45 crore)

² (Annual – 2 policies/ Total cover Rs. 20 lakh)

Assets	Current Market Value (Rs. lakh)
Equity Mutual Fund portfolio	: 32.45
Balanced MF scheme investment	: 12.79
Demat Account - Shares	: 21.92
PPF A/c. (maturing 1 st April, 2016) ³	: 6.59
Gold & Diamond Jewellery	: 15.75
Car ⁴	: 12.50
Bank Salary Account	: 2.82
Savings Bank account – Urvashi	: 13.26
Deposit with House Owner	: 3.00

³ Balance as on 31st March, 2010

⁴ Car purchased out of a loan availed of Rs. 14 lakh on 1st March 2007 at 9.5% p.a. interest on reducing monthly balance for a term of 6 years.

Liabilities	Currently Outstanding (Rs. lakh)
Car loan	: 7.79 (As on date)

You, in consultation with Urvashi, have crystallized the following financial goals for her family and the preliminary Roadmap to achieve them:

1. Send both daughters to a Boarding School – Immediately – Outlay Rs. 1.80 lakh (present cost) per child p.a. – for 6 years – To be met on year to year basis by investing a suitable corpus.
2. Buy a house – In the next three years – Outlay of Rs. 80 lakh – Take a loan for 15 year term.
3. Invest suitably for the Higher Education of both children – Higher Education starts after 6 years – present cost Rs. 4.5 lakh p.a. for each child for a term of 5 years.
4. To invest monthly for Revati and Savitri's wedding when they complete 24 years of age. The estimated present cost of one such marriage is Rs. 15 lakh.
5. Retirement Corpus for self – Corpus to be accumulated in 21 years – Corpus to sustain an annuity of Rs. 1.25 lakh p.m. (current cost) inflation linked for a post-retirement life of 25 years.
6. A World Tour with both of her kids – After 11 years – Outlay of Rs. 8 lakh at current prices.
7. A suitable Estate Planning to cover all her physical and financial assets.

Assumptions:

A. Regarding long-term pre-tax returns on various asset classes:

- | | | |
|---|---|-------------|
| 1. Equity & Equity MF schemes /Index ETFs | : | 11.00% p.a. |
| 2. Balanced MF schemes | : | 9.00% p.a. |
| 3. Bonds/Govt. Securities/Debt MF schemes | : | 7.00% p.a. |
| 4. Liquid MF schemes | : | 5.50% p.a. |
| 5. Gold & Gold ETF | : | 7.50% p.a. |

B. Regarding economic factors:

- | | | |
|-----------------------------|---|------------|
| 1. Inflation | : | 5.50% p.a. |
| 2. Risk free rate | : | 6.50% p.a. |
| 3. Real Estate appreciation | : | 8.00% p.a. |

Questions:

- 1) Which of the following shall you avoid while providing Financial Planning services to Urvashi in line with the Ethical and Professional Conduct required of CFP^{CM} professionals by FPSB India?
 - A) Alter existing financial strategy promptly in the interest of Urvashi, even without confirming to her, if the adverse developments materially impact her financial goals.
 - B) Keep Urvashi fully informed of adverse developments affecting her financial goals and take remedial action only after her understanding of the situation and her concurrence.
 - C) Advise Urvashi of the developments affecting her financial goals only when she comes for review of Financial Plan after the pre-determined period.
 - D) Revise asset allocation as often as possible to ensure that the financial goals are achieved exactly as set out initially.

- 2) As per the practice guidelines of FPSB India followed by you, being a CERTIFIED FINANCIAL PLANNER^{CM} practitioner, which amongst the following is the next step after defining and discussing with Urvashi the basic terms of the financial plan construction?
 - A) To collect the general quantitative information of the prospective client
 - B) To inform the prospective client about the terms of the engagement
 - C) To define the financial goal of Urvashi
 - D) To share past financial records of your existing clients with your prospective client in order to make him comfortable with number and success of your clientele funds

- 3) Urvashi, instead of taking a housing loan after 3 years, plans to take the 15-year loan of Rs. 60 lakh today which she is getting from a bank at an attractive rate of 10% p.a. on monthly reducing balance basis, and fixed for the first three years. She wants to balance the out flow on EMI on such a loan with current outgo on rentals and SIPs in Equity MF and Balanced MF schemes. By what amount proportionately she might have to reduce SIPs in the two schemes?
 - A) Equity MF Rs. 9,050; Balanced MF Rs. 5,425
 - B) Equity MF Rs. 10,000; Balanced MF Rs. 4,475
 - C) Equity MF Rs. 9,550; Balanced MF Rs. 4,925
 - D) Equity MF Rs. 9,250; Balanced MF Rs. 5,225

- 4) Urvashi has not bought personal accident insurance cover, though her car is covered for damages from accident. She wears seat belt and drives carefully. You, as a CFP^{CM} professional, had your following observation about her risk management?
 - A) Urvashi has insured the property risk; she controls some of her personal risk and retains the rest of the risk.
 - B) Urvashi has transferred her personal risk to other drivers of the road, insured her property risk and can claim damage if accidents are caused by third party negligence.
 - C) Urvashi has controlled her personal risk and insured her property risk.
 - D) Urvashi has not done anything to manage her risks and has to immediately go for accident and personal risk cover. She cannot rely on third party damages alone to cover the risk of the road.

- 5) Urvashi wants to know, which are the documents her claimant (nominee/legal heir) must send to insurance company to claim the policy benefits in case of a life insurance policy?
 - (i) An intimation of the death of the life assured to the insurance company
 - (ii) Death certificate from local authorities
 - (iii) Completed claim forms and other forms as required by the company

(iv) Valid Policy of Life assurance

(v) Authentic Identification that the person claiming is entitled to receive the payment

- A) (i), (ii), (iii), (iv) & (v)
- B) (ii), (iii) & (iv)
- C) (i), (iii) & (iv)
- D) (ii), (iii), (iv) & (v)

5) Urvashi wants to know if she were to meet with an accident and get permanent disability in the third year of her Term Insurance policy, what amount of the premium due in the fourth year would be payable by her. The premium being paid towards the policy is Rs. 15,000 with sum assured of Rs. 50 Lakh.

- A) Rs. 15,000
- B) Rs. 12,000
- C) Rs. 7,500
- D) Nil

7) Urvashi wants to invest regularly Rs. 50,000 p.a. for 20 years in National Saving Certificate (NSC) starting from today. She would reinvest the maturity amount in each year from the beginning of the 7th year till the 20th year along with regular yearly investments in the NSC. From the 21st year she would invest the maturity proceeds of NSC in a liquid MF scheme. She wants to know the total corpus which would be available at the time of her retirement? (Please ignore taxes and charges if applicable)

- A) Rs. 37,14,791
- B) Rs. 35,21,130
- C) Rs. 31,45,020
- D) Rs. 29,81,060

8) You have reviewed the investments of Urvashi for the purview of retirement. You advise that a balance be restored from risk perspective and accordingly Rs. 15 lakh be shifted to a Debt MF scheme. You advise to further start SIPs immediately in the ratio of 60:40 in the newly started Debt MF scheme and the existing Equity MF scheme for the next 21 years to accumulate a corpus so that the same sustains for the next 25 years if invested in an investment instrument yielding 7.50%. What approximate amount of SIPs should be made in Debt and Equity MF schemes?

- A) Rs. 60,000 in Debt MF scheme & Rs. 40,000 in Equity MF scheme
- B) Rs. 55,400 in Debt MF scheme & Rs. 37,000 in Equity MF scheme
- C) Rs. 54,500 in Debt MF scheme & Rs. 36,350 in Equity MF scheme
- D) Rs. 42,000 in Debt MF scheme & Rs. 28,000 in Equity MF scheme

9) Urvashi wants to invest a certain sum of money in an Equity Mutual Fund scheme with Fund Management charges and other fees 2.25% p.a. Ignoring taxes and other costs, what internal return would the fund have to produce?

- A) 13.50% p.a.
- B) 13.25% p.a.
- C) 13.55% p.a.
- D) 13.20% p.a.

10) Urvashi had invested Rs. 3 lakh on 2nd May 2004 in an Equity MF when the NAV was Rs. 12.58 per unit. She opted for dividend payout option and received dividends paid by the scheme at 12% each on 18th Aug 2004, 20th Nov 2005, 15th Apr 2007 and on 16th Jun 2008, the dividend cum NAV per unit was Rs.

12.95, Rs. 13.05, Rs. 13.99, and Rs. 14.68 and the latest NAV of the fund is Rs. 16.68 per unit. Urvashi wants to know the rate of return she got on this investment. The same is _____. (Please ignore charges and taxes if applicable)

- A) 11.48% p.a.
 - B) 4.88% p.a.
 - C) 13.36% p.a.
 - D) -10.78% p.a.
- 11) For the purpose of World Tour Urvashi has an option to use her investments in PPF A/c. She would contribute maximum permissible amount on the 1st working day of April every year till its due maturity as well as in all years of the extension of account for a 5-year term after its due maturity. She wants to use half of the PPF account proceeds for the proposed world tour. You estimate the adequacy of such amount, the same is _____.
- A) short by Rs. 44,200
 - B) in excess by Rs. 1,05,400
 - C) short by Rs. 1,82,700
 - D) in excess by Rs. 52,260
- 12) For the purpose of wedding of Revati and Savitri you have advised Urvashi to invest monthly in Debt MF and Equity MF in the ratio of 30:70 till they complete 19 years of age. Thereafter, further investments are made in Debt MF and Equity MF in the ratio of 60:40. Urvashi wants to know how much amount she will require to invest monthly approximately to fulfill the commitment of her children's marriage. (Please ignore charges and taxes if applicable)
- A) Rs. 21,400
 - B) Rs. 38,225
 - C) Rs. 20,739
 - D) Rs. 23,307
- 13) You have advised Urvashi to do Estate Planning. According to you what should be the most preferred way for her Estate Planning?
- A) She should prepare a Will naming her children as the sole beneficiaries as well as designate one or more guardians with their prior consent.
 - B) She should devolve all of her personal properties to her personal HUF.
 - C) She should prepare a Will naming her children as the sole beneficiaries in the same.
 - D) She should transfer all of her existing properties in the names of her children and nominate her both children equally in all her legal documents.
- 14) One of Urvashi's friends booked a flat in a building on 1st March, 2009 the construction of which is yet to finish. Her friend availed of a loan from a housing finance company and paid interest on part of the loan disbursed during 2009-2010. She wants to know how much of the interest paid would be eligible for deduction U/s 24 of IT Act for the AY 2010-11.
- A) Nil
 - B) 20% of the interest payable will be eligible in AY 2010-11.
 - C) Interest payable up to a maximum of Rs. 1.50 lakh can be claimed as deduction.
 - D) As the EMI has not begun, the whole of the interest paid will be eligible for deduction.
- 15) Urvashi purchased 500 shares of ABC Ltd., a listed company at Rs. 45 per share on Sep. 15, 2002. The Company offered to buy back its shares on June 15, 2009 which Urvashi accepted at a price of Rs. 75

per share on Jul. 1, 2009. What is the tax liability in the hands of Urvashi for this transaction for Assessment Year 2010-11? Cost inflation Indices are 2002-03: 447 and 2009-10: 632. (Ignore Education Cess)

- A) Rs. 1,140
- B) Rs. 3,000
- C) Rs. 1,500
- D) Nil