

Examination 5, CSP Stage II Examination

Jan 21, 2007.
Max Marks 100
Test Duration 4 Hours

Case Study 1

Today is 1st March 2006; Sumit Gupta (Age 58) has come to you, a Financial Planner, for help in developing a plan to accomplish his financial goals. From your initial meeting together, you have gathered the following information:

Sumit Gupta is retiring on March 31st, 2006 from a Gujarat-based public Ltd company after 31 years of service. His basic salary currently is Rs. 10000 per month, DA 7000 per month with a gross package of Rs. 35000 per month. He lives in his own house in Mumbai and on retirement he is eligible for the usual PF, Gratuity and Pension benefits. His only daughter Rima has completed her education and his main liability is the amount he may have to spend for her marriage. As for his attitude to investing, Gupta is risk averse and more concern about protection of his capital rather than returns.

The following are the payments he will receive immediately after retirement;

1)	Gratuity	Rs. 600000
2)	PF	Rs. 900000
3)	Leave Encashment of 12 Months (Entitlement 30 days leaves for each year of service)	Rs. 350000
4)	Commutated Value of Pension	Rs. 505000
5)	Pension Per month	Rs.15000

His other assets and investments include:

1)	FD's (maturity value) as on March 31, 2006	Rs. 200000
2)	Savings a/c as on 1 st March 2006	Rs. 150000
3)	Shares (Present Value)	Rs. 300000
4)	PPF (maturity value) as on March 31, 2006	Rs. 250000
5)	Life insurance Policy (maturing on Nov 1, 2006)	Rs. 200000
6)	Flat in Mumbai (Present Value)	Rs. 4500000
7)	Flat in Pune (Present Value)	Rs. 2000000

His actual expenses before retirement are Rs. 30000 per month.

Gupta has given his Pune flat on rent (rent being Rs. 14000 per month) to a bank. Municipal value of the property is Rs. 130000, fair rent is Rs. 140000 and standard rent is Rs. 134000. Municipal tax paid by Sumit is as follows – Rs. 26000 on March 3, 2005 and Rs. 30000 on Aug 10, 2005 and to be paid on Aug 10, 2006 is Rs. 30000. On May 1, 2005, rent is increased from Rs. 11000 per month to Rs. 14000 per month with retrospective effect from April 1, 2004. Arrears of rent are paid on May 1, 2005.

General Objectives

Gupta's main objectives are:

1. To provide for his daughter's marriage.
2. Ensuring that his family is protected financially in the event of any eventuality.
3. Minimise losses from all forms of taxation.
4. Establish an investment portfolio that gives high returns over long term.

Assumptions

1. Gupta needs to provide for himself and his family till he is 80.
2. Inflation rate after retirement to be 5% per annum.
3. Return on equity investments at 12% per annum.
4. Monthly expenses after retirement will be 10% less than before retirement.
5. Returns on liquid funds 4.5% per annum.

After extensive discussion with your client you have suggested a revision in the portfolio as below to be implemented from 1st Apr 2006:

- | | |
|--|-------------|
| 1. PO MIS (from 1 st May 2006) | Rs. 600000 |
| 2. Senior citizen saving scheme(from 1 st May 2006) | Rs. 1500000 |
| 3. FD 8%. | Rs. 300000 |
| 4. PPF(to be extended for five years) | Rs. 320000 |
| 5. Liquid Funds | Rs. 100000 |
| 6. Life Insurance proceeds to be parked in liquid funds growth option. | |
| 7. Shares (exposure reduced to) | Rs 100000 |
| 8. Equity Related MF | Rs. 300000 |
| 9. To start quarterly contribution of Rs.25000 in a diversified equity fund from 1 st Jul 2006. | |

Note:

- 1) PPF has been extended for five years period & fresh investment of Rs. 70000 and Rs. 50000 to be made at the time of extension and in Oct 2006.
- 2) Return on savings account is to be ignored.
- 3) Ignore Income Tax (for cash flow purposes).
- 4) He receives his retirement proceeds in Apr 2006.

Questions

1. Find out the income chargeable to tax from the rented flat of Pune, for the assessment years 2005-06 and 2006-07. **(5)**

A) 75600 and 96600
B) 75600 and 120400
C) 96600 and 75600
D) None of the above
2. What is the tax-free amount of gratuity? **(3)**

A) Rs 295962
B) Rs 304038
C) Rs 350000
D) None of the above

For Q No: 3 and 4

- Should Sumit die just one month after retirement but before receiving his retirement benefits, what would be tax impact on the following? **(3)**
3. Gratuity received by the family

A) Rs 295962 is taxable in the income of Sumit.
B) Rs 295962 is taxable in the income of family
C) Rs 600000 is taxable in the income of family
D) None of the above
 4. What amount of deduction per month is available on the pension received by the family? **(3)**

A) Rs 10000.00
B) Rs 15000.00
C) Rs 3333.33
D) Rs 5000.00
 5. Sumit bought agricultural land in Delhi, on 15-May-1992 for Rs. 4 lakh. The land is compulsorily acquired by the Delhi Govt. on 15-Apr-2002 and the compensation fixed was Rs. 25 lakh. Rs 10 lakh was received by Sumit on 15-Jan-2004 and the balance on 06-Apr-2004. Sumit was not satisfied with the compensation and filed a suit in the court. The compensation was enhanced by Rs 5 lakh which was received on 25-Mar-2005. Compute the capital gain taxable in the hands of Sumit for assessment year 2005-06. **(3)**

- A) The entire enhanced compensation of Rs. 5 Lakh shall be taxable as per Section 10(37) as it is received after 31-Mar-2004.
- B) The entire enhanced compensation of Rs. 5 Lakh shall be exempt as per Section 10(37) as it is received after 31-Mar-2004.**
- C) 10% of the enhanced compensation of Rs. 5 Lakh shall be exempt as per Section 10(37) as it is received after 31-Mar-2004.
- D) The entire enhanced compensation of Rs. 5 Lakh shall be exempt as per Section 10(37) because the land was bought before 31-Mar-2004.
6. What is the available cash balance with Mr. Gupta at the beginning of Aug 2006? **(5)**
- A) Rs. 67500
- B) Rs. 70500**
- C) Rs. 48000
- D) None of the above
7. What is the available cash balance with Mr. Gupta at the end of FY 2006-07? **(5)**
- 1) Rs. 89750**
- 2) Rs. 67250
- 3) Rs. 86750
- 4) None of the above
8. If the above-mentioned commuted pension is 40% what will be the taxable amount of commuted pension? **(3)**
- A) Rs. 420833
- B) Rs. 84167**
- C) Rs. 505000
- D) None of the above
9. Calculate what additional amount is required for Rima's marriage by the end of Jun 2008, considering he uses his parked money in liquid funds and the lump-sum investment in Equity MF and investment in shares, given that present cost of marriage is Rs. 1000000? **(5)**
- A) Rs. 420000 (Approx)
- B) Rs. 367500 (Approx)
- C) Rs. 271100 (Approx)**
- D) None of the above
10. He wants to leave an estate for charity of Rs. 1000000(present value) at his age 80, how much he should invest lump sum in an equity MF at age 58. **(5)**
- A) Rs. 243251
- B) Rs. 247251
- C) Rs. 241751**
- D) None of the above
11. Sumit purchased 200 shares of X on 1-Apr-1978 for Rs. 40 each. He was allotted 200 right shares on 1-May-1979 for Rs 50 each. He was also allotted 400 bonus shares on 1-May-1980 (Market price of the shares at that time was Rs.50). On 4-May-1990 he was further allotted 800 right shares for Rs 80 each. Again on 7-Aug-1996 he was allotted 800 bonus shares (Market price of the shares at that time was Rs.100). The fair market value of these shares as on 1-4-81 was Rs 60 each. All the above shares are sold by Sumit on 16-Jul-2004 for Rs 300 per share through a recognized stock exchange. Compute the capital gain for assessment year 2005-06.

Cost of Inflation index: 1981-82:100, 1989-90:172, 1990-91:182, 1995-96:281, 1996-97:305, 2003-04:463, 2004-05:480. **(5)**

A) Rs. 320809

- B) NIL
- C) Rs. 269975
- D) None of the above

12. Sumit acquired a land in 1977-78 for Rs 2 lakh and gifted to his daughter Rima on 15th May 1995, when the market value of the land was Rs 8 lakh. The fair market value of that land as on 1-Apr-1981 was Rs 3 lakh. Rima sold the land on 15-Sep-2004 for Rs 14 lakh. Compute the capital gain for AY 05-06 assuming expenses on transfer were Rs 1 lakh?

Cost of Inflation index: 1981-82:100, 1995-96:281, 2003-04:463, 2004-05:480. (5)

- A) LTCG of Rs. 340000
- B) LTCG of Rs. 787544**
- C) LTCL of Rs. 66548
- D) None of the above

13. The Code of Ethics is general standards that shall apply to all classifications of membership unless otherwise stated. Every member shall conform to the general standards set out in this Article in their professional activities and conduct. Which of the following is/are not included? (2)

- a. Integrity
- b. Objectivity
- c. Competence
- d. Fairness
- e. Confidentiality
- f. Professionalism
- g. Diligence
- h. Compliance

- A) a and b
- B) c and d
- C) a only
- D) None of the above**

14. Which of the following guideline/s would you as a Certified Financial Planner not follow in the fifth step of financial planning process? (2)

- a. An overview of the client's short and long term goals.
- b. The client's current financial strengths and weakness and implications for the financial plan.
- c. The client's financial objectives anchored to current resources.
- d. A detailed summation of all recommendations.
- e. The financial plan from mutually selected recommendations.
- f. A comprehensive economic overview of the client's financial plan, supported by financial statements.
- g. A step-by-step implementation of the financial plan.

- A) a only
- B) c and f
- C) a and e
- D) None of the above**

15. A Financial Planner needs to develop appropriate strategies for the client. You as a Certified Financial Planner would not work on which of the following area/s during the fourth step of Financial Planning process? (2)

- a. Cash flow management
- b. Insurance Planning
- c. Investment Planning
- d. Retirement Planning
- e. Income Tax Planning
- f. Estate Planning

- A) e only

- C) **Rs 72000**
D) None of the above
18. By what percentage should Anil reduce his expenses after retirement so that his present monthly savings are almost sufficient to generate the relative desired corpus? **(5)**
- A) **50%**
B) 40%
C) 60%
D) None of the above
19. If Anil extends his retirement age to 65, what is the annual saving required in the beginning of every year if his post retirement expenses are 85% of his pre-retirement expenses? **(3)**
- A) Rs 302546
B) Rs 275892
C) **Rs 290731**
D) None of the above
20. By calculating HLV of Anil indicate the shortfall in his life insurance coverage using the given data:
Mr. Anil age 54 retirement age 60, paying professional tax of Rs 5000 and income tax subject to allowable deductions as Rs 190000, reasonable self maintenance expenditure estimated Rs 145000 p.a , life insurance premium for self Rs 24000 with total sum assured Rs 1200000. He also pays insurance premium of Rs 15500 and Rs 7000 for life insurance policy of his wife and son respectively. Rate of interest assumed for capitalization of future income is at 7%. **(5)**
- A) Rs 15.5 lakh
B) **Rs 14.2 lakh**
C) Rs 14.6 lakh
D) None of the above
21. 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 insurance company would pay as claim reimbursement to Anil? **(3)**
- A) Rs 80000
B) **Rs 83333**
C) Rs 100000
D) None of the above
22. Calculate the income tax payable by Anil (including surcharge and education cess) for the FY 06-07 assuming his investments/savings under various sections for the FY 06-07 are as below: **(5)**
- | | |
|---|----------|
| Interest on loan taken in 2000-01 for Gaurav's MBA program | Rs 21000 |
| Expense incurred for medical treatment of specified ailment of dependant father | Rs 16500 |
| Contribution to approved pension fund | Rs 20000 |
| Contribution to PPF A/C in name of Garima | Rs 24000 |
| Contribution to unit linked insurance plan in name of Anil | Rs 36000 |
- A) **Rs 194870**
B) Rs 202540
C) Rs 185220
D) None of the above
23. If Anil has agriculture income of Rs 45000 for the FY 06-07 then with the parameters of Q 22) above what would be his tax liability (including surcharge and education cess)? **(3)**
- A) Rs 210765
B) **Rs 204050**

- C) Rs 195430
- D) None of the above

24. If Anil has the option to invest in 2 funds whose details are as below, find Jensen's index for fund A, Treynor index for fund B and Sharpe index for the market. (5)

	Mean	Standard deviation	Beta
Fund A	0.13	15%	1.0
Fund B	0.18	19%	2.0
Market index	0.12	8%	

- A) 0.5% ; 1 ; 0.5
 - B) 1% ; 5 ; 0.5**
 - C) 1.5% ; 5 ; 1.0
 - D) None of the above
25. Anil's company has made plans for the next year. It is estimated that the company will employ total assets of Rs 800 lakh: 50% of the assets being financed by borrowed capital at an interest cost of 8 % per year. The direct costs are estimated at Rs 480 lakh. All other operating expenses are estimated at Rs 80 lakh. The goods will be sold to customers at 150% of the direct costs. Income Tax rate is assumed to be 30%. Calculate net profit margin and return on owners' equity. (5)
- A) 12.44% & 22.4%**
 - B) 12.44% & 23.4%
 - C) 13.44% & 22.4%
 - D) None of the above