

## Sample Paper - Introduction to Financial Planning

- 1) Money has time value. It derives this value due to existence of several conditions. Which one of the following is not one of the conditions contributing to the existence of this value? (1)
- A) The fees and commission sources of the firm
  - B) Possibility of increase in tax rates over time.
  - C) Ability to buy/ rent assets generating revenue
  - D) Cost of foregoing present consumptions
- Solution (B)**
- 2) You are applying for an overdraft facility with the bank. What is the rate of interest you will pay on this facility? (1)
- A) The bank will apply a flat rate of interest on the amount of overdraft allowed to actually utilize.
  - B) The bank will apply a flat rate of interest on the amount of overdraft allowed to you.
  - C) The bank will apply rate of interest linked to the term deposit rate, on the amount of overdraft utilized.
  - D) The bank will apply rate of interest linked to the term deposit rate, on the average amount of overdraft remaining unutilized from the OD limit.
- Solution (C)**
- 3) The Nifty has doubled since the last time you advised your client to reduce his equity exposure. The client is annoyed. What might be the most appropriate action to take immediately? (1)
- A) Apologize for wrongly forecasting the market
  - B) Change his asset allocation by increasing his equity exposure
  - C) Help the client understand the logic of his asset allocation
  - D) Rebalance his asset allocation by reducing equity investments
- Solution (C)**
- 4) A professional indemnity policy protects the insured from risk arising out of \_\_\_\_\_. (1)
- A) Intentional misconduct
  - B) Misrepresentation of professional competence
  - C) Negligence
  - D) Undisclosed conflict of interest
- Solution (C)**
- 5) Which of the following is a concurrent indicator of the phase of the business cycle? (1)
- A) Wholesale price Index
  - B) Index of Industrial production
  - C) Labor costs and capacity utilization
  - D) Order levels in the manufacturing sector
- Solution (B)**
- 6) What is the main difference between the personal Financial Planning needs of the employed and the self-employed? (1)
- A) Attitude to risk/Risk appetite
  - B) Need to fund children's education
  - C) Need to fund retirement
  - D) The extent of employer-provided pension benefits, if any
- Solution (D)**
- 7) Consider a portfolio of two investments viz. A & B. The sum total of volatility of A and B respectively, represented by standard deviation of the two investments, will be equal to the volatility of the portfolio as a whole if \_\_\_\_\_. (2)
- A) A and B have a correlation of Zero
  - B) A and B have a correlation of 1
  - C) The portfolio is equally divided between A and B
  - D) The return on the portfolio is equal to the sum of returns of A and B
- Solution (A)**
- 8) Which of the following is a correct interpretation of the Rules of Conduct pertaining to the Ethic of Confidentiality? (2)
- A) A Member must when requested by the client, provide to a person authorized by the client, all original documents prepared or received by the Member in undertaking the advisory task.
  - B) A Member owes to the Member's partners or co-owners a responsibility to act in good faith (expectations of confidentiality) only while in business together, not thereafter.
  - C) The Member shall maintain the same standards of confidentiality to employers as to clients.
  - D) Under no circumstance, will any Member divulge any information or knowledge regarding the FPSB India or its members that they may know or be exposed to.
- Solution (C)**

- 9) Mr. Rajan's investment portfolio comprises Rs.2 lakh in equity, Rs.5 lakh in debt and Rs. 1 lakh in his bank current account. Over one year the returns on equity and debt are 5% and 12%. At the end of the year to maintain his current asset allocation, he needs to \_\_\_\_\_ (2)
- A) Do nothing.  
 B) He needs to move Rs. 10000/- from equity and Rs. 60000/- from debt to cash.  
 C) He needs move Rs.7500/- to equity from debt and Rs. 8750/-to cash from debt  
 D) He needs to invest Rs. 70000/- in debt and equity.  
**Solution (C)**
- 10) A 10 year 8.0% bond (Face Value- Rs.1000, interest payable semi-annually) maturing 6 years from today is available at a yield to maturity of 6.0%. It is likely to be priced at \_\_\_\_\_ (2)
- A) Rs. 1100  
 B) Rs. 1149  
 C) Rs. 1168  
 D) Rs. 1498  
**Solution (A)**
- 11) Raykar is an accomplished Financial Planner and is also an expert on derivatives and high yielding bonds. He understands client requirements well and is able to come up with appropriate portfolio restructuring ideas for clients. He believes in quickly moving clients from one investment to another through a dynamic process of research and recommendations. What according to the Rules relating to the Code of Ethics is the most applicable in this case? (2)
- A) He does not violate the Rules if he explains to the client the reasons and is able to show that the moves are appropriate to the client.  
 B) He does not violate the Rules since he conducts and has access to research and advises on products relevant to clients based on an understanding of their requirements.  
 C) He does not violate the Rules since he is an acknowledged expert and knows what is best for his clients.  
 D) He violates the Rules as it amounts to active churning of client portfolios.  
**Solution (A)**
- 12) Mrs. & Mr. Arora are aged 55 and 58 years respectively. Both expect to work till they turn 65. Their only goal is to fund their retirement. Which of the following is likely to be an appropriate asset allocation strategy for them? (2)
- A) 10% sectoral equity, 20% diversified equity, 30% long-term debt, and 40% medium term debt  
 B) 20% Sectoral equity, 60% diversified equity, 20% long-term debt  
 C) 30% Sectoral equity, 30% diversified equity, 40% cash/ liquid investments.  
 D) 80% long-term debt, 20% medium term debt  
**Solution (A)**
- 13) If the post tax rate of return on an investment is 8% and the inflation rate is 5% the real rate of return is \_\_\_\_\_ (2)
- A) 3.5%  
 B) 3.0%  
 C) 2.86%  
 D) -3.0%  
**Solution (C)**
- 14) Which of the following is a tort of negligence? (4)
- A) Mr. Joy was playing golf. He swings a new golf club on the fairway and the head of the club flies off, and hit another golfer who was standing 20 feet away.  
 B) Mr. Vishal takes medication that he knows makes him drowsy and then proceeds to drive. He gets into an accident injuring the passengers in another car.  
 C) Mrs. Jaya locks Ms. Rani in a room to prevent her from leaving the building  
 D) Mrs. Priti experienced a sudden surge of chest pain while driving, which causes her to lose control of her car and hit another car.  
**Solution (B)**
- 15) Any possible occurrence which may have a negative financial implication can be plotted on a graph with X axis measuring the frequency (low-high) and Y axis measuring the financial impact (low-high). You can view the classification in four quadrants. Quadrant I - Low frequency, Low Impact Quadrant II - Low frequency, High Impact Quadrant III - High frequency, High Impact Quadrant IV - High frequency, Low Impact It would not be practical to purchase insurance for events falling in \_\_\_\_\_ (4)
- A) Quadrant I & IV  
 B) Quadrant I, II & IV  
 C) Quadrant I, III & IV  
 D) Quadrant III  
**Solution (C)**

- 16) Karan wants to withdraw Rs. 1200/- at the end of each month for the next 5 years. He expects to earn 10% interest compounded monthly on his investments. What lump sum should he deposit now? (4)
- A) Rs. 56949  
B) Rs. 58630  
C) Rs. 56478  
D) Rs. 59119
- Solution (C)**
- 17) Sanjeev invests Rs.5000 in a Bank Deposit today @ 8% p.a compounded monthly. He hopes that this investment will enable him to fund his college education (estimated to cost Rs. 9000) which commences after 4 years. What will be the value of this investment in four years? (4)
- A) Rs. 6802  
B) Rs. 6870  
C) Rs. 6878  
D) Rs. 6925
- Solution (C)**
- 18) Sudha invests Rs.5000 per year (at the beginning of each year) for 5 years @ 5% p.a. in a bank deposit. She then withdraws the accumulated sum over a period of 3 equal annual installments. What is the value of the deposit at the end of 5 years and the quantum of withdrawal each year? (4)
- A) Rs. 28505, Rs. 9954  
B) Rs. 29010, Rs. 10656  
C) Rs. 29568, Rs. 11054  
D) Rs. 28804, Rs. 10042
- Solution (B)**
- 19) Mr. John has purchased 100 convertible debentures of Essar Oil on 1/1/94 at Rs.500 each. 40% of the value of the debentures is convertible into one share of Rs. 50 each after seven years. Mr. John exercised his option on 1/4/2001 and received 100 shares. Compute the cost of acquisition of these shares. (4)
- A) Rs. 200  
B) Rs. 205  
C) Rs. 195  
D) Rs. 185
- Solution (A)**

## Sample Paper Exam 1 : Risk Management & Insurance Planning

- 1) What are the criteria for determining Insurable Risk? (1)  
(i) Law of Large Numbers  
(ii) The loss must be definite and measurable  
(iii) The loss must not be catastrophic  
A) (iii) only  
B) (ii) & (iii)  
C) (i), (ii) & (iii)  
D) None of the above  
**Solution (C)**
- 2) A type of risk with high frequency but low severity is probably best handled by: (1)  
A) Avoidance  
B) Subrogation  
C) Self-insurance  
D) Under-Insurance  
**Solution (C)**
- 3) Speculative risk can have following outcomes \_\_\_\_\_. (A) Loss (B) Gain (C) Status Quo (1)  
A) A only  
B) B only  
C) C only  
D) A, B & C  
**Solution (D)**
- 4) LALGI is \_\_\_\_\_. (1)  
A) Private contribution guarantee scheme  
B) Private insurance  
C) Public benefit guarantee scheme  
D) Social insurance  
**Solution (D)**
- 5) For risk to be insurable which one of following is not correct? (1)  
A) The loss must be fortuitous or accidental.  
B) The loss must not be catastrophic.  
C) The loss produced by the risk must be definite and measurable.  
D) There must be a sufficiently large number of heterogeneous exposure units to make the losses reasonably predictable.  
**Solution (D)**
- 6) 'Consideration' under the law is a return promise to: (1)  
1. Do certain things  
2. Abstain from doing certain things  
3. Forbear some acts  
4. A minor  
A) (1), (2), and (3) only  
B) (1), (2), and (4) only  
C) (1), (3), and (4) only  
D) (2), (3), and (4) only  
**Solution (A)**
- 7) A client explains that she only wants an insurance policy that will cover her family against financial risk over the next five years, while she still has dependent children and a large mortgage. It is unlikely her income will increase over this period. What type of insurance is she looking for? (1)  
A) A unit linked insurance plan  
B) Money back policy  
C) Term insurance with a level premium  
D) Term insurance with a stepped premium  
**Solution (C)**
- 8) Anand was driving his car home from work, when a pit dug by the Municipal Corporation in the road, remained open and unmarked. He met with an accident and had to be hospitalised for 3 months. What are the insurance claims that can arise from this accident? (2)

- A) Anand can claim personal insurance for the accident, as it was not caused by negligence on his part; the municipal corporation cannot claim third party loss insurance to pay damages to Anand, as it was negligent. Anand can claim insurance for damage due.
- B) Anand can claim temporary disability insurance and insurance for his damaged car
- C) Anand has to apply to the municipal corporation for damages, which the corporation will pay out of its claims for liability to third party. His motor insurance will cover damages to his car.
- D) Since the municipal corporation was negligent, it would not be able to lodge a claim to recover payment of damages to Anand. Anand will only receive motor insurance claims on his car.

**Solution (A)**

- 9) Sujata was standing on the terrace of her building hanging out clothes. She accidentally fell off and landed on the sunshield of the next floor, which crashed and damaged the car of her neighbour parked below. What are the insurance claims that arise from this event? (2)
- A) Sujata can claim personal accident insurance. Both her neighbours will claim property insurance for the freak accident.
  - B) Sujata cannot claim accident insurance as the accident was caused by her negligence. Her neighbours can claim property insurance cover for loss to their property.
  - C) Sujata's neighbours will collect damages from her, which Sujata can pay out of insurance cover for losses to third parties.
  - D) Sujata's neighbours will not be able to claim insurance, as the damage to their property due to such freak accidents is not usually covered by insurance. Sujata will be able to claim her accident insurance, as she did not fall intentionally.

**Solution (A)**

- 10) Vinayak, 36 years and married, works for a multinational firm, which provides adequate medical and related covers. He is also able to accumulate sick leave. He already has his own home and savings of Rs. 35 lakh, which are well invested. Which insurance cover does he require the most? (2)
- A) Life Cover
  - B) Medical Cover
  - C) Property Insurance
  - D) Temporary Total Disablement Cover

**Solution (A)**

- 11) Your client has bought life insurance and medical insurance, but has not bought a cover for permanent disability. His argument is that he is paying too much by way of premium for risks that he believes are "farfetched" and "not likely to affect him". What would you advise the client? (2)
- A) A financial planner can persuade the client to consider the losses from permanent disability and highlight the risks to the client and recommend an appropriate policy for him.
  - B) If a client is not willing to bear the costs of premium, it can be assumed that he is willing to bear the costs of risk retention. Insurance may not be necessary in such cases.
  - C) If losses that would occur to the client in the event of permanent disability are higher than what he can bear, the client is better off buying insurance. The costs of insuring against losses, which have lower probability of happening, will in any case be lower.
  - D) The amount of insurance a person will buy depends on his perception of risks and their impact on him. It would not be possible to persuade this client to buy more insurance.

**Solution (C)**

- 12) Suresh has not bought accident insurance cover, though his two-wheeler is covered for damages from accidents. He wears a helmet and drives carefully. What can you say about his risk management? (2)
- A) Suresh has insured the property risk. He controls some of his personal risk and retains the rest of the risk.
  - B) Suresh has controlled his personal risk and insured his property risk
  - C) Suresh has not done anything to manage his risks and has to immediately go for accident and personal risk cover. He cannot rely on third party damages alone to cover the risk of the road.
  - D) Suresh has transferred his personal risk to other drivers of the road, insured his property risk and can claim damages if accidents are caused by third party negligence.

**Solution (A)**

- 13) Mrs. Rangnekar, a 40-year-old widow, has an 8-year-old son. Her current savings are not adequate to provide for her son's post graduate studies. However she will be able to save it up by the time he finishes graduation i.e. when he is 20 years old. Mortality tables indicate that her life expectancy is another 30 years. Which of the following is true? (2)
- A) She needs to insure her life for 12 years
  - B) She does not need to insure her life
  - C) She needs to insure her life for 30 years
  - D) She needs to insure her son's life for 30 years

**Solution (A)**

- 14) Premium on Motor Insurance policy doesn't depend on which one of the following factors? (4)  
 A) Zone of operation of the vehicle  
 B) Insured Declared Value (IDV) of the vehicle  
 C) Cubic capacity of the vehicle  
 D) Age of the owner of the vehicle  
**Solution (D)**
- 15) All of the following statements describe the operation of a life annuity EXCEPT: (4)  
 A) Because of the interest factor, an annuitant is assured of receiving back more than he or she paid in.  
 B) The annuitant is assured that he or she cannot outlive the length of time of the annuity payments.  
 C) The emphasis is on the liquidation of the fund as opposed to its growth.  
 D) The older the annuitant is when he or she receives the first annuity payment; the greater will be the amount of each payment.  
**Solution (a)**
- 16) In a sample of 200 observations, the lowest and the highest scores were 45 and 265 respectively. What would be range of the distribution? (4)  
 A) 110.00  
 B) 155.00  
 C) 155.56  
 D) 220.00  
**Solution (D)**
- 17) Derive the 'Policy Cost per Thousand' with following data;  
 Policy cost per thousand conversion = 0.001  
 Interest rate selected equivalent to the after-tax rate of return = 10%  
 Dividend or Bonus = Rs. 13000  
 Death benefits = Rs. 20 lakh  
 Annual Premium = Rs. 23000.  
 Cash surrender value at the end of current policy year = Rs. 6 lakh  
 Cash surrender value at the end of the previous policy year = Rs. 5.7 lakh (4)  
 A) **Rs. 25.04**  
 B) Rs. 28.07  
 C) Rs. 30.10  
 D) Rs. 31.15  
**Solution (B)**
- 18) Mr. Joshi is the sole income earner in the family. Mrs. Joshi is a homemaker. They are aged 40 and 36 respectively. Life expectancy for both of them is another 40 years. They have no children. Other information you have is: Current investment portfolio - Rs.20 lakh; Estimated final Expenses - Rs. 1 lakh.; Present annual expenses-Rs. 4 lakh (including a lakh of Mr. Joshi's personal expenses); Mr. Joshi's post-tax income in hand-Rs.3.5 lakh.; Assume a post tax, post inflation return/discounting factor of 3%.. Calculate the insurance requirement under the Needs Based method. (4)  
 A) Rs. 45.2 lakh  
 B) Rs. 48.3 lakh  
 C) Rs. 52.8 lakh  
 D) Rs. 50.4 lakh  
**Solution (D)**
- 19) A group of 50000 persons, each aged 35 years, wish to apply for Term Insurance for a one year period for a sum of Rs. 2 lakh each. If the mortality tables show that out of 50 lakh people 30000 die within a year, find the premium to be paid by each of the 50000 applicants. (4)  
 A) Rs. 1250  
 B) Rs. 1300  
 C) Rs. 1350  
 D) Rs. 1200  
**Solution (D)**
- 20) Ram insures his home worth Rs. 50 lakh for Rs. 30 lakh. The house is destroyed in a fire and he suffers losses worth Rs. 20 lakh. How much will he receive from the Insurance Company? (4)  
 A) Rs. 20 lakh  
 B) Rs. 16 lakh  
 C) Rs. 12 lakh  
 D) Rs. 18 lakh  
**Solution (C)**

## Sample Paper Exam 2: Retirement Planning & Employee Benefits

- 1) Which is not the condition for getting superannuation fund approved? (1)  
A) All the benefits should be payable only in India  
B) Employee should be contributor to the fund  
C) Employer should be contributor to fund  
D) Funds have to be invested as per income tax rules  
**Solution (B)**
- 2) Pension received from a former employer is classified under the head \_\_\_\_\_. (1)  
A) Capital Gains  
B) Gratuity  
C) Income from other sources  
D) Salaries  
**Solution: (D)**
- 3) As an employee Rajesh has come to you with his questions on superannuation plans/ Annuity Plans to get more educated with current scenario. What is the maximum limit on contribution to approved superannuation fund? (1)  
A) 2 %  
B) 10 %  
C) 27% less contribution to Provident Fund  
D) No Limit  
**Solution (C)**
- 4) Mohan has been an employee of a public sector undertaking for the past 25 years and is retiring after one year. He is eligible for gratuity as per the provisions of the Payment of Gratuity Act, 1972. His monthly salary at retirement is expected to be Rs. 20000. The amount of gratuity that he will receive on retirement will be \_\_\_\_\_. (1)  
A) Rs. 288461  
B) Rs. 300000  
C) Rs. 340909  
D) Rs. 375000  
**Solution (B)**
- 5) Mr. Roy has been an employee of a public sector undertaking for the past 25 years and is retiring the next year. He is eligible for gratuity as per the provisions of the Payment of Gratuity Act, 1972. He hopes to invest the proceeds along with the PF proceeds, in order to fund his retirement. Prior to his wedding, Mr. Roy had nominated his mother to receive his gratuity. Is his wife eligible to receive the gratuity proceeds in the event of his death? (1)  
A) All nominations made prior to the employee acquiring a family are invalid once an employee has acquired a family.  
B) As long as a valid nomination is in place, the payment of gratuity will be made only to such nominees.  
C) The payment of gratuity will always be according to the registered will, irrespective of the nominations.  
D) The information is not sufficient for giving an answer.  
**Solution (A)**
- 6) Sundar is eligible for gratuity as per the provisions of the Payment of Gratuity Act, 1972. He has been in service only for 6 years in this company, and has taken a total leave of 1 year and 2 months, because he needed prolonged medical attention after a major accident. Which of the following is true about his gratuity entitlement? (1)  
A) Sundar is eligible for gratuity, as absence on medical grounds is not added for computing continuous service for payment of gratuity.  
B) Sundar is eligible for gratuity as long as he has worked for 240 days in the year preceding the year in which computation of continuous service is being made.  
C) Sundar is not eligible for gratuity if has not put in continuous service of 5 years.  
D) Sundar is not eligible for gratuity if his service is interrupted by leave and does not add up to 5 years.  
**Solution (B)**
- 7) Mr. Prasad is a small-scale trader. He has a welfare scheme for his few employees, for whom he runs a small provident fund, which is yet to be recognized. He also contributes to this fund as an employer and matches the employee's contribution. He has encouraged his employees also to open PPF accounts to save tax and set aside funds for the future. Mr. Prasad has called you to take a look at what he has been doing and advise him on the choice of products for providing retirement benefits to himself and his employees. Can Mr. Prasad open joint PPF accounts with his employees? (1)  
A) A PPF account cannot be opened in joint names.  
B) No, joint accounts can be held only by members of the same family or HUFs.  
C) Yes, it can be opened, but the proceeds cannot be made payable to either or survivor.  
D) Yes, provided the employee is the first holder.  
**Solution (A)**

- 8) Manish estimates his opportunity cost on investments to be 12% compounded annually. Which one of the following is the best investment opportunity for Manish? (2)
- A) To receive Rs. 50000 today  
 B) To receive Rs. 250000 at the end of 14 years.  
 C) To receive Rs. 40000 at the end of four years and Rs. 120000 eight years later (at the end of the 12th year).  
 D) To receive Rs. 5000 at the beginning of each six-month period for nine years compounded semiannually.
- Solution (D)**
- 9) Sachin has been investing Rs. 3500 into a mutual fund at the end of each month for the last 10 years and has been earning a compound return of 12%, consisting entirely of capital appreciation. Does Sachin have enough money, after selling his investments to purchase his dream home for Rs. 8 lakh? (2)
- A) No because he has Rs. 563595 after sale of investment and after paying long term capital gains tax.  
 B) No because he has Rs. 644108 after sale of investment and after paying long term capital gains tax.  
 C) No because he has Rs. 724622 after sale of investment and after paying long term capital gains tax.  
 D) Yes because he has Rs. 805135 after sale of investment.
- Solution (D)**
- 10) Sahil, age 43, can refinance Rs. 114042 at a 20-year rate for 7% and will incur closing cost of 3% of the mortgage amount to be financed in the new mortgage balance. What will be his new EMI on the mortgage under the circumstances to achieve his objective of no debt at retirement (age 60)? (2)
- A) Rs. 781.49  
 B) Rs. 957.56  
 C) Rs. 980.57  
 D) Rs. 986.29
- Solution (D)**
- 11) If the inflation rate is 4.9% and tax rate is 30% the required rate of return to maintain the value of an investment is (2)
- A) 8%  
 B) 9%  
 C) 7%  
 D) 10%
- Solution (C)**
- 12) An auditor of an Exempted Provident Fund can be: (2)
- A) A member of FPSB India  
 B) A practicing Chartered Accountant  
 C) An employee of the Employee Provident Fund Organisation  
 D) The auditor of the company, which is having the exempted provident fund
- Solution (D)**
- 13) Mira, aged 30, is interested in planning for retirement. She saves Rs. 15000 per year (at the year end) in a bank fixed deposit earning 8.25% p.a. compounded annually until she retires at age 58. Her life expectancy is 80 years. What will be her corpus on the date of retirement? What is the fixed annual amount she can withdraw at the beginning of each year until age 80, in case she wishes to exhaust her corpus completely? (4)
- A) Rs. 1348974, Rs. 87498  
 B) Rs. 1424894, Rs. 89458  
 C) Rs. 1491655, Rs. 137767  
 D) Rs. 1491655, Rs. 91613
- Solution (C)**
- 14) Ms. Rekha is 45 years old and plans to retire at 50. Her life expectancy is 70 years. Ms. Sushma, her Financial Planner, estimates that her client will require Rs. 45000 in the first month after retirement. Inflation rate is 4% p.a. and the rate of return is 6% p.a. What will be the savings required by her at the beginning of every year in order to meet this? (4)
- A) Rs. 1245879  
 B) Rs. 1478951  
 C) Rs. 1501856  
 D) Rs. 1689745
- Solution (C)**
- 15) Mr. Ramesh retired from PTC Ltd after completing service of 29 years and 9 months. His salary at the time of retirement was Rs. 10500 per month while the average salary drawn for the preceding 10 months worked out to Rs 9800 per month. The actual amount of gratuity received by him at the time of retirement was Rs 325000. Calculate the amount of gratuity exempt from tax assuming he is not covered under provisions of Payment of Gratuity Act, 1972? (4)

- A) Rs. 182900
- B) Rs. 175673
- C) Rs. 294000
- D) Rs. 315000

**Solution (A)**

- 16) Mr. Thapar has just retired from Government service with a lump sum of Rs. 2585650 as retirement benefits in total. Currently he is 59 and life expectancy for him is 76 years. He intends to take a world trip after 4 years, which would cost Rs 4 lakh now and wants to buy a new car of Rs 3 lakh immediately. Calculate what amount will be available to him for post retirement living expenses in the beginning of every month, considering inflation @ 4.25 % and rate of return to be 7.5 % p.a? (4)

- A) Rs 11889
- B) Rs 12999
- C) Rs 16678
- D) Rs 12486

**Solution (C)**

- 17) Aditi is 30 years old. She deposits 25000 at the beginning of each year in deferred annuity scheme as a part of her retirement planning. How much will be in her account after 25 years if her savings earn 9.5% compound annual interest? (4)

- A) Rs. 2474985
- B) Rs. 2487216
- C) Rs. 2414854
- D) Rs. 2497857

**Solution (D)**

- 18) Seema has been an employee of a public sector undertaking (covered under the payment of Gratuity Act, 1972) for the past 20 (completed) years and is retiring on the 31st of December this year. Her monthly salary at retirement is expected to be Rs. 20000. The amount of gratuity that she will receive is \_\_\_\_\_ (4)

- A) Rs. 241245
- B) Rs. 242308
- C) Rs. 243579
- D) Rs. 241940

**Solution (B)**

- 19) Mrs. Shah retired from Ace Manufacturing Co. Ltd. Mumbai on 31/12/2007. Ace is covered under the Payment of Gratuity Act, 1972. She served for 30 years and 9 months. Ace paid her a Gratuity of Rs.400000. Her monthly basic salary at the time of retirement was Rs. 9000 p.m. and Dearness Allowance was Rs. 4000 p.m. House Rent Allowance was Rs. 1500 p.m. Mrs. Shah lives in an ownership flat. Compute: Taxable amount of Gratuity & Taxable amount of HRA of Mrs. Shah. (4)

- A) Gratuity: Rs. 160000; HRA: Rs.20000
- B) Gratuity: Rs. 157500; HRA: Rs.16000
- C) Gratuity: Rs. 170000; HRA: Rs.18000
- D) Gratuity: Rs. 167500; HRA: Rs.18000

**Solution (D)**

- 20) Sumeet, aged 25, plans to retire at age 55. His life expectancy is 75. His current annual expenditure is Rs. 250000. He estimates no reduction in his expenses post-retirement. If interest rate is expected to be 8.5% and inflation is 5% p.a. estimate how much will he have to save per annum in order to achieve his target, provided he does not wish to leave an estate. (4)

- A) Rs. 129696
- B) Rs. 125054
- C) Rs. 117154
- D) Rs. 120963

**Solution (A)**

### Sample Paper Exam 3: Investment Planning

- 1) Which of the following costs best describes the cost of foregone income that results from making an economic decision to use funds to purchase a piece of equipment? (1)  
A) Cost of Capital  
B) Fixed Cost  
C) Marginal Cost  
D) Opportunity Cost  
**Solution (D)**
- 2) A mutual fund that invests in Indian Equities, foreign equities, Indian Corporate Bonds, Indian Government Gilts is subject to the following risks? (1)  
1. Business Risk,  
2. Default Risk,  
3. Systematic Risk,  
4. Interest Rate Risk.  
A) 1 & 3 only  
B) 1, 3 & 4 only  
C) 3 & 4 only  
D) 1, 2, 3 & 4  
**Solution (D)**
- 3) The CAPM is a model that: (1)  
A) Determines the geometric return of a security.  
B) Determines time-weighted return  
C) Explain return in terms of risk.  
D) Explains systematic risk  
**Solution (C)**
- 4) If a new issue was offered to the public at 15 times earnings but the market was pricing similar shares at 19 times, this would be \_\_\_\_\_. (1)  
A) Appalling proposition to the investor  
B) The investor cannot take a position  
C) An example of low gearing  
D) Bargain not to be missed  
**Solution (D)**
- 5) Mr. X buys 50 TISCO October Rs. 350 call options for Rs. 15. The current share price is Rs. 345. The break-even share price, ignoring transaction costs is Rs. \_\_\_\_\_. (1)  
A) 350  
B) 360  
C) 365  
D) None of the above  
**Solution (C)**
- 6) Investor complaints relating to the following Capital Market issues will not be entertained by SEBI: (1)  
A) A company declaring no dividend on equity for the fourth consecutive year.  
B) A company has declared dividend but not paid the same after six months of declaration.  
C) A company not paying the redemption proceeds on debentures issued by the company, one year after maturity date.  
D) None of the above cases.  
**Solution (A)**
- 7) If a bond is selling at a premium: (1)  
A) It is an attractive investment  
B) Its coupon rate is below market rate  
C) Its current yields is lower than the coupon rate  
D) Its realized compound yield will be less than the yields to maturity  
**Solution (C)**
- 8) Business Risk is associated with (1)  
A) Economy as a whole  
B) International Market  
C) Nature of Enterprise

- D) None of the above  
**Solution (C)**
- 9) Diversified Portfolio affects Systematic Risk in the following way: (1)
- A) No Impact.  
B) Huge Impact.  
C) Little Impact.  
D) None of the above.  
**Solution (C)**
- 10) An investor can open following number of PPF accounts: (1)
- A) 1  
B) 3  
C) 5  
D) None of the above.  
**Solution (A)**
- 11) Ratio Analysis helps in selection of shares of a company because it indicates: (2)
- A) Cash Reserve  
B) Value of Debt  
C) Comparison of Company's Financial Position  
D) None of the above.  
**Solution (C)**
- 12) Which of the following statements is False: (2)
- A) Portfolio diversification of mutual fund increases the risk of investment  
B) Portfolio diversification of mutual fund reduces the risk of investment  
C) Both (A) & (B) above  
D) None of the above.  
**Solution (B)**
- 13) GE is an AAA rated issuer of Corporate Bonds in the International Debt markets. The issue price of a typical GE corporate bond is affected by all the following EXCEPT the \_\_\_\_\_. (2)
- A) Face value, coupon rate, and maturity of the bond.  
B) Firm's required return on debt.  
C) Percentage of debt in the firm's capital structure.  
D) Required return on the firm's competitors' bonds.  
**Solution (D)**
- 14) Tata Power is raising funds through a bond issuance to fund a new power plant at Noida, UP. They are issuing Two Year maturity, Zero-coupon bond with face value of Rs 1000 and yield of 4%. What price would you pay for this Tata Power Zero-coupon bond today? (2)
- A) Rs. 920.00.  
B) Rs. 924.56.  
C) Rs. 925.95.  
D) Rs. 960.00.  
**Solution (B)**
- 15) The best method of valuing a share is: (2)
- A) Book value based on net tangible assets.  
B) Liquidation value based on the proceeds of liquidation of the company.  
C) Present value of all the dividends to be received from holding that share.  
D) Apply the P / E ratio to expected earnings per share.  
**Solution (C)**
- 16) Public Issue through the book building process is better than I.P.O at fixed price because \_\_\_\_\_. (2)
- A) High fixed price will result in under subscription leading to loss to the investor.  
B) It helps the issuer to ascertain the exact price at which the investor is willing to subscribe.

- C) Low fixed price will result in over subscription leading to loss to the issuer.  
D) All of the above

**Solution (B)**

- 17) Equal amount of investment is made in portfolio consisting of securities X and Y. Standard deviation of X is 12.43%. ; Standard deviation of Y is 16.54%. ; Correlation coefficient is 0.82. ; The interactive risk of the portfolio, measured by covariance is \_\_\_\_\_ . (2)  
A) 145.64  
B) 156.22  
C) 168.59  
D) 172.56

**Solution (C)**

- 18) The risk free return of Security A is 8%. In addition to it, you expect that the return on market would be 14%. The expected return of Security A with beta of 0.70 is \_\_\_\_\_ . (2)  
A) 12.2%.  
B) 15.4%.  
C) 17.8%.  
D) 18.2%.

**Solution (C)**

- 19) Portfolio A had a return of 12% in the previous year, while the market had an average return of 10%. The standard deviation of the portfolio was calculated to be 20%, while the standard deviation of the market was 15% over the same time period. If the correlation between the portfolio and the market is 0.8, what is the Beta of the portfolio A? (4)  
A) 0.94  
B) 1.07  
C) 1.31  
D) 1.91

**Solution (B)**

- 20) Anil Kumar has two Mortgage Loan options before him. The interest rate and other conditions are the same for both, except that one has a repayment term of 15 years and the other has a repayment term of 30 years. Anil wants to evaluate the EMIs for both terms. All other conditions being the same, repaying a loan in 15 years instead of 30 would require EMIs that are \_\_\_\_\_. (4)  
A) Half the size of the 30-year loan payments.  
B) Less than twice as large as the 30 year loan payments.  
C) More than twice as large as the 30 year loan payments.  
D) Twice as large as the 30 year loan payments.

**Solution (B)**

- 21) You are running a Dividend Yield Fund for a leading Mutual Fund House. The most recent dividend of All Is Fine Business Services common stock was Rs 2.35. The dividends are expected to grow at 4 percent indefinitely. If you are looking at a 12 percent return, how much will you be willing to pay for one share of All Is Fine Business Services? (4)  
A) Rs. 24.79.  
B) Rs. 29.38.  
C) Rs. 29.38.  
D) Rs. 30.55.

**Solution (D)**

- 22) You are an owner of an apartment complex with 300 units, each of which can fetch Rs. 1000 p.m. as rentals. The apartment complex has an average occupancy rate of 75%. The expenses for maintaining, up keeping the apartment comes to around Rs. 10 Lakh p.a. Based on the concept of capitalized earning approach and assuming that you require a capitalization rate of 10%, how much is the complex worth now? (4)  
A) Rs. 1.50 crore  
B) Rs. 1.70 crore  
C) Rs. 2.00 crore  
D) None of the above.

**Solution (B)**

### Sample Paper Exam 4 : Tax & Estate Planning

- 1) Your client is unsure of the meaning of the term 'codicil' A codicil is: (1)  
A) A document use to make an alteration to a Will.  
B) A gift of land or real estate in a Will.  
C) A term used to cover grants of probate to the legal personal representative.  
D) The statement made at the end of a will that it has been duly attested.  
**Solution (A)**
- 2) Your client Mr. Saxena expressed his intention to write his Will in his own handwriting. Such a Will which is wholly in the handwriting of the testator is known as: (1)  
A) Holograph Will  
B) Nuncupative Will  
C) A handwritten Will is not allowed as establishing the authenticity of a handwritten document is difficult in the court of law.  
D) Lithographic Will  
**Solution (A)**
- 3) An investor holds shares in a company that is not listed. Such shares would qualify as long-term assets if held for \_\_\_\_\_ (1)  
A) More than 36 months  
B) 36 months or more  
C) More than 12 months  
D) None of the above  
**Solution (C)**
- 4) Long-term capital gains tax rate on units of a debt-based Mutual Fund scheme is \_\_\_\_\_. (1)  
A) 10% at all times  
B) 10% on sale value minus cost or 20% of sale value minus indexed cost whichever is lower  
C) 20% on indexed capital gains  
D) Nil  
**Solution (B)**
- 5) Mr. Billimoria, a chief executive of a company, finds that he had to undertake foreign tours for the company's work and had to remain out of India for as many as 300 days in FY 06-07. He has never been out of India for the five years preceding the FY 2006-07. His residential status for previous year 06-07 would be \_\_\_\_\_. (1)  
A) Foreigner  
B) Resident but not Ordinarily Resident  
C) Resident in India  
D) Resident outside India  
**Solution (C)**
- 6) What is the main benefit of Estate Planning? (1)  
A) Peace of mind  
B) To avoid probate  
C) To ensure property passes to intended person  
D) To plan health care treatment  
**Solution (C)**
- 7) For the Previous Year 06-07, XYZ Ltd., a domestic company, pays an interim dividend in October 2006 of 15% and a final dividend of 40%. The dividend distribution tax is payable on \_\_\_\_\_. (1)  
A) both interim and final dividend  
B) neither the interim nor the final dividend  
C) the final dividend only  
D) the interim dividend only  
**Solution (A)**
- 8) Foreign income is tax-free in the hands of \_\_\_\_\_. (1)  
A) Residents and ordinarily residents  
B) Non-Residents & Resident but not ordinarily residents  
C) Non-Residents only  
D) None of the above  
**Solution (B)**

- 9) Mr. Das is an NRI working for a company in Dubai. The company desires to credit his monthly salary to his NRE account in India. Then such salary \_\_\_\_\_ (1)
- A) Would be taxable in India since it is received in India.  
 B) Would not be taxable in India since it is credited to the NRE account.  
 C) Would not be taxable in India since it is earned by an NRI.  
 D) Would not be taxable in India since it is earned from a foreign source.
- Solution (A)**
- 10) Mr. Yadav owns a small business worth Rs. 4 crore. How should life insurance be held if Mr. Yadav is trying to benefit his minor grandson with the insurance policy? (1)
- A) A revocable life insurance trust should be established for the grandchild  
 B) An irrevocable trust should be set up with the grandchild as beneficiary  
 C) Mr. Yadav's spouse should be the owner.  
 D) The grandson should be the owner.
- Solution (B)**
- 11) What are parties to Power of Attorney called? (1)
1. Donor and Donee  
 2. Debtor and Receiver  
 3. Client and Attorney
- A) 1 only  
 B) 3 only  
 C) 1 & 3 only  
 D) None of the above
- Solution (A)**
- 12) In the case of a Recognized Provident Fund, employer's contribution in excess of what percent is taxable? (1)
- A) 12%  
 B) 8%  
 C) 10%  
 D) It is not taxable at all
- Solution (A)**
- 13) Vinod invests Rs. 150000 in an equity oriented scheme on 1st December 2005 and receives a dividend of Rs. 25000 on 31st March 2006, the record date. The investment is sold on 2nd June 2006 for Rs. 120000. How much short-term loss, if any, arising out of this investment is allowable for set-off in FY 06-07? (2)
- A) It is a case of long-term Capital loss and not short-term loss  
 B) Nil  
 C) Rs. 30,000  
 D) Rs. 5,000, since provisions of Sec. 94(7) will apply
- Solution (C)**
- 14) In an unfortunate incident, Mr. Charan's plant catches fire and the machinery gets destroyed. Luckily, Mr. Charan had insured the factory against fire. The WDV of the machinery was Rs. 268000 and the replacement cost Rs. 5 lakh. The Insurance Company has paid compensation of Rs. 3 lakh. What is the taxable amount? (2)
- A) Rs. 32000 as capital gains.  
 B) Rs. 32000 as normal income.  
 C) Rs. 200000 as capital loss.  
 D) Nil.
- Solution (A)**
- 15) Harish's father has given him general power of attorney. What does that mean? (2)
- A) He has disinherited Harish, but Harish has the right to decide who will inherit his father's estate  
 B) He has given Harish the immediate right to make decisions in all matters and take action on his behalf  
 C) He has given Harish the right to appoint himself as the sole beneficiary of estate  
 D) He has given Harish the right to make decision in all matters and take action on his behalf should he become incompetent
- Solution (D)**
- 16) On 1st November 2006, Mr. Kapil, a professional cricketer, got an award of Rs. 40000 from his sports club for his fine performance during the season. His other taxable income is above Rs. 4 lakh. How much amount of the award would be taxable in Kapil's hands? (2)
- A) Rs. 15000  
 B) Rs. 35000

- C) Rs. 40000
- D) Nil.

**Solution (C)**

- 17) Mohit purchased equity shares of M Ltd. on a recognized stock exchange on 14th of April 2006. The cost of the shares was Rs. 50,000. The Securities Transaction Tax that Mohit would be liable to pay would be \_\_\_\_\_. (2)
- A) Rs. 37.50
  - B) Rs. 50
  - C) Rs. 75
  - D) Nil

**Solution (B)**

- 18) Mohan purchased units of an open-ended equity oriented scheme on 1<sup>st</sup> Jul 2006 from a Mutual Fund paying a total of Rs. 100000. The Securities Transaction Tax that Mohan would be liable to pay would be \_\_\_\_\_. (2)
- A) Rs. 100
  - B) Rs. 200
  - C) Rs. 50
  - D) Nil

**Solution (D)**

- 19) X purchased equity shares in Y Ltd a constituent of BSE-500 Index on Bombay Stock Exchange on March 1, 2005. He sold these shares on March 4, 2007 at a loss of Rs 10,000. He wants to set off the loss against other long term capital gains of Rs 15000 during the year. Both purchase and sale transactions were entered into on a recognized stock exchange. Whether such set-off is permissible? (4)
- A) Yes, upto the extent of Rs 5000
  - B) Yes, upto the extent of Rs 10000
  - C) Yes, upto the extent of Rs 15000
  - D) No

**Solution (D)**

- 20) Mr. Navnit is working as a manager in private sector bank in Nagpur. His remuneration consists of a consolidated salary of Rs. 25000 per month plus an HRA of Rs. 10000 per month. He stays in a rented accommodation paying a rent of Rs. 6000 per month. Calculate the amount of HRA exempt from tax for Navnit. (4)
- A) Rs. 120000
  - B) Rs. 42000
  - C) Rs. 48000
  - D) Rs. 72000

**Solution (B)**

- 21) Mrs. X received the following gifts during the year ending March 31, 2007: Rs. 30000 from her elder sister, Rs. 50000 from the daughter of her elder sister on 01-Feb-2007 and Rs 125000 from various friends on the occasion of her marriage on 10-March-2007. Calculate the amount of gift taxable in the hands of Mrs. X. (4)
- A) Rs. 30000
  - B) Rs. 125000
  - C) Rs. 175000
  - D) Rs. 50000

**Solution (D)**

- 22) Within two years of purchase of his flat, Vaibhav entered into an agreement to sell the same to Mihir for Rs. 8 lakh. Vaibhav had bought the flat for Rs. 5.5 lakh. Mihir pays Vaibhav earnest money of Rs. 50000 in respect of the transaction with the balance money payable within a month. However, for some unavoidable reason, Mihir could not make the rest of the payment and in terms of the agreement between the two, Vaibhav forfeited the earnest money paid. Subsequently, within a month Vaibhav sold the flat to another buyer for Rs. 9 lakh. Compute Vaibhav's taxable income under capital gains. (4)
- A) Long-term capital gains of Rs. 4 lakh
  - B) Short-term capital gains of Rs. 4 lakh
  - C) Short-term capital gains of Rs. 4.5 lakh
  - D) Short-term capital gains of Rs. 5 lakh

**Solution (D)**