Case - Rahul

Today on 31st May, 2009. Rahul Mehta has come to you, a CERTIFIED FINANCIAL PLANNER[CM] Practitioner, for preparing a comprehensive Financial Plan to accomplish his financial goals. From your initial meeting, you have gathered the following information:

Present Situation

Rahul, aged 46 years and Aditi, aged 43 years, got married in April 1991, they have a son Ajay, aged 16 years and a daughter Priti, aged 12 years. The life expectancy of Rahul and Aditi are 80 and 77 years. Rahul is in service for the last 18 years and has been working in his present company for last 12 years. Rahul draws gross annual salary of Rs. 18 lakh Aditi's present gross annual salary income is Rs. 2.75 lakh. These income levels are expected to be maintained in real terms for the rest of their working lives. His parents, father Manoj, aged 68 years and mother Kirti, aged 65 years are dependent on him. The house they stay in is at Goregaon, Mumbai owned by Rahul. It has a present market value of Rs. 80 lakh.

Rahul and Aditi want Ajay and Priti to pursue higher studies for three years each and settle in their careers. Before starting her higher studies Priti wishes to go for a world tour for 2 months. The company has a policy of providing 21 days leave per year and Rahul has accumulated leave of 117 days till 31-05-2009.

In addition to this house, they own following cash and investments as on 31st May 2009:

(In Rs. lakh)

S. No.	Investment	Rahul	Aditi
1)	Cash in hand	1.75	-
2)	PPF A/c (Matures on 1St April 2015)	9.00	4.50
3)	Post Office Savings	4.50	4.00
4)	Bank Fixed Deposit	0.10	-
5)	Shares	39.65	-
6)	Mutual Fund	22.00	-
7)	Jewellery (Market Value)	-	5.00
8)	RBI tax free bonds	5.00	-
9)	Kisan Vikas Patra	1.50	3.00
10)	ETF-Gold* : (Market Value)		7.00
11)	Other Valuables and Assets	5.00	

* 500 units were allotted on 17th October, 2006 @ Rs. 983 per unit.

Rahul has total life insurance cover of Rs. 40 lakh. The annual premium payments for the same are Rs. 10,585 by way of a term policy. Rahul's health insurance cover has been paid by his employer for Rs. 5 lakh and the cover expires on cessation of his employment. Rahul does not have an accident insurance policy nor does he have a home insurance policy.

The normal living household expenses for the family work out to be approximately Rs. 70,000 per month, out of which Rs. 15,000 is of Rahul, this does not include insurance premium.

Financial Objectives of Rahul and Aditi

1. To provide for childrens' higher education. They will require funds for their education when they attain 21 years of age. The present annual cost for the higher education is Rs. 2.5 lakh p.a.
2. To provide for children's marriages. For Ajay they will require Rs. 25 lakh when he attains 25 years and for Priti he would require Rs. 30 lakh when she attains 25 years.
3. To ensure that they leave a Flat worth Rs. 25 lakh todays value and cash of Rs. 60 lakh at the time of his death for Ajay.
4. They plan to gift their daughter a sum of Rs. 40 lakh when Rahul retires at 60.
5. To purchase a car for about Rs. 8 lakh by December end 2009.
6. To provide Rs. 2 lakh value today for visits abroad in 2nd April 2010 and April 2012 each.
7. He plans to buy a new bigger house.

Assumptions

1.	Inflation	:	5% p.a.
2.	Risk free rate of return	:	6% p.a.
3.	Equity Shares returns	:	13% p.a.
4.	Equity Mutual Funds return	:	12% p.a.
5.	Returns on liquid funds	:	5% p.a.
6.	Gold, Bank FD, Debt MF and Bond returns	:	7% p.a.
7.	Interest on Housing Loan	:	12% p.a.
8.	Appreciation on Real Estate	:	10% p.a.

The Cost inflation index for 1981-82 :100; 1985-86:133; 1997-98 : 331; 1998-99 : 351; 1999-2000 : 389; 2000-2001 : 406; 2001-02 : 426; 2002-03 : 447; 2003-04 : 463; 2004-05 : 480; 2005-06 : 497; 2006-07 : 519; 2007-08 : 551; 2008-09 : 582.

Questions

1) Rahul wants to buy an annuity when he retires at age 60 years, to be paid to him or his wife till any one of them is alive. What should be the term of this annuity?

A) 19 years
B) 15 years
C) 20 years
D) 21 years

2) Rahul wants to take an insurance cover for his house. The current cost of construction is Rs. 18 lakh and replacement value of household goods is Rs. 12 lakh. He asks you what amount of householder insurance cover he may take.

A) Rs. 92 lakh
B) Rs. 18 lakh
C) Rs. 80 lakh
D) Rs. 30 lakh

3) Rahul has been investing Rs. 35,000 in an Equity mutual fund scheme in the beginning of each year for the last 10 years. Each child will spend 3 years at college, starting from their respective age 21 years. The current costs of higher education in college are expected to increase at 6% year on year. Rahul wants to know the amount he should be investing in the beginning of every month, starting immediately and up to the year just prior to the first withdrawal, to pay for his childrens' higher education requirements. For calculation purpose assume that educational expenses are withdrawn at the beginning of each year in the year of requirement.

A) Rs. 8,853
B) Rs. 8,840
C) Rs. 5,322
D) Rs. 8,942

4) Rahul wants to know what approximate additional life insurance cover he needs such that in case of any eventuality with his life today his family should receive their present household monthly expenses net of Aditi's contribution as well as adjusted for inflation every month for the remaining expected life of Aditi. Aditi contributes Rs. 15,000 p.m. towards household expenses. Assume life insurance claim proceeds are invested by Aditi in risk free instruments.

A) Rs. 140 lakh
B) Rs. 100 lakh
C) Rs. 150 lakh
D) Rs. 190 lakh

5) Rahul had submitted return of his income to the extent of Rs. 11.50 lakh for the AY 2008-09. The Assessing Officer has found concealment of income of Rs. 1.50 lakh in the return submitted. What is the approximate amount of minimum & maximum penalty applicable u/s 271(1)(c) of the Income Tax Act, if he fails to convince the Assessing Officer? (Ignore surcharge and cess in calculations)

A) Minimum penalty Rs. 1,50,000 and maximum penalty Rs. 3,00,000
B) Minimum penalty Rs. 45,000 and maximum penalty Rs. 1,35,000
C) Minimum penalty Rs. 30,000 and maximum penalty Rs. 90,000
D) Minimum penalty Rs. 45,000 and maximum penalty Rs. 90,000

6) Rahul transferred shares of X Ltd, a listed Security to Avinash in an off-market transaction for a consideration of Rs. 30 lakh on July 1, 2008. The shares were held by him in physical form. He had

purchased these shares on April 1, 2000 for Rs. 15 lakh. What will be the Long Term Capital Gains tax payable by Rahul on the above transactions? Ignore surcharge or any other taxes, if applicable.

A) Rs. 1,50,000
B) Rs. 1,69,951
C) Rs. 1,82,451
D) Rs. 1,80,788

7) In the current times of recession, his company is going through financial crisis. Due to continuous losses the management has decided to offer Voluntary Retirement to its employees on 1-4-2009. The Company has got the VRS scheme approved through Income Tax Authorities. He has asked for your advice on net of tax proceeds out of his VRS amount of Rs. 20 lakh. You advise the same to be _________.

A) Rs. 14.90 lakh
B) Rs. 13.20 lakh
C) Rs. 16.60 lakh
D) Rs. 15.50 lakh

8) Aditi plans to invest regularly on a quarterly basis an amount of Rs. 6,000 in her PPF A/c for the rest of its tenure. The amounts are proposed to be deposited in the first five days of July, October and December and April, respectively. She has made no transactions in her PPF A/c since April this year. Aditi wants to know the approximate maturity amount of her PPF A/c. The same is _______.

A) Rs. 8.89 lakh
B) Rs. 8.95 lakh
C) Rs. 8.76 lakh
D) Rs. 8.85 lakh

9) You, as a CFP^{CM} certificant, need to disclose regarding compensation to be received from Rahul. According to you, which would be the most appropriate option?

A) Need not disclose the source of compensation
B) Need to disclose compensation structure at the time of establishing relationship
C) Need to disclose only when asked by Rahul
D) Need to disclose the source once the financial plan is constructed

10) You have disclosed in writing to Rahul that you are only authorized to sell or advise on a restricted range of products, and other limitation of your capacity to serve him, this is according to the Rules that relate to the Code of Ethic of _____________.

A) Objectivity
B) Competence
C) Fairness
D) Integrity

11) Rahul was allotted 10,000 units of a Mutual Fund scheme at Rs. 10.00 per unit on 23rd October 2005. He chose dividend reinvestment option. He received dividends on 24th October 2006 @Rs. 1.65 per unit (reinvested at NAV of Rs. 10.47), on 8th May 2007 @Rs. 1.80 per unit (reinvested at NAV of Rs. 11.84) and on 23rd December, 2007 @Rs. 2.00 per unit (reinvested at NAV of Rs. 11.28). Rahul repurchased all the units on 23rd March 2009 at Rs. 9.04. He wants to know the annual rate of return he earned on the investment? (Please ignore charges and Taxes if applicable)

A) 12.37% p.a.
B) 10.79% p.a.
C) 9.52% p.a.

D) 11.18% p.a.

12) Aditi sold 500 Gold ETF units @ Rs. 1,585.27 per unit on the stock exchange on 27th October, 2008. These units were acquired in the initial offering of Gold ETFs. She asks you to advise her on the tax to be paid on such disposal of such units. The same is ____________.

A) Rs. 49,743
B) Rs. 31,017
C) Rs. 62,034
D) Such profit added to Total Income under the head 'income from other sources' and taxed as per normal applicable slab rates

13) During the financial discussions with Rahul, you asked him about his income. But Rahul was bit of hesitant in telling his income details to you. Rahul wants to know the relevance of income in analyzing his insurance requirement. You explained him that his income would be used to determine:

I. The amount of income protection cover required
II. The amount of premium loading and/or any exclusion applicable to the policy
III. What level of income would be required for dependants in the event of premature death?
IV. What level of income would be required in the event of disability?

A) I and II
B) II and IV
C) I, III and IV
D) I, II and IV

14) Rahul plans to retire at 60 years of age. You have estimated that Rahul will require an inflation adjusted Rs. 1.1 lakh in the first month after retirement. He would invest every year Rs. 1, 50,000 in Equity Mutual Funds starting from now till retirement and in Debt based Mutual Funds after retirement. Rahul would set aside 60% of his existing Equity shares portfolio to invest the same for his retirement corpus. What will be the surplus/deficit in the required corpus at the time of retirement? (Please ignore charges and Taxes if applicable)

A) Deficit of Rs. 16 lakh
B) Surplus of Rs. 12 lakh
C) Deficit of Rs. 31 lakh
D) Would nearly meet the Corpus requirement

15) You as a CFP^{CM} certificant have made it clear to Rahul that you shall enter into an engagement with him as a client only after securing sufficient information to be satisfied that:
a) The relationship is warranted by Rahul's needs and objectives; and
b) You have the ability to either provide requisite competent services or to involve other professionals who can provide such services.

You have followed the Code of Ethic of __________.

A) Diligence
B) Professionalism
C) Compliance
D) Fairness

Case Study: Prabhat

Prabhat and Padma Singhal approached you a CERTIFIED FINANCIAL PLANNER^{CM} today, the 1st April, 2009 for preparing a Financial Plan to achieve their financial goals. Prabhat Singhal, aged 45 years, is working in Bangalore for an MNC, at a managerial level, and has an income of Rs. 45,000 p.m., comprising of Basic Salary and DA. His other allowances amount to Rs. 16,000 p.m. He would retire at the age of 60 years. His wife Padma, aged 42 years, is working in a Private Company and has a post-tax income of Rs. 4 lakh p.a. She is expected to retire at the age of 55 years. Prabhat's salary is likely to grow at 7% p.a. and Padma's salary is likely to grow at 6% p.a. The couple has two children - daughter Sapna, aged 18 years, pursuing her Graduation in Economics, and son Varun, aged 16 years, studying in 12th standard. Varun intends to become a Doctor.

Prabhat has no siblings. His mother expired five years ago at the age of 66. His father expired due to severe heart attack on 15-Dec-2006, at the age of 75 years, leaving a house (Value on 15th Dec 2006 Rs. 25 lakh) in which Prabhat is staying at present.

The couple’s assets as on 31-3-2009 are;

1. Cash in Hand Rs. 10,000.
2. Bank balance Rs. 50,000
3. Diversified Equity Mutual Fund units at market value Rs. 2.60 lakh
4. Equity Shares at market value Rs. 7.25 lakh
5. Debt oriented Mutual Fund units at market value Rs. 1.65 lakh
6. PPF Rs. 4.25 lakh (Prabhat), Rs. 3.15 lakh (Padma).
7. ELSS Mutual Fund units at market value Rs. 75,000
8. House is in the joint name of Prabhat and Padma with 50% ownership of each. This house has two floors and is let out for rent of Rs. 8,000 p.m. each floor. Present Market Value of this House is Rs. 70 Lakh.
9. Gold Ornaments at market value Rs. 6.35 lakh
10. Car at market value Rs. 2.60 lakh

Prabhat and Padma had taken a housing loan of Rs. 15 Lakh each to purchase the house costing Rs. 37.50 Lakh on 1st April 2002. They are presently paying an EMI of Rs. 19,226 each at the end of each month beginning from the month of disbursement of loan. Fixed rate of interest being Rs. 13.25% p.a. and tenure of Loan is 15 years.

Prabhat's retirement benefits, 15 years hence, are expected to be as follows: -

1. EPF Rs. 20 lakh,
2. Gratuity, Rs. 5.50 lakh.
3. Commutation of Pension and Commuted Leave as per rules.

Prabhat has a term insurance of Rs. 20 lakh (for 20 years), the term expires 5 years from now. Both are covered under Group Medical Insurance for Rs. 4 Lakh family floater each provided by their respective employers. Prabhat has also taken money back insurance plan of 20 year term with sum assured of Rs. 5 Lakh for annual premium of Rs. 23,750. He has paid 16 annual premiums till date before due date. The policy provides 25% of basic sum assured to insured as survival benefit after 5th, 10th, 15th years from the start of the policy. Prabhat's monthly household / living expenses are Rs. 40,000. This excludes EMI on loans. Expenditure on Sapna's education for the next 3 years is likely to be Rs. 1 lakh p.a. During the present financial year education expenses of Sapna and Varun have already been paid for.

Goals & Aspirations:-

1) Plan for Varun's medical education expenses which is likely to be Rs. 3.50 lakh at the end of one year from now and increasing thereafter @ 8%p.a. during the next 4 years.
2) Create a separate fund to provide every year vacation expenses amounting to Rs. 50,000 for the first year, increasing at the rate of 10% p.a. for the next ten years.
3) Plan for his future Life Insurance needs.
4) Provide for expenses in his post retirement period @ 75% of pre retirement expenses.
5) He wants Rs. 10 Lakh in today's terms for her daughter Sapna's wedding after 5 years from now.
6) Prepare a registered WILL for smooth transfer of his estate according to his wishes.

Assumptions

1.	Inflation	6.00% p.a.
2.	Equity/Equity Based MF Returns	15.00% p.a.
3.	Risk free Returns	8.00% p.a.
4.	Debt/Debt based MF Returns	9.00% p.a.

The Cost inflation index for 1981-82 :100; 1985-86:133; 1997-98 : 331; 1998-99 : 351; 1999-2000 : 389; 2000-2001 : 406; 2001-02 : 426; 2002-03 : 447; 2003-04 : 463; 2004-05 : 480; 2005-06 : 497; 2006-07 : 519; 2007-08 : 551; 2008-09 : 582.

16) Prabhat wants to know his income/loss from house property for Prabhat for Assessment Year 2009-10. Municipal value of house property is Rs. 1,80,000 and standard rent is Rs. 1,50,000. Municipal taxes paid are Rs. 5,000 during the FY 2008-09.

A) Income of Rs. 1,30,900
B) Loss of Rs. 84,550
C) Loss of Rs. 1,80,700
D) Loss of Rs. 90,350

17) For the FY 2008-09 Padma has not made any investments/other eligible payments to claim the benefit of deduction u/s 80 C. Padma has asked you what maximum amount u/s 80 C she can claim towards principal repayment of her housing loan.

A) Rs. 1,00,000
B) Rs. 74,900
C) Rs. 77,480
D) No tax benefit u/s 80 C towards principal repayment of housing loan is eligible to Padma

18) During the recent period you feel that the stock market has shown a strong bullish run. The Super Industry Ltd’s Shares, which Prabhat bought for Rs. 900 per share about nine months back, are now at Rs. 1,760 per share. He does not want to sell his shares since he is bullish in the long term. He wants to protect the appreciation on the stock price from the downside which market may face in the short term. He approaches you to guide him what strategy he should use. CALL Option of Rs. 1,740 is available @Rs. 60, PUT Option of 1740 is available @ Rs. 50.

A) Buy PUT option
B) Sell PUT Option
C) Buy CALL Option
D) Sell CALL Option

19) Prabhat expects his post retirement household/living monthly expenses to be 75% of pre retirement expenses and he expects to live till the age of 80 years. You advice him to invest the retirement corpus in a pension scheme of a mutual fund yielding 10% p.a. during post retirement period to get such inflation adjusted monthly expenses. What approximate corpus Prabhat should have for his retirement 15 years hence to accommodate his post retirement household/living expenses? (Assume this pension scheme would make monthly payments in annuity due mode)

A) Rs. 122 lakh
B) Rs. 120 lakh
C) Rs. 118 lakh
D) Rs. 124 Lakh

20) You advise them to liquidate their low yielding investments and prepay some part of their housing loan. Prabhat and Padma agree to prepay Rs. 5 Lakh each today and restructure their housing loan by paying rest of the loan in next 5 years time. What would be the revised loan EMI installment paid at the end of each month for Prabhat? (Ignore prepayment charges and taxes)

A) Rs. 16,232
B) Rs. 14,517
C) Rs. 15,460
D) Rs. 16,425

21) Prabhat's father acquired his flat at Bangalore on 1985-86 for Rs. 10 lakh. After the death of Prabhat's father such house is transferred to Prabhat through Inheritance in FY 2006-07. If he had sold this inherited house on 15-3-2009 for Rs. 25 Lakh and shift to his own house then compute the capital gain for AY 2009-10 (assuming expenses incurred on sale of house by him was Rs. 1 lakh)?

A) LTCG of Rs. 12,78,613
B) LTCG of Rs. 13,78,613
C) LTCG of Rs. 14,00,000
D) LTCL of Rs. 19,75,940

22) Prabhat has come to know about this CFP^{CM} practitioner through a newspaper advertisement. The theme and wording of advertisement says that along with preparation of Financial Plan, they also help to generate assured return of 12% p.a. According to FPSB India's code of ethics, the practitioner has violated _________.

A) Code of Ethic of Objectivity
B) Code of Ethic of Professionalism
C) Code of Ethic of Fairness
D) Code of Ethic of Integrity

23) Prabhat's Debt Mutual Fund portfolio has generated returns of 11% p.a. over a period of 2 years. He wants to know the actual return of his portfolio, after tax and inflation, if his income tax slab is 30%. (Indicate nearest figure).

A) 1.60% p.a.
B) 1.70% p.a.
C) 4.70% p.a.
D) 3.50% p.a.

24) An investment analyst has told Prabhat to invest in a portfolio after evaluating on the following parameters -

1. The performance of portfolio adjusted by the return of risk free assets over the risk of portfolio
2. Measure of the volatility in a portfolio as compared to the entire market (index) as a whole
3. measure of how much individual elements tend to deviate from the average
4. measure excess return on an investment over the benchmark with same degree of risk
5. The proportion of variability in a portfolio compare to benchmark

The analyst also used a lot of terminology which confused Prabhat. He wants to know how the terminology used fits into these evaluation parameters. You advise the terminology, respectively, as_______ .

A) Sharpe Ratio, Beta, Alpha, R^2, Standard Deviation.
B) Sharpe Ratio, Beta, Standard Deviation, Alpha, R^2.
C) Alpha, Standard Deviation, R^2, Sharpe Ratio, Beta.
D) R^2, Sharpe Ratio, Standard Deviation, Alpha, Beta.

25) You advise Prabhat to invest in an Equity Diversified Mutual Fund Scheme by way of monthly SIP for the next five years beginning from today to meet the expenses of Varun's medical education. He asks what would be the approximate amount of such monthly SIP. You calculate the same to be ________.

A) Rs. 31,000
B) Rs. 33,500
C) Rs. 23,500
D) Rs. 35,000

26) Prabhat gives you information that Insurance Company has declared reversionary Bonus of Rs. 60 per thousand sum assured for first ten years and Rs. 50 per thousand sum assured for next six years. According to you, in Prabhat's Money back Insurance plan, what amount of death claim would be received by the nominee in case of any eventuality with Prabhat's life today?

A) Rs. 5.0 Lakh
B) Rs. 9.5 Lakh
C) Rs. 7.8 Lakh
D) Rs. 3.5 Lakh

27) You advise Prabhat to open a Post Office Monthly Recurring Deposit Account today and start investment in this account for the next five years beginning from today to meet the cost of Sapna's wedding. Calculate what is the monthly amount of investment required to achieve this goal? (Interest on PO RD is 7.50% p.a. compounded Quaterly)

A) Rs. 13,719
B) Rs. 18,360
C) Rs. 18,146
D) Rs. 13,635

28) Before finalizing the Financial Plan, Prabhat tells you that he wants to entrust the estate issues to a solicitor friend, Mr. Sunil Shrivastav. Which of the following is your best stand?

A) This is not permissible as per the Rules of FPSB India
B) This is permissible subject to such an arrangement finding an explicit mention in the Financial Plan for the said activity
C) This is permissible subject to the advice of the solicitor being integrated into the Financial Plan and monitored along with the Plan
D) You may enter into an MoU with the Solicitor and may also have a revenue sharing model