

PGDM (Insurance Business) 2016-18  
Financial Services and Personal Financial Planning  
INS-601  
Trimester – VI, End-Term Examination, February, 2018

Time allowed: 2½ Hours

Max Marks: 50

Roll No: \_\_\_\_\_

**Instruction:** Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please use answer sheet.

**Note :**

- Please be relevant and brief in your answers.
- Section C is compulsory.
- Do not write anything on this question paper except your roll no.

**Section-A**

**There are 5 questions in this section. Attempt any 3 questions. Each question carries 5 marks.**

- A1. Discuss the Barnwell two way model of classifying investors into different categories for portfolio Management.
- A2. Recommend the Investment product according to the profile and tenure of goal of the investor.
- A3. Why is asset allocation important while making financial plans? How financial planning affect cash flow?
- A4. Discuss three forms of structure communication for the Financial Planner
- A5 Discuss the various "Good Practices "of Financial Planning.

**Section-B**

**[Note: Answer 2 out of the 3 Questions below. Each Question carries 10 marks. [2x10=20]**

- B1. Discuss the different stages of life cycle on the basis of financial attributes like income, liquidity, expenses etc.
- B2. Discuss the Sharpe ratio to measure the risk and return of a portfolio
- B3. Do you think professional indemnity insurance should be compulsory for all financial planners? Why or why not?

**Section-C**

**Case Study**

**15 Marks**

**ARQ LTD**

ARQ Ltd is an Indian company based in Greater Noida, which manufactures packaging materials for food items. The company maintains a present fleet of five Rat cars and two Contessa Classic cars for its chairman, general manager and five senior managers. The book value of the seven cars is Rs. 20,00,000 and their market value is estimated at Rs. 15,00,000. All the cars fall under the same block of depreciation @ 25 per cent.

A German multinational company (MNC) BYR Ltd has acquired ARQ Ltd in all cash deal. The merged company called BYR India Ltd is processing to expand the manufacturing capacity by four folds and the organisation structure is reorganised from top to bottom. The German MNC has the policy of providing transport facility to all senior executives (22) of the company because the manufacturing plant at Greater Noida was more than 10 kms outside Delhi where most of the executive were staying.

**Prices of the Cars to be provided to the Executives have been as follows:**

Manager (10)	Santro Xing	Rs 3,75,000
DGM and GM (5)	Honda City	6,75,000
Director (5)	Toyota Corolla	9,25,000
Managing Director (1)	Sonata Gold	13,50,000
Chairman (1)	Mercedes Benz	23,50,000

The company is evaluating two options for providing these cars to executives.

**Option 1:** The Company will buy the cars and pay the executives fuel expenses, maintenance expenses, driver allowance and insurance (at the year-end). In such case, the ownership of the car will lie with the company. The details of the proposed allowances and expenditures to be paid are as follows:

(a) Fuel Expenses and Maintenance Allowances per Month.

Particulars	Fuel expenses	Maintenance allowance
Manager	Rs 2,500	Rs 1,000
DGM and GM	5,000	1,200
Director	7,500	1,800
Managing Director	12,000	3,000
Chairman	18,000	4,000

(b) Driver Allowance: Rs 4,000 per month (Only Chairman, Managing Director and Directors are eligible for driver allowance).

(c) Insurance Cost: 1 per cent of the cost of the car.

The useful life for the cars is assumed to be five years after which they can be sold at 20 per cent salvage value. All the cars fall under the same book of depreciation @ 25 per cent using written down method of depreciation. The company will have to borrow to finance the purchases from a bank with interest at 14 per cent repayable in five annual equal instalments payable at the end of the year.

Option 2: ORIX, The fleet management company has offered the 22 cars of the same make at least for the period of five years. The monthly lease rentals for the cars are as follows (assuming that the totals of monthly lease rentals for the whole year are paid at the end of each year).

Santro Xing	Rs 9,125
Honda City	16,325
Toyota Corolla	27,175
Sonata Gold	39,250
Mercedes Benz	61,250

Under this lease agreement the leasing company, ORIX will pay for the fuel, maintenance and driver expenses for all the cars. The lessor will claim the depreciation on the cars and the lessee will claim the lease rentals against the taxable income. BYR India Ltd will have to hire fulltime supervisor (at monthly salary of Rs 15,000 per month) to manage the fleet of cars and hired on lease. The company will have to bear additional miscellaneous expenses of Rs 5,000 per month for providing him the PC, mobile phone and so on.

The company's effective tax rate is 40 per cent and its cost of capital is 15 per cent.

Analyse the financial viability of the two options. Which option would you recommended? Why?

PV Factor-

1	2	3	4	5
.922	.851	.785	.724	.669