

PGDM, 2016-18  
Financial Planning and Wealth Management  
DM-511 / IB-510  
Trimester - V, End-Term Examination: December 2017

Time allowed: 2 Hrs 30 Min

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**. All other instructions on the reverse of Admit Card should be followed meticulously. Please carry a non-programmable calculator.

**Section: A (15 Marks).**

**Attempt 3 out of 5 questions, each question carries 5 marks.**

1. "Insurance contracts are subject to 'Uberrima fides'" – Discuss this statement critically.
2. 'Some analysts argue that the best guide for estimating future value is the arithmetic average of returns. Others claim that the geometric average provides better estimate'. Give your explanation to this debate.
3. What is the answer to the question 'What determines portfolio performance?', as per Brinson, Hood, and Beebower (1995). Discuss critically.
4. Discuss the basic differences between traditional insurance plans and unit-linked plans.
5. Rajat plans to retire in 2 years. After retire Rajat will need Rs. 500000 pa. Rajat thinks he will live 3 years after retirement. Taking interest rate at 8%, how much he will need to accumulate till retirement?

**Sec B**

**(Answer any two questions out of five. Each question carries ten marks)**

6. According to Klement and Miranda (2012), explain which factors influence the investor risk profile most.
7. 'Heuristic and biases influence significantly the risk profile of an investor'. Critically examine this statement with examples.

8. (a) What is the difference between Statutory Provident Fund (SPF), Recognised Provident Fund (RPF) and Public Provident Fund (PPF). What exemption rule is applicable in each one of these? (5 marks)

(b) R furnishes you the following information for the previous year 2016-17. (5 Marks)

Basic Salary	Rs. 15,000 p.m.
Dearness allowance	Rs. 6,000 p.m. (60% of which is part of salary)
Entertainment allowance	Rs. 500 p.m.
House rent allowance	Rs. 6,000 p.m.
Actual rent paid for a house in Delhi	Rs. 7,000 p.m.
Education allowance for 3 children	Rs. 200 p.m. per child
Transport allowance for commuting from residence to office and back ( He spends Rs. 1,400 p.m. for such purpose)	Rs. 2,400 p.m.
Medical allowance ( He spends Rs. 5,000 for his medical treatment)	Rs. 1,000 p.m.
Lunch allowance ( He spends Rs. 2,000 for his lunch in the office)	Rs. 200 p.m.
<b>Compute taxable salary of R for the assessment year 2017-18</b>	

**Sec C  
(15 marks)**

9. (Reference date: 2nd April, 2017)

Mr. Kulbhushan Kharbanda, aged 44 years, is Finance Manager in a manufacturing firm. He has twin sons Madhur and Vidur of age 16 years. He is currently residing in a rented house. Both his sons are studying in the 9th Standard. He has approached you, a Financial Planning practitioner, for preparing his Financial Plan. He has shared the following financial information with you:

<b>Salary Income</b>	<b>Annual (Rs. Lakh)</b>
Basic Salary	46.00
HRA	6.00
Conveyance Allowance	2.50
Variable Salary	10.50
<b>Regular outgoing</b>	<b>Monthly (Rs.)</b>
Basic Household Expenses	57000
Services availed	22500
School Fees	25000
House Rent	60000
Power, Telecom & Fuel	13500
Car Loan EMI	25000
SIP – Equity Mutual Fund	20000
SIP – Balanced Mutual Fund	20000

<b>Assets</b>	<b>Current Market Value (Rs. Lakh)</b>
Equity Mutual Fund portfolio	42.45
Balanced MF scheme investment	22.00
Demat Account - Shares	21.00
Gold & Diamond Jewellery	16.75
Car	12.50
Bank Salary Account	2.82
Savings Bank account	13.26
Deposit with House Owner	3.00

Liabilities	Currently Outstanding (Rs. Lakh)
Car loan	7.79 (as on date)

You, in consultation with Kulbhushan, have crystallized the following financial goals for his family and the preliminary Roadmap to achieve them. Based on the information mentioned above, please provide answers to the following questions. You may make the following assumptions.

Assumptions:

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

- i) Equity & Equity MF schemes /Index ETFs: 11.00% p.a.
- ii) Balanced MF schemes: 9.00% p.a.
- iii) Bonds/Govt. Securities/Debt MF schemes: 7.00% p.a.
- iv) Liquid MF schemes: 5.00% p.a.
- v) Gold & Gold ETF: 7.00% p.a.

B. Regarding economic factors:

- i) Inflation: 5.00% p.a.
- ii) Risk free rate: 6.00% p.a.
- iii) Real Estate appreciation: 8.00% p.

1. Kulbhushan plans to buy a flat worth Rs. 1.25 crore (current value) two years from now. He wants to make a specific investment pool for the same by using bonds and equity mutual funds in equal ratio. He also wants to use present portfolio of equity mutual fund and balanced mutual fund for the same. Do you think the current investment pattern is sufficient for the same? Does he need to make additional investment for the same, every month? If yes, how much additional investment, he needs to make every month to meet the goal?  
(5 marks)

2. Kulbhushan also wants to get his children admitted to business school 4 years hence. The present cost of the course is Rs. 15 lakhs (present cost) in two equal yearly instalment. He wants to make a corpus for this by using equity mutual funds. How much investment he should make now to meet this objective? (5 marks)

3. Kulbhushan also wants to make a sound estate planning for betterment of his family. Discuss the options available to him.  
(5 marks)



