**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FOURTH TRIMESTER (Batch 2021-23)**

**END TERM IMPROVEMENT EXAMINATION, DEC-2022**

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| Course Name | **Wealth Management** | Course Code | **40232** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

***1.*** There are four questions in the question paper.

2. All questions are compulsory.

3. Students are supposed to save their answers in an excel workbook with their names and Roll nos.

4. Each workbook will comprise five worksheets named Ans 1, Ans 2, Ans 3, and Ans 4

5. The exam will be a closed-book examination. Students can use scientific calculators, financial calculators, and MS Excel. Internet & Intranet is NOT allowed for the students.

6. Please state your assumptions clearly (if any) for each question.

**Questions.1 (Marks 10)**

 **From the following information, you are required to calculate insurance needed by:**

**a. income-based approach (5 marks)**

**b. expense based approach (5 marks)**

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| --- | --- | --- |
| **Particulars** | **Measure** | **Number** |
| Current Annual cash outflows from client A/c | Rs. | 1,000,000 |
| Amount of annual loan repayment | Rs. | 300,000 |
| Life insurance premium payment per annum | Rs. | 30,000 |
| Current age of beneficiary dependent | yrs | 25 |
| Age of client is more than beneficiary by | yrs | 5 |
| Life expectancy of beneficiary dependent | yrs | 70 |
| Investment in Equity | % | 70 |
| Tax Rate on Equity | % | 0 |
| Tax Rate on Debt | % | 30 |
| Return on Equity | % | 18 |
| Return on Debt | % | 8 |
| Current Rate of Inflation | % | 6 |
| Deviation from Average rate of inflation |   | 0 |
| Outstanding Loans and Liabilities | Rs. | 5,000,000 |
| Insurance cover already taken | Rs. | 1,000,000 |
| Self-Occupied House | Rs. | 2,000,000 |
| Let Out House | Rs. | 3,000,000 |
| Plot | Rs. | 4,000,000 |
| Gold | Rs. | 1,000,000 |
| Bonds | Rs. | 200,000 |
| Shares | Rs. | 100,000 |
| Current Annual income of the insured | Rs. | 1,000,000 |
| Expected retirement age of the insured | yrs | 50 |
| Expected average rate of growth in income | % | 6 |

**Questions.2 (Marks 10)**

Q2a.

Ramesh is 40 years old and has already saved RS 9 lakhs per annum for the last 3 years while on deputation to UK. He would be able to save the same amount every year for next 8 years. After he comes back to India he plans to lead a retired life. His savings will earn 9% per annum. Inflation throughout will be 5% per annum. (7 marks)

a. How much will he accumulate while returning to India? (2 marks)

b. How long will the accumulated savings last if inflation is 5% and family spends Rs 6,60,000 in the first year after his retirement? The amount is required in the beginning of the year. (2 marks)

c. How much Ramesh can spend at the beginning of every year if money is required for 25 years after retirement? Assume money is required in the beginning. (3 marks)

Q2b.

Mr. & Mrs. Sharma have two children aged 8 and 14. They want to make sure that their children are well taken care of in the event of their untimely death. They want to determine the value of their estate. They have a home that is worth Rs 1,40,00,000 on which they owe Rs 95,00,000. They have Rs 650,000 worth of jewellery and two cars valued at a total of Rs 10,00,000. They do not hold any retirement accounts but have Rs 20,00,000 in bonds earning 8% return annually. Mr. Sharma has a student loan with an outstanding balance of Rs 8,00,000. They do not have any life insurance or a will.

(a) Determine net worth of the family today. (1 marks)

(b) What will happen to their children if they die without a will? (1 marks)

 (c) What all features they should include in a will if they want to go for one? (1 marks)

**Questions.3 (Marks 10)**

Identify the strong points and shortfalls in the finances/financial planning of the couple below.

Help the couple to make a goal based financial planning. You can do for any 3 important goals.

 Karthik (42) and Meera (41) have two kids -a 14-year-old son and a 10-year-old daughter. Karthik is working with a financial services company and would like to move to a part-time job with better work-life balance when he turns 50. Meera is a homemaker.
Karthik’s take-home salary is Rs.22 lakhs. He saves 40 per cent of his salary.
Of all the asset classes, he understands real estate better. No wonder, he owns a house and has invested in two plots of land. He has also inherited two plots of land. His total real estate investment is Rs.2.35 crore excluding his primary residence.
When it comes to investing in other asset classes, he is proactive but has limited knowledge. On the life insurance side, he has invested in multiple endowments, money back and whole life products with a total sum assured for Rs.1.28 crore. He has recently started putting money into equity through mutual funds and has invested about Rs.10 lakhs. He also has company stock options worth Rs.10.5 lakh and fixed deposits worth Rs.10 lakhs.
While Karthik had delved into multiple asset classes, he was not sure whether his investment decisions are right. He wanted to get it reviewed by a financial adviser and make his investments smarter.

|  |  |  |
| --- | --- | --- |
| **Goal** | Year when money is due | Cost in Today's date |
| Emergency fund | 2020 | 558880 |
| Son-Higher education | 2022 | 2000000 |
| Daughter-Higher education | 2026 | 2000000 |
| Son-marriage | 2028 | 3000000 |
| Daughter-marriage | 2030 | 5000000 |

Higher education cost is expected to increase @10% p.a. General inflation rate for other expenses is 6%.

**Q4)** **(Marks 10)**

Mr. X receives Rs. 7,90,000 as basic pay and Rs. 1,18,000 as bonus during the previous year 2022-23. Besides, he gets Rs. 52,000 as dearness allowance (additional to his basic pay) and 4 % commission on turnover achieved by him. During the year, turnover achieved by him is Rs. 90,00,000. His employer contributes Rs. 2,24,240 towards provident fund. The amount of interest to be credited to provident fund on November 15, 2022 at the rate of 7.5 per cent will be Rs. 40,000. His income from house property is Rs. 1,55,000.

* During the year he makes the following contributions and investments:
* Own contribution towards Provident fund: Rs. 3,36,360
* Insurance premium on own life: Rs. 9,000(sum assured Rs. 80,000, policy taken in June 2016)
* Tution fees of daughter: Rs. 22,000
* Contribution towards NSC VIII issue: Rs. 11,000
* Insurance premium on the life of major son (not dependent upon X): Rs. 4,000 (Sum assured Rs. 1,00,000)
* Insurance premium on the life of mother (age 50 years) of X (dependent upon X) : Rs. 2,000
* Deposit in Sukanya Samriddhi Account: Rs. 10,000
* Repayment of loan taken to purchase house property: Rs. 21,000
* Determine the taxable income and tax liability of X for the assessment year 2023-24