Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 03 – EXAMINATION – SUMMER 2017

Subject Code: 2830010 **Date: 09/05/2017**
Subject Name: Financial Planning
Time: 02.30 PM TO 05.30 PM **Total Marks: 70**
Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1(a) Choose the correct option. 6

1. What is the difference between a Personal Balance Sheet and a Cash Flow Statement?

a) Cash flow statement summarizes your income and payments for a given time period while your balance sheet lists what you own and what you owe.

b) A balance sheet summarizes your income and payments for a given time period while your cash flow statement lists what you own and what you owe.

c) There is no difference between the two; they are two ways of organizing the same information.

d) A balance sheet lists your income and liabilities, while a cash flow statement shows what you own and the payments you make on what you own.

2. An example of a financial opportunity cost is…

a) The interest lost by using savings to purchase a car.

b) Can't go for movie as you need to attend a social event.

c) Decreased study time because you went to a movie.

d) Putting money in savings from increased use of coupons.

3. When interest rates are rising you should:

a) Use short-term loans.

b) Choose long-term savings instruments.

c) Use financial instruments that lock in the high interest rates.

d) Use long-term loans.

4. A credit bureau is:

a) An agency that collects credit information and compiles a credit history for individuals and businesses.

b) A branch of the government that regulates creditors.

c) An agency that determines if credit should be granted to those who apply for it.

d) A branch of the government that extends credit to individuals that cannot get it

elsewhere.

5. Which insurance program would cover you if you were injured at work?

   a) Medicare b) Social Security

   c)Worker's Compensation d) Group health insurance

6. The tax that beneficiaries pay to the state when they receive an estate is called:

   a) An estate tax. b) An inheritance tax.

   c) An estate and trust federal income tax. d) A gift tax.

Q.1(b) Define the following: **04**

1. Trade-off
2. Budget variance
3. Present value v/s Future value
4. Replacement Value

Q.1(c) Explain Rule of 72 with the help of an example. **04**

Q.2(a) List out & Explain personal & Economic Factors that influence personal financial planning. **07**

(b) In what ways can interest rates in the economy affect the price of a corporate bond? **07**

OR

(b) If you want to research a mutual fund, would you use the internet or sources at the library? Why? **07**

Q.3(a) What can you do to build & maintain your credit rating? **07**

(b) List out the companies providing automobile insurance & explain types of automobile insurance coverage offered by any one of them. **07**

OR

Q.3(a) Explain different categories of Mutual funds. **07**

(b) Your friend asks for your advice to prepare his personal financial statements. Which statements & steps will you suggest him? **07**

Q.4(a) Compare & Contrast life insurance & General Insurance. **07**

(b) Your father has promised to give you Rs. 100000 in cash on your 25th birthday. Today is your 16th birthday. He wants to know two things: (a) If he decides to make annual payments in to a fund after one year, how much will each have to be if the fund pays 8%? (b) If he decides to invest a lump sum in the account after one year & let it compound annually, how much will the lump sum be? (c) If in (a) the payments are made in the beginning of the year, how much will be the value of annuity? Assuming that interest is 8% in each case. **07**

OR

Q.4(a) Describe the stages associated with career planning & advancement. **07**

(b) Explain the Exemptions & Deductions available to a salaried employee for financial year 2015-16. **07**

Meet Ram.

Ram is 30, has recently got married to Sapna who is 27, and he and his wife are planning to have their first child in 3 years. He lives in a comfortable although small apartment of his own, in a building where the society bills are very high due to major maintenance work that is required.

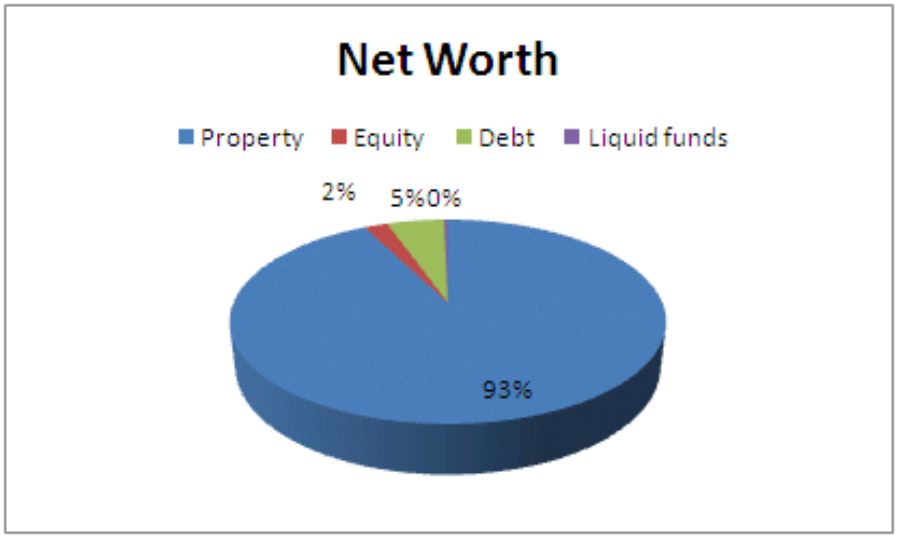
Ram's Financials

His current annual income is Rs. 10.80 lakhs that is Rs. 90,000 per month after taxes.
His family household monthly expenses are roughly Rs. 50,000 (including building maintenance expenses of Rs. 15,000 per month). He invests Rs. 35,000 per month, and saves Rs. 5,000 per month. He expects his salary to grow at 10% per year. Sapna is a home maker and hence is not earning. He had a family medical insurance that covers Sapna and himself, for which he pays Rs. 12,000 per year. His company does not provide medical insurance. He has no other insurance. His accumulated EPF is Rs. 40,000 and he invests Rs. 780 per month into his EPF, which his employer matches.

Ram's Assets and Liabilities

Ram has no liabilities.

He has a PPF account where he invests Rs. 70,000 per year and wants to continue doing so. The current value in the account is Rs. 11 lakhs. Ram has equity mutual funds worth approximately Rs. 4.50 lakhs, and direct equity of Rs. 1.50 lakhs. He has liquid funds worth Rs. 75,000. Thus totally by the age of 30, Ram has accumulated Rs. 18.50 lakhs across debt, equity and liquid funds. He has no gold exposure. His residential home is worth Rs. 2 crore so his total net worth is Rs. 2.18 crore, distributed as follows:



Property = 93%, Equity = 2%, Debt = 5%, Liquid Funds = 0%

Ram's Life Goals

1. The first thing on Ram's mind is shifting to a bigger or even a same size apartment, in a better building. The value of his house currently is around

Rs. 2.00 crore, and he knows that if he wants to move to a better location he will need to sell his current home and also spend an additional Rs. 50 lakhs to move into a Rs. 2.50 crore apartment. This is something that Ram does not want to compromise on. He plans on taking a Rs. 50 lakhs home loan but doesn't know if this is the best option for him, as he also wants to save for his retirement. He would like to do this immediately i.e. in 2012.

2. Ram wants to buy a new small car, worth say Rs. 4 lakhs. He doesn't mind a second hand car. He can sell his existing vehicle and will get Rs. 1 lakh sale value. He would like to do this in 2012 as well.

3. Ram wants to provide for a medical contingency corpus of Rs. 5 lakhs within 4 years i.e. by 2015.

4. Since his wife and he are planning a child in 3 years time, he wants to spend Rs. 20 lakhs in today's terms on the child's higher education, to be achieved when the child turns 18 that is in 2032.

5. He would like to take his family on annual vacations worth Rs. 2 - 2.50 lakhs per year, but this is a very low priority goal and he doesn't mind if he doesn't achieve this.

6. Ram would like to retire at the age of 60 in 2041. His post retirement life expenses will be Rs. 35,000 per month.

Ram's primary concern is shifting out of his current house into a newer building, and building a medical contingency fund.

Ram's brother Shyam has been trying to convince Ram that taking such a large home loan right now is not a good idea, as with a Rs. 50 lakh home loan, the EMI will be Rs. 50,000 per month for 20 years. This means that for the next 2-3 years Ram will have to stop all other investments and only pay his EMI and his household expenses. Instead, he recommends Ram to invest in a much smaller property as an investment, with a Rs. 20 lakh home loan, and give it out on rent. When the property appreciates in value, he can sell it, repay his home loan, and will have made a tidy profit on the sale.

Ram is also concerned about the markets right now. His brother has been telling him that now is a good time to invest in equity, as the markets are falling so he will be able to buy low. Ram however feels that the volatility in the equity markets is too much for him to tolerate, and he would rather redeem his funds and go into debt.

So here are the questions:

1. Are Ram's priorities in order? Should he first plan for his retirement and then worry about moving to a better building? Or should Ram take the home loan?

2. Ram has very broad knowledge of insurance and wants to take a ULIP with his wife as the nominee. He wants to know if this is a good idea, and how much premium should he invest per year.

3. How should Ram structure his finances to achieve his life goals?

OR

Q.5 Prepare a Financial Plan for a Doctor practicing General Medicine since five years. **14**

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