

The following Sample Paper consists of 39 question items. They span over the "Exam 4: Tax Planning & Estate Planning" and the "Module: Introduction to Financial Planning". The actual Question Paper would consist of 77 items of total 150 marks out of which Introduction to Financial Planning items would be 17 items of 30 marks, thus representing 20% of marks in each of Exam 1, 2, 3 & 4. This Sample Paper is representative of the revised and restructured Exam effective from 1st February, 2013 as regards distribution and pattern of question items in respective Sections and their defined difficulty level. For more details, refer to the Revised Syllabus and Topic List. Suggested solutions to 3-mark and 4-mark problems are as per Working Notes alongside. The Assessment Year considered is AY2014-15 and the relevant question would thus be suitable for exam effective from 4th February 2014.

Exam 4 - TAX PLANNING AND ESTATE PLANNING

Attempted Answers Are Checked and Displayed In **Blue** Color.

Correct Answers are Displayed in **Red** Color after each Question.

SECTION - I

1 This is not a core financial planning component:

[1 Mark]

- (a) Tax Planning
- (b) Asset Management
- (c) Risk Management
- (d) Corporate Finance
- (e) **Not Attempted**

Correct Answer : Corporate Finance

2 Indirect taxes are borne by _____.

[1 Mark]

- (a) Producers of goods and providers of services
- (b) Suppliers of goods and services
- (c) Traders and Brokers of goods and services
- (d) Consumers of goods and services
- (e) **Not Attempted**

Correct Answer : Consumers of goods and services

3 Which of the following is inferential data, i.e. data that may not be correctly obtained by simply asking a direct question?

[1 Mark]

- (a) Current income
- (b) Retirement Age
- (c) Risk appetite
- (d) Time horizon
- (e) **Not Attempted**

Correct Answer : Risk appetite

4 The responsibility of collecting the service tax lies with the _____.

[1 Mark]

- (a) Central Board of Excise and Customs
- (b) Income tax department
- (c) Central Board of Direct Taxes
- (d) Ministry of corporate affairs
- (e) **Not Attempted**

Correct Answer : Central Board of Excise and Customs

5 The finance bill becomes the Finance Act when _____.

[1 Mark]

- (a) signed by the President
- (b) presented in the Parliament
- (c) approved by the Lok Sabha
- (d) presented by the Finance Minister
- (e) **Not Attempted**

Correct Answer : signed by the President

6 In establishing relationship with the client, which of the following situations of conflict of interest is not foreseen in the Financial Planning Practice Standards?

[2 Marks]

- (a) Any circumstances or relationships or facts that would place CFP practitioner's interests in conflict with the client's interests
- (b) Any advice that would be in conflict with financial products/services industry's business interests
- (c) Any personal conflict that would affect a CFP practitioner's ability to work successfully with the client
- (d) Any circumstances or relationships or facts that would place the interests of one client in conflict with another client
- (e) **Not Attempted**

Correct Answer : Any advice that would be in conflict with financial products/services industry's business interests

7 Mr. A takes business trips abroad frequently. His total stay outside India during the last 4 years proceeding previous year was 365 days. During the previous year, he left India only after October 2013. Determine his residential status for AY 2014-15?

- (a) Non-resident Indian
- (b) Resident but not ordinarily resident
- (c) Resident and ordinarily resident
- (d) Deemed Resident
- (e) **Not Attempted**

Correct Answer : Resident and ordinarily resident

8 A professional had an amount of Rs. 4.50 lakh in the fixed deposit with his bank in the previous year 2013-14 which earned him gross interest of Rs. 49,188. What could be the amount of TDS deducted by the bank for AY 2014-2015?

- (a) Rs. 10,133
- (b) Rs. 8,073
- (c) Rs. 4,919
- (d) Rs. 5,067
- (e) **Not Attempted**

Correct Answer : Rs. 4,919

SECTION - II

1 Computing salary for the purpose of rent-free accommodation includes _____.

[1 Mark]

- (a) advance salary
- (b) all allowances
- (c) Bonus
- (d) Employer's Contribution to PF account
- (e) Not Attempted

Correct Answer : Bonus

2 Which of the following is not exempt under Income from House Property?

[1 Mark]

- (a) Property income of any political party
- (b) Income from property held for any charitable purpose
- (c) Income from any farm house forming part of agricultural income
- (d) Income from house transferred to wife without adequate consideration
- (e) Not Attempted

Correct Answer : Income from house transferred to wife without adequate consideration

3 The following are critical parameter/s for a company's stock to be included in an exchange's equity index:

[1 Mark]

- (a) Average price quoted in the last six months
- (b) Market capitalization and liquidity
- (c) Industry leadership in terms of sales volume
- (d) Market trading span of at least three years
- (e) Not Attempted

Correct Answer : Market capitalization and liquidity

4 Which of the following is not an effect of rising inflation in a nation's economy?

[1 Mark]

- (a) It reduces the purchasing power of money.
- (b) It increases uncertainty of future costs of input in the entire economy.
- (c) It decreases the debt servicing burden of forex loans of a nation.
- (d) It weakens the value of the nation's currency in the international markets.
- (e) Not Attempted

Correct Answer : It decreases the debt servicing burden of forex loans of a nation.

5 Up to what amount a parent is entitled for exemption in case income of minor child is clubbed with his/her income?

[2 Marks]

- (a) Rs. 1,500 for each child or income included whichever is less, subject to maximum of two children
- (b) Rs.1,500 or income included whichever is less per child per annum with no cap on number of children
- (c) Rs.200 per month or income included whichever is less
- (d) Rs.300 per month or income included whichever is less
- (e) Not Attempted

Correct Answer : Rs.1,500 or income included whichever is less per child per annum with no cap on number of children

6

Mrs. A whose date of birth is 30th March 1954 has a total salary income of Rs. 9,78,000 for the previous year 2013-14. She has income from other sources of Rs. 18,142 from her savings bank account. Her only investments are contributions to EPF account which are 12% of her basic salary of 40,000 per month. Find her tax liability for AY 2014-15.

[3 Marks]

- (a) Rs. 1,12,350
(b) Rs. 1,16,090
(c) Rs. 1,14,030
(d) Rs. 1,19,180
(e) Not Attempted

Correct Answer : Rs. 1,14,030

7

Your client had inherited a property of market value of Rs. 50 lakh from his grandfather on 28th December 2006. His grandfather had acquired this property on 1st September 1998 for Rs. 12 lakh. He sold this property for Rs. 70 lakh in January 2014. Compute the capital gains/loss for AY 2014-15. Cost inflation index for FY 1998-99:351, 2006-07:519, 2013-14:939.

[3 Marks]

- (a) Capital gains of Rs. 48,28,902
(b) Capital loss of 20,46,243
(c) Capital gains of Rs. 37,89,744
(d) Capital loss of 63,76,068
(e) Not Attempted

Correct Answer : Capital gains of Rs. 37,89,744

8

An individual has recently purchased a house worth Rs. 40 lakh for self-occupation by availing housing loan of Rs. 28 lakh at 9.25% p.a. rate of interest. The tenure of loan is 18 years. He has Rs. 12 lakh financial assets at present. He is expected to save annually Rs. 2 lakh which he invests on a quarterly basis beginning a quarter from now in an instrument which is expected to provide return of 9% p.a. What would be his net worth five years from now? The value of the house which is for consumption purposes is not considered in the net worth so arrived.

[3 Marks]

- (a) Rs. 2.83 lakh
(b) Rs. 18.82 lakh
(c) Rs. 6.68 lakh
(d) Rs. 7.36 lakh
(e) Not Attempted

Correct Answer : Rs. 6.68 lakh

9

A businessman sold Rs. 85 lakh value of unlisted securities on 20th December 2013. These shares were acquired in April 2009 for Rs. 20 lakh. He invested Rs. 40 lakh from these proceeds in February 2014 in his first residential house to avail benefit under Section 54F of the Income-tax Act, 1961. What approximate amount of bonds specified under Section 54EC should he purchase and by what date so as to make his capital gains liability almost 'Nil' towards these transactions? Cost inflation index for FY 2009-10: 632, 2013-14: 939.

[4 Marks]

- (a) Rs. 15.29 lakh, 19th June 2014
(b) Rs. 18.08 lakh, 30th July 2014
(c) Rs. 19.33 lakh, 30th July 2014
(d) Rs. 29.27 lakh, 19th June 2014
(e) Not Attempted

Correct Answer : Rs. 29.27 lakh, 19th June 2014

SECTION - III

1 What is the limit of Net Wealth exceeding which Wealth tax will be levied?

[1 Mark]

- (a) Rs. 30 lakh
(b) Rs. 50 lakh
(c) Rs. 15 lakh
(d) Rs. 1 crore
(e) Not Attempted

Correct Answer : Rs. 30 lakh

2 The Real Rate of Return necessarily takes into account the following:

[1 Mark]

- (a) Compounding
(b) Inflation
(c) Present Value
(d) Frequency of investment or payment
(e) Not Attempted

Correct Answer : Inflation

3 Which of the following types of income would not qualify as agricultural income?

[2 Marks]

- (a) Income received from renting of farm house used as storage of crop
(b) Income received from renting of farm house used as dwelling for cultivators
(c) Income received from renting of farm house for shooting of film
(d) Income generated at farm house from processing of crop produced
(e) Not Attempted

Correct Answer : Income received from renting of farm house for shooting of film

4 A salaried individual, aged 45 years, was awarded a car of market value Rs. 6,50,000 by his credit card company in a draw on 20th December 2013. There was no TDS by the company. He has total income from salary of Rs. 8,45,000 in the previous year 2013-14. He saved a total of Rs. 1,80,000 under different investment instruments eligible for exemption u/s 80C and Rs. 25,000 was paid by him on 5th January, 2014 towards his health insurance policy. Find his tax liability for AY2014-15?

[3 Marks]

- (a) Rs. 2,77,070
(b) Rs. 2,79,130
(c) Rs. 2,60,590
(d) Rs. 78,280
(e) Not Attempted

Correct Answer : Rs. 2,79,130

5 For a nominal interest rate of 10% per annum compounded monthly, quarterly, and semi-annually, the respective annual effective rates would be _____.

[3 Marks]

- (a) 10.47% p.a., 10.38% p.a., 10.25% p.a.
(b) 9.57% p.a., 9.65% p.a., 9.76% p.a.
(c) 9.44% p.a., 8.16% p.a., 8.04% p.a.
(d) 8.96% p.a., 8.32% p.a., 8.16% p.a.
(e) Not Attempted

Correct Answer : 10.47% p.a., 10.38% p.a., 10.25% p.a.

6

A private sector employee aged 58 has his retirement fund valued at Rs. 2.05 core. He is due to receive gratuity under the Payment of Gratuity Act from his employer. He decides that he would commute one-third of his retirement account balance, the rest being utilized by his employer to pay him a fixed immediate monthly annuity for 20 years through a pension product which gives an effective annual yield of 7.5%. What would be the amount of his after tax monthly income in the first year?

[3 Marks]

- (a) Rs. 1,25,913
 (b) Rs. 1,07,401
 (c) Rs. 1,02,462
 (d) Rs. 88,806
 (e) Not Attempted

Correct Answer : Rs. 88,806

7

An investor purchased 2,000 shares of a listed company at Rs. 125 per share on 28th August 2012. The Company declared a dividend of Rs. 8 per share, the record date was 26th November 2012. He sold 900 shares on 12th February, 2013 at a price of Rs. 113 per share and the balance on 27th June 2013 at a price of Rs. 135 per share. He had no other transactions during FY2012-13. What is the disposition of his sell transactions for AY2014-15?

[4 Marks]

- (a) Rs. 200 STCG provided he carried forward his short-term capital loss for AY2013-14 in his IT Return
 (b) Rs. 7,400 STCG provided he carried forward his short-term capital loss for AY2013-14 in his IT Return
 (c) Rs. 11,000 STCG
 (d) Rs. 16,200 STCG
 (e) Not Attempted

Correct Answer : Rs. 7,400 STCG provided he carried forward his short-term capital loss for AY2013-14 in his IT Return

8

Mr. A purchased a flat worth Rs. 50 lakh in January 2008 by availing a housing loan of Rs. 35 lakh for tenure 15 years at the rate of 9% p.a. The value of his flat as in January 2014 has appreciated to Rs. 90 lakh. What approximate value of home equity can he consider in his flat towards his unencumbered interest after also setting aside 15% of the appreciation value towards taxes and other costs to be discharged on selling the unit?

[4 Marks]

- (a) Rs. 49 lakh
 (b) Rs. 74.56 lakh
 (c) Rs. 57.79 lakh
 (d) Rs. 63.79 lakh
 (e) Not Attempted

Correct Answer : Rs. 57.79 lakh

9

A company engaged in power generation purchased turbines for its plant at a total cost of Rs. 9.25 crore in June, 2012. The depreciation which can be claimed in the books of account as per the Companies Act is prescribed at 20% on straight line method. The depreciation as per Income-tax Act for such item is 60% on written down value basis. What deferred tax liability would stand in the Company's books of account as on 1st April, 2015?

[4 Marks]

- (a) Rs. 1,55,48,880
 (b) Rs. 1,64,63,520
 (c) Rs. 1,03,46,865
 (d) Rs. 96,03,720
 (e) Not Attempted

Correct Answer : Rs. 96,03,720

SECTION - IV

1 As per the Hindu Succession Act, 1956, the following person is not considered as a Class-I heir of the person who dies intestate:

[1 Mark]

- (a) Father
- (b) Mother
- (c) Son of a pre-deceased son
- (d) Widow of a pre-deceased son
- (e) Not Attempted

Correct Answer : Father

2 Which one of the following statement is not true about a Will?

[1 Mark]

- (a) A Will comes into effect after the testator dies
- (b) A certified copy of Will is called probate
- (c) A codicil can be issued to make amendments in the Will made by the testator
- (d) A Will can be altered after the death of testator
- (e) Not Attempted

Correct Answer : A Will can be altered after the death of testator

3 Which of the following is in adherence with the professional responsibility of a CFP professional towards the client?

[1 Mark]

- (a) Competing with professionals in specialized services to internalize most deliverables
- (b) Referring the client to other professionals for certain duration with transfer of liability
- (c) Having legitimate difference of opinion on an issue from fellow professionals and the client
- (d) Managing one's own prejudices and desires to achieve a proper balance of interests
- (e) Not Attempted

Correct Answer : Referring the client to other professionals for certain duration with transfer of liability

4 Which of the following is not covered under the principle of "Competence" under Financial Planner Code of Ethics and Professional Responsibility?

[2 Marks]

- (a) Attaining and maintaining an adequate level of abilities, skills and knowledge in the provision of professional services
- (b) Consulting appropriately with other professionals or referring to them on realizing that one has limitations in performance of certain tasks
- (c) Committing oneself to a continuing learning process and professional development
- (d) Competing in all components of financial planning with the best professionals in order to provide the client professional services
- (e) Not Attempted

Correct Answer : Competing in all components of financial planning with the best professionals in order to provide the client professional services

5 Which of the following is not a valid provision for a trust deed to get income tax exemptions?

[2 Marks]

- (a) Benefits of trust are open to all, irrespective of caste, creed, religion and sex.
- (b) It should be irrevocable and activities of the trust will not be carried out outside of India.
- (c) Some of the proceeds of the trust are to be invested in government securities.
- (d) No portion of the income and the fund will be utilized for payment to the trustees/members by way of profit, interest, dividends, etc.
- (e) Not Attempted

Correct Answer : Some of the proceeds of the trust are to be invested in government securities.

6

A trust is created by a son, the Settlor, for the survival expenses of his retired parents each having equal beneficial interest. Both husband and wife have separate fixed pension of Rs.35,000 per month and Rs. 20,000 per month, respectively. The trust property has generated a net annual value of Rs. 5.12 lakh in the previous year 2013-14. The trustee as well as the Settlor is in the 30% tax bracket. Find the tax payable by the trustee as representative assessee.

[3 Marks]

- (a) Rs. 79,100
- (b) Rs. 33,370
- (c) Rs. 1,58,210
- (d) Rs. 68,800
- (e) Not Attempted

Correct Answer : Rs. 68,800

7

Your client, a businessman has a house worth Rs. 2.1 crore and a farm house worth Rs. 85 lakh. His business is worth Rs. 10 crore as per last balance sheet. He has two other partners in the business having stakes of 24% each. He has two cars purchased at Rs. 40 lakh and Rs. 20 lakh, the latter being in personal account. The cars have depreciated/market value at Rs. 30 lakh and Rs. 8 lakh, respectively. His joint Demat account, wife being primary holder, has stocks worth Rs. 1.65 crore. The business has taken Keyman's insurance on his life of value Rs. 1.5 crore. He has himself insured his life for an assured sum of Rs. 1.5 crore. You evaluate your client's estate in case of any exigency with his life as .

[4 Marks]

- (a) Rs. 8.20 crore
- (b) Rs. 9.56 crore
- (c) Rs. 10.51 crore
- (d) Rs. 5.73 crore
- (e) Not Attempted

Correct Answer : Rs. 10.51 crore

SECTION - V

1

Which regulatory authority has the power to approve settlement or transfer of assets created abroad in case of an Offshore trust?

[1 Mark]

- (a) Securities and Exchange Board of India
- (b) Ministry of External Affairs
- (c) Income Tax Authority
- (d) Reserve Bank of India
- (e) Not Attempted

Correct Answer : Reserve Bank of India

2

The following is not an obvious advantage of creating a private trust over a will?

[1 Mark]

- (a) Execution
- (b) Confidentiality
- (c) Costs
- (d) Amendment
- (e) Not Attempted

Correct Answer : Costs

3 A person who creates the trust is known as _____.

[1 Mark]

- (a) Executor
- (b) Testator
- (c) Trustee
- (d) Settlor
- (e) Not Attempted

Correct Answer : Settlor

4 Which of the following cannot be categorized under Fiduciary Responsibility of a financial planner towards his/her client?

[1 Mark]

- (a) Disclose all material facts
- (b) Get the best returns on client's investments
- (c) Serve the client's best interest
- (d) Act in utmost good faith
- (e) Not Attempted

Correct Answer : Get the best returns on client's investments

5 Which of the following is not prescribed for an entity to act as bank under the Banking Regulation Act, 1949?

[2 Marks]

- (a) Use of at least one word bank, banking, banking company in its name
- (b) Restriction on granting loan to person interested in management of the bank
- (c) Prohibition to form subsidiary company for certain purposes
- (d) Restriction on business of certain kinds such as trading of goods etc.
- (e) Not Attempted

Correct Answer : Prohibition to form subsidiary company for certain purposes

6 Which of the following with regards to trust would not be taxed at the maximum marginal rate?

[2 Marks]

- (a) The trust is discretionary and has income from capital gains
- (b) The trust is indeterminate, declared by the last will of the testator and has income from business
- (c) The trust is determinate and has income other than from business or profession
- (d) The trust is established is an oral trust
- (e) Not Attempted

Correct Answer : The trust is determinate and has income other than from business or profession