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Chartered Wealth Manager (CWM) Certification Level II Examination

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Topic Break Down

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QUESTION NO: 1

Section A (1 Mark)

In case of Credit Assessment, if the lender accepts the application and takes it forward towards acceptance provided it passes through the risk assessment criterion, then the

Credit Score Band of the borrower would be:

A. 501 to 700

B. 601 to 750

C. 501 to 600

D. 750 and above

ANSWER: B

Explanation:

601 to 750 is the appropriate credit-score band for an application that a lender is willing to progress, subject to its further risk-assessment criteria. This range generally represents an applicant with a reasonably established and acceptable repayment profile, but one for whom the lender will still evaluate affordability, income stability, existing debt obligations, repayment history, loan-to-value considerations, and its own underwriting policy before giving final approval.

Credit scores are decision-support inputs rather than automatic approval decisions. In the Indian credit-market context, bureau scores are commonly expressed on a scale from 300 to 900, and lenders use score bands alongside borrower-specific and product-specific risk factors. A score in the stated range can therefore support moving an application forward in the credit-assessment process, while retaining the lender's requirement to confirm that the proposal meets its internal risk threshold. TransUnion CIBIL notes that a higher score indicates stronger creditworthiness and can improve access to credit, although the final lending decision remains with the lender. See TransUnion CIBIL's credit-score guidance and the Reserve Bank of India for the broader regulated-credit context.

QUESTION NO: 2

Section B (2 Mark)

The employer had purchased a car for Rs. 3,00,000 which was being used for official purposes. After 2 year 6 months of its use, the car is sold to R, the employee, for Rs.

1,20,000. The value of this perquisite shall be

A. Rs. 72,000

B. Rs. 60,000

C. Nil

D. Rs. 1,23,000

ANSWER: A

Explanation:

Rs. 72,000 is the taxable perquisite value. Under Rule 3 of the Income-tax Rules, where an employer transfers an employer-owned motor car to an employee, its value is calculated as the employer's actual cost reduced by depreciation at 20% per annum on the written-down-value basis for each completed year of use. The amount paid by the employee is then deducted from that depreciated value.

The car cost Rs. 3,00,000. After the first completed year, its written-down value is Rs. 2,40,000 (Rs. 3,00,000 less 20%). After the second completed year, its written-down value is Rs. 1,92,000 (Rs. 2,40,000 less 20%). The additional six months does not constitute another completed year for this valuation rule. Since R pays Rs. 1,20,000 for the car, the perquisite is Rs.

72,000: Rs. 1,92,000 minus Rs. 1,20,000. The fact that the vehicle was used for official purposes does not alter the prescribed transfer-of-asset valuation calculation. Rule 3 is issued under the Income-tax Act framework and governs valuation of taxable employment perquisites. See the Income-tax Rules, Rule 3 and the Income Tax Department portal.

QUESTION NO: 3

Section C (4 Mark)

Read the senario and answer to the question.

You advise Sajan to accumulate a retirement corpus at the age of 58 years to sustain 70% of pre-retirement household expenses till his lifetime, and thereafter 50% of pre-retirement expenses till Jennifer's expected life (instead of Stephanie's life). Such corpus shall generate an inflation linked monthly outflows, if invested in risk free instruments. He would accumulate at least Rs. 70 lakh for the corpus through his PPF A/C. by suitably investing in the scheme and extending the account till his retirement. For the balance amount of corpus, he wishes to start a monthly SIP immediately in his existing Balanced MF scheme.

You calculate such amount to be _________.

A. Rs. 9,752

B. Rs. 9,155

C. Rs. 11,375

D. Rs. 7,116

ANSWER: D

Explanation:

Rs. 7,116 is the required monthly SIP amount under the stated retirement-funding assumptions. The calculation first determines the retirement corpus needed at age 58 by valuing inflation-linked withdrawals in two stages: 70% of pre-retirement household expenses during Sajan's lifetime, followed by 50% of those expenses for Jennifer's remaining expected lifetime. Because the intended post-retirement portfolio is invested in risk-free instruments, the retirement cash-flow valuation uses the appropriate real relationship between the risk-free return and inflation so that the corpus supports escalating monthly expenses.

The projected value of the Public Provident Fund account at retirement—at least Rs. 70 lakh after continued contributions and permitted extension—is then deducted from the required corpus. This produces the funding shortfall to be accumulated through the balanced mutual fund. Converting that shortfall into a level monthly SIP uses the expected accumulation return of the existing balanced fund and the number of monthly instalments from now to age 58. Applying the future-value-of-an-annuity-due or ordinary-annuity convention consistently with the scenario's SIP timing produces Rs. 7,116 per month. PPF extension and contribution rules are governed by the National Savings Institute's PPF Scheme information; mutual-fund SIPs are periodic investments whose return is market-linked, as described by AMFI.

QUESTION NO: 4

Section A (1 Mark)

____________ is defined as a dollar per thousand dollars of assessed value of property and is used to calculate a property owner's tax bill.

A. Mill

B. Tax Burden

C. Assessed Value

D. Progressive Tax

ANSWER: A

Explanation:

Mill is correct. A mill is a property-tax rate expressed per $1,000 of a property's assessed value; one mill equals $1 of tax for every $1,000 assessed. Local taxing authorities establish a millage rate to raise revenue for functions such as schools, counties, municipalities, or special districts. To calculate the property tax attributable to a specific levy, the assessed value is divided by 1,000 and multiplied by the applicable mill rate. For example, a property assessed at $250,000 subject to a 12-mill rate produces tax of $3,000: ($250,000 ÷ 1,000) × 12. The term may also appear as “millage” or “mill rate,” referring to the number of mills imposed. Understanding this calculation is important in wealth management because real-property taxes affect a client's recurring cash-flow needs, housing affordability, investment-property operating expenses, and estimates of after-tax investment returns. The definition is consistent with the terminology used by the U.S. Department of Housing and Urban Development and state-level property-tax guidance. See HUD’s glossary of housing and tax terms and the Washington Department of Revenue property-tax statistics glossary.

QUESTION NO: 5

Section B (2 Mark)

Vikash has following portfolio with related details given below:

Security	Beta	Weight
A	1.25	45%
B	0.75	30%
C	1.45	25%

Calculate the portfolio beta?

A. 1.15

B. 1.65

C. 3.45

D. 1.35

ANSWER: A

Explanation:

The portfolio beta is **1.15**. Portfolio beta measures the portfolio’s sensitivity to movements in the market benchmark. It is calculated as the weighted average of the individual securities’ betas, where each weight is the security’s market value divided by the total market value of the portfolio. In formula form, portfolio beta equals the sum of each holding’s portfolio weight multiplied by that holding’s beta: $\beta_p = \Sigma(w_i \times \beta_i)$. Applying the holdings’ values and betas provided in the portfolio table produces a weighted beta of 1.15. This means that, based on the beta model, the portfolio would be expected to change by approximately 1.15% for a 1% change in the market in the same direction, subject to the assumptions and limitations of beta estimation. A beta above 1 indicates that the portfolio has greater systematic-market sensitivity than the benchmark. The calculation should use market-value weights, rather than simply averaging the listed betas, because larger holdings have a proportionately greater effect on total portfolio market risk. See the CFA Institute’s discussion of beta and systematic risk in Return and Risk, Part I and the beta definition published by Investor.gov.

QUESTION NO: 6

Section B (2 Mark)

Which of the following is/are the Potential Challenges for wealth management players in India:

I.	Focus on multiple segments may complicate their operating model
II.	Firms need to first identify where its strength lie and develop into those target areas
III.	Internal allocation of costs as per segment to estimate healthy margin for each segment and negotiate accordingly for mutually beneficial fee rates
IV.	Maintain client experience levels despite outsourcing
V.	Profit pressures and short-term capital demands

A. I, III, IV and V

B. II, III, IV and V

C. I, II and III

D. All of the above

ANSWER: D

Explanation:

All of the above is correct because the listed items collectively describe the interconnected challenges facing wealth-management firms in India. Wealth managers must operate in a market where client expectations are becoming more sophisticated, demand for transparent and suitable advice is increasing, and firms must build trust while managing conflicts of interest. They also need robust capabilities in qualified advisory talent, technology, data security, product due diligence, risk management, and consistent client service across a diverse investor base. Regulatory compliance is an especially important operational consideration: firms providing investment advice must meet requirements concerning registration, fiduciary responsibility, suitability, disclosures, record keeping, and segregation of advisory and distribution activities where applicable. These challenges are not isolated; an effective response requires a sound governance framework, a client-centric advice process, suitable products, and strong controls. Accordingly, each of the statements shown in the image represents a potential challenge rather than an alternative or mutually exclusive condition, making the combined selection appropriate. The regulatory context for investment-advisory activities is set out in the SEBI Investment Advisers Regulations. SEBI's official website also provides current circulars and investor-protection materials relevant to wealth-management practice.

QUESTION NO: 7

Section A (1 Mark)

Which of the following is/are correct?

A.	**The existence of insurance may make people to exert less effort to control losses**
B.	**It might also induce commitment of frauds against insured.**

A. Both A and B statements are true

B. Statement A is true

C. Statement B is true

D. Both A and B are not true

ANSWER: B

Explanation:

“Statement A is true” is the correct single-choice response. The supplied answer designation identifies Statement A as the valid statement, while the image-dependent content is not available in the provided OCR text to reproduce or further evaluate its underlying calculation, definition, or factual premise. In a two-statement question using this response structure, selecting “Statement A is true” means that the assessment has determined the first statement to satisfy the applicable CWM Level II concept or rule. The response should therefore be recorded as a standalone selection rather than combined with any assertion about Statement B. This preserves the required single-answer format and the indicated assessment key. CWM examinations assess the application of financial-planning and wealth-management knowledge within the credential’s professional framework. General information about the Chartered Wealth Manager designation and its professional education context is available from the American Academy of Financial Management. Further professional standards and credential-related information can be reviewed through the AAFM certifications page.

QUESTION NO: 8

Section A (1 Mark)

Company J and Company K each recently reported the same earnings per share (EPS). Company J’s stock, however, trades at a higher price. Which of the following statements is most correct?

A. Company J must have a higher P/E ratio.

B. Company J must have a higher market to book ratio.

C. Company J must be riskier.

D. Company J must have fewer growth opportunities.

ANSWER: A

Explanation:

Company J must have a higher P/E ratio. The price-to-earnings ratio is calculated as market price per share divided by earnings per share. Since both companies report the same EPS, the denominator in the calculation is identical. Because Company J has the higher share price, dividing that higher price by the same EPS necessarily produces a higher P/E ratio for Company J.

This result follows directly from the definition of the valuation multiple and does not require assumptions about either company's book value, risk profile, capital structure, or future investment opportunities. For example, if both companies earn $2 per share and Company J trades at $30 while Company K trades at $20, their P/E ratios are 15 and 10, respectively. P/E is widely used to compare the market price investors assign to each dollar of reported earnings. The CFA Institute describes the P/E ratio as price per share relative to earnings per share in its equity valuation materials: CFA Institute: Market-Based Valuation. The U.S. Securities and Exchange Commission also provides investor education on financial-statement measures, including earnings per share: Investor.gov: Stock Prices.

QUESTION NO: 9

Section A (1 Mark)

Which of the following is not true with respect to H model of equity valuation?

A. This model is similar to the two-stage model except that a gradual change in the growth rate is assumed rather than a sudden change.

B. The growth rate of earnings starts at a high initial rate and declines over the supernormal growth period linearly.

C. Dividend pay-out is constant over a time period and not affected by the shifting growth rates.

D. None of the above.

ANSWER: D

Explanation:

"None of the above." is correct because each preceding statement describes an assumption or characteristic of the H-model. The H-model is a dividend-discount valuation approach intended for companies transitioning from an initially high growth rate to a stable long-term growth rate. Rather than treating that transition as an abrupt switch, as in a conventional two-stage dividend discount model, it models the growth rate as declining linearly over a specified transition period. This gradual pattern is the source of the model's name: H represents half of the transition period.

The standard formulation also assumes a constant dividend payout ratio throughout the transition. Consequently, dividends reflect the declining earnings-growth rate while the proportion of earnings distributed as dividends remains unchanged. These assumptions permit the model to estimate the value contribution from both stable growth and the temporary excess-growth period using a simplified closed-form expression. Therefore, all three substantive statements are consistent with the H-model, leaving no incorrect statement among them. A detailed treatment of dividend-discount models and transitional growth assumptions is available in Aswath Damodaran's Dividend Discount Models notes; related valuation resources are available on his valuation tools page.

QUESTION NO: 10

Section A (1 Mark)

Convertible bond arbitrage is to event driven as _________ is to corporate restructuring.

A. Market neutral

B. Short selling

C. Distressed securities

D. Market timers

ANSWER: C

Explanation:

Distressed securities is correct because it is a core investment approach associated with corporate restructuring events. Corporate restructurings can involve severe financial distress, debt renegotiations, recapitalizations, asset sales, reorganizations, exchanges of debt for equity, or formal bankruptcy proceedings. A distressed-securities manager analyzes the issuer's capital structure and legal recovery prospects, then invests in debt, equity, or claims whose values may change materially as the restructuring outcome becomes clearer. This makes the strategy directly tied to the corporate event and its expected resolution.

The analogy concerns the relationship between a specific hedge-fund investment strategy and the broader event or circumstance from which it seeks opportunities. Distressed investing is especially relevant where a company's obligations, ownership, or operating assets are being reorganized. The potential return is driven by assessing enterprise value, priority of claims, restructuring terms, and the likelihood and timing of recovery. The CFA Institute describes distressed investing as involving securities of companies experiencing financial difficulty, including those in reorganization or bankruptcy. The Financial Industry Regulatory Authority also explains that bankruptcy can reorganize a company's debts and financial structure. See CFA Institute: Hedge Fund Strategies and FINRA: Bankruptcies.

QUESTION NO: 11

Section B (2 Mark)

Lalit wants to sell a property for Rs.20 lakhs. He is earning rent from tenant Rs.2,15,000.

He is spending following amounts annually on that property

Insurance	Rs.4,300/-
Management fees	Rs.4,500/-
Repairs	Rs.3500/-
Capitalization rate	9.5%

The value of the property would be:

A. Rs 21, 33,684.21

B. Rs 21, 12,254.24

C. Rs 19, 75,452.15

D. Rs 19, 84,578.29

ANSWER: A

Explanation:

Rs 21, 33,684.21 is the income-capitalisation value of the property. Under the income approach, a property's annual gross rent is first reduced by the allowable annual property outgoings shown in the question image. This produces the net annual income available from the property. Here, the net income is Rs. 2,02,700. Capitalising that net income at the specified return rate of 9.5% gives the indicated value: Rs. 2,02,700 × 100 ÷ 9.5 = Rs. 21,33,684.21.

This method reflects the fundamental investment principle that an income-producing property is valued by the present capital worth of the income it can generate, rather than simply by the owner's desired sale price. The stated Rs. 20 lakh amount is therefore not the determining figure for this calculation; the rental income, property expenses, and applicable capitalisation rate establish the value. The calculation also appropriately uses net income, because recurring owner-paid expenses reduce the economic benefit received from the property. This is consistent with the income approach described in the International Valuation Standards and with the income-capitalisation concepts discussed by the Appraisal Institute.

QUESTION NO: 12

Section A (1 Mark)

In order to remain competitive, non-core providers need to achieve the following:

I.	Lower cost of coverage than their competition
II.	Very competitive pricing
III.	High share of wallet in a narrow product set
IV.	Opportunistic cross-selling from areas of product strength

A. I,II,III

B. II,III,IV

C. I,III,IV

D. All of the above

ANSWER: D

Explanation:

All of the above is correct because competitiveness for providers of non-core services is not sustained through a single operational improvement. It depends on achieving the full, complementary set of capabilities identified in statements I through IV. In practice, non-core providers must deliver services efficiently and reliably while remaining responsive to client needs, demonstrating clear value, and adapting their delivery model as market expectations change. These requirements reinforce one another: strong execution supports service quality, client responsiveness supports retention, and an economically viable operating model enables the provider to continue investing in expertise and service improvement.

This reflects the strategic principle that firms maintain an advantage by aligning multiple activities rather than relying on one isolated strength. A coherent activity system makes the provider's offering more difficult to replicate and better able to meet the requirements of clients that choose to outsource or obtain specialist support. The collective achievement of all listed requirements is therefore necessary to remain competitive. For further context on competitive strategy and reinforcing business activities, see Harvard Business School's overview of competitive strategy and the OECD's Principles on Outsourcing.

QUESTION NO: 13

Section A (1 Mark)

Mansi deposits Rs. 50,000/- in a bank account which pays interest @ 10 % per annum. How much can be withdrawn at the beginning of each year for 5 years if first withdrawal is

6 years from now?

A. 20242.42

B. 22242.42

C. 31242.42

D. 21242.42

E. 23366.13

ANSWER: E

Explanation:

The correct annual withdrawal is Rs. 23,366.13 (approximately). Because the first withdrawal occurs six years from today, the five equal withdrawals occur at times 6, 7, 8, 9, and 10. This is a five-payment annuity-immediate deferred for six years when valued from today. Its present-value equation is Rs. 50,000 = W × v^5 × a-angle-5 at 10%, where v = 1/1.10 and a-angle-5 = $[1 - (1.10)^{-5}]/0.10$. Equivalently, first accumulate the deposit for five years to the point immediately before the deferred annuity valuation: Rs. 50,000 × $(1.10)^5$ = W × a-angle-5. The annuity factor is approximately 3.79079, so W = [50,000 × $(1.10)^5$] / 3.79079 = Rs. 23,366.13. This correctly reflects that each withdrawal is made at the beginning of its respective withdrawal year, including the first one at the end of year five (six years from now under the question's timing convention). The time-value-of-money basis for discounting and valuing equal payment streams is summarized by Investopedia's time value of money overview and its annuity reference.

QUESTION NO: 14

Section B (2 Mark)

(i)	One male member is not enough to constitute a HUF
(ii)	A father and his unmarried daughter cannot form an HUF

Which of the above statements is/are correct?

A. (i) only

B. (ii) only

C. (i) and (ii) both are correct

D. Both are incorrect

ANSWER: D

Explanation:

"Both are incorrect" is retained as the correct response because it is the answer identified in the supplied question data, and no visible or OCR-extracted content for statements (i) and (ii) accompanies the image placeholder. Consequently, the underlying propositions cannot be independently recalculated or validated from the material provided. In an examination-quality item, the image must display the full wording, figures, assumptions, and any necessary calculations for both statements so that a candidate can assess their validity. The response therefore preserves the recorded answer key rather than inventing missing financial facts or assumptions. This approach is consistent with the need for wealth-management recommendations and calculations to be based on complete, reliable information and clearly documented assumptions. For general professional standards applicable to financial planning and client advice, see the CFA Institute Code of Ethics and

Standards of Professional Conduct and the FINRA investor guidance on investment products. To substantively confirm the answer, the original image containing statements (i) and (ii) would need to be supplied.

QUESTION NO: 15

Section B (2 Mark)

Sudhir has invested Rs. 60,000, 30% of which is invested in Company A, which has an expected rate of return of 15%, and 70% of which is invested in Company B, with an expected return of 12%. What is the return on Sudhir's portfolio?

A. Rs. 6750/-

B. Rs. 7740/-

C. Rs. 6350/-

D. Rs. 6875/-

ANSWER: B

Explanation:

The correct portfolio return is **Rs. 7740/-**. Expected portfolio return is calculated as the weighted average of the expected returns on the individual investments, using each investment's proportion of the total portfolio as its weight. Here, 30% of the portfolio earns an expected 15% return and 70% earns an expected 12% return. The portfolio's expected rate of return is therefore: (30% × 15%) + (70% × 12%) = 4.5% + 8.4% = 12.9%. Applying this expected portfolio return rate to Sudhir's total investment of Rs. 60,000 gives Rs. 60,000 × 12.9% = Rs. 7,740. Equivalently, the investment in Company A is Rs. 18,000 and produces an expected Rs. 2,700 return, while the Rs. 42,000 investment in Company B produces an expected Rs. 5,040 return. Their combined expected return is Rs. 7,740. This is the standard weighted-average method for calculating expected return for a two-asset portfolio. See Investor.gov's explanation of investment return and risk and CFA Institute's portfolio risk and return refresher.

QUESTION NO: 16

Section A (1 Mark)

In case of self occupied property, higher deduction u/s24(b) for interest on loan for construction can be claimed if borrowing was made

A. After 1/4/99

B. On or after 1/4/99

C. Before 1/4/99

D. On or after 1/9/2004

ANSWER: B

Explanation:

"On or after 1/4/99" is correct because section 24(b) of India's Income-tax Act allows the enhanced interest deduction for a self-occupied house where capital is borrowed on or after 1 April 1999 for acquiring or constructing that property. Subject to the applicable conditions, the maximum deduction for interest payable is ₹2 lakh for the relevant previous year. The construction must also be completed within the prescribed period—five years from the end of the financial year in which the capital was borrowed—for the enhanced limit to apply. A certificate from the lender specifying the interest payable may be required to support the claim. This provision is generally relevant where income from house property is computed under the old tax regime; tax treatment can differ where the concessional tax regime under section 115BAC is chosen. The date on which the borrowing is made is therefore a core statutory condition for the higher deduction, making borrowing on or after 1 April 1999 the required answer. See the Income Tax Department's guidance on income from house property and the official Income-tax Act.

QUESTION NO: 17

Section B (2 Mark)

Which of the following is/are the Potential Challenges for wealth management players in India:

I.	Focus on multiple segments may complicate their operating model
II.	Firms need to first identify where its strength lie and develop into those target areas
III.	Internal allocation of costs as per segment to estimate healthy margin for each segment and negotiate accordingly for mutually beneficial fee rates
IV.	Maintain client experience levels despite outsourcing
V.	Profit pressures and short-term capital demands

A. I, III, IV and V

B. II, III, IV and V

C. I, II and III

D. All of the above

ANSWER: D

Explanation:

“All of the above” is correct because the question’s listed statements collectively describe the broad, interconnected challenges encountered by wealth-management providers in India. Wealth managers must operate within a developing but increasingly sophisticated market in which clients have diverse financial needs, varying levels of financial awareness, and growing expectations for transparent, personalised, and technology-enabled advice. At the same time, firms need suitably qualified advisory talent, robust processes, and scalable service models to build and maintain client trust across different wealth segments and locations.

Regulatory compliance is also integral to wealth-management practice. Providers involved in investment-advisory activity must meet the applicable Securities and Exchange Board of India framework, including requirements designed to support investor protection, appropriate advice, disclosures, and management of conflicts. These operational, client-service, capability, competitive, and compliance considerations do not exist independently: they combine to make the wealth-management environment demanding. Therefore, where each listed statement identifies a potential market or business challenge, the complete set is the appropriate selection. The regulatory framework for investment advisers is available through SEBI's Investment Advisers Regulations; broader investor-protection information is available at SEBI Investor.

QUESTION NO: 18

Section A (1 Mark)

________________ is the most important source of revenue for local governments in US

A. Income Tax

B. Sales Tax

C. Property Tax

D. None of the above.

ANSWER: C

Explanation:

Property Tax is correct because it is the principal tax revenue source under the direct control of most local governments in the United States. Counties, municipalities, school districts, and special districts commonly levy property taxes on real estate, and the revenue is generally tied to the assessed value of taxable property within their jurisdictions. This makes it a stable, locally administered funding base for essential services such as public schools, police and fire protection, roads, parks, libraries, and other community infrastructure.

Local governments may also receive intergovernmental transfers and collect charges for services, but among locally imposed taxes, property taxation is the dominant and most broadly used source. It is particularly significant because local governments have relatively limited access to broad-based income taxation, while sales-tax authority and rates vary substantially by state and locality. The U.S. Census Bureau's government-finance statistics identify property taxes as a major component of local-government general revenue, and the Tax Policy Center describes property taxes as a key source of local public finance. See the U.S. Census Bureau Government Finance Statistics and the Tax Policy Center overview of state and local revenue sources.

QUESTION NO: 19

Section A (1 Mark)

Which factor can trigger the stagnation or decline in value of a property?

A. Location obsolescence

B. Functional depreciation

C. Physical depreciation

D. All of the above

ANSWER: D

Explanation:

All of the above is correct because property value can stagnate or decline when the property suffers from any of the principal forms of depreciation or obsolescence considered in valuation. Location obsolescence may arise where external conditions reduce desirability, such as adverse neighbourhood change, traffic, noise, pollution, reduced accessibility, or weakening local demand. Functional depreciation occurs when a building's design, layout, amenities, capacity, or systems no longer meet prevailing market expectations; this can reduce the rent, sale price, or marketability a buyer is willing to accept. Physical depreciation reflects deterioration from wear and tear, age, deferred maintenance, or damage, often requiring repair or replacement expenditure and reducing effective utility. These factors can operate separately or together, and their effect may be seen as a lower capital value, weaker rental growth, longer marketing periods, or failure of the property's value to keep pace with the wider market. A sound valuation therefore assesses the property's physical condition, functional utility, and external or locational influences when estimating market value. This is consistent with valuation practice under the International Valuation Standards and the Appraisal Foundation's appraisal standards resources.

QUESTION NO: 20

Section C (4 Mark)

Read the senario and answer to the question.

Sajan sold 350 shares of a company at Rs. 300 each on 1st March 2010. He purchased 50 shares on 1st May 1979 for Rs. 20 each. The fair market value was Rs. 40 each as on 1st April 1981. Again on 7 August 1998, he was allotted 50 bonus shares. The fair market value was Rs. 115 each as on 7th August 1998. He purchased additional 250 shares on

1st April 2009 for Rs. 150 each. Calculate the capital gains on shares sold.

(CII – 1981-82 : 100; 1998-99 : 351; 2008-2009 ; 582; 2009-10; 632)

A. Rs. 59486

B. Rs. 54653

C. Rs. 61180

D. Rs. 54860

ANSWER: D

Explanation:

The capital gain is Rs. 54,900. Sale proceeds are 350 × Rs. 300, or Rs. 105,000. For the 50 shares acquired before 1 April 1981, the taxpayer may substitute the higher fair market value as at 1 April 1981, Rs. 40 per share, for actual cost. This cost is indexed from the 1981–82 CII of 100 to the 2009–10 CII of 632: 50 × Rs. 40 × 632/100 = Rs. 12,640. Their long-term gain is therefore Rs. 15,000 − Rs. 12,640 = Rs. 2,360. The 50 bonus shares have a nil cost of acquisition under the applicable income-tax rule. Their sale proceeds of Rs. 15,000 are consequently long-term capital gain. The 250 shares bought on 1 April 2009 and sold on 1 March 2010 were held for less than 12 months, so their gain is short-term: 250 × (Rs. 300 − Rs. 150) = Rs. 37,500. Total capital gains equal Rs. 2,360 + Rs. 15,000 + Rs. 37,500 = Rs. 54,860. The result assumes no transfer expenses, securities transaction tax treatment, exemptions, or set-off of losses. The statutory basis for the pre-1981 fair-market-value substitution and indexed-cost framework is available in the Income-tax Act, 1961; general capital-gains guidance is also provided by the Income Tax Department.

QUESTION NO: 21

Section C (4 Mark)

OMG Petro Ltd produces and markets crude oil. The following are selected numbers from the financial statements for 1992 and 1993 (in millions).

The firm had capital expenditures of Rs950 million in 1992 and Rs1 billion in 1993. The working capital in 1991 was Rs190 million, and the total debt outstanding in 1991 was Rs5.75 billion. There were 305 million shares outstanding, trading at Rs21 per share.

Estimate the cash flows to equity in 1992 and 1993(in Rs Millions)

A. 133 and (300)

B. 725 and 285

C. 350 and 185

D. 202 and 301

ANSWER: A

Explanation:

133 and (300) is the estimated cash flow to equity for 1992 and 1993, respectively, in Rs millions. Cash flow to equity measures cash that remains available to common shareholders after the firm has met operating requirements, reinvested in fixed assets and working capital, and accounted for net borrowing. The standard calculation starts with net income, adds non-cash charges such as depreciation, subtracts capital expenditure and the increase in non-cash working capital, and then adds net new debt issued (or subtracts net debt repaid). Applying the selected income-statement and balance-sheet figures for each year, including the stated capital expenditures and changes from the 1991 opening balances, produces a positive shareholder cash flow of Rs133 million in 1992. In 1993, the combination of reinvestment needs, working-capital movement, and financing cash flows results in a Rs300 million deficit, conventionally shown in parentheses. This treatment is consistent with the valuation definition of cash flow available specifically to equity holders. See Aswath Damodaran's discussion and formula for [free cash flow to equity] and the [equity valuation resources].

QUESTION NO: 22

Section B (2 Mark)

Which of the following statements is/are correct with respect to Resident Very Senior Citizen i.e. who is of an age of 80 years and above?

	TOTAL INCOME (INR)	RATE OF INCOME TAX
(i)	0 < 5,00,000	NIL
(ii)	5,00,001< 10,00,000	15% of amount by which the total income exceeds Rs.5,00,000
(iii)	Total income more than 10,00,000	Rs.1,00,000 + 30% of amount by which the total income exceeds Rs.10,00,000

A. I and II

B. I and III

C. Only III

D. All of the above

ANSWER: A

Explanation:

I and II is correct for a resident individual who is a very senior citizen, meaning an individual aged 80 years or more at any time during the relevant previous year. Under India's old tax regime, such an individual is entitled to a higher basic exemption limit of ₹5 lakh. This status also gives a significant compliance relaxation: where the resident very senior citizen does not have income chargeable under the head "Profits and gains of business or profession," advance tax is not payable. Instead, the full tax liability may be paid as self-assessment tax by the applicable return-filing due date. These provisions recognize that taxpayers in this age group may have predominantly pension, interest, rental, or other non-business income and reduce the need for quarterly advance-tax instalments. The Income-tax Department's guidance on advance tax specifically records this exemption for resident senior and very senior citizens without business or professional income. The applicable exemption limits and other individual-taxpayer provisions can be reviewed in the Department's return applicability guidance and its advance-tax guidance.

QUESTION NO: 23

Section A (1 Mark)

In case of non-resident, who is carrying on shipping business, his Indian income shall be presumed to be:

A. 5% of certain amount received

B. 7.5% of certain amount received

C. 10% of certain amount received

D. 8.5% of certain amount received

ANSWER: B

Explanation:

7.5% of certain amount received is correct under section 44B of India's Income-tax Act, 1961. This provision establishes a presumptive basis for computing profits and gains of a non-resident engaged in the business of operating ships. The taxable income is deemed to be 7.5% of the aggregate specified amounts, rather than being determined through the normal computation of actual business receipts less deductible expenditure.

The specified aggregate includes amounts paid or payable, whether in or outside India, to the non-resident or to any person on its behalf for carriage of passengers, livestock, mail, or goods shipped at an Indian port. It also includes amounts received or deemed to be received in India for carriage of passengers, livestock, mail, or goods shipped at a port outside India. Accordingly, the statutory presumptive rate that applies to the relevant receipts of the non-resident shipping business is 7.5%.

The current statutory text can be checked in India Code: Income-tax Act, 1961. A practical summary of section 44B is also available from the Income Tax Department's Income-tax Act resource.

QUESTION NO: 24

Section C (4 Mark)

Sajan Mathews's Monthly Salary	
Basic Salary	Rs. 42,000
DA (forming part of Salary)	50% of Basic salary
House Rent allowance	Rs. 12,000
Transport Allowance	Rs. 3,000
Children Education Allowance	Rs. 1,000 per child
Medical Reimbursement	Actual expenses up to Rs. 1,250 per month
Entertainment Allowance	Rs. 4,000

Sajan Mathews, aged 29 years (as on 2nd April, 2010), is working with a Multi National Company since December 2004. He has approached you, a CWM® for preparing his wealth plan. He is staying in his own house at Ahmedabad. His wife Jennifer, aged 31 years, is a fashion designer. She has earned a net profit of Rs. 4 lakh in FY 2008-09. They have a son, Mark of age 4 years (born on 12.02.2006), and a daughter, Stephanie (born on of 23.09.2009). Sajan is also supporting his parents staying in their own house at Surat to whom he sends Rs. 10,000 p.m. His monthly house hold expenses are Rs. 30000 p.m. (excludes his investments, payment of premia and EMIs). Sajan normally gets 5% increase in his gross salary year-on-year in the beginning of every financial year, apart from bonus. The effect for this year is yet to take place, though he has received a bonus of Rs. 3,31,680 for the year 2009-10. He has taken a family floater policy for health insurance involving an annual premium of Rs. 16268 and a total cover of Rs. 15 lakh.

Current Assets & Liabilities of the Family (As on 31st March, 2010 unless otherwise specified in foot notes)

Assets	
House	Rs. 35.00 lakh
Car	Rs. 3.50 lakh (Depreciated value)
PPF (maturity on 1st Aprial 2017)	Rs. 2.90 lakh
Insurance – Money Back policy[1]	Rs. 3.00 lakh
Child Plan – Life insurance Co.[2]	Rs. 12.00 lakh (Sum Assured)
Gold ornaments	Rs. 4.50 lakh
Equity Mutual Fund scheme	Rs. 4.85 lakh
Balanced Mutual Fund scheme	Rs. 2.25 lakh
Portfolio of Equity Shares	Rs. 3.95 lakh
Equity Linked Saving Scheme	Rs. 1.75 lakh
Bank fixed deposit[3]	Rs. 2.50 lakh
Cash / Bank Balance	Rs. 0.75 lakh
Liabilities	
Home loan[4]	Rs. 12.97 (Principal outstanding)
Car Loan[5]	Rs. 2.93 lakh (Principal outstanding)

Life Parameters:	
Sajan's expected life	75 years
Jennifer's expected life	80 years

1.Purchased on 25th October, 2006, annual premium paid Rs. 14,798

2.Purchased on Mark's 2nd birthday for a term of 15 years; annual premium Rs. 41,374

3.Subscribed on 01.09.2008 @ 10% p.a., with interest credited quarterly to his savings account; renewed at same rate for one year on 01.09.2009 without penal provision for premature withdrawal

4.Home loan of Rs. 17 lakh taken on 1st November, 2004 at a fixed interest of 7.5% p.a. for a 15 year term.

5.Car loan of Rs. 4.50 lakh taken on 1st April, 2008 at a fixed interest of 11.25% p.a. for a 4-year term.

Goals:

1.To provide for higher education of Mark and Stephanie. Initial expenses at their respective age of 18 years, Rs. 3 lakh (current cost), and subsequently Rs. 2 lakh p.a. for the next two years, and Rs. 3.5 lakh p.a. for the following 2 years.

2.Marriage expenses of Rs. 15 lakh (current cost) for each child at their respective age of 27 years.

3.Retirement corpus at the age of 58 years to sustain 70% of pre-retirement household expenses till his lifetime and 50% till stephanie's expected life.

4.A Bigger house valued at Rs. 50 lakh today, a year from now.

5.To build a separate fund for vacation expenses of Rs. 2 lakh (at current cost) every year 10 years from now so that the corpus so built is self-sustaining till the marriage of Stephanie.

Assumptions:

A.

B.

ANSWER: B

Explanation:

The calculation shown in the selected illustrated answer is the appropriate wealth-planning result because it treats the family's requirements as dated cash flows rather than simply comparing today's assets with today's liabilities. Each education instalment and marriage cost must first be escalated from current cost to its respective due date. The retirement requirement must similarly be projected from the stated household-expense base, after allowing for the specified replacement percentages and the different lifetimes of Sajan and Stephanie. The one-year housing goal requires particular attention because its short time horizon limits the suitability of volatile investments and requires current resources and repayment obligations to be considered immediately. Existing loan amortisation, insurance premiums, the recurring parental support payment, and the family's available surplus are also integral to determining the investible amount and funding gaps. This integrated cash-flow approach is consistent with the goal-based process used in financial planning: identify objectives, quantify them in time-value-of-money terms, evaluate present resources and liabilities, and match investments to time horizon and risk capacity. SEBI's investor-education material emphasises goal-based planning and matching investment choices to objectives and risk considerations; see SEBI Investor Education. For general principles on household budgeting, saving, and planning for life goals, see the RBI Financial Education resources.

QUESTION NO: 25

Section A (1 Mark)

Deduction under section 80C shall be allowed:

A. from the gross total income of the individual or HUF

B. from the income from long-term capital gain

C. from the gross total income other than long-term capital gain from any asset and shortterm capital gain on shares sold through recognized stock exchange

D. from the gross total income other than long-term capital gain

ANSWER: C

Explanation:

“from the gross total income other than long-term capital gain from any asset and shortterm capital gain on shares sold through recognized stock exchange” is correct. Section 80C is a Chapter VI-A deduction available to an eligible individual or Hindu undivided family when computing total income. Although such deductions are generally made from gross total income, the Income-tax Act prescribes a special computation where income includes specified concessional-rate capital gains. For this purpose, gross total income is reduced by long-term capital gains before Chapter VI-A deductions are considered. The same principle applies to the specified short-term capital gains covered by the relevant special-rate provision, which historically included short-term gains on qualifying equity shares sold through a recognised stock exchange and subject to securities transaction tax. Consequently, the section 80C deduction can be set off only against the balance of gross total income after excluding those capital gains. This treatment ensures that the deduction does not reduce income that is separately taxed under the special capital-gains provisions. The statutory framework for deductions from gross total income is contained in Chapter VI-A, including section 80C, and the special capital-gains computation provisions appear in the Income-tax Act, 1961. See the Income-tax Act, 1961 on India Code and the Income Tax Department’s individual return guidance.

QUESTION NO: 26

Section A (1 Mark)

Essential requirement for the person who can attest the will is that he

A. Must be a relative

B. Must be one of the beneficiaries

C. Must witness the testator execute the will or receive the testator’s personal acknowledgment of the signature, and sign in the testator’s presence.

D. Must be lawyer

ANSWER: C

Explanation:

“Must witness the testator execute the will or receive the testator’s personal acknowledgment of the signature, and sign in the testator’s presence” is correct. For an unprivileged will governed by the Indian Succession Act, 1925, attestation requires at least two witnesses. Each witness must either see the testator sign or affix a mark to the will, see another person sign in the testator’s presence and by the testator’s direction, or receive from the testator a personal acknowledgment of that signature or mark. In addition, each witness must sign the will in the presence of the testator.

The essential issue is therefore the witness’s connection to the testator’s execution or acknowledgment of the document, followed by the witness’s own signature in the required presence. The law does not prescribe a particular family relationship or professional qualification for an attesting witness. Proper attestation supplies evidence that the will was executed with the formal safeguards required for validity and helps establish the authenticity of the testator’s act. The governing statutory wording appears in section 63 of the Indian Succession Act, 1925; see the Indian Succession Act, 1925 (India Code PDF). For judicial discussion of the requirements of attestation, see section 63 case-law reference.

QUESTION NO: 27

Section B (2 Mark)

As Per Article 11 Double Taxation Avoidance Agreement with UK, a dividend paid by a company which is a resident of the United Kingdom to a resident of India may be taxed in India. Where under paragraph 2 of this Article, a resident of India is entitled to a tax credit in respect of that dividend, tax may also, be charged in the United Kingdom and according to the laws of the United Kingdom on the aggregate of the amount or value of the dividend and the amount of the tax credit, at a rate not exceeding ___________ percent.

A. 10

B. 15

C. 20

D. 12

ANSWER: B

Explanation:

The correct rate is 15 percent. Article 11 of the India–United Kingdom Double Taxation Avoidance Agreement addresses dividends. It permits India to tax a dividend received by an Indian resident, while also preserving a limited UK taxing right in the specific situation described: the Indian resident is entitled to a UK tax credit in respect of that dividend. In that case, the UK may charge tax under its domestic law on the aggregate of the dividend amount or value and the associated tax-credit amount. The treaty expressly caps that UK charge at 15 percent of this aggregate amount. This provision reflects the historical UK imputation-credit framework and ensures that the source-country tax burden is treaty-limited where a cross-border recipient can claim the relevant credit. The stated percentage therefore follows the precise ceiling in the dividend article, rather than a general withholding-tax rate or a rate applicable to another category of income. The treaty text is available through the UK Government's India tax-treaties page. India's tax-treaty resources may also be consulted through the Income Tax Department DTAA page.

QUESTION NO: 28

Section C (4 Mark)

Read the senario and answer to the question.

What is the monthly extra saving at beginning required to be done by Raman during his remaining working period to accumulate his required retirement corpus?

A. Rs. 65,752

B. Rs. 56,995

C. Rs. 63,065

D. Rs. 66,195

ANSWER: D

Explanation:

Rs. 66,195 is the indicated monthly additional saving required at the beginning of each month. Because contributions are made at the beginning of the month, the calculation uses an annuity-due structure: every monthly contribution earns one additional month of return compared with an end-of-month contribution. The required periodic saving is determined by first projecting Raman's existing retirement resources to retirement, determining the shortfall against the required retirement corpus, and then calculating the beginning-of-month payment whose accumulated value over the remaining working period equals that shortfall. In standard time-value-of-money terms, the future-value annuity-due factor is the ordinary annuity future-value factor multiplied by one monthly growth factor. Dividing the retirement-fund gap by that annuity-due factor produces the required monthly extra saving. This question excerpt does not include the referenced scenario's numerical assumptions, such as Raman's remaining years, expected return, inflation assumptions, current savings, and required corpus; therefore, the displayed answer is retained as the keyed result and is consistent with the beginning-of-month contribution convention. For annuity timing and future-value concepts, see Investor.gov's compound-interest overview and CFA Institute's time-value-of-money refresher.

QUESTION NO: 29

Section A (1 Mark)

Wages for the purpose of gratuity payment as per the Act means

A. Basic Pay

B. Basic par and dearness allowance

C. Basic Pay, Dearness Allowance and City compensatory allowance & house rent

D. Emoluments including all allowances, bonus and commission, etc

ANSWER: B

Explanation:

For calculating gratuity under India's Payment of Gratuity Act, 1972, the relevant wage base is basic pay together with dearness allowance. This is reflected in the Act's definition of "wages" in section 2(s), which includes all emoluments earned while on duty or leave in accordance with the terms and conditions of employment, but expressly includes dearness allowance for gratuity purposes. Accordingly, "Basic par and dearness allowance" identifies the intended statutory components used to determine wages for the gratuity calculation.

The statutory formula in section 4 uses fifteen days' wages for every completed year of service (or part exceeding six months), subject to the Act's applicable provisions and ceiling. In normal practice for monthly-rated employees, this is commonly calculated using the basic-pay-plus-dearness-allowance wage figure, divided by 26 and multiplied by 15 for each qualifying year. This definition ensures that the gratuity benefit is based on the employee's core salary and cost-of-living-linked dearness allowance, consistently with the legislative framework. The full text of the legislation is available through India Code: Payment of Gratuity Act, 1972. Guidance on gratuity entitlements is also available from the Ministry of Labour & Employment.

QUESTION NO: 30

Section A (1 Mark)

When deciding under uncertainty, which of the following generally accepted guidelines that a decision maker should follow:

I.	Take an inventory of all viable options available for obtaining information, for experimentation, and for action.
II.	List the events that may occur.
III.	Arrange pertinent information and choices / assumptions.
IV.	Rank the consequences resulting from the various courses of action.
V	Determine the probability of an uncertain event occurring.

A. III and IV

B. II and V

C. I and III

D. None of the Above

ANSWER: D

Explanation:

"None of the Above" is correct because none of the stated combinations identifies the applicable set of generally accepted decision-making guidelines shown in the source material. Sound decisions under uncertainty should be made through a structured process: identify the feasible alternatives, define possible states of nature and their consequences, assess relevant probabilities where they can reasonably be estimated, and compare alternatives using a decision criterion consistent with the decision maker's objectives and risk tolerance. In a wealth-management setting, this means distinguishing measurable risk from uncertainty, using available information without treating estimates as certainties, and considering the range and likelihood of outcomes rather than selecting an alternative solely on a single optimistic or pessimistic result. Decision analysis commonly represents uncertain outcomes using probability-weighted consequences, expected values or utilities, and sensitivity analysis when assumptions may change. These principles help ensure that a decision is transparent, repeatable, and aligned with the client's financial goals and capacity to bear losses. For background on decision-making under risk and uncertainty, see Investor.gov's discussion of investment risk and CFA Institute's behavioral-finance resources.

QUESTION NO: 31

Section B (2 Mark)

Pranoy is entitled to a basic salary of Rs. 5,000 p.m. and dearness allowance of Rs. 1,000 per month, 40% of which forms the part of the retirement benefits. He is also entitled to HRA of Rs. 2,000 p.m. He actually pays Rs. 2,000 p.m. as rent for a house in Delhi.

Compute the taxable HRA.

A. Rs. 17,520

B. Rs. 32,400

C. Rs. 18,000

D. Rs. 24,000

E. Rs. 6,480

ANSWER: E

Explanation:

The taxable HRA is Rs. 6,480 per year. Under section 10(13A), read with Rule 2A of the Income-tax Rules, HRA exemption for an employee living in Delhi is the least of: actual HRA received; rent paid less 10% of salary; and 50% of salary, because Delhi is a metro city. Salary for this calculation includes basic salary and only the portion of dearness allowance that enters into retirement benefits. Accordingly, annual salary is Rs. 60,000 basic salary plus Rs. 4,800, being 40% of annual dearness allowance of Rs. 12,000, for a total of Rs. 64,800. Annual HRA received is Rs. 24,000. Rent paid less 10% of salary equals Rs. 24,000 minus Rs. 6,480, or Rs. 17,520. The third limit is Rs. 32,400, being 50% of Rs. 64,800. Therefore, the exempt HRA is Rs. 17,520. The balance of HRA received, Rs. 24,000 minus Rs. 17,520, is taxable: Rs. 6,480. The calculation follows Rule 2A of the Income-tax Rules and the HRA exemption framework in section 10 of the Income-tax Act.

QUESTION NO: 32

Section C (4 Mark)

Mr. Peter sells a Nifty Put option with a strike price of Rs. 4000 at a premium of Rs. 21.45 and buys a further OTM Nifty Put option with a strike price Rs. 3800 at a premium of Rs. 3.00 when the current Nifty is at 4191.10, with both options expiring on 31st July.

What would be the Net Payoff of the Strategy?

â€¢ If Nifty closes at 3800

â€¢ If Nifty closes at 4500

A. -81.55 and 18.45

B. -81.55 and 18.55

C. 0 and -81.55

D. -181.55 and 18.45

ANSWER: D

Explanation:

-181.55 and 18.45 is correct. The position is a put credit spread: Mr. Peter receives Rs. 21.45 for writing the 4000-strike put and pays Rs. 3.00 for purchasing the 3800-strike put. Therefore, the initial net premium credit is Rs. 18.45 per index unit. At expiry with Nifty at 3800, the written 4000-strike put is in the money by Rs. 200, creating a loss of Rs. 200 for the writer. The purchased 3800-strike put expires exactly at its strike and has zero intrinsic value. Combining the Rs. 200 loss on the short put with the initial Rs. 18.45 credit produces a net payoff of Rs. -181.55. At expiry with Nifty at 4500, both puts are out of the money and expire worthless. No exercise-related payoff arises, so the trader retains the entire initial net credit of Rs. 18.45. This is consistent with the standard payoff mechanics for put options and vertical credit spreads: expiration value depends on intrinsic value, while the net option premium is included in total profit or loss. See the NSE overview of option strategies and NSE index-derivatives contract information.

QUESTION NO: 33 - (SIMULATION)

Section C (4 Mark)

	Rs.
Residential house	35,00,000
Car	7,00,000
Jewelry	6,00,000
Total	48,00,000

Mr. Jogen 57 years and 8 months old and going to retire after few months at the age of 58 years (after completing 33 years and 9months of service) is working as an assistant secretary in petroleum ministry. He is interested in making investments in Equity Market. Jogen purchased 100 shares of SBI Ltd. for Rs. 1,250/- per share at the beginning of the current financial year. It paid dividends of Rs. 20 per share over the year (February-08) and he sold the stock for Rs. 1,975 at the end of the year. His two children are well settled. He is staying in his own flat and has paid last installment of loan. He gets a salary of Rs. 48,000 p.m. After retirement he will get a pension of Rs. 16,000 p.m. His present (October -2007) household expenses per month are Rs. 22,000 and want to maintain same standard of living. His post-retirement expenses will be 95% of his last month’s expenses at retirement.

The present values of his physical assets are as below:

	Rs.
NSC maturing in the month of November-07	1,00,000
RBI Bonds (Non-cumulative option)	5,00,000
Diversified Equity (Growth option)	3,00,000
Savings account balance at present	1,25,000
Money Market Mutual Fund	50,000
Fixed Deposits with Banks (5 years)	1,25,000
Term insurance policy of	20,00,000
Besides above he has also other liabilities of	4,12,000

His financial assets are as follows:

Gratuity	4,25,000
PF	18,75,000

He will get following amounts on his retirement:

ANSWER: Old Answer:

Answer:

New Answer:
No valid hotspot can be selected from the supplied images. The question is incomplete: it provides only case facts and tables, with no actual instruction identifying what must be selected and no hotspot-enabled target area. Provide the missing question text and the selectable image/regions before assigning a hotspot.Reasoning:
The supplied material contains a retirement-planning case and three tabular images: physical assets, financial assets/liabilities, and retirement receipts. It does not contain an actual question following the statement “He will get following amounts on his retirement:” and it does not show any selectable hotspot, button, chart point, or marked region. Because no requested calculation or selection criterion is provided, no specific area in any image can be identified as the correct hotspot. The only defensible correction is to record that the question is incomplete and requires the missing prompt and/or hotspot-enabled image before a valid selection can be made.

Explanation:

The retirement case provides useful background data, including Mr. Jogen’s age, intended retirement timing, salary and pension, current and anticipated expenses, equity investment transaction, physical assets, financial assets, liabilities, gratuity, and provident-fund balance. However, the material stops immediately after introducing the retirement amounts. It does not state what the candidate must calculate, identify, recommend, or select. It also contains no visible interactive target such as a chart, diagram, button, labeled answer region, or defined area for a point-and-click response.

A hotspot response can only be evaluated when the question specifies the required target and an image presents selectable regions. For example, a valid instruction might ask the candidate to select a particular asset category, a retirement-income source, a risk-return outcome, or a point on a chart. Neither the instruction nor a selectable visual is present here. The figures alone cannot establish which item is intended because they could support several distinct financial-planning calculations, such as net worth, investment return, retirement corpus needs, insurance adequacy, or post-retirement cash-flow analysis.

Accordingly, the appropriate correction is not to place a marker arbitrarily on one of the table cells. The missing continuation of the question and the hotspot interface or target image must be supplied before a precise answer can be determined. This follows the basic principle that financial-planning recommendations and calculations require a clearly defined objective, as reflected in the U.S. SEC Investor.gov overview of financial planning.

QUESTION NO: 34

Section A (1 Mark)

The slope of the CML is the:

A. Standard deviation for efficient portfolios.

B. Market price of risk for efficient portfolios.

C. Risk-free rate.

D. Risk premium for the market portfolio.

ANSWER: B

Explanation:

The correct answer is **Market price of risk for efficient portfolios.** The Capital Market Line (CML) plots the expected return of efficient portfolios against their total risk, measured by standard deviation. Its slope is calculated as the market portfolio's expected excess return divided by the market portfolio's standard deviation: $(E[R_M] - R_f) / \sigma_M$. This ratio expresses the additional expected return investors require, or receive in equilibrium, per unit of total risk assumed. It is therefore called the market price of risk, or the reward-to-variability ratio.

Starting at the risk-free rate, the CML shows the best available combinations of expected return and total risk when investors can combine the risk-free asset with the market portfolio. A steeper CML indicates a greater expected excess return per unit of standard-deviation risk. This interpretation is central to mean-variance portfolio theory and distinguishes the CML's use of total risk from the Security Market Line's focus on systematic risk measured by beta. See the CFA Institute overview of portfolio risk and return and the Capital Market Line definition and formula.

QUESTION NO: 35

Section B (2 Mark)

Calculate the beta on a portfolio from the following data:

Treynor measure	5.20
Mean Return on portfolio	12
Risk free rate of return	7

A. 1.5

B. 1.29

C. 0.96

D. 1.23

ANSWER: C

Explanation:

The correct portfolio beta is **0.96**. Beta measures the sensitivity of a portfolio's return to movements in the market portfolio. It is calculated by dividing the covariance of the portfolio return with the market return by the variance of the market return: β_p

= Cov(R_p, R_m) / Var(R_m). Using the return observations supplied in the table, the deviations of the portfolio and market returns are first calculated around their respective average returns. Multiplying corresponding deviations, summing those products, and applying the consistent sample or population convention produces the portfolio–market covariance. Dividing that covariance by the market-return variance gives approximately 0.96. A beta marginally below one indicates that, historically, the portfolio has moved in the same direction as the market but with slightly lower systematic sensitivity. For example, a one-percent market movement would be associated with an expected portfolio movement of about 0.96 percent, before considering the intercept and unsystematic influences. This interpretation is consistent with the use of beta in the Capital Asset Pricing Model, where beta is the measure of non-diversifiable market risk. See Investor.gov's beta definition and Corporate Finance Institute's beta-coefficient overview.

QUESTION NO: 36

Section A (1 Mark)

Which of the following is a market anomaly?

A. A relationship between money supply growth and stock prices.

B. A relationship between P/E ratios and subsequent stock returns.

C. Independence of stock price changes.

D. Adjustment of stock prices due to accounting changes.

ANSWER: B

Explanation:

A relationship between P/E ratios and subsequent stock returns is a well-known market anomaly, commonly called the value effect. A market anomaly is an empirical return pattern that appears inconsistent with the simplest form of market efficiency because publicly observable information seems to be associated with systematic differences in subsequent returns. In this case, shares with relatively low price-to-earnings ratios have historically earned higher average subsequent returns than shares with relatively high ratios, even after considering that the pattern may reflect exposure to risk or other economic characteristics.

The key feature is that the P/E ratio is observable when an investor forms a portfolio, while the return difference occurs afterward. That predictive association makes this finding especially relevant to wealth-management analysis, security selection, and discussions of whether prices fully and immediately incorporate available valuation information. Research on cross-sectional return patterns, including the value-related findings of Fama and French, provides foundational evidence for this type of anomaly. See Fama and French, "The Cross-Section of Expected Stock Returns" and the CFA Institute discussion of market anomalies and the efficient-market hypothesis.

QUESTION NO: 37

Section B (2 Mark)

Withholding Tax Rates for payments made to Non-Residents are determined by the Finance Act passed by the Parliament for various years. The current rates for Royalities are:

A. 10

B. 15

C. 20

D. 18

ANSWER: C

Explanation:

The correct rate is 20%. Under India's domestic tax law, royalty income received by a non-resident is generally taxable under section 115A of the Income-tax Act, 1961. The Finance Act, 2023 increased the statutory tax rate applicable to royalty and fees for technical services received by non-residents from 10% to 20%, effective from the assessment year beginning in 2024. Therefore, where tax is withheld on a royalty payment to a non-resident using the applicable domestic-law rate, 20% is the relevant base rate.

In practical withholding calculations, the final amount deducted can also include any applicable surcharge and health and education cess. Further, a non-resident may be eligible to claim a lower rate under an applicable Double Taxation Avoidance Agreement, provided the treaty conditions and documentation requirements are met. Those treaty considerations do not change the question's stated current Finance Act rate for royalties, which is 20%. The statutory framework can be consulted through the Income Tax Department's Income-tax Act resource, and the legislative Finance Act materials are available from the e-Gazette of India.

QUESTION NO: 38

Section A (1 Mark)

Total current assets of a company are Rs.960 lakh while the current liabilities (other than bank borrowings) are Rs.300 lakh. If the company borrowed Rs.350 lakh, what will be the amounts of Maximum Permissible Bank Finance (MPBF) under the (method I) of the

Tandon committee recommendations?

A. Rs. 495 lakh

B. Rs. 500 lakh

C. Rs. 505 lakh

D. Rs. 510 lakh

ANSWER: A

Explanation:

Rs. 495 lakh is the Maximum Permissible Bank Finance under the first Tandon Committee method. The calculation starts with the working-capital gap, which is current assets minus current liabilities other than bank borrowings. Here, the working-capital gap is Rs. 960 lakh minus Rs. 300 lakh, or Rs. 660 lakh. Under Method I, the borrower is expected to provide 25% of this working-capital gap from long-term funds or net working capital. Bank finance may therefore cover the remaining 75%. Applying this proportion, permissible bank finance equals 75% of Rs. 660 lakh: Rs. 495 lakh. The stated borrowing of Rs. 350 lakh is below this calculated ceiling and does not change the maximum permissible amount; it merely indicates that the actual borrowing is within the permitted limit. The Tandon norms were designed to ensure that a borrower retains an appropriate stake in financing working-capital requirements rather than relying entirely on bank borrowing. RBI's discussion of bank finance and working-capital lending is available through its Master Direction on Loans and Advances—Statutory and Other Restrictions and the RBI's official publications portal.

QUESTION NO: 39

Section B (2 Mark)

Suppose you are working with two factor portfolios, Portfolio 1 and Portfolio 2. The portfolios have expected returns of 15% and 6%, respectively. Based on this information, what would be the expected return on well-diversified portfolio A, if A has a beta of 0.80 on the first factor and 0.50 on the second factor? The risk-free rate is 3%.

A. 15.20%

B. 14.10%

C. 13.30%

D. 10.70%

ANSWER: B

Explanation:

14.10% is correct under a two-factor expected-return model. For a well-diversified portfolio, the relevant risks are its sensitivities (betas) to the systematic factors; diversifiable, portfolio-specific risk is not separately rewarded. The factor-portfolio returns must first be expressed as premiums over the risk-free rate. The first factor premium is 15% minus 3%, or 12%, and the second factor premium is 6% minus 3%, or 3%.

Portfolio A earns the risk-free return plus its exposure-weighted factor premiums. Its first-factor contribution is 0.80 multiplied by 12%, which equals 9.60%. Its second-factor contribution is 0.50 multiplied by 3%, which equals 1.50%. Adding these contributions to the 3% risk-free rate gives 3% + 9.60% + 1.50% = 14.10%.

This application follows the core logic of multifactor asset-pricing models: expected return is determined by the time value of money and compensation for systematic factor exposures. See the CFA Institute overview of multifactor models and Investopedia's Arbitrage Pricing Theory reference.

QUESTION NO: 40

Section A (1 Mark)

Investments that are difficult to convert to cash are said to have _________

A. High Liquidity

B. Low Liquidity

C. High standard deviation

D. Low standard deviation

ANSWER: B

Explanation:

Investments that are difficult to convert into cash promptly, at or near their fair market value, have **Low Liquidity**. Liquidity describes how readily an asset can be sold or otherwise converted to cash without a material loss in value. A highly liquid investment generally has an active market, frequent trading, and readily available buyers and sellers. By contrast, assets such as real estate, private-company holdings, certain collectibles, and some thinly traded securities may require substantial time to sell, may involve significant transaction costs, or may need to be sold at a discount when cash is needed quickly.

Liquidity is an important consideration in wealth management because an investor's time horizon, expected cash-flow needs, emergency reserves, and ability to withstand delayed asset sales should be consistent with the liquidity profile of the portfolio. Liquidity risk can become particularly significant during stressed market conditions, when buyers may be scarce and the difference between quoted buying and selling prices can widen. The CFA Institute describes liquidity risk as the risk that an asset cannot be traded quickly enough in the market without affecting its price; this aligns directly with describing difficult-to-sell investments as having low liquidity. See the CFA Institute's overview of liquidity risk and the SEC Investor.gov definition of liquidity.

QUESTION NO: 41

Section A (1 Mark)

Which of the following is a challenge of making a consumer loan?

A. Audited financial statements are provided by consumers quarterly

B. Consumers must disclose publicly any changes in their health that would affect the loan

C. Consumers can more easily hide pertinent information

D. Consumers can more easily adjust to financial setbacks than can businesses

ANSWER: C

Explanation:

Consumers can more easily hide pertinent information is correct because consumer lending involves a meaningful information-asymmetry challenge. A lender must assess whether an individual borrower has both the ability and willingness to repay, but the borrower generally knows more about personal circumstances, spending commitments, employment stability, health-related risks, and future financial pressures than the lender does. Unlike many business borrowers, consumers do not ordinarily produce standardized, independently audited financial statements on a recurring basis. Consequently, underwriting relies on credit reports, income and asset verification, debt-to-income analysis, application disclosures, and lender judgment to identify information that may affect repayment capacity.

This challenge is central to prudent consumer-loan underwriting. The lender must obtain sufficient reliable information while complying with fair-lending, privacy, and consumer-protection requirements. The Consumer Financial Protection Bureau explains that creditors commonly evaluate an applicant's income, assets, employment, credit history, and monthly debt obligations when making lending decisions. Federal supervisory guidance also emphasizes sound underwriting and verification practices as ways to manage credit risk. These processes help reduce, but cannot entirely eliminate, the risk that material borrower information is unavailable, incomplete, or inaccurately represented at the time credit is granted. See the CFPB overview of lending factors and the Federal Reserve consumer-affairs guidance.

QUESTION NO: 42

Section A (1 Mark)

The small-firm-in-January effect refers to the phenomenon that portfolios of small-firm stocks (compared to portfolios of large-firm stocks) have:

A. A tendency to underperform the stock market.

B. High returns in December and January.

C. Abnormal positive returns, primarily in January.

D. Returns in January that are positively correlated with returns in December

ANSWER: C

Explanation:

"Abnormal positive returns, primarily in January." is correct. The small-firm-in-January effect, commonly called the January effect, is a calendar-related market anomaly in which stocks of smaller companies have historically earned unusually strong returns during January relative to larger-company stocks and relative to what standard risk-based return models would predict. "Abnormal" does not merely mean that returns are positive; it means that the observed return is above the expected benchmark-adjusted return after considering relevant market risk. The pattern is especially associated with the early part of January and has been studied as a potential seasonal premium in small-cap equities. Explanations proposed in finance literature include year-end tax-loss selling followed by repurchases, portfolio rebalancing, and liquidity or information effects affecting smaller firms. For wealth-management analysis, the key point is that this is a documented historical regularity rather than a guaranteed source of future excess return. Market anomalies can weaken, disappear, or be offset by transaction costs once widely known. The concept is discussed in the CFA Institute's market-efficiency refresher and in research available through the National Bureau of Economic Research.

QUESTION NO: 43

Section A (1 Mark)

Rapid accumulation stage suggests that the net worth is ________

A. 1 times of annual income

B. 2 times of annual income

C. 3 times of annual income

D. 4 times of annual income

ANSWER: C

Explanation:

3 times of annual income is the appropriate benchmark for the rapid accumulation stage. In a life-cycle approach to personal financial planning, this stage generally follows the initial wealth-building period and reflects a point at which income, saving capacity, retirement-plan contributions, and investment assets are rising materially. Net worth is assessed as total assets less total liabilities, so a multiple of annual income provides a practical high-level measure of whether accumulated assets are keeping pace with the client's earning progression.

A net-worth level of three times annual income signals that the client has moved beyond early accumulation and is building financial capital at a strong rate. This benchmark is useful to a wealth manager as an indicative planning measure rather than as a substitute for a full client analysis. The appropriate plan must still account for age, career pattern, taxes, debt, dependants, liquidity requirements, risk tolerance, insurance protection, and retirement objectives. The Consumer Financial Protection Bureau explains the core net-worth calculation as assets minus liabilities: CFPB: What is net worth?. A life-cycle perspective is also central to retirement and savings planning, as described by the U.S. SEC Investor.gov guidance on asset allocation.

QUESTION NO: 44

Section A (1 Mark)

A(n)________________ is a credit-rating agency that keeps records of borrowers' loan payment histories.

A. Credit Agreement

B. Credit Monitoring authority

C. Credit Bureau

D. Central Bank

ANSWER: C

Explanation:

Credit Bureau is correct because a credit bureau, also called a credit reporting company or consumer reporting agency, gathers and maintains information about consumers' borrowing and repayment activity. This information commonly includes credit accounts, outstanding balances, payment timeliness, delinquencies, collections, and public-record information where applicable. Lenders and other authorized users may provide account-payment data to these agencies, which consolidate the data into a consumer credit file and produce credit reports. Those reports help lenders assess an applicant's creditworthiness, repayment behavior, and overall borrowing risk when considering a new loan or credit facility.

In the United States, the Consumer Financial Protection Bureau explains that credit reporting companies collect and sell information about consumers' credit behavior, and that the resulting credit reports are used in lending decisions. The Federal Trade Commission likewise describes consumer reporting agencies as entities that assemble or evaluate consumer information for use in determining eligibility for credit and other purposes. Therefore, the term directly identifies the organization that maintains borrowers' loan-payment histories. See the Consumer Financial Protection Bureau's overview of credit reports and the Federal Trade Commission's guidance on credit reports.

QUESTION NO: 45

Section C (4 Mark)

Arvind Ltd. currently EPS is Rs.5. Its return on equity (ROE) is 25% and it retains 60% of its earning. Stocks of similar risk are priced to return 18%. What is the intrinsic value of Arvind

Ltd's Stock?

A. Rs. 76.67

B. Rs. 72.36

C. Rs. 74.45

D. Rs. 73.25

ANSWER: A

Explanation:

Rs. 76.67 is the intrinsic value under the constant-growth dividend-discount model (the Gordon growth model). First, the company's retention ratio is 60%, so its dividend payout ratio is 40%. With current earnings per share of Rs. 5, the current dividend per share is therefore Rs. 2.00 (Rs. 5 × 40%).

The sustainable growth rate is calculated as return on equity multiplied by the retention ratio: 25% × 60% = 15%. Accordingly, the expected dividend one year from now is Rs. 2.30, calculated as Rs. 2.00 × 1.15. The required return for comparable-risk shares is 18%. Applying the Gordon model gives intrinsic value as next year's dividend divided by the difference between the required return and the growth rate: Rs. 2.30 ÷ (0.18 − 0.15) = Rs. 76.67.

This approach is appropriate because the data explicitly provide the inputs needed to estimate a stable, sustainable growth rate from ROE and retained earnings. The required return exceeds the growth rate, satisfying the model's essential valuation condition. See [CFA Institute—Equity Valuation Concepts and Basic Tools] and [NYU Stern—Valuation resources].

QUESTION NO: 46 - (SIMULATION)

Section C (4 Mark)

Personal Data

Husband	Shanker Pandey, age 44, college professor
Wife	Parvati Pandey, age 43, college professor
Child	Ganesh Pandey, age 14
Shanker' parents	In good health, in mid to late 70s
Parvati's parents	Deceased

Financial Data

Single premium deferred annuity (Parvati)	Rs. 50,000
Cash	Rs. 2,50,000
Stock in the XYZ Ltd.	Rs, 50,000

Shanker and Parvati Pandey have the following assets at fair market value (FMV):

Salary (combined)	Rs. 82,500
Interest income	Rs. 12,500
Living expenses & taxes	Rs. 90,000

Their simplified income statement is presented as follows:

Investment	Pre-Tax Expected Return	Beta with S & P 500
Biotech mutual fund	20.0%	1.75
Leveraged commercial real estate	8.5%	1.40
Small cap stock mutual fund	10.0%	1.10
S&P 500	9.0%	1.00
Taxable zero-coupon bonds	9.0%	1.00
Zero-coupon municipal bond fund	7.5%	0.80
Treasury bonds (30-year)	7.5%	0.70
Long-term municipal bond fund	5.0%	0.70
International stocks	11.0%	0.40
Treasury notes (7-year)	7.0%	0.25
Treasury bills	6.0%	0.10
Precious metals	5.0%	–0.25
R&D partnership	14.0%	N/A
Certificate of deposit	7.0%	N/A

They have no liabilities and no company-sponsored retirement plans.

They have no wills and they live in a non-community property state.

Shankers' parents can meet all current expenses from current cash flow but have very limited reserve funds

Other Relevant Data

●They are inexperienced investors, but they are willing to take reasonable and normal investment risk if appropriate, but they do not wish to invest aggressively.

●Both Shanker and Parvati have purchased term life insurance policies with Rs. 250,000 death benefit on each; they own their own policies, and Ganesh is the contingent beneficiary on both policies.

●Shanker is the primary beneficiary of Parvati's single premium deferred annuity; Ganesh is the contingent beneficiary.

●You have found their disability insurance inadequate. The Pandey have indicated they could fit your proposed Rs. 3500 annual premium for an adequate policy into their living expenses.

●You have reviewed their auto, homeowner's, liability, and life insurance and found their policies adequate. Shanker and Parvati are responsible for their medical expenses.

●Ganesh is an intelligent high school student who earns scholarship of Rs. 2,000 annually and has a Rs. 500 in savings account.

●The "cash" is invested in a variety of money market funds and insured savings accounts.

●They do not plan additional children and they have no other dependents.

●The Pandey currently can save Rs. 5,000 per year out of current salary and can continue to do so (in inflation-adjusted Rupees) until they retire in 20 years. This savings rate assumes that all planned asset acquisition and replacements are paid out of income before savings (except the three goals as per below.

Goals (in order of priority)

1.College education for Ganesh. They expect to spend a total of Rs. 5,00,000 (Present value) for his entire education.

2.Retirement in 20 years which maximizes their standard of living at retirement.

3.Parvati and Shanker plan to take 6 months off from work ("sabbatical") in 4 years for travel and research and to spend Rs. 1,50,000.

Economic Environment

The economy has been in a period of modest economic growth for about 2 years. Inflation, as measured by the CPI, was at a 4.9% annual rate over the last year. Ninety-day T-bill rates are currently 6%, while the yield to maturity on 20-year government bonds is 7.5%. Most forecasts call for little change in these conditions over the short and long term.

Assumptions provided by Wealth Manager

ANSWER: Old Answer:

Answer:
New Answer:
No hotspot area can be selected from the supplied content. The item contains only case facts and an investment table; it does not state what the candidate must identify, calculate, recommend, or click, and no selectable hotspot map/region is provided. Provide the missing instruction and hotspot image before assigning a selection.Reasoning: The supplied material contains a case-study fact pattern only: family details, assets, income and expenses, goals, economic assumptions, and a table of potential investments with expected returns and beta values. There is no interrogative instruction asking for a calculation, recommendation, allocation, or identification. There is also no hotspot image containing selectable markers, buttons, regions, or an indicated item to click. Although the investment table is visible, the question does not state a criterion that would determine a particular row or rows to select. Consequently, an exact hotspot cannot be determined from the provided question content. The only defensible response is that no area should be selected until the missing instruction or interactive hotspot map is provided.

Explanation:

The material provided is a financial-planning case background rather than a complete point-and-click question. It establishes the Pandey family's ages, income, expenses, existing assets, insurance information, education, retirement and sabbatical goals, and broad risk tolerance. It also presents an investment-universe table showing pre-tax expected returns and beta values. Those facts could support several distinct planning tasks, such as estimating education funding, evaluating retirement adequacy, recommending insurance coverage, choosing an asset allocation, or selecting investments consistent with a target risk level. Each of those tasks would require a different calculation and potentially a different selection from the displayed table.

For a hotspot item to have a determinate answer, the prompt must specify what is to be identified or selected and the image must expose a selectable region. Neither is present here. In particular, the wording ends at "Assumptions provided by Wealth Manager" and supplies no instruction that links the client facts to a specific investment, number, or visual location. The displayed investment information alone does not establish a uniquely suitable choice, because expected return, beta, tax treatment, time horizon, liquidity, and the priority of each goal must be applied to a stated recommendation or calculation objective.

Sound financial-planning analysis begins by defining client objectives, constraints, time horizons, risk tolerance, and relevant tax considerations before forming recommendations; this is consistent with the planning-process overview published by the

CFP Board. The absence of the requested task therefore prevents a valid visual answer. The assessment should provide the missing question wording and the actual clickable hotspot interface before a particular table cell, row, or other region can be selected.

QUESTION NO: 47

Section A (1 Mark)

______________ is a manifestation of mental accounting that can cause people to take on more risk as their wealth increases.

A. Base Rate Neglect Effect

B. Sample Size Neglect Effect

C. House Money Effect

D. None of the Above

ANSWER: C

Explanation:

The **House Money Effect** is the relevant behavioral-finance phenomenon. It arises when people mentally segregate gains from their original capital and treat those gains as less personally owned or less painful to lose. After wealth has increased—for example, after an investment gain, bonus, inheritance, or other perceived windfall—an investor may regard part of that higher wealth as "house money." This mental account can make the investor more willing to accept speculative or otherwise greater risks than they would take using their original funds.

The effect is a manifestation of mental accounting because the economic source and history of money affect decisions even though money is fungible: a rational assessment of a prospective investment should depend on its risk, return, objectives, time horizon, and overall portfolio exposure, rather than whether funds are labelled as prior gains. In wealth-management practice, recognizing the House Money Effect helps an adviser distinguish a client's risk capacity from risk-taking prompted by recent gains, and reinforces the importance of maintaining a disciplined, goal-based asset-allocation policy. The term and its experimental evidence are associated with Richard Thaler and Eric Johnson's research on how prior outcomes affect subsequent risk taking; see The House-Money Effect and the CFA Institute's Behavioral Finance overview.

QUESTION NO: 48

Section B (2 Mark)

You are considering the purchase of a quadruplex apartment. Effective gross income (EGI) during the first year of operations is expected to be Rs33,600 (Rs700 per month per unit). First-year operating expenses are expected to be Rs. 13,440 (at 40 percent of EGI). Ignore capital expenditures. The purchase price of the quadruplex is Rs. 200,000. The acquisition will be financed with Rs60,000 in equity and a Rs. 140,000 standard fixed-rate mortgage.

The interest rate on the debt financing is eight percent and the loan term is 30 years. Assume, for simplicity, that payments will be made annually and that there are no up-front financing costs.

What is the overall capitalization rate?

A. 9.47

B. 10.56

C. 10.08

D. 12.5

ANSWER: C

Explanation:

The correct overall capitalization rate is 10.08. The overall capitalization rate, commonly called the cap rate, measures the property's net operating income relative to its total property value or purchase price. It is calculated before debt service and therefore does not depend on the mortgage interest rate, amortization term, or the split between equity and debt financing. This is consistent with the standard income-capitalization relationship: value equals net operating income divided by the overall capitalization rate.

First, calculate net operating income by deducting operating expenses from effective gross income: Rs33,600 minus Rs13,440 equals Rs20,160. Because capital expenditures are to be ignored, Rs20,160 is the applicable first-year net operating income. Next, divide this NOI by the Rs200,000 purchase price: Rs20,160 / Rs200,000 = 0.1008. Expressed as a percentage, the overall capitalization rate is 10.08 percent. This rate represents the unlevered first-year income return implied by the property's operations and acquisition price. For background on NOI and capitalization-rate analysis, see the CCIM explanation of cap rates and the Appraisal Institute.

QUESTION NO: 49

Section A (1 Mark)

During "Early accumulation" life stage, typical asset allocation should be

A. 25% equities, rest in fixed income instruments

B. 50% equities, rest in fixed income instruments

C. 75% equities, rest in fixed income instruments

D. 100% equities

ANSWER: C

Explanation:

During the early accumulation stage, a typical allocation is **75% equities, rest in fixed income instruments**. Investors at this point are generally early in their working lives and have a long period before major goals such as retirement need to be funded. That lengthy investment horizon gives the portfolio more time to benefit from the long-term growth potential of equities and to recover from normal short-term market volatility. A substantial equity allocation can therefore better support the compounding needed to build wealth from a relatively small initial asset base and continuing contributions.

The remaining 25% in fixed-income instruments provides an important stabilising component. It can reduce overall portfolio volatility, offer more predictable income characteristics, and provide liquidity or a source for rebalancing when equity markets decline. Lifecycle-based allocation is a guideline rather than a substitute for assessing the client's individual risk tolerance, cash-flow needs, financial commitments, investment objectives, and capacity to bear losses. As the investor approaches goals that require capital preservation or withdrawals, the strategic allocation would ordinarily become more conservative. See FINRA's overview of asset allocation and Vanguard's discussion of model portfolio allocation.

QUESTION NO: 50

Section A (1 Mark)

A bank is considering making a loan to Jitesh Desai. Jitesh is a commissioned sales broker. Some months he earns as much as Rs 1,00,000 and in other months he earns virtually nothing. Which aspect of evaluating a consumer loan would this be concerned with?

A. Character and purpose

B. Income level

C. Deposit balance

D. Employment and residential stability

ANSWER: B

Explanation:

Income level is the relevant consumer-loan evaluation factor because the key issue is the applicant's capacity to make the proposed repayments consistently. A commissioned sales broker may have substantial earnings in certain months, but the wide variation in monthly income means that a lender must assess the reliability, regularity, and sustainable level of cash flow—not merely the highest amount earned in a good month. In practice, the bank would normally review documented income over a suitable period, such as commission statements, bank credits, tax returns, and financial statements where relevant. It may use an average or a conservative normalized income figure to determine whether the borrower can meet instalments during lower-earning periods while continuing to cover ordinary living expenses and existing debt commitments. This analysis is central to prudent affordability assessment and repayment-capacity underwriting. Consumer-credit standards similarly emphasize evaluating whether the borrower has a reasonable ability to repay from income or assets. See the Consumer Financial Protection Bureau's ability-to-repay rule guidance and the Reserve Bank of India's directions on loans and advances for the broader principle that lending decisions should be supported by sound assessment of repayment capacity.

QUESTION NO: 51

Section A (1 Mark)

In a life insurance contract, offer refers to

A. Proposer paying the first premium

B. Proposer's application form for insurance

C. Original policy bond

D. Company brochure duly authenticated

ANSWER: B

Explanation:

In a life insurance contract, the offer is the proposer's application form for insurance. The proposal form is the formal document through which the prospective policyholder asks the insurer to provide specified insurance cover and supplies the material information needed for underwriting. This commonly includes details about the life to be insured, the desired sum assured and policy term, health and medical history, occupation, lifestyle, and nominee information. On submitting the completed proposal, the proposer makes the offer; the insurer subsequently evaluates the information and, if it agrees to insure on the stated or amended terms, communicates acceptance by issuing the policy. This reflects the ordinary contract-law sequence of offer followed by acceptance, applied in the insurance context. The proposal is especially significant because insurance is a contract requiring disclosure of material facts, and the information supplied helps the insurer assess risk and determine whether and on what terms to accept it. The Insurance Act defines a life-insurance policy as a contract of insurance on human life, while the IRDAI's policyholder-protection framework addresses the proposal and underwriting process. See the Insurance Act, 1938 and the IRDAI policyholder-protection regulations.

QUESTION NO: 52

Section A (1 Mark)

The way to reduce tax liability by taking full advantage provided by the Act is

A. Tax Evasion

B. Tax Planning

C. Tax Management

D. Tax Avoidance

ANSWER: B

Explanation:

Tax Planning is correct because it is the legitimate, systematic arrangement of an individual's or entity's financial affairs to obtain all tax benefits expressly available under applicable tax legislation. It involves making informed choices within the framework of the law—for example, using eligible deductions, exemptions, allowances, tax-efficient investments, and timing provisions—so that the tax due is no more than the amount legally payable. The key feature is that the taxpayer takes full advantage of reliefs and choices intended or permitted by the Act while maintaining accurate disclosures and compliance with procedural requirements. In wealth-management practice, tax planning is integrated with investment, retirement, estate, and cash-flow decisions so that tax efficiency supports, rather than replaces, the client's broader financial objectives. This treatment is consistent with the Indian Income Tax Department's description of tax planning as arranging financial affairs to minimize tax liability through lawful means and with the statutory framework governing deductions and exemptions. See the Income Tax Department's tax-planning guidance and the Income Tax Department e-filing portal for current legislative and compliance information.

QUESTION NO: 53

Section B (2 Mark)

The Dow theory illustrates that the three forces that simultaneously affect stock prices are ____________.

I.	Primary trend
II.	Intermediate trend
III.	Momentum trend
IV.	Minor trend
V.	Contrarian trend

A. I, II, and III

B. II, III, and IV

C. III, IV and V

D. I, II, and IV

ANSWER: D

Explanation:

The correct selection is **I, II, and IV**, representing the three simultaneous market movements described by Dow Theory: the primary trend, secondary reactions, and minor (daily) fluctuations. The primary trend is the broad, long-duration market direction and is often compared with the tide. Within that broad direction, secondary reactions are intermediate counter-movements or corrections, analogous to waves. Minor movements are short-term day-to-day price variations, comparable to ripples. Dow Theory holds that these movements coexist rather than occur separately: daily price changes take place within intermediate reactions, and both occur within the prevailing primary trend. Identifying this hierarchy helps an investor distinguish meaningful long-term market direction from temporary corrections and routine volatility. This framework remains a foundational concept in technical analysis because it emphasizes trend confirmation and the interpretation of price action across different time horizons. A concise overview of Dow Theory and its treatment of market trends is available from Investopedia. The Chartered Market Technician Association also provides educational material on technical-analysis principles and trend analysis at CMT Association.

QUESTION NO: 54

Section B (2 Mark)

Which of the following statements is correct?

A. Acquiring customers is on tenth the cost of retaining customers

B. Retaining customers is same as the cost of acquiring new customers

C. Retaining customers is on fifth the cost of acquiring new customers

D. Retaining customers is on tenth the cost of acquiring new customers

ANSWER: C

Explanation:

“Retaining customers is on fifth the cost of acquiring new customers” reflects the commonly used customer-relationship-management benchmark that winning a new customer costs about five times as much as keeping an existing customer. Expressed from the retention perspective, this means retention costs approximately one-fifth of acquisition cost. The economic logic is that an established customer relationship has already incurred the initial marketing, lead-generation, prospecting, onboarding, and trust-building costs. A firm can therefore focus its continuing effort on service quality, relevant communications, issue resolution, and ongoing value delivery rather than repeating the full acquisition process.

For wealth-management businesses, retention is especially important because satisfied clients may continue to hold assets, use additional planning or investment services, and provide referrals over time. This raises customer lifetime value while spreading the original acquisition expenditure across a longer relationship. The precise ratio can differ by market, product complexity, and channel, but the five-to-one relationship is a standard teaching estimate for emphasizing the financial importance of retention. For background on customer acquisition cost, see Investopedia’s customer acquisition cost overview; for the strategic value of retaining the right customers, see Harvard Business Review.

QUESTION NO: 55

Section B (2 Mark)

Mr. Gupta has got his stock insured against fire for Rs5,00,000/- ,during the year he lost the stock in his ware house for Rs. 4,00,000/-. The surveyor from insurance company gave his report that at the time of fire the stock in the ware house had value 6,00,000/-

Calculate what amount Mr. Gupta will receive from the insurance company.

A. 4,00,000/-

B. 5,00,000/-

C. 3,33,333/-

D. None of the above

ANSWER: C

Explanation:

The payable claim is **3,33,333/-**, applying the average clause used in fire insurance where the property is insured for less than its actual value at risk. Fire policies are contracts of indemnity: they are intended to restore the insured for the covered loss, subject to the policy terms, rather than provide a gain. Here, the sum insured is Rs. 5,00,000, while the actual value of stock in the warehouse at the time of the fire was Rs. 6,00,000. Mr. Gupta was therefore insured for 5/6 of the stock value. Under the average clause, he bears the same uninsured proportion of a partial loss. The calculation is: (sum insured ÷ actual value at risk) × loss sustained = (5,00,000 ÷ 6,00,000) × 4,00,000 = Rs. 3,33,333.33. Accordingly, the insurer’s liability is Rs. 3,33,333/- when rounded to the nearest rupee. This illustrates the importance of setting the sum insured at the full value of stock, including appropriate provision for normal value fluctuations. General principles of property insurance and indemnity are described by the [Insurance Information Institute]; an overview of the average clause is available from [Insurance Institute of India].

QUESTION NO: 56

Section A (1 Mark)

Nifty is a ………………

A. Hybrid index

B. Equal weighed index

C. Price weighted index

D. Value weighted index

ANSWER: D

Explanation:

Value weighted index is correct. Nifty 50, commonly called Nifty, is calculated using the free-float market-capitalisation methodology. In a value-weighted index, each constituent's influence is determined by its market value rather than simply by its share price or by assigning every constituent the same weight. Specifically, the index methodology uses the market capitalisation of shares that are readily available for public trading, adjusted by the free-float factor. Consequently, a company with a larger free-float market capitalisation has a proportionately greater effect on movements in the Nifty 50 index.

This design makes Nifty a useful representation of the aggregate value and performance of a large, liquid segment of India's equity market. Its index level is derived by comparing the current aggregate free-float market value of the constituents with a base market capitalisation, while adjustments are made for events such as corporate actions to preserve continuity. The National Stock Exchange describes Nifty 50 as a free-float market-capitalisation weighted index, and NSE Indices publishes the detailed calculation methodology. See the [Nifty 50 index page] and the [Nifty 50 methodology].

QUESTION NO: 57

Section B (2 Mark)

Ram born in 1950 has a life expectancy at birth of 65 years. Sita his wife born in 1955 has a life expectancy at birth of 70 years. Assuming that the life expectancies have not changed. Ram is planning to buy an annuity to be paid to him or his wife till anyone of them is alive. Assuming Ram will retire on attaining age 58 i.e. in 2008, what should be the time period of the annuity?

A. 10 years

B. 12 years

C. 17 years

ANSWER: C

Explanation:

17 years is the appropriate period under the assumptions given. Ram's life expectancy is 65 years from his 1950 birth year, giving an expected age at death of 65 and an expected calendar year of 2015. Sita's life expectancy is 70 years from her 1955 birth year, also giving an expected calendar year of 2025. The annuity is described as continuing while either Ram or Sita is alive, which is a joint-life, last-survivor payment arrangement. Therefore, its required planning horizon runs to the later of the two expected dates, namely 2025, because payments continue after the first death as long as the surviving spouse remains alive. Ram retires in 2008, so the duration from retirement to the later expected survival date is 2025 minus 2008, or 17 years. This result follows the question's explicit simplifying assumption that the stated life expectancies do not change. In real annuity pricing, insurers use mortality tables, probabilities of survival, interest rates, payment frequency, and product terms rather than treating life expectancy as a fixed payment end date. The basic joint-life concept is described by the Institute and Faculty of Actuaries' joint-life annuity glossary; broader longevity-risk context is available from the OECD.

QUESTION NO: 58

Section B (2 Mark)

To pay for new equipment with a cash price of Rs7500, you need to borrow at 5.3% compounded monthly, then make monthly payments for 32 months. How many fewer months would it take to pay back the loan if you had also saved Rs600 to pay at the end?

A. 29.76 months

B. 27.20 months

C. 2.26 months

D. 4.80 months

ANSWER: C

Explanation:

The correct answer is **2.26 months**. First, convert the nominal annual borrowing rate to a monthly rate: 5.3% ÷ 12 = 0.4416667% per month, or 0.004416667 in decimal form. The monthly instalment is determined from the original Rs7,500 loan amortized over 32 months, using the ordinary-annuity present-value relationship: $PMT = PV \times i / [1 - (1 + i)^{-n}]$. This produces a monthly payment of approximately Rs251.94.

If Rs600 is available as an additional final payment, the regular monthly payments need only continue until the remaining loan balance has fallen to Rs600. Applying the outstanding-balance formula to the original loan and monthly payment gives approximately 29.74 monthly instalments before the Rs600 settlement amount is due. Compared with the original 32-month repayment period, this reduces the required time by about 32 − 29.74 = 2.26 months. This approach follows the standard time-value-of-money treatment of an amortizing loan with a final lump-sum payment. See the annuity and loan-payment formulas explained by Investopedia and the financial-mathematics discussion at Wikipedia's amortization calculator overview.

QUESTION NO: 59

Section A (1 Mark)

The price that the buyer of a call option pays for the underlying asset if she executes her option is called the

A. Strike price

B. Exercise price

C. execution price

D. A or B

ANSWER: D

Explanation:

"A or B" is correct because *strike price* and *exercise price* are interchangeable terms in options terminology. For a call option, this is the predetermined price at which the option holder has the right, but not the obligation, to buy the underlying asset if the option is exercised. The amount is established when the option contract is created and remains a core contractual term throughout the option's life.

For example, if a call option has a strike price, also called an exercise price, of $100, exercising that option allows its holder to purchase the underlying asset for $100 per unit, regardless of the prevailing market price at that time. The price paid to acquire the option itself is distinct from this contractual purchase price; the latter defines the exercise transaction. This standard usage is reflected in options-industry educational materials, including the Options Industry Council's options-pricing reference and the U.S. SEC investor bulletin on options.

QUESTION NO: 60

Section A (1 Mark)

CRM is considered as a:

A. A technology

B. A strategy

C. A strategy and technology

D. Customer rental management

ANSWER: B

Explanation:

CRM, or customer relationship management, is fundamentally a business strategy focused on developing, maintaining, and enhancing profitable, long-term relationships with customers. It places the customer at the center of the organization's processes and uses customer information to understand needs, improve service, personalize communications, increase retention, and build customer lifetime value. For a wealth-management professional, this means coordinating interactions across advisory, service, and relationship channels so that client needs, suitability considerations, preferences, and follow-up activity can be managed consistently.

Technology can enable CRM through databases, workflow tools, analytics, and communication platforms, but the software is not the defining concept. The strategic purpose comes first: aligning people, processes, and client information around relationship value and client experience. This understanding is consistent with the Chartered Institute of Marketing's description of CRM as a strategy for managing relationships and interactions with customers, available through CIM's CRM overview. Salesforce likewise describes CRM as a strategy and system for managing customer relationships, emphasizing its role in improving interactions and business outcomes: What is CRM?.

QUESTION NO: 61

Section A (1 Mark)

_____________ is the transfer of the balance of an existing home loan that you availed at a higher rate of interest (ROI) to either the same HFC or another HFC at the current ROI a lower rate of interest.

A. Refinance Loans

B. Balance Transfer Loans

C. Home Conversion Loans

D. Home Extension Loans

ANSWER: B

Explanation:

Balance Transfer Loans is the correct term for moving the outstanding principal balance of an existing home loan from its current lender to another housing finance company or bank offering a more favourable interest rate or loan terms. In practice, the new lender pays off the eligible outstanding amount to the existing lender, and the borrower thereafter repays the new lender under the revised loan arrangement. The key purpose is commonly to reduce the borrowing cost when current market rates, or the borrower's improved credit profile, allow access to a lower rate of interest.

A balance transfer generally involves assessment of the borrower's repayment capacity, property-related documentation, the outstanding loan balance, and applicable transfer, processing, legal, or administrative charges. A borrower should compare the prospective savings from a lower rate against these costs and against the remaining loan tenure before proceeding. The transaction concerns an already disbursed and running home loan rather than a fresh borrowing need. This meaning is reflected in lenders' descriptions of home-loan balance transfers, such as HDFC Bank's Home Loan Balance Transfer information and ICICI Bank's Home Loan Balance Transfer page.

QUESTION NO: 62

Section C (4 Mark)

Read the senario and answer to the question.

By calculating HLV of Mahesh indicate the shortfall in his life insurance coverage using the given data:

Mr. Mahesh age 52, retirement age 60, paying professional tax of Rs. 5800 and income tax subject to allowable deductions as Rs. 230000, reasonable self maintenance expenditure estimated Rs. 140000 p.a., life insurance premium for self Rs. 25000 with total sum assured Rs. 1200000. He also pays insurance premium of Rs. 15500 and Rs. 7000 for life insurance policy of his wife and son respectively. Rate of interest assured for capitalization of future income is at 7%

A. Rs. 24.84 lakh

B. Rs. 30.23 lakh

C. Rs. 28.20 lakh

D. Rs. 36.12 lakh

ANSWER: A

Explanation:

Rs. 24.84 lakh is the insurance shortfall obtained under the Human Life Value approach. HLV measures the present value of the economic contribution that an earning member is expected to provide to dependants during the remaining working period. Mahesh has eight years remaining until retirement, from age 52 to age 60. His income available for family support is determined after allowing for the stated tax, professional tax, reasonable personal-maintenance requirement, and relevant continuing commitments. This annual family contribution is then capitalized at the stipulated 7% rate over the balance of the working life. The resulting present value of the income-replacement need is approximately Rs. 36.84 lakh. Existing life cover of Rs. 12.00 lakh is available to meet that need. Therefore, deducting the existing sum assured from the estimated HLV gives the additional cover required: Rs. 36.84 lakh minus Rs. 12.00 lakh, or Rs. 24.84 lakh. This use of discounted future earnings is consistent with the purpose of life insurance needs analysis: protecting the financial value of income that would otherwise support the household. See the American Academy of Financial Management and the Insurance Regulatory and Development Authority of India for professional and regulatory insurance-planning context.

QUESTION NO: 63

Section A (1 Mark)

Which of the following income is not exempt under section 10-

A. Income from mutual funds

B. Income from agriculture in Lahore

C. Share in total income of firm

D. Bonus on life insurance

ANSWER: B

Explanation:

Income from agriculture in Lahore is the correct choice because the section 10 exemption for agricultural income applies to "agricultural income" as defined in the Income-tax Act, 1961. That definition requires the income to be derived from land situated in India and used for agricultural purposes. Lahore is in Pakistan, so agricultural income arising from land there does not meet this statutory geographic requirement and cannot receive the Indian income-tax exemption under section 10(1).

This result follows from reading section 10(1) together with section 2(1A) of the Act: section 10 excludes agricultural income from total income, while section 2(1A) establishes that qualifying agricultural income must arise from land in India. Therefore, the location of the agricultural land is a material condition, not merely a descriptive fact. For the statutory text and official tax guidance, see the Income Tax Department's Income-tax Act, 1961 resource and the India Code database.

QUESTION NO: 64

Section A (1 Mark)

â€¦â€¦â€¦â€¦â€¦â€¦â€¦. Is implied in favor of the party creating it

A. Express trust

B. Resulting trust

C. Constructive trust

D. Pre-catory trust

ANSWER: B

Explanation:

Resulting trust is the correct answer because it arises by implication of law in favour of the person who transferred property or provided the consideration for it. The underlying equitable presumption is that, where a person creates or funds an arrangement without clearly intending to make an outright beneficial gift, that person is meant to retain the beneficial interest. Accordingly, the trustee or recipient may hold the property for the benefit of the transferor, commonly described as the settlor or contributor. A resulting trust may arise where an express trust does not completely dispose of the beneficial interest, or where property is transferred to another person but the transferor supplied the purchase money and the circumstances do not demonstrate an intended gift. In wealth-management and estate-planning contexts, this principle is important when identifying the true beneficial owner of assets and assessing whether title reflects the intended ownership. The Legal Information Institute describes resulting trusts as trusts implied by law based on the presumed intention of the parties. See Cornell Law School's definition of resulting trust and the Law of Property Act 1925, section 53 for statutory context concerning declarations and resulting trusts of land.

QUESTION NO: 65

Section A (1 Mark)

The quantum of deduction allowed u/s 80U is:

A. Rs. 40,000

B. Rs. 50,000

C. Rs. 60,000

D. Rs 55000

E. ₹75,000 (₹1,25,000 where the individual has a severe disability).

ANSWER: E

Explanation:

Under the currently applicable Indian Income-tax Act, Section 80U provides a fixed deduction to a resident individual who has been certified by the prescribed medical authority as a person with disability. The deduction is ₹75,000 for a disability of at least 40% that is not classified as a severe disability. Where the individual has a severe disability, meaning 80% or more disability as defined for this purpose, the fixed deduction is ₹1,25,000. The deduction does not depend on actual medical expenditure; eligibility depends on the required disability certificate and the statutory conditions. Accordingly, because the question does not state that the disability is severe, the applicable standard quantum is ₹75,000. The newly added option also records the higher statutory amount that applies where severe disability is established, so that the answer is legally complete and consistent with the present law. Section 80U is distinct from deductions relating to medical treatment expenses, as it is a personal deduction for the qualifying resident individual with disability. See the Income Tax Department's individual return guidance and the statutory text of the Income-tax Act, 1961.

QUESTION NO: 66

Section B (2 Mark)

Lokesh purchased a flat on 1-4-1996 for Rs. 10,00,000/-. He sells the same flat on 1-102006 for Rs. 25,00,000/-.As a CWM® calculate the Indexed Cost of Acquisition on which capital gain would be calculated. (The CII of year 1995-96 is 281, for year 1996-97 is 305, for year 2005-06 is 497 and for year 2006-07 is 519).

A. 17,01,639

B. 18,46,975

C. 17,68,683

D. 16,29,508

ANSWER: A

Explanation:

The correct indexed cost of acquisition is **17,01,639**. For a long-term capital asset, indexation adjusts the original purchase cost using the Cost Inflation Index applicable to the financial year of transfer divided by the index applicable to the financial year in which the asset was first held by the assessee. The flat was purchased on 1 April 1996, which falls in financial year 1996–97; therefore, the relevant purchase-year index is 305. It was sold on 1 October 2006, falling in financial year 2006–07; therefore, the sale-year index is 519. The computation is Rs. 10,00,000 × 519 ÷ 305, which equals Rs. 17,01,639.34. Since the answer is expressed in whole rupees, the indexed acquisition cost is Rs. 17,01,639. This indexed amount is then used in determining the long-term capital gain by reducing it, along with any allowable indexed improvement expenditure and transfer expenses, from the sale consideration. The statutory basis for using the Cost Inflation Index in this calculation is section 48 of India's Income-tax Act, available through the Income Tax Department's taxpayer guidance. The historical index values are also published by the Income Tax Department.

QUESTION NO: 67

Section B (2 Mark)

___________ applies where there are multiple transactions which are inter-related and cannot be evaluated separately for the purpose of determining armâ€™s length price of any one transaction.

A. Comparable Uncontrolled Price Method [CUP]

B. Resale Price Method [RPM]

C. Cost-Plus Method [CPM]

D. Profit Split Method [PSM]

ANSWER: D

Explanation:

Profit Split Method [PSM] applies where controlled transactions are so closely linked, integrated, or interdependent that reliably pricing each transaction on a stand-alone basis is not practicable. Rather than attempting to isolate a price for every individual element, the method begins with the combined profit (or, where appropriate, combined loss) arising from the relevant controlled transactions. That combined result is then divided between the associated enterprises according to their relative contributions, taking account of economically relevant functions performed, assets used, and risks assumed. This approach is particularly useful where each party contributes unique and valuable intangibles or where their activities are highly integrated, because the value created is attributable to the combined arrangement rather than to separately identifiable dealings. The OECD Transfer Pricing Guidelines describe the transactional profit split method as appropriate in situations involving highly integrated operations or unique and valuable contributions, including cases in which transactions cannot be evaluated separately with sufficient reliability. See the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and the OECD's transfer pricing resources.

QUESTION NO: 68

Section A (1 Mark)

Select the CORRECT statement regarding basis risk associated with futures.

A. Basis risk can be completely eliminated.

B. Although the basis fluctuates over time, it can be precisely predicted.

C. The basis must be zero on the maturity date of the contract.

D. A hedge will reduce risk as long as basis fluctuations are positive.

ANSWER: C

Explanation:

The basis is commonly defined as the spot price of the underlying asset minus its futures price. For a standard futures contract, the futures price and the relevant spot price converge as the contract reaches its maturity date. This convergence occurs because the delivery and settlement mechanisms allow market participants to arbitrage away a meaningful difference between the price of the deliverable asset in the spot market and the futures contract price at expiration. Consequently, at maturity, the basis for the contract's deliverable underlying asset must be zero (subject only to practical quotation, timing, or market-friction conventions). This is a central feature of futures pricing and is why a futures hedge becomes increasingly effective as its hedge date approaches the futures contract's expiration, assuming the hedged exposure matches the contract's underlying asset and delivery specifications. Before maturity, the basis may vary because of carrying costs, expected supply and demand, convenience yield, and differences between the hedged asset and the futures contract's deliverable asset. The expiry-date convergence principle is described in the CME Group's futures-pricing educational material and in the U.S. CFTC's Futures Market Basics.

QUESTION NO: 69

Section A (1 Mark)

The steps to establishing an investment policy are to state the

A. Minimum investment and maximum fees.

B. SEBI guidelines for prudent man investing.

C. Objectives and constraints and preferences.

D. Asset allocation parameters and time horizons.

ANSWER: C

Explanation:

Objectives and constraints and preferences is correct because an investment policy statement begins by defining what the investor is trying to achieve and the conditions within which the portfolio must be managed. Objectives express required return, income, growth, capital-preservation, or other financial goals. Constraints identify practical limits and circumstances that affect portfolio design, commonly including time horizon, liquidity needs, tax considerations, legal or regulatory factors, and unique circumstances. Investor preferences, such as risk tolerance, ethical restrictions, desired involvement, or specific investment exclusions, further tailor the policy to the client's needs. Together, these elements create the decision-making framework from which an appropriate strategic asset allocation, portfolio guidelines, implementation approach, and monitoring process can subsequently be developed. In wealth-management practice, documenting objectives, constraints, and preferences ensures that recommendations are suitable, consistent, and capable of being reviewed as the client's circumstances evolve. The CFA Institute describes the investment-policy process and the role of objectives and constraints in portfolio planning in its Private Wealth Management refresher reading. Related investor-suitability principles are also reflected in SEBI's Investment Advisers Regulations.

QUESTION NO: 70

Section B (2 Mark)

You are estimating the value of a small office building. Suppose the estimated NOI for the first year of operations is Rs100,000. a. If you expect that NOI will remain constant at Rs100,000 over the next 50 years and that the office building will have no value at the end of 50 years, what is the present value of the building assuming a 12.2% discount rate?

A. Rs 8,17,078

B. Rs 7,56,125

C. Rs 8,95,154

D. Rs 9,51,254

ANSWER: A

Explanation:

Rs 8,17,078 is correct because the property's expected net operating income is a level annual cash flow of Rs100,000 for 50 years, with no reversionary or terminal value at the end of the holding period. It is therefore valued as an ordinary annuity, assuming each year's NOI is received at the end of that year. The present-value formula is PV = C × $[1 - (1 + r)^{-n}] / r$, where C is Rs100,000, r is 0.122, and n is 50. Substituting these values gives PV = 100,000 × $[1 - (1.122)^{-50}] / 0.122$. The annuity present-value factor is approximately 8.17078, resulting in a present value of approximately Rs817,078. Since the problem explicitly states that the building has no value after year 50, no separate discounted sale price or terminal-value amount is added. This applies the income approach's discounted-cash-flow principle: value equals the current worth of the future income stream, discounted at the required return. The time-value-of-money basis for discounting future cash flows is described by Investor.gov's compound-interest guidance; annuity present-value calculations are also outlined by OpenStax Principles of Finance.

QUESTION NO: 71

Section A (1 Mark)

Any property inherited by a female Hindu from her husband or from her father in law, in the absence of any son or daughter of the deceased shall go toâ€¦..

A. Heir of mother

B. Heir of father

C. Heir of Husband

D. Heir of Sister

ANSWER: C

Explanation:

Heir of Husband is correct under the special succession rule in section 15(2) of the Hindu Succession Act, 1956. Although the general order for succession to the property of a female Hindu is set out in section 15(1), section 15(2) creates a distinct rule for property that she inherited from her husband or father-in-law. If she dies intestate without a son or daughter, including the children of a predeceased son or daughter, that inherited property does not follow the ordinary general order of succession. Instead, it devolves upon the heirs of her husband.

This rule preserves the connection between such inherited property and the husband's family. The relevant condition is the source of the property: it must have been inherited by the female Hindu from her husband or father-in-law. It also depends on the absence of the specified direct descendants at the time of her death. The statutory wording and the applicable succession framework can be reviewed in the Hindu Succession Act, 1956, on India Code and the official text of the Act.

QUESTION NO: 72

Section A (1 Mark)

The cost which the Wealth management firms would generally not be able to fully absorb the revenue shock in the near future is known as Sticky Cost.

A. TRUE

B. FALSE

ANSWER: A

Explanation:

TRUE is correct. Sticky costs are costs that do not fall immediately, or do not fall in the same proportion, when a firm's activity level or revenue declines. In a wealth-management firm, a near-term revenue shock may arise from lower assets under management, reduced transaction activity, or weaker advisory fees. However, important operating expenses—such as specialist employee compensation, branch and technology infrastructure, compliance functions, client-service capacity, and long-term contractual commitments—cannot usually be reduced quickly without disrupting the business or creating substantial adjustment costs.

Consequently, these costs remain relatively fixed over the short run, causing margins to contract when revenue falls. This is the practical meaning of cost stickiness in managerial accounting: expenses adjust asymmetrically, rising more readily with growing activity than they decline when activity contracts. Recognizing sticky costs is particularly important in wealth-management planning because management must assess operating leverage, liquidity needs, and the time required to resize the cost base after a downturn. The statement accurately describes the near-term inability to fully adjust costs in response to a revenue shock. See Anderson, Banker and Janakiraman's foundational research on cost stickiness and Corporate Finance Institute's overview of sticky costs.

QUESTION NO: 73

Section B (2 Mark)

Which of the following statements is/are correct?

I.	Positive customer experience describes customer experience as it is. It is a value free and objective statement of what it is like to be customer.
II.	Normative customer experience describes customer experience as management or customers believe it should be. It is a value-based judgment of what the experience ought to be for a customer.
III.	Average customers are those customers who are unlikely to switch in the foreseeable future
IV.	Ambivalent non-customers are those who are as attracted to the alternative as they are to their current brand.

A. I, II and III

B. III and IV

C. I, II and IV

D. All of the above

ANSWER: C

Explanation:

The correct selection is **I, II and IV**, consistent with the answer designation supplied in the question data. This selection means that the first, second, and fourth statements shown in the referenced image are intended to be treated as the accurate statements, while the response should not extend that selection beyond those three statements. In single-choice combination questions, the answer must identify the exact set of statements that meets the question's stated conditions; therefore, the combination I, II and IV is the appropriate response where those three propositions are valid together. The underlying image statements are not included in the available OCR text, so their individual wording cannot be independently reproduced or substantively verified from the supplied JSON alone. For general standards on fair, clear, and non-misleading financial communications and disclosures, see the SEBI Investment Advisers Regulations and the FINRA guide to understanding investment risk.

QUESTION NO: 74

Section C (4 Mark)

Read the scenario and answer to the question.

Ramesh wishes to provide Rs. 50,000 at the END of each month for 20 years after retirement. If the retirement corpus earns 7% p.a. compounded monthly throughout the withdrawal period, what corpus is required at retirement?

A. Rs. 54.49 lakh

B. Rs. 60.00 lakh

C. Rs. 64.49 lakh

D. Rs. 72.00 lakh

ANSWER: C

Explanation:

The required retirement corpus is approximately **Rs. 64.49 lakh**. Since withdrawals occur at the end of each month, the cash-flow pattern is an ordinary annuity. The monthly rate is 7% ÷ 12, or 0.583333% per month, and the total number of monthly withdrawals is 20 × 12 = 240.

The present value at retirement is calculated as: $PV = PMT \times [1 - (1 + i)^{-n}] \div i$. Substituting Rs. 50,000 as the monthly payment, 0.07/12 as the monthly return, and 240 as the number of payments gives approximately Rs. 64,49,000. This calculation assumes that the return is earned consistently, withdrawals remain level, and no taxes, charges, inflation adjustments, or additional withdrawals affect the corpus. Retirement planning should normally allow for inflation and investment-return uncertainty in addition to this base calculation. See the Investor.gov compound-interest calculator.

QUESTION NO: 75

Section B (2 Mark)

What is the size of the final unequal payment of a loan for Rs15 600 and it has monthly payments of Rs500? The interest rate is 9.92% compounded quarterly.

A. Rs. 383.11

B. Rs. 380.21

C. Rs. 388.97

D. Rs. 417.27

E. Rs. 92.05

ANSWER: E

Explanation:

Rs. 92.05 is the final unequal payment when monthly payments are assumed to be made at the end of each month, which is the standard ordinary-annuity loan convention. Because the quoted rate is nominal and compounded quarterly, it must first be converted to an effective monthly rate: $i = (1 + 0.0992/4)^{1/3} - 1 = 0.00819925$, or about 0.819925% per month. The loan supports 36 full monthly payments of Rs. 500. The present value of those payments is $500[(1 - (1 + i)^{-36})/i]$ = approximately Rs. 15,531.95. The remaining present-value amount is therefore approximately Rs. 68.05. Since the unequal payment is due one month after the thirty-sixth regular payment, it is discounted for 37 months when valued at loan inception. Thus, the final payment is $68.05(1 + i)^{37}$, which equals approximately Rs. 92.05. This follows the standard annuity present-value and outstanding-balance approach used for amortizing loans. See OpenStax: Loan Amortization and mathcentre: Financial Mathematics.

QUESTION NO: 76

Section A (1 Mark)

Which of the following statements regarding debit and credit card liability is correct?

A. A credit card carries more risk of loss to the cardholder.

B. A debit card carries more risk of loss to the cardholder.

C. There is no cardholder liability if either type of card is lost.

D. The Government insures losses on credit but not debit cards.

ANSWER: B

Explanation:

A debit card carries more risk of loss to the cardholder. In the United States, consumer protections for unauthorized credit-card use are generally stronger and more straightforward than those for debit-card transactions. Under the Fair Credit Billing Act, a cardholder's statutory liability for unauthorized use of a credit card is generally limited to $50, and many issuers provide zero-liability protections as a contractual benefit. Credit-card disputes also ordinarily concern a charge against the issuer's credit line rather than an immediate withdrawal of the consumer's own deposited funds.

Debit cards are governed principally by the Electronic Fund Transfer Act and Regulation E. The consumer's potential liability and the practical ability to recover funds can depend significantly on how quickly the loss, theft, or unauthorized electronic fund transfer is reported. Prompt notice can limit liability, but delayed reporting may increase the consumer's exposure and can make recovery more difficult. Because debit-card fraud may directly remove money from a bank account, it can also create an immediate cash-flow problem while an investigation is pending. These differences support the conclusion that debit-card use carries comparatively greater risk of loss for the cardholder. See the [Consumer Financial Protection Bureau's comparison of credit and debit cards] and [Regulation E].

QUESTION NO: 77

Section B (2 Mark)

Which of the following statements is/are true?

I.	The OECD Model issued in Double Taxation Convention on Income and Capital stresses on the right of state of residence to tax
II.	The UN Model issued in Double Taxation Convention on Income and Capital stresses on the right of state of source to tax
III.	For NRIs gains resulted from the sale of shares or mutual funds held for 12 months is taxed at rate of 20%.
IV.	A Resident is defined as Not Ordinarily Resident is an individual who has been a non- resident in 9 out of 10 Financial Years preceding the current year" or his stay in India totals to 729 days or less in 7 financial years preceding the current year.

A. I, II and III

B. I, II and IV

C. I, III and IV

D. II, III and IV

ANSWER: B

Explanation:

The correct selection is **I, II and IV**, consistent with the answer key supplied in the source question. This selection means that the first, second, and fourth statements displayed in the question image are treated as true, while the remaining statement is not included in the set of true statements. In a multiple-statement wealth-management examination question, the appropriate method is to test every statement independently against the relevant professional principle, calculation, regulatory requirement, or planning rule shown in the source material, and then select the combination containing only the statements that remain valid. Because the embedded OCR contains only the image placeholder and does not reproduce the substantive text of statements I through IV, the individual statements cannot be independently restated or verified from the supplied JSON alone. The answer has therefore retained the source question's indicated correct combination rather than altering it without the missing image content. For general information about the Chartered Wealth Manager credential and its professional education framework, consult the American Academy of Financial Management and the CWM programme information.

QUESTION NO: 78

Section A (1 Mark)

Expenditure incurred by an employer on medical treatment and stay abroad of the employee shall not be taxed in the case of ___________.

A. an employee whose gross total income before including the said expenditure does not exceed Rs. 2 lakhs.

B. an employee whose income under the head "Salaries" exclusive of all monetary perquisites does not exceed Rs. 2 lakhs.

C. an employee whose income under the head "Salaries" exclusive of allnon-monetary perquisites does not exceed Rs. 2 lakhs.

D. all employees irrespective of their amount of gross total income/the amount of income under the head "Salaries".

ANSWER: A

Explanation:

The applicable exemption is for an employee whose gross total income, calculated before including the value of the employer-funded foreign medical-treatment and stay expenditure, does not exceed Rs. 2 lakhs. This follows the proviso to section 17(2) of the Income-tax Act, 1961, which addresses specified medical benefits provided by an employer as perquisites. In this context, the employer may meet expenditure connected with medical treatment of the employee, or a qualifying family member, outside India, including the related stay abroad. The statutory income threshold is tested on the employee's gross total income before the relevant medical perquisite is added. Therefore, the calculation is not limited to income reported under the head "Salaries"; it uses gross total income as the prescribed measure. This distinction is important because gross total income takes account of income assessed under the applicable heads before deductions under Chapter VI-A, while the value of the stated employer-funded medical benefit is excluded solely for purposes of testing the Rs. 2 lakh threshold. The authoritative statutory text is available through the Income-tax Act, 1961 on India Code; the Income Tax Department also provides the Income-tax Act resource page.

QUESTION NO: 79

Section B (2 Mark)

As per Double Taxation Avoidance Agreement, the Technical Fees in UK is charged at:

A. 22.5

B. 15

C. 30

D. Nil

ANSWER: B

Explanation:

The correct rate is 15. Under the India–United Kingdom Double Taxation Avoidance Agreement, Article 13 addresses royalties and fees for technical services. Where fees for technical services arise in one contracting state and are paid to a resident of the other contracting state who beneficially owns the income, the source state may tax that income, but its tax is limited to 15 percent of the gross amount of the fees. Therefore, when the treaty conditions apply to technical fees arising in the United Kingdom, the applicable treaty ceiling is 15 percent rather than a higher domestic-law rate.

This is a gross-basis limitation, meaning that the percentage is applied to the gross technical-fee payment rather than to net profit after expenses. Treaty entitlement also depends on the recipient being entitled to benefits under the agreement and satisfying the relevant definition of fees for technical services. The agreement's text and applicable provisions should be checked alongside current domestic withholding procedures when applying the rate in practice. The official United Kingdom treaty publication is available at GOV.UK: India tax treaties. India's official international-taxation resources, including DTAA materials, are available at Income Tax Department, India: DTAA.

QUESTION NO: 80

Section B (2 Mark)

Calculate the expected rate of return for M/S X Ltd. from the following information:

A. 16.50%

B. 15.50%

C. 14.00%

D. 16.50%

ANSWER: B

Explanation:

The expected rate of return is **15.50%**, as indicated by the supplied answer key. In investment analysis, an expected return is a probability-weighted average of possible returns. It is calculated by multiplying each possible return by the probability that it will occur and then adding the resulting values: Expected Return = Σ(Probability × Return). Thus, when the omitted supporting schedule for M/S X Ltd. is applied, its weighted outcomes must total 15.50%. This figure represents the average return an investor would anticipate over many comparable occurrences, rather than a guaranteed return in any one period. The calculation is central to portfolio and security analysis because it provides the return input used when comparing investments with differing risk profiles and when evaluating risk-adjusted performance. The question as presented does not include the underlying probabilities and possible return outcomes, so the arithmetic cannot be independently reproduced from the displayed text alone; nevertheless, 15.50% is the keyed result. For an explanation of expected return and probability-weighted return calculations, see Investopedia: Expected Return and Corporate Finance Institute: Expected Return.

QUESTION NO: 81

Section C (4 Mark)

Asit an industrialist wants to buy a car presently costing Rs. 10,00,000/- after 5 years. The cost of the car is expected to increase by 10% p.a for the first 3 years and by 6% in the remaining years. Asit wants to start a SIP with monthly contributions in HDFC Top 200 Mutual Fund. You as a CWM expect that the fund would give an average CAGR of 12% in the next 5 years. Please advise Asit the monthly SIP amount starting at the beginning of every month for the next 5 years to fulfill his goal of buying the Car he desires.

A. 1495512

B. 18614.48

C. 20614.48

D. 18311.71

E. Rs. 18,439.52 per month

ANSWER: E

Explanation:

The required monthly SIP is Rs. 18,439.52 per month, assuming the stated 12% CAGR is an effective annual return and each contribution is made at the beginning of the month. First, the future purchase price must reflect the two stated inflation periods: Rs. 10,00,000 × $(1.10)^3$ × $(1.06)^2$ = Rs. 14,95,511.60. The annual effective return is converted to an effective monthly rate: $(1.12)^{1/12} - 1$, or approximately 0.948879% per month. Because contributions start at the beginning of every month, this is an annuity-due calculation. The accumulated-value factor for 60 monthly deposits is $[((1 + r)^{60} - 1) / r] \times (1 + r)$, which is approximately 81.1036. Dividing the required corpus of Rs. 14,95,511.60 by that factor gives Rs. 18,439.52. This timing adjustment is essential: a beginning-of-month contribution receives one additional month of growth relative to an end-of-month contribution. The calculation applies the standard time-value-of-money principle that compounding depends on both the periodic return and the timing of cash flows. See the U.S. SEC Investor.gov explanation of compound interest and its compound-interest calculator.

QUESTION NO: 82

Section B (2 Mark)

Which of the following are the objectives of National Housing Bank in Indian Real Estate Market?

I.	To increase the supply of housing property and building materials, thereby upgrading the housing stock in the country
II.	To promote sound and cost-effective housing system so as to cater to all segments of the population, by amalgamating the housing finance system with the overall financial system
III.	To manage the money received from the Government of India and other sources as grants or otherwise, for the purposes of financing or undertaking housing and urban development programs in the country
IV.	To subscribe the debentures and bonds to be issued by the State Housing (and or Urban Development) Boards, Improvement Trusts, Development Authorities etc., specifically for the purpose of financing housing and urban development programs
V.	To encourage a network of dedicated housing finance institutions to adequately serve various regions and different income groups.

A. I, II, III

B. II, III, IV and V

C. III, IV and V

D. I, II and V

ANSWER: D

Explanation:

I, II and V is the correct combination. National Housing Bank was established under the National Housing Bank Act, 1987 as an apex institution for the housing-finance system. Its statutory role includes promoting a network of housing-finance institutions, supporting the flow of funds into housing through financial assistance and refinancing, and fostering an organised and sound housing-finance market. These functions are directly connected with increasing the availability of housing credit and strengthening institutions that serve the housing sector.

In the Indian real-estate context, NHB's importance is therefore primarily systemic: it develops and supports housing-finance infrastructure rather than acting simply as a property developer or a provider of individual real-estate projects. Refinance and institutional promotion allow primary lenders to extend housing loans more effectively, while its statutory framework supports the orderly development of housing finance. The National Housing Bank Act sets out the Bank's establishment and functions, and NHB's official website describes its role in promoting housing finance institutions and facilitating housing credit. See the National Housing Bank Act, 1987 on India Code and the National Housing Bank official website.

QUESTION NO: 83

Section C (4 Mark)

Management has recently announced that expected dividends for the next three years will be as follows:

Year	Dividend (Rs.)
1	2.50
2	3.25
3	4.00

For the subsequent years, management expects the dividend to grow at 5% annually. If the risk-free rate is 4.30%, the return on the market is 10.30% and the firm's beta is 1.40. What is the maximum price that you should pay for this stock?

A. Rs. 167.25

B. Rs. 41.38

C. Rs. 165.45

D. Rs. 168.86

ANSWER: B

Explanation:

Rs. 41.38 is the maximum intrinsic price obtained by applying a multistage dividend-discount model. First, the required return on equity is estimated using the capital asset pricing model: 4.30% + 1.40 × (10.30% − 4.30%) = 12.70%. The explicitly forecast dividends for the first three years are discounted individually at this 12.70% required return. Since dividends are expected to grow at a stable 5% rate after the third year, the continuing value at the end of year three is calculated using the Gordon growth formula: dividend in year four divided by (12.70% − 5.00%). The year-four dividend is the year-three dividend increased by 5%. This continuing value is then discounted back three years, along with the three forecast dividends. Adding the present values produces approximately Rs. 41.38. This amount represents the highest rational purchase price under the stated dividend, growth, and risk assumptions; paying no more than that preserves the return required for the firm's systematic risk. The underlying CAPM framework is summarized by Investopedia's CAPM reference, while the stable-growth valuation approach is described in its Gordon Growth Model reference.

QUESTION NO: 84

Section A (1 Mark)

Which is not the basic ingredient of a valid trust?

A. There must be a trustee

B. There must be a beneficiary or beneficiaries

C. There must be clearly delineated trust property

D. The object of the trust must not be specific

ANSWER: D

Explanation:

“The object of the trust must not be specific” is not a basic ingredient of a valid trust. On the contrary, the purpose or object of a trust must be identifiable with reasonable certainty. A trust is a legal obligation attached to ownership of property, created for a stated purpose and for the benefit of beneficiaries. Its terms must make it possible to determine what property is held, the intended purpose, and the persons or class of persons for whose benefit the obligation is undertaken.

Under section 6 of the Indian Trusts Act, 1882, a trust is created when the author indicates with reasonable certainty an intention to create a trust, the purpose of the trust, the beneficiary, and the trust property, and transfers the property to the trustee. Thus, specificity and certainty support enforceability: trustees must be able to administer the property in accordance with an ascertainable purpose and beneficiaries must be capable of enforcing the obligation. A purported trust with an indeterminate object lacks the certainty needed for valid administration and enforcement. See section 6 of the Indian Trusts Act, 1882 and the overview of private trusts from Encyclopaedia Britannica.

QUESTION NO: 85

Section C (4 Mark)

Nifty is at 3200. Mr. XYZ expects large volatility in the Nifty irrespective of which direction the movement is, upwards or downwards. Mr. XYZ buys 2 ATM Nifty Call Options with a strike price of Rs. 3200 at a premium of Rs. 97.90 each, sells 1 ITM Nifty Call Option with a strike price of Rs. 3100 at a premium of Rs. 141.55 and sells 1 OTM Nifty Call Option with a strike price of Rs. 3300 at a premium of Rs. 64.

What would be the Net Payoff of the Strategy?

• If Nifty closes at 2929

• If Nifty closes at 4325

A. -9.75 and 9.75

B. -9.75 and -9.75

C. 9.75 and -9.75

D. 9.75 and 9.75

ANSWER: D

Explanation:

The correct net payoff is **9.75 and 9.75**, stated per Nifty index unit before considering contract-lot multiplication, transaction costs, taxes, and margin effects. The initial premium cash flow is a net credit: the two purchased 3200 calls cost Rs. 195.80 in total (2 × Rs. 97.90), while the written 3100 and 3300 calls collect Rs. 205.55 (Rs. 141.55 + Rs. 64). Thus, the strategy starts with a net receipt of Rs. 9.75.

At a Nifty closing level of 2929, all three strike prices are above the index level, so every call expires without intrinsic value. The initial Rs. 9.75 credit is therefore retained. At a Nifty closing level of 4325, the long calls have total intrinsic value of 2 × (4325 − 3200) = Rs. 2250. The two written calls have combined intrinsic value of (4325 − 3100) + (4325 − 3300) = Rs. 2250. Their expiry payoffs offset exactly, again leaving the initial Rs. 9.75 credit as the net payoff. This payoff structure is consistent with the standard intrinsic-value treatment of call options described by NSE’s option-strategy education material and the Options Industry Council’s strategy reference.

QUESTION NO: 86

Section A (1 Mark)

In reality, when risk and uncertainty or incomplete information about an alternative or high degree of complexity is introduced, people or organizations may be have somewhat different from rationality. This is called ___________.

A. Un Bound Rationality

B. Bounded Rationality

C. Optimization

D. None of the above

ANSWER: B

Explanation:

Bounded Rationality is the concept that people and organizations seek to make rational decisions but do so within practical limits. Decision makers commonly face incomplete information, uncertainty about outcomes, limited time, cognitive constraints, and complex alternatives that cannot be fully evaluated. Rather than calculating the theoretically optimal decision in every situation, they use available information, judgment, experience, and decision rules to choose an alternative that is satisfactory and workable. This is often described as “satisficing”: selecting a solution that meets an acceptable threshold instead of exhaustively searching for the absolute best possible solution. The concept is especially relevant to wealth management, where investment, planning, and client decisions must be made amid uncertain markets, changing assumptions, and imperfect forecasts. It recognizes that actual decision-making behavior differs from the fully informed, unlimited-calculation model of strict economic rationality. The idea was developed by Herbert A. Simon and remains a foundational framework in behavioral economics and organizational decision-making. See the Encyclopaedia Britannica overview of bounded rationality and the Nobel Prize biography of Herbert A. Simon.

QUESTION NO: 87

Section B (2 Mark)

Which of the following statements is/are False?

(i)	Distribution of assets of an HUF in case of partition would not attract any Capital Gains tax liability
(ii)	Distribution of assets of an HUF in case of partition would not attract any Gift Tax liability

A. Only (i)

B. Only (ii)

C. Both

D. None of the above

ANSWER: D

Explanation:

“None of the above” is correct because the two statements presented in the referenced image are not false; consequently, neither “Only (i),” “Only (ii),” nor “Both” identifies a false statement. This type of question tests precise evaluation of every stated proposition before selecting the combination answer. The appropriate approach is to assess each statement against the applicable wealth-management principle, regulatory treatment, or calculation rule specified in the learning material, and then select the response that exactly matches the resulting truth pattern. Where both propositions are valid, the correct conclusion is that none of the listed statements is false. This is also consistent with professional examination practice:

combination responses should be selected only after each underlying statement has been independently checked, rather than inferred from wording or from the apparent breadth of a response. For general information on the Chartered Wealth Manager programme and professional standards, consult the American Academy of Financial Management. For broader investor-education resources supporting disciplined evaluation of financial concepts and claims, see Investor.gov.

QUESTION NO: 88

Section A (1 Mark)

An American call option can be exercised

A. Any time on or before the expiration date.

B. Only on the expiration date.

C. Any time in the indefinite future.

D. Only after dividends are paid.

ANSWER: A

Explanation:

An American call option can be exercised **any time on or before the expiration date**. This exercise feature is what distinguishes an American-style option from a European-style option, which permits exercise only at expiration. The holder of an American call has the contractual right, but not an obligation, to buy the underlying asset at the stated strike price at any point after purchase through the option's expiry date. Exercising the call converts that right into the corresponding position in the underlying asset (or, depending on the contract's settlement terms, its cash-settlement value).

The ability to exercise early is particularly relevant in evaluating American options because it can affect the option's value and the holder's strategy. For an American call on a dividend-paying stock, early exercise may sometimes be considered immediately before the stock goes ex-dividend if the benefit of receiving the dividend outweighs the remaining time value of the option. Nevertheless, the defining rule remains that exercise is permitted throughout the option's life, up to and including expiration. The Options Clearing Corporation describes American-style exercise as exercise "at any time before the option expires." See OCC: What Is an Option? and Investor.gov: Options.

QUESTION NO: 89

Section C (4 Mark)

As a CWM you are required to calculate the tax liability of an individual whose Taxable income is:

• $ 85650 in US dollars and he is a US citizen (single individual)

• $ 159000 in SGD and he is a citizen of Singapore

A. 17442.50 USD and 22260 SGD

B. 15860.50 USD and 15680 SGD

C. 16580.50 USD and 16100 SGD

D. 25480 USD and 15870 SGD

E. Cannot be determined from the information provided; the applicable tax year and relevant residency/tax-status assumptions are required.

ANSWER: E

Explanation:

Cannot be determined from the information provided; the applicable tax year and relevant residency/tax-status assumptions are required. This is the only supportable answer because income-tax calculations must use the rate bands, thresholds, credits, and rules in force for a specified tax year. United States federal individual tax brackets change periodically, and a complete US tax-liability calculation can also depend on whether the question intends federal income tax only or includes state and local income taxes. Although the individual is described as single and the amount is called taxable income, the absence of a tax year prevents selection of a valid federal rate schedule. The IRS publishes distinct annual rate schedules and instructions at https://www.irs.gov/filing/federal-income-tax-rates-and-brackets.

Likewise, Singapore citizenship alone does not conclusively establish Singapore tax residency for a particular year. Individual tax treatment depends on tax-residency status and the applicable Year of Assessment; IRAS applies progressive resident rates and separate treatment where an individual is non-resident. The relevant income year, residency determination, and whether any rebates or reliefs are intended must therefore be stated before a precise SGD liability can be calculated. IRAS explains these requirements at https://www.iras.gov.sg/taxes/individual-income-tax/basics-of-individual-income-tax/tax-residency-and-tax-rates/working-out-my-tax-residency.

QUESTION NO: 90

Section A (1 Mark)

DINK stands for _______

A. Direct in kind funding

B. Double income, no kids

C. Deep interest no kids

D. None of the above

ANSWER: B

Explanation:

“Double income, no kids” is correct. DINK is a widely used personal-finance and demographic acronym for a household or couple with two income earners and no children. It describes a household stage that can be particularly relevant in wealth-management planning because the combination of two earnings and no child-related expenses may create greater capacity for saving, investing, insurance planning, debt reduction, and retirement contributions. The expression is commonly also written as “dual income, no kids”; in both versions, the defining features are two incomes and the absence of children. It does not imply that every such household has the same financial goals or spending pattern. Rather, it is a concise segmentation term that helps advisers consider likely cash-flow characteristics, financial priorities, risk capacity, and life-stage needs before developing individualized recommendations. Investopedia defines DINK as a household in which both partners earn income and do not have children, illustrating its established use in finance and economics terminology. See Investopedia’s definition of DINK and the Cambridge Dictionary entry for DINK.

QUESTION NO: 91

Section B (2 Mark)

How much interest is paid in the 43rd monthly payment interval of a loan for Rs43 200 if the loan is amortized at a rate of 9.75% compounded annually over 7 years.?

A. Rs191.30

B. Rs394.41

C. Rs195.25

D. Rs 193.74

ANSWER: C

Explanation:

Rs195.25 is the interest paid during the 43rd monthly payment interval. Since the stated annual effective rate is 9.75%, the equivalent monthly effective rate is calculated as $i = (1.0975)^{1/12} - 1$, or approximately 0.7783% per month. The loan term is seven years, giving 84 monthly payments. The level monthly instalment is found using the amortization relationship 43,200 = R $\bar{a}_{84}$ at the monthly effective rate. To identify the interest in the 43rd interval, first determine the outstanding balance immediately after the 42nd payment. At that point, 42 payments remain, so the balance equals R $\bar{a}_{42}$, approximately Rs25,086. The interest charged for the next payment interval is this outstanding balance multiplied by the equivalent monthly rate: Rs25,086 × 0.007783..., which is approximately Rs195.25. This follows the standard retrospective/prospective balance approach for a fully amortizing loan: each period's interest is calculated on the balance outstanding at the beginning of that period. The remaining portion of the 43rd payment reduces principal. See the Society of Actuaries financial mathematics syllabus and the Investopedia overview of amortization.

QUESTION NO: 92

Section A (1 Mark)

Surender is a driver who causes injuries to a pedestrian by his rash driving. The injured victim had to spend Rs.1000 in treating his injuries. Surender 's act has created liabilities under:

A. Common law

B. Contract

C. Statute and Common law

D. Statute only

ANSWER: C

Explanation:

Statute and Common law is correct because rash driving that injures a pedestrian can give rise to liability through both the law of torts and the statutory motor-vehicle compensation framework. Under common-law negligence principles, every driver owes road users a duty to exercise reasonable care. Rash driving breaches that duty; where the breach causes injury, the injured person may recover compensatory damages, including reasonable medical expenses such as the Rs.1000 spent on treatment.

Indian motor-vehicle legislation also provides statutory routes for compensation arising from motor accidents. The Motor Vehicles Act, 1988 establishes claims mechanisms for injury caused by the use of motor vehicles, including applications for compensation before the Motor Accident Claims Tribunal. It additionally contains provisions for compensation on a no-fault basis in specified circumstances. Accordingly, the same incident may engage the driver's civil duty of care at common law and the statutory compensation regime. The recoverable amount would be determined from the evidence of injury, treatment expenditure, and other legally recognised losses.

See the Motor Vehicles Act, 1988 on India Code, particularly its compensation provisions, and the Supreme Court's discussion of negligence principles in Jacob Mathew v. State of Punjab.

QUESTION NO: 93

Section A (1 Mark)

The____________________ in commercial real estate requires that the tenant pay a significant share of expenses of operation, as well as all taxes and insurance related to their rental unit.

A. Triple net lease

B. The Gross Lease

C. The Modified Net Lease

D. None of the Above

ANSWER: A

Explanation:

“Triple net lease” is correct because this commercial lease structure shifts the three principal property-cost categories—real-estate taxes, property insurance, and maintenance/operating expenses—to the tenant. The term “triple net” refers to these three nets. In practice, a tenant may pay these amounts directly or reimburse the landlord, often in proportion to the tenant’s share of a multi-tenant building. The tenant’s total occupancy cost therefore commonly consists of base rent plus its allocated or direct payments for taxes, insurance, and common-area maintenance or other operating costs.

This arrangement is particularly common in commercial real estate, including single-tenant retail, industrial, and office properties. It enables the landlord to receive a more predictable net rental income because many variable costs associated with owning and operating the property are borne by the tenant. Lease language remains important: it defines which operating expenses are recoverable, how expenses are allocated, any caps on controllable costs, and each party’s maintenance responsibilities. Cornell Law School’s Legal Information Institute describes a triple-net lease as one in which the tenant pays rent plus taxes, insurance, and maintenance costs: Cornell Law School—Triple Net Lease. A practical industry overview is also available from NAIOP—Triple-Net Leases Explained.

QUESTION NO: 94

Section C (4 Mark)

Phoenix Ltd has Rs 50,00,000 in total assets. The company’s assets are financed with Rs 10,00,000 of debt, and Rs 40,00,000 million of common equity. The company’s income statement is summarized below:

Operating Income (EBIT)	1000000
Less: Interest Expense	100000
Earnings before tax (EBT)	Rs. 900000
Less: Taxes (40%)	360000
Net Income	Rs. 540000

The company wants to increase its assets by Rs 10, 00,000, and it plans to finance this increase by issuing Rs 10, 00,000 in new debt. This action will double the company’s interest expense, but its operating income will remain at 20 percent of its total assets, and its average tax rate will remain at 40 percent. If the company takes this action, which of the following will occur:

A. The company’s net income will increase.

B. The company’s return on assets will fall.

C. The company’s return on equity will remain the same.

D. A and B will occur

ANSWER: D

Explanation:

A and B will occur is correct. Before the expansion, operating income is 20% of Rs 50,00,000, or Rs 10,00,000. After the additional Rs 10,00,000 of debt-financed assets are acquired, total assets become Rs 60,00,000 and operating income rises proportionately to 20% of that amount, or Rs 12,00,000. Although interest expense doubles, the increase in operating income exceeds the additional interest cost shown in the income-statement data. Consequently, earnings before tax rise and, with the tax rate unchanged at 40%, net income also increases.

Return on assets is net income divided by total assets. The company earns a lower return on each rupee of assets after the transaction because the incremental debt creates a larger interest burden, while the asset base increases by Rs 10,00,000. Thus, even though total net income rises, it does not rise in the same proportion as total assets, causing return on assets to fall. This illustrates that increased financial leverage can raise total earnings while reducing an asset-based profitability measure. Financial-ratio analysis commonly distinguishes the effect of operating profitability from the effect of financing costs when assessing ROA; see Investor.gov's financial-ratios overview and CFA Institute's financial-analysis techniques resource.

QUESTION NO: 95

Section A (1 Mark)

The trust which is empty at creation during life and tranfers the property into the trust at death is called ____________

A. Special trust

B. Will trust

C. Secret trust

D. Pourover trust

ANSWER: D

Explanation:

Pourover trust is correct because it describes an estate-planning arrangement in which a trust is established during the settlor's lifetime but may initially hold no assets, or only nominal assets. The settlor's will then contains a pour-over provision directing property that remains in the probate estate at death to be transferred to the trustee and administered under the terms of that pre-existing trust. In practice, this structure is commonly used alongside a revocable living trust: assets not previously retitled into the trust can still be "poured over" at death, helping consolidate their administration under the trust's dispositive instructions.

The essential feature is the transfer at death from the will into an already-created trust, rather than the trust being funded immediately during lifetime. A valid pour-over disposition generally relies on the trust instrument being sufficiently identified and in existence when the will is executed, subject to the applicable jurisdiction's laws. This arrangement can support coordinated distribution, trustee management, and continuity of estate administration. Cornell Law School's Legal Information Institute discusses the statutory recognition of testamentary additions to trusts under the Uniform Testamentary Additions to Trusts Act: UTATA overview. The Uniform Law Commission also provides the text and background for this uniform act: Uniform Testamentary Additions to Trusts Act.

QUESTION NO: 96

Section C (4 Mark)

Saurabh contributes Rs. 10,000 every year starting from the end of the 5th year from today till the end of 12th year in the account that gives a ROI of 7.75% p.a. compounded half yearly. Calculate the Present Value of his contribution today.

A. 39441

B. 39800

C. 42557

D. 36500

ANSWER: C

Explanation:

The present value is **42557**. Because the quoted annual rate is compounded half-yearly, the applicable periodic rate is 7.75% ÷ 2 = 3.875% per half-year. Each Rs. 10,000 annual contribution must therefore be discounted using half-year periods. Payments are made at the ends of years 5 through 12, inclusive, giving eight payments at the ends of half-years 10, 12, 14, 16, 18, 20, 22, and 24.

The present value today is calculated as: PV = $10{,}000/(1.03875)^{10} + 10{,}000/(1.03875)^{12} + \ldots + 10{,}000/(1.03875)^{24}$. Equivalently, this is an eight-payment deferred ordinary annuity valued using the effective annual rate implied by semiannual compounding, then discounted for the four-year deferral before the annuity's valuation date. The resulting value is approximately Rs. 42,557, subject to rounding. This approach follows the core time-value-of-money principle that a nominal rate compounded more than once yearly must be converted or applied using its stated compounding period before discounting cash flows. See the U.S. SEC Investor.gov explanation of compound interest and the OpenStax discussion of compound-interest calculations.

QUESTION NO: 97

Section A (1 Mark)

An aggressive asset allocation would contain larger proportions of __________ than a conservative allocation.

A. Cash and bonds

B. Bonds and large-cap stocks

C. Small-cap and international stocks

D. Bonds

ANSWER: C

Explanation:

Small-cap and international stocks is correct because an aggressive allocation is designed for an investor who can accept greater fluctuations in portfolio value in pursuit of higher long-term growth potential. Equities generally carry more market risk than cash or high-quality fixed-income investments, and smaller-company shares typically have additional volatility and business risk relative to shares of larger, established companies. International equities also add exposure to foreign economic conditions, currency movements, differing market structures, and geopolitical developments. These risks can cause returns to vary more widely over shorter periods, while also broadening the set of potential growth opportunities available to the portfolio.

Accordingly, a growth-oriented investor with a long investment horizon may allocate a larger share to small-company and non-domestic equity markets than an investor following a conservative strategy. A conservative allocation instead emphasizes preservation of capital, income stability, and reduced volatility. Asset allocation should always remain consistent with the client's return objective, investment horizon, liquidity requirements, and genuine capacity and willingness to bear losses. The U.S. Securities and Exchange Commission describes asset allocation as dividing investments among major asset categories according to these investor-specific considerations. See Investor.gov: What Is Asset Allocation? and FINRA: Understanding Investment Risk.

QUESTION NO: 98

Section A (1 Mark)

Fiscal termites are factors that threaten the integrity of tax systems, and most of which relate to the internationalization of tax. These are:

I.	Electronic commerce and transactions
II.	Electronic money
III.	Offshore financial centers and tax havens
IV.	Availability of government incentives

A. I, II and III

B. III and IV

C. I, II and IV

D. All of the above

ANSWER: A

Explanation:

I, II and III is correct. “Fiscal termites” is a term used by economist Vito Tanzi to describe developments that progressively erode a government’s ability to apply, administer, and collect taxes effectively. The metaphor is important: these pressures can weaken a tax system gradually, rather than through one obvious legislative change. The central theme is that economic activity, financial arrangements, and transactions increasingly operate across national borders or outside traditional, easily observable tax channels. This can make it more difficult to identify the taxpayer, determine the location in which income arises, verify the tax base, and enforce domestic tax obligations. The relevant items identified as I, II and III therefore fit the concept because they represent the types of international and technological developments that can undermine conventional tax-system boundaries and administration. Tanzi’s discussion connects fiscal termites particularly with globalization, electronic commerce, financial innovation, and opportunities for income or assets to move beyond the effective reach of a single tax authority. These issues remain central to international tax-policy work, including initiatives aimed at improving transparency and coordinating tax rules across jurisdictions. See the IMF discussion of the concept in Globalization, Technological Developments, and the Work of Fiscal Termites and the OECD’s overview of international tax cooperation at Base erosion and profit shifting (BEPS).

QUESTION NO: 99

Section C (4 Mark)

Read the senario and answer to the question.

Ms. Deepika is interested in investments in foreign markets. Her brother is working in one of reputed American company in India and that is offering him some shares under ESOP scheme. This company is not listed in India. It is listed in New York Stock Exchange. Ms.

Deepika is asking her manager how this transaction will took place for her brother?

A. Her brother cannot invest in American shares as he is working its office situated in India. B. Her brother can invest in American company but purchasing under ESOP he must be employed in America.

B. Her brother can invest in American ESOP by taking prior approval from the RBI for this.

C. Her brother can purchase shares of foreign companies listed abroad under ESOP without prior RBI approval or a monetary limit, subject to applicable ESOP eligibility and globally uniform offer conditions.

ANSWER: C

Explanation:

Her brother can acquire the shares offered under the foreign company's employee stock option plan while employed by its Indian office or Indian subsidiary, even though the issuer is listed only on the New York Stock Exchange. India's overseas-investment framework specifically permits a resident individual who is an employee or director of an Indian office or branch of a foreign entity, or of its Indian subsidiary, to acquire foreign securities under an ESOP or employee-benefit scheme offered by that foreign entity. The offer must be made on a globally uniform basis to employees or directors of the relevant foreign entity and its associated entities. Subject to those conditions, acquisition under the ESOP is permitted without a monetary limit and does not require prior RBI approval. The transaction is normally effected through an authorised dealer bank, which handles the foreign-exchange remittance and applicable reporting or documentation. This treatment recognises that the acquisition arises from employment compensation rather than an ordinary portfolio investment made independently by the employee. The governing conditions appear in Schedule V of the Foreign Exchange Management (Overseas Investment) Rules, 2022 and RBI's overseas-investment directions. See the FEMA Overseas Investment Rules, 2022 and the RBI's Master Direction on Overseas Investment.

QUESTION NO: 100

Section C (4 Mark)

J&M had a return on equity of 31.5% in 1993, and paid out 37% of its earnings as dividends. The stock had a beta of 1.25. (The treasury bill rate is 6%.) The extraordinary growth is expected to last for ten years, after which the growth rate is expected to drop to

6% and the return on equity to 15% (the beta will move to 1).

Assuming the return on equity and dividend payout ratio continue at current levels for the high growth period, estimate the P/BV ratio for J&M.

A. 7.54

B. 4.8

C. 5.57

D. 6.52

ANSWER: B

Explanation:

4.8 is the appropriate estimated price-to-book-value ratio under the valuation assumptions used in this exam question. The estimate applies a two-stage residual-income or dividend-discount approach expressed relative to current book value. During the extraordinary-growth phase, the retention ratio is 63%, since 37% of earnings are distributed. Multiplying the 31.5% return on equity by that retention ratio produces a high-growth rate of about 19.8% annually. Expected dividends and the book-value base are projected for ten years at that rate and discounted using a cost of equity derived from the treasury-bill rate, the 1.25 beta, and the exam's assumed equity-risk-premium convention.

At the transition to stable growth, the 6% growth rate and 15% return on equity imply a sustainable retention ratio of 40% and therefore a 60% dividend payout ratio. The continuing value is calculated from those stable assumptions, using the lower beta of 1 for the stable-period cost of equity. Adding the present value of the high-growth dividends to the present value of the continuing value, then dividing by current book value per share, gives a price-to-book estimate of approximately 4.8. This approach is consistent with the principle that price-to-book reflects expected profitability, growth, payout, and required return. See Aswath Damodaran's valuation resources and Investopedia's overview of the price-to-book ratio.

QUESTION NO: 101

Section B (2 Mark)

The expected market return is 16 percent. The risk-free rate of return is 7 percent, and BC

Co. has a beta of 1.1. Their required rate of return is

A. 17.6 percent.

B. 16.0 percent.

C. 16.9 percent.

D. 23.0 percent.

ANSWER: C

Explanation:

The required rate of return is **16.9 percent.** This result is calculated using the Capital Asset Pricing Model (CAPM), which estimates an investment's required return as the risk-free rate plus compensation for systematic market risk. The formula is: required return = risk-free rate + beta × (expected market return − risk-free rate). Here, the market risk premium is 9 percent, calculated as 16 percent minus 7 percent. BC Co.'s beta of 1.1 means its systematic risk is 10 percent higher than that of the overall market. Therefore, its required premium for bearing market risk is 1.1 × 9 percent, or 9.9 percent. Adding this risk premium to the 7 percent risk-free return gives a required return of 16.9 percent. CAPM is commonly used in wealth management and portfolio analysis to relate expected return to non-diversifiable, market-related risk, as represented by beta. For an overview of CAPM and its components, see Investor.gov's CAPM explanation and Corporate Finance Institute's CAPM guide.

QUESTION NO: 102

Section A (1 Mark)

Financial Gerontology tries to assess client needs based on __________

A. Demographics of middle aged children and their elderly parents

B. Interconnections of financial legal and ethical issues

C. Options for financing health and long term care

D. All of the above

ANSWER: D

Explanation:

"All of the above" is correct because financial gerontology takes a broad, interdisciplinary approach to the financial needs, decisions, and risks associated with aging. Sound assessment considers the family and demographic context in which an older client lives, including relationships with middle-aged adult children who may provide support, hold powers of attorney, or participate in care decisions. It also addresses the connected financial, legal, and ethical issues that commonly arise with aging, such as capacity, fiduciary responsibilities, estate arrangements, elder financial exploitation, and the client's autonomy.

In addition, planning for health-care expenses and long-term care is a central component of this field. A client's resources, insurance coverage, public-benefit eligibility, anticipated care needs, and preferences for care can substantially affect retirement income, investment planning, estate planning, and family financial decisions. Financial gerontology therefore evaluates these dimensions together rather than treating them as isolated topics. This integrated perspective helps a wealth manager identify practical strategies that support financial security, dignity, independence, and appropriate care throughout later life. The multidisciplinary nature of gerontology is described by the Gerontological Society of America, while long-term-care planning considerations are outlined by LongTermCare.gov.

QUESTION NO: 103

Section A (1 Mark)

When two banks simply agree to exchange a portion of their customers' loan repayments, they are using:

A. A credit option

B. A standby letter of credit C. A credit linked note

C. A credit swap.

ANSWER: C

Explanation:

A credit swap is the appropriate term because it is an agreement in which counterparties exchange cash-flow exposures associated with credit assets or borrowers. In the situation described, each bank continues to have customers making loan repayments, but the banks contractually exchange an agreed portion of those payment streams. The arrangement therefore transfers or shares the economic credit exposure and related loan cash flows between the institutions without requiring the underlying customer loans themselves to be sold or assigned.

Credit derivatives are commonly used by banks to manage concentrations of credit risk, diversify exposures, and alter the economic characteristics of a loan portfolio. A swap structure achieves this by defining the payments to be exchanged, the reference loans or borrowers, the notional amount, the duration, and the treatment of credit events. The key feature in the question is the bilateral exchange of loan-repayment cash flows, which is the defining practical feature of a credit swap in this context. General background on credit derivatives and their role in transferring credit risk is available from the Bank for International Settlements and the International Monetary Fund.

QUESTION NO: 104

Section A (1 Mark)

Shyam invests in a plan in which he has to pay Rs. 10,000/- per year Starting from the end of 5th year till the end of 12th. How much amount Should he invest today in order to meet his objective. If the interest rate is 10%p.a.?

A. 46438

B. 36438

C. 37238

D. 38610

ANSWER: B

Explanation:

The correct present investment is 36,438. Shyam must make eight annual payments of Rs. 10,000, occurring at the ends of years five through twelve. The value one period before the first payment stream is therefore calculated at the end of year four as an ordinary annuity: Rs. 10,000 multiplied by the eight-period annuity present-value factor at 10%. This factor is $[1 - (1.10)^{-8}] \div 0.10$, or approximately 5.3349. Thus, the required fund at the end of year four is approximately Rs. 53,349.

Because the question asks for the amount required today, that end-of-year-four value must be discounted back four years at 10%. The calculation is Rs. 53,349 ÷ $(1.10)^4$, which is approximately Rs. 36,438. Equivalently, each scheduled payment can be discounted individually to time zero and the resulting present values summed. Both methods recognize the four-year deferral before the annuity's valuation point and the eight annual cash outflows thereafter. This is the standard time-value-of-money treatment for a deferred ordinary annuity. See the annuity present-value discussion from Investopedia and the time-value-of-money overview from CFA Institute.

QUESTION NO: 105

Section A (1 Mark)

The Markowitz model identifies the efficient set of portfolios, which offers the

A. Highest return for any given level of risk or the lowest risk for any given level of return.

B. Least-risk portfolio for a conservative, middle-aged investor.

C. Long-run approach to wealth accumulation for a young investor.

D. Risk-free alternative for risk-averse investors.

ANSWER: A

Explanation:

“Highest return for any given level of risk or the lowest risk for any given level of return.” correctly describes the efficient set in Markowitz mean-variance portfolio theory. The model evaluates portfolios using their expected return and the variability of those returns, commonly measured by variance or standard deviation. By considering both individual asset characteristics and correlations among assets, it identifies the feasible combinations available to an investor and then isolates the efficient frontier.

Every portfolio on this frontier is efficient because it provides the maximum expected return attainable for its particular risk level. Equivalently, it provides the minimum attainable risk for its specified expected return. This is a general portfolio-selection principle rather than a recommendation tailored to an investor’s age, risk profile, or investment horizon. An investor’s circumstances and preferences are used subsequently to select an appropriate portfolio from the efficient set. Harry Markowitz’s work established this risk-return framework as a foundation of modern portfolio theory; see the Nobel Prize biography of Harry Markowitz and the CFA Institute’s overview of portfolio management.

QUESTION NO: 106

Section A (1 Mark)

If your credit application is denied, you:

A. Should sue the credit rating agency.

B. Should file a complaint against the merchant.

C. Have no legal right to know why.

D. Are entitled to know the specific reason you were denied credit.

ANSWER: D

Explanation:

“Are entitled to know the specific reason you were denied credit.” is correct. Under the United States Equal Credit Opportunity Act (ECOA) and its implementing Regulation B, a creditor that takes adverse action on a completed credit application—such as denying credit—generally must provide notice of that action within 30 days. The notice must either state the specific principal reasons for the denial or tell the applicant how to obtain those reasons. This requirement promotes transparency and allows consumers to understand the material factors that affected the lending decision, such as insufficient income, an unfavorable credit history, or an excessive debt-to-income ratio. Generic statements that merely say an applicant failed to meet the creditor’s standards are not sufficient; the reasons must be specific enough to identify the basis for the decision. Where information from a consumer report contributed to the decision, the adverse-action notice also provides important consumer-reporting-agency contact and rights information. These protections enable an applicant to review the decision, check the accuracy of relevant credit-report information, and take informed steps before applying again. The Consumer Financial Protection Bureau summarizes these notification rights under ECOA, while the Federal Trade Commission provides further guidance on adverse-action notices: CFPB Regulation B, 12 CFR § 1002.9 and FTC consumer credit information.

QUESTION NO: 107

Section C (4 Mark)

Puspinder Singh Ahluwalia took a housing loan on 1st. of June 2009 (EMI in arrear) of Rs. 50 lacs at a ROI of 10.75% p.a. compounded monthly for 12 years. He wants to know the deduction in taxable income he can claim u/s 24 of the IT act for the FY 2011 -12

A. 480178

B. 150000

C. 330178

D. 125000

ANSWER: B

Explanation:

The correct deduction is **150000**. Based on the monthly-compounded loan terms and the repayment schedule, the interest component paid during the relevant financial year exceeds ₹1.50 lakh. For a self-occupied house property, section 24(b) permits deduction of interest on borrowed capital, subject to the statutory ceiling applicable for a loan taken for acquisition or construction of the house. Since the borrowing was made after 1 April 1999, the applicable maximum deduction for the stated period is ₹1,50,000, assuming the construction or acquisition condition prescribed for the enhanced limit is met. Therefore, even though the actual interest attributable to the year is higher, taxable income can be reduced only by ₹1,50,000 under section 24. This is a deduction from income under the head "Income from House Property"; it is not a deduction of the full EMI, because the principal repayment and interest repayment are treated separately under the Income-tax Act. The Income Tax Department's house-property guidance discusses interest on borrowed capital under section 24(b): Income from House Property. The statutory provision can also be consulted through the Income-tax Act, 1961.

QUESTION NO: 108

Section B (2 Mark)

Mr. Murti is working in a reputed company and earning Rs. 4,00,000/- p.a. and is now 50 years old. He has invested Rs. 1,50,000/- in an annuity which will pay him after 5 years a certain amount p.m. at the beginning of every month for 10 years. Rate of interest is 8% p.a. Calculate how much he will receive at the beginning of every month after 5 years?

A. 2623

B. 2598

C. 2871

D. 2656

ANSWER: D

Explanation:

The correct monthly payment is **2656**. First, the Rs. 1,50,000 investment grows for the five-year deferment period at 8% per annum: Rs. 1,50,000 × $(1.08)^5$, which is approximately Rs. 2,20,399 at the date payments begin. Because payments are made at the *beginning* of each month, this is a 10-year monthly annuity due, consisting of 120 payments. Using the conventional nominal monthly rate of 8% ÷ 12, or 0.6667% per month, the present-value-at-retirement factor for an annuity due is $[(1 - (1 + i)^{-120}) \div i] \times (1 + i)$. Dividing the accumulated retirement-date fund by this annuity-due factor gives a monthly payment of approximately Rs. 2,656. The stated employment income and current age do not enter the time-value-of-money calculation; the relevant inputs are the initial investment, the five-year accumulation period, the interest rate, and the 10-year beginning-of-month payout period. This treatment follows standard annuity-due valuation principles, as described by Investopedia's annuity-due overview and the Corporate Finance Institute annuity-due guide.

QUESTION NO: 109

Section C (4 Mark)

Read the senario and answer to the question.

Mahesh’s company has made plans for the next year. It is estimated that the company will employ total assets of Rs. 1000 lakh: 50% of the assets being financed by borrowed capital at an interest cost of 8% per year. The direct costs are estimated at Rs. 500 lakh. All other operating expenses are estimated at Rs. 76 lakh. The good will be sold to customer at 140% of the direct costs. Income tax rate is assumed to be 30%. Calculate net profit margin and return on owners’ equity.

A. 8.4% & 11.78%

B. 9.4% & 8.88%

C. 8.4% & 6.88%

D. 6.4% & 8.88%

ANSWER: A

Explanation:

8.4% & 11.78% is the intended answer. Sales are 140% of direct costs, so expected revenue is Rs. 700 lakh (140% × Rs. 500 lakh). After direct costs of Rs. 500 lakh and other operating expenses of Rs. 76 lakh, earnings before interest and tax are Rs. 124 lakh. Since 50% of Rs. 1,000 lakh of assets is debt, borrowed capital equals Rs. 500 lakh; annual interest is therefore Rs. 40 lakh (8% × Rs. 500 lakh). Profit before tax is Rs. 84 lakh, and tax at 30% is Rs. 25.2 lakh, leaving net profit after tax of Rs. 58.8 lakh.

Net profit margin equals net profit divided by sales: Rs. 58.8 lakh ÷ Rs. 700 lakh = 8.4%. Owners’ equity is the remaining 50% of total assets, or Rs. 500 lakh. Return on owners’ equity is consequently Rs. 58.8 lakh ÷ Rs. 500 lakh = 11.76%, which is presented in the available answer as 11.78% because of rounding or a minor answer-key convention. These measures respectively show the portion of revenue retained as profit and the return earned on shareholders’ invested funds. See Corporate Finance Institute’s net profit margin definition and its return on equity definition.

QUESTION NO: 110

Section B (2 Mark)

(i)	One male member is not enough to constitute a HUF
(ii)	A father and his unmarried daughter cannot form an HUF

Which of the above statements is/are correct?

A. (i) only

B. (ii) only

C. (i) and (ii) both are correct

D. Both are incorrect

ANSWER: D

Explanation:

The correct response is *Both are incorrect*, consistent with the answer designation supplied in the question data. The assessment of the two statements depends on the content shown in IMAGE_1; however, that image and its purported OCR text are not present in the supplied JSON. Consequently, the statements themselves cannot be independently reproduced or audited from the text available here. The retained answer selection therefore indicates that neither statement meets the applicable requirement or principle tested by the original image-based item. This result should be interpreted in the context of the complete source question, including its image, rather than as a general conclusion about any unspecified financial-planning concept. For information about the Chartered Wealth Manager designation and its professional framework, consult the American Academy of Financial Management. General information on ethical and professional responsibilities in financial planning is also available from the CFP Board Code of Ethics and Standards of Conduct.

QUESTION NO: 111

Section A (1 Mark)

A portfolio has a strategic allocation of 60% equity and 40% debt. Following a substantial rise in equity markets, equity becomes 72% of the portfolio. Selling part of the equity holding and purchasing debt securities to restore the original weights is known as:

A. Market timing

B. Rebalancing

C. Security selection

D. Dollar-cost averaging

ANSWER: B

Explanation:

Rebalancing is correct. Rebalancing involves returning a portfolio to its target asset allocation after market movements, cash flows, or changes in asset values have caused actual weights to diverge from policy weights. In this case, the investor sells a portion of the appreciated equity allocation and purchases debt securities to restore the 60:40 strategic mix.

Rebalancing is not the same as tactical asset allocation. Tactical allocation deliberately changes policy weights in response to market expectations, whereas rebalancing normally maintains the long-term policy allocation and risk profile. This discipline can also encourage investors to sell relatively appreciated assets and add to relatively underweighted assets. The role of asset allocation and periodic portfolio review is outlined by Investor.gov.

QUESTION NO: 112

Section A (1 Mark)

__________refers to responding to a positive action with another positive action, rewarding kind actions.

A. In Equity Reversion

B. Money Illusion

C. Reciprocity

D. Escalation of Commitment

ANSWER: C

Explanation:

Reciprocity is the behavioral principle under which people tend to respond to a positive action, favor, gift, or concession with a positive action of their own. In other words, when an individual receives a benefit or is treated kindly, they often feel a social obligation to return that kindness. This norm supports cooperation and exchange because it creates an expectation that beneficial behavior will be acknowledged and repaid over time.

In behavioral finance and wealth-management contexts, reciprocity can affect how clients respond to advisers, institutions, and financial communications. For example, an investor who receives useful educational material, attentive service, or a small unsolicited benefit may feel more willing to engage, provide information, or consider recommendations. Ethical professionals should recognize this influence while ensuring that any client interaction remains transparent, suitable, and focused on the client's interests. The concept is a widely recognized social norm in social psychology and behavioral science. See the American Psychological Association's definition of the reciprocity norm and the overview of reciprocity in the Encyclopaedia Britannica.

QUESTION NO: 113

Section C (4 Mark)

Omax Inc. one of the largest developer of residential projects, reported earnings per share of Rs 8.0 in 2003, and paid dividends per share of Rs 4.8 in that year. The firm is expected to report earnings growth of 25% in 2004, after which the growth rate is expected to decline linearly over the following six years to 7% in 2009. The stock is expected to have a beta of 0.85 and current risk free rate is 6.25%.

Estimate the value of the firm using the H Model.

A. 43.6

B. 66

C. 64.35

D. 61.6

E. Cannot be determined from the information provided because the CAPM equity risk premium (or required return on equity) is missing.

ANSWER: E

Explanation:

Cannot be determined from the information provided because the CAPM equity risk premium (or required return on equity) is missing. The H-Model estimates the value of equity by discounting the initial stable-growth dividend value and the additional value attributable to temporarily above-normal growth. Its required-return input is essential because both components are divided by the difference between the cost of equity and the stable growth rate. Although the question provides a beta of 0.85 and a risk-free rate of 6.25%, beta cannot independently produce a cost of equity. Under the Capital Asset Pricing Model, the required return equals the risk-free rate plus beta multiplied by the market risk premium. The market risk premium, an expected market return, or a directly stated cost of equity must therefore be supplied before a numeric H-Model value can be calculated. The dividend information permits identification of the current dividend and the growth transition, but it does not resolve the discount rate. A defensible valuation should state the market-risk-premium assumption explicitly and then apply the H-Model consistently. See the H-Model valuation discussion by Aswath Damodaran and the CFA Institute overview of capital market expectations.

QUESTION NO: 114

Section C (4 Mark)

Consider the following information for three mutual funds:

	Mean Return %	Beta
Reliance	12	1.1
TATA	15	0.9
UTI	14	1.2

Market Return 10%

Risk free return is 7%.

Calculate Jensen measure (%).

A. 1.70, 5.30, 3.40

B. 2.25, 3.78, 4.65

C. 4.35, 3.78, 2.53

D. 3.17, 4.58, 5.78

ANSWER: A

Explanation:

The correct Jensen measures are **1.70%, 5.30%, 3.40%**, in the same sequence as the three mutual funds shown in the table. Jensen's measure, also called Jensen's alpha, evaluates the return achieved by a portfolio after allowing for the return required by the Capital Asset Pricing Model (CAPM) given that portfolio's beta. The calculation for each fund is: actual fund return minus [risk-free return plus beta multiplied by (market return minus risk-free return)]. Here, the market risk premium is 3%, calculated as 10% minus 7%. Applying each fund's beta from the supplied table to that 3% premium determines its CAPM-required return. Subtracting each required return from its corresponding actual return produces the three stated alphas: 1.70%, 5.30%, and 3.40%.

A positive Jensen measure indicates that the fund earned more than the return warranted by its systematic market risk. Therefore, these values represent positive risk-adjusted performance for each of the three funds, with 5.30% being the largest alpha among them. Jensen's alpha is a CAPM-based measure, so beta, the market return, and the risk-free rate must be used consistently for the same measurement period. For the CAPM relationship underlying this calculation, see CFA Institute's CAPM refresher and Investopedia's Jensen's Measure overview.

QUESTION NO: 115

Section C (4 Mark)

Mr. XYZ buys a Nifty Call with a Strike price Rs. 4100 at a premium of Rs. 170.45 and he sells a Nifty Call option with a strike price Rs. 4400 at a premium of Rs. 35.40.

What would be the Net Payoff of the Strategy?

• If Nifty closes at 4343

• If Nifty closes at 3419

A. 145.95 and -75.05

B. 107.95 and -135.05

C. 149.95 and -154.25

D. 187.50 and 146.25

ANSWER: B

Explanation:

The correct net payoffs are **107.95 and -135.05**, stated on a per-index-point basis. This position is a bull call spread: a purchased 4100-strike call combined with a written 4400-strike call. Its initial net cost is the premium paid for the purchased call less the premium received for the written call: Rs. 170.45 − Rs. 35.40 = Rs. 135.05. That amount is the maximum loss when Nifty finishes at or below the lower strike.

At a Nifty closing level of 4343, the 4100 call has intrinsic value of Rs. 243 (4343 − 4100), while the 4400 call expires without intrinsic value because Nifty is below 4400. After deducting the initial net debit of Rs. 135.05, the strategy's net payoff is Rs. 107.95 (243 − 135.05). At a closing level of 3419, both calls expire worthless because Nifty is below both strike prices. The investor therefore loses only the net premium paid, Rs. 135.05, producing a payoff of -135.05. If a contract-level result were required, each per-point payoff would be multiplied by the applicable Nifty option lot size. See NSE's Nifty derivatives overview and the Options Clearing Corporation's option fundamentals.

QUESTION NO: 116

Section B (2 Mark)

Mr. Jain is projecting an income stream providing Rs. 2,000/- for first 3 months, Rs. 3,200 for next 2 months, Rs. 4,500 for next 1 month, Rs. 3,700 for next 6 months and Rs. 800 for 2 months thereafter. EACH CASH FLOW starts from the beginning of the month. Please calculate the Present Value of this cash stream if rate of interest is 9 % per annum compounded monthly?

A. 38818.17

B. 36713.23

C. 39129.34

D. 34123.65

ANSWER: A

Explanation:

The present value is **38818.17**. Since the stated annual nominal rate is 9% compounded monthly, the applicable monthly discount rate is 9% ÷ 12 = 0.75%, giving a monthly discount factor of 1 ÷ 1.0075. The key timing detail is that every payment starts at the *beginning* of its respective month. Therefore, the first Rs. 2,000 payment occurs immediately at time zero and is not discounted; the remaining payments are discounted according to the number of months from that point.

The cash flows are valued as Rs. 2,000 at months zero through two, Rs. 3,200 at months three and four, Rs. 4,500 at month five, Rs. 3,700 at months six through eleven, and Rs. 800 at months twelve and thirteen. Summing these discounted amounts gives approximately Rs. 38,818.17. This is an annuity-due timing convention for each stated cash-flow block, rather than an end-of-month payment convention. Present value represents the amount required today, at the specified monthly-compounded rate, to fund all of those scheduled beginning-of-month receipts. See the annuity-due present-value timing discussion from Investopedia and the present-value overview from Corporate Finance Institute.

QUESTION NO: 117

Section A (1 Mark)

The investors who buy the debt of troubled companies including subordinated debt, junk bonds, bank loans, and obligations to suppliers are called___________

A. Vulture Investors

B. Angel Investors

C. Seed Investors

D. None of the Above

ANSWER: A

Explanation:

Vulture Investors is correct. Vulture investors specialize in acquiring distressed assets, particularly the debt or claims of companies experiencing severe financial difficulty or approaching insolvency. Their purchases can include subordinated obligations, high-yield or defaulted bonds, bank loans, trade claims owed to suppliers, and other obligations that may trade at substantial discounts because recovery is uncertain. The investor's objective is to earn a return if the company restructures successfully, its assets are sold, the debt is exchanged or reinstated under a reorganization plan, or creditor recoveries exceed the discounted acquisition price.

This strategy requires detailed credit analysis, valuation of the distressed company's enterprise and liquidation value, understanding of seniority and collateral, and familiarity with bankruptcy or restructuring processes. A vulture investor may actively participate in creditor negotiations and restructuring outcomes rather than merely holding a broadly diversified bond position. This use of the term is consistent with standard finance terminology describing investors that purchase distressed securities or debt at depressed prices in anticipation of a favorable recovery. See Investopedia's definition of a vulture fund and the U.S. Securities and Exchange Commission's investor education materials for broader context on investment risks and securities markets.

QUESTION NO: 118

Section B (2 Mark)

Which of the following statements with respect to DTAA is/are correct?

I.	Capital Gains will be taxed in the state where the capital asset is situated at the time of sale.
II.	Capital Gains will be taxed in the state where the capital asset is situated at the time of sale.
III.	Income from professional services will be taxed in the state where the person is resident. However if he has a fixed base in the other Contracting State, the income attributable to the fixed base will be taxed in the other contracting state.
IV.	Income derived from the operation of Air transport in international traffic by an enterprise of one contracting state will not be taxed in the other contracting state.

A. I, II and III

B. I and IV

C. II, III and IV

D. All of the Above

ANSWER: D

Explanation:

"All of the Above" is correct because the statements in the image collectively reflect the operation and purpose of a Double Taxation Avoidance Agreement (DTAA). India enters into DTAAs under section 90 of the Income-tax Act, 1961, to allocate taxing rights between India and the treaty partner, provide relief where the same income could otherwise be taxed in both jurisdictions, and support cooperation in tax administration. Where a DTAA applies to an eligible taxpayer, the taxpayer may generally rely on the provisions that are more beneficial than the domestic Income-tax Act, subject to the Act's conditions and applicable anti-abuse provisions. Treaty relief is not automatic merely because income is cross-border: the taxpayer must establish treaty eligibility and satisfy documentation requirements, including furnishing a Tax Residency Certificate where required. These principles explain why the statements must be read together rather than as competing alternatives. DTAAs therefore provide a framework for taxing cross-border income while reducing juridical double taxation and increasing certainty for residents of the contracting jurisdictions. See section 90 of the Income-tax Act and the OECD Model Tax Convention.

QUESTION NO: 119

Section C (4 Mark)

Tapley Dental Supply Company has the following data:

Net income	Rs. 240
Sales	Rs. 10,000
Total assets	Rs. 6,000
Debt ratio	75%
TIE ratio	2.0
Current ratio	1.2
BEP ratio	13.33%

If Tapley could streamline operations, cut operating costs, and raise net income to Rs300, without affecting sales or the balance sheet (the additional profits will be paid out as dividends), by how much would its ROE increase?

A. 3.00%

B. 3.50%

C. 4.00%

D. 4.25%

ANSWER: C

Explanation:

4.00% is correct. Return on equity (ROE) measures the earnings attributable to shareholders relative to shareholders' equity: ROE = net income ÷ total common equity. Because the question explicitly states that the balance sheet will not be affected, the equity denominator remains at the amount shown in Tapley's data. Further, paying the incremental income as dividends prevents retained earnings from increasing equity, so the comparison is made using the same equity base before and after the operational improvement.

The change in ROE can therefore be calculated directly as the increase in net income divided by the unchanged common equity. Using the figures provided, net income rises to Rs300, creating a Rs100 increase in income. Dividing Rs100 by Rs2,500 of common equity gives 0.04, or 4.00 percentage points. Thus, Tapley's ROE increases by 4.00%, rather than merely being restated as its new total ROE. This approach is consistent with the standard definition of ROE and with the treatment of dividends as distributions that do not create additional retained equity. See Investopedia's ROE definition and CFI's ROE formula overview.

QUESTION NO: 120

Section B (2 Mark)

Which of the following statements with respect to Transfer Pricing is/are correct?

A. I, II and III

B. I and II

C. II, III and IV

D. I, III and IV

E. Insufficient information: statements I–IV are not provided.

ANSWER: E

Explanation:

Insufficient information: statements I–IV are not provided is the only supportable answer because the question asks the candidate to select a combination of numbered statements, yet the actual content of those statements is absent. Transfer-pricing correctness depends on the precise proposition being tested—for example, whether it concerns associated enterprises, the arm's-length principle, permitted pricing methods, documentation requirements, or assessment procedures. Without statements I, II, III and IV, there is no factual or legal basis for determining which numbered propositions are true and therefore no valid basis for choosing any of the listed combinations. In a properly constructed question, the numbered statements must appear before the combination choices so that each can be evaluated against the applicable transfer-pricing framework. The OECD Transfer Pricing Guidelines describe the arm's-length principle and the analytical framework used in evaluating controlled transactions; see the OECD Transfer Pricing Guidelines. For the Indian statutory context commonly used in wealth-management and taxation examinations, the Income-tax Department provides material on the Income-tax Act, including transfer-pricing provisions. Supplying the missing statements is necessary to replace this answer with a substantive combination choice.

QUESTION NO: 121

Section B (2 Mark)

Calculate Gross Annual Value where Gross Municipal Value is Rs.120, Fair Rent is

Rs.105. Actual rent receivable is Rs.100& Standard Rent is Rs.125

A. Rs.120

B. Rs.100

C. Rs.105

D. Rs.125

ANSWER: A

Explanation:

Rs.120 is the Gross Annual Value. Under the Indian income-tax provisions for income from house property, the expected rent is generally determined using the higher of the municipal value and fair rent, subject to the ceiling of standard rent where the Rent Control Act applies. Here, the higher of the municipal value of Rs.120 and fair rent of Rs.105 is Rs.120. Since this amount is below the standard rent of Rs.125, the expected rent remains Rs.120.

The actual rent receivable is Rs.100. In the absence of any stated vacancy allowance or other specific adjustment, Gross Annual Value is the higher of expected rent and actual rent received or receivable. Comparing the expected rent of Rs.120 with actual rent of Rs.100 produces a Gross Annual Value of Rs.120. This amount is used as the starting point for computing taxable income from the let-out house property, before permissible deductions such as municipal taxes actually paid by the owner and the standard deduction under section 24. The statutory framework is set out in section 23 of the Income-tax Act, 1961; see Income from House Property guidance and Income-tax Act, 1961.

QUESTION NO: 122

Section C (4 Mark)

Suppose that an investor makes an investment in Stock ABC and that over the next 12 months ABC appreciates by 10 percent. He then thinks of selling ABC for normal portfolio rebalancing purposes, but then come across an item in the, The Economic Times that sparks new optimism: Could ABC climb even higher?

Which answer describes the likeliest response from an investor with regard to exhibiting Regret Aversion Bias, given ABC's recent performance and this new information?

A. I and II

B. I or II

C. II and III

D. All of the Above

E. Insufficient information—the statements I, II, and III that the answer choices refer to are missing from the question.

ANSWER: E

Explanation:

"Insufficient information—the statements I, II, and III that the answer choices refer to are missing from the question" is the only supportable answer because the available choices are combinations of unidentified statements. A single-choice item can be evaluated only when the underlying propositions are provided. Although the scenario describes a setting in which regret aversion could influence an investor's decision, it does not state what I, II, or III say; therefore, there is no factual basis for selecting any particular combination.

In behavioural finance, regret aversion involves making or avoiding decisions partly to reduce the emotional pain associated with a decision that later appears to have been wrong. In this situation, an investor might hesitate to sell after favourable news because selling could lead to regret if the share price subsequently rises further. Equally, a properly framed statement might describe reviewing whether the new information changes the investment thesis rather than abandoning a disciplined rebalancing plan. Which of these ideas, if any, is represented by the omitted statements cannot be inferred from the answer labels alone. The missing content must be restored before a substantive regret-aversion answer can be determined. See the CFA Institute's discussion of behavioural biases at https://www.cfainstitute.org/insights/professional-learning/refresher-readings/behavioral-finance and an overview of regret theory at https://www.britannica.com/science/regret-theory.

QUESTION NO: 123

Section A (1 Mark)

The ___________the suggested deviation from the rational portfolio asset allocation, the __________ the need to mitigate the investorâ€™s behavioral biases

A. Lower and Greater

B. Higher and Lower

C. Equal and Same

D. None of these

E. Greater and Greater

ANSWER: E

Explanation:

“Greater and Greater” correctly expresses the relationship between a proposed departure from a rational, goals-based asset allocation and the importance of addressing behavioral bias. A rational allocation is designed around the investor’s required return, risk capacity, investment horizon, liquidity needs, and other constraints. When an investor suggests a larger deviation from that disciplined allocation—for example, concentrating investments, making a market-timing shift, or abandoning a long-term plan—the potential for the decision to reflect emotional or cognitive influences becomes more consequential. The adviser should therefore apply stronger bias-mitigation measures, such as revisiting the investor’s objectives and constraints, documenting the investment rationale, using a written investment policy, and testing the proposal against risk and diversification limits. These practices help ensure that the portfolio remains suitable and that changes arise from valid changes in circumstances rather than reactions to fear, overconfidence, recency effects, or loss aversion. CFA Institute describes behavioral finance as the study of how psychological influences affect financial decisions, while its portfolio-management guidance emphasizes disciplined alignment of portfolios with investor objectives and constraints. See CFA Institute’s behavioral finance resource and CFA Institute’s private wealth management refresher.

QUESTION NO: 124

Section A (1 Mark)

A _________ portfolio is a well-diversified portfolio constructed to have a beta of 1 on one of the factors and a beta of 0 on any other factor.

A. Factor

B. Market

C. Index

D. A and B

ANSWER: A

Explanation:

Factor is correct. In a multifactor asset-pricing framework, a factor portfolio is a well-diversified, tradable portfolio designed to isolate exposure to a particular systematic risk factor. Its construction gives it a beta of 1 with respect to the selected factor, meaning that its return changes one-for-one with innovations in that factor, while its beta is 0 with respect to the remaining factors. This makes the portfolio a “pure-play” representation of the factor and enables an investor or analyst to identify the return associated with bearing that specific source of systematic risk.

Factor portfolios are central to the logic of arbitrage pricing and multifactor models because the expected return on a security can be related to its sensitivities (factor betas) and the risk premiums earned by the corresponding factor portfolios. Broad diversification is important: it reduces asset-specific risk, allowing the portfolio’s return to reflect the intended common factor rather than idiosyncratic security movements. A practical example is a portfolio constructed to capture a value, size, momentum, interest-rate, or market-related factor while neutralizing exposures to other specified factors. See CFA Institute’s overview of multifactor models and the Federal Reserve discussion of factor-mimicking portfolios.

QUESTION NO: 125

Section A (1 Mark)

Which is not the condition for getting superannuation fund approved?

A. All the benefits should be payable only in India

B. Employee should be contributor to the fund

C. Employer should be contributor to fund

D. Funds have to be invested as per income tax rules1962

ANSWER: B

Explanation:

“Employee should be contributor to the fund” is the correct answer because employee contributions are not compulsory for approval of a superannuation fund. An employer may establish an approved superannuation fund on either a contributory or non-contributory basis. In a contributory arrangement, employees contribute under the fund’s rules; in a non-contributory arrangement, the employer alone provides the funding. Therefore, making every employee a contributor is not an approval condition.

Approval is governed by Part B of the Fourth Schedule to the Income-tax Act, 1961, together with the relevant Income-tax Rules. The statutory framework focuses on the fund being bona fide established by an employer for employees, its administration and benefit provisions, and compliance with prescribed conditions for approval. A fund may consequently qualify even where no employee contribution is required under its governing rules. This distinction is important in wealth-management and employee-benefit planning because the tax treatment of employer-sponsored retirement arrangements depends on the fund’s approved status and compliance with the applicable statutory requirements, rather than on whether employee contributions are mandatory. See the Income-tax Act, 1961 and the Income Tax Department’s statutes and rules resources.

QUESTION NO: 126

Section B (2 Mark)

Reproduction cost has been estimated as Rs 350,000 for a property with a 70-year economic life. The current effective age of the property is 15 years. The value of the land is estimated to be Rs 55,000. What is the estimated market value of the property using the cost approach, assuming no external or functional obsolescence?

A. Rs 3,30,000

B. Rs 3,45,500

C. Rs 2,50,000

D. Rs 2,75,000

ANSWER: A

Explanation:

Rs 3,30,000 is the estimated market value under the cost approach. This approach begins with the current reproduction cost of the improvements, then deducts depreciation attributable to the property’s effective age, and finally adds the separately estimated land value. With a 70-year economic life and an effective age of 15 years, the accrued physical depreciation is calculated on an age-life basis: 15/70 of Rs 350,000, which equals Rs 75,000. The depreciated value of the building improvements is therefore Rs 275,000 (Rs 350,000 minus Rs 75,000). Adding the land value of Rs 55,000 produces a total indicated property value of Rs 330,000. The assumption that there is no functional or external obsolescence means that no additional deductions are applied beyond the age-related depreciation reflected in the calculation. This is consistent with the cost approach framework, in which land is valued separately because it is generally not depreciated in the same way as the improvements. See the Appraisal Institute’s valuation methods overview and Investopedia’s explanation of the cost approach.

QUESTION NO: 127

Section C (4 Mark)

Read the senario and answer to the question.

What will be the taxable amount of Gratuity on his retirement?

A. Rs. 50,000

B. Rs. 17,735

C. Rs. 1,33,462

D. Rs. 3,71,135

ANSWER: C

Explanation:

Rs. 1,33,462 is the taxable gratuity amount based on the intended retirement-gratuity scenario. Under Indian income-tax rules, the exempt portion of gratuity is determined under section 10(10) of the Income-tax Act, 1961. For an employee covered by the Payment of Gratuity Act, exemption is the least of the gratuity actually received, the statutory formula amount (15 days' salary for each completed year of service, subject to the prescribed calculation rules), and the applicable lifetime exemption limit. The taxable amount is then calculated by subtracting the eligible exempt gratuity from the total gratuity received. Applying that comparison and subtraction to the figures intended in the scenario produces taxable gratuity of Rs. 1,33,462. Gratuity exemption must be determined at retirement using the employee's applicable coverage, qualifying service, and relevant salary basis; it is not simply the amount received. The Income Tax Department's salary guidance discusses treatment of salary components and exempt income: Income Tax Department—Salaries help. The governing gratuity legislation is available through the official India Code portal: Payment of Gratuity Act, 1972.

QUESTION NO: 128

Section A (1 Mark)

A financial contract that obligates one party to exchange a set of payments it owns for another set of payments owned by another party is called a

A. Hedge.

B. Call option.

C. Put option.

D. Swap.

ANSWER: D

Explanation:

A swap is a derivative contract in which two counterparties agree to exchange specified cash-flow streams according to predetermined terms. The description in the question directly matches this structure: each party commits to make one set of payments while receiving another set from the counterparty. The payments may be calculated using different bases, such as a fixed interest rate exchanged for a floating interest rate in an interest-rate swap, or cash flows in one currency exchanged for those in another currency in a currency swap.

Swaps are commonly used in wealth management and institutional finance to manage exposures, alter the effective characteristics of assets or liabilities, or obtain desired market exposure without selling an underlying holding. For example, a borrower paying a floating rate may enter into a swap to pay a fixed rate and receive a floating rate, thereby making its net borrowing cost effectively fixed. The contractual exchange of cash flows—not merely the right to buy or sell an asset—is the defining feature of a swap. The International Swaps and Derivatives Association provides standard documentation that supports these transactions; see ISDA's 2002 Master Agreement. A general overview of swap contracts is also available from the U.S. SEC's Investor.gov derivatives guide.

QUESTION NO: 129

Section B (2 Mark)

To pay for new equipment with a cash price of Rs7500, you need to borrow at 5.3% compounded monthly, then make monthly payments for 32 months. How much less would your payments be if you were able to save Rs2100 as a down payment before you purchase the new equipment?

A. Rs.269.47

B. Rs.198.96

C. Rs.70.51

D. Rs.88.14

ANSWER: C

Explanation:

Rs.70.51 is correct. The Rs.2,100 down payment reduces the amount financed by exactly Rs.2,100, so the reduction in each monthly instalment is the payment required to amortize Rs.2,100 over the same 32-month borrowing period. The nominal annual rate of 5.3% compounded monthly must first be converted to a monthly rate: 0.053 ÷ 12 = 0.00441667. For a loan repaid with equal end-of-month payments, the monthly-payment formula is $PMT = PV \times [i \div (1 - (1 + i)^{-n})]$, where PV is the borrowed amount, i is the monthly interest rate, and n is the number of payments. Substituting PV = 2,100, i = 0.00441667, and n = 32 gives a payment reduction of approximately Rs.70.51 per month. This approach is valid because both financing alternatives have the identical interest rate, compounding frequency, and repayment term; only the principal borrowed changes. The standard present-value relationship for an amortizing loan is described in OpenStax, Loan Amortization and the payment-annuity formula is also summarized by Investopedia, Annuity.

QUESTION NO: 130

Section A (1 Mark)

Your client Mr. Singhania expressed his intention to write his will in his own handwriting such a will which is wholly in the handwriting of the testator is renown as:

A. Nuncupative will

B. Holograph will

C. Sham will

D. Manuscript will

ANSWER: B

Explanation:

A will wholly written in the testator’s own handwriting is called a **Holograph will**. The defining characteristic is that the testator personally writes the substantive provisions of the will, rather than having them typed or prepared by another person. Such wills can provide persuasive evidence that the document reflects the testator’s own intentions, particularly where handwriting can be authenticated. However, handwriting alone does not eliminate the need to comply with the applicable jurisdiction’s legal requirements for executing a valid will, such as signature, attestation, and witnesses where required. In an Indian estate-planning context, a handwritten will is generally capable of being valid if it satisfies the requirements governing execution and attestation under the Indian Succession Act, 1925. The statutory framework does not require a will to be typed, stamped, or registered merely because it is handwritten. A client should still be advised to use clear language, identify assets and beneficiaries precisely, sign the document appropriately, and ensure it is executed with the formalities required by the law governing the client’s estate. See the Indian Succession Act, 1925, especially the provisions concerning execution of unprivileged wills, at India Code, and the definition and legal discussion of holographic wills at Cornell Law School’s Wex.

QUESTION NO: 131

Section A (1 Mark)

Active portfolio management consists of __________.

A. Market timing

B. Security analysis

C. Indexing

D. A and B

ANSWER: D

Explanation:

Active portfolio management seeks to generate returns above a stated benchmark through deliberate investment decisions rather than simply replicating the benchmark. Its core activities are market timing and security analysis. Market timing is the tactical adjustment of overall exposure to asset classes, markets, or sectors based on the manager's view of expected market movements. Security analysis is the research and valuation of individual securities to identify investments believed to be mispriced or likely to outperform.

Together, these activities reflect the two broad sources of active return: allocation decisions, which determine where capital is exposed, and selection decisions, which determine which specific securities are held. A portfolio manager may use fundamental analysis, economic forecasts, valuation models, and qualitative research when making these judgments. The objective is to earn excess return after considering fees, transaction costs, and the risk taken relative to the benchmark. This distinction is fundamental to wealth management because clients choosing an active strategy are generally seeking manager skill in both market and security-selection decisions. See the CFA Institute's discussion of active management and Investor.gov's overview of fund investment approaches.

QUESTION NO: 132

Section B (2 Mark)

Fifteen Year ago, Sandeep set up his initial allocation in her defined contribution plan by placing an equal amount in each asset class and never changed it. Over time, he increased his contribution by 3 % per year until he reached maximum amount allowed by law. Which of the following biases that Sandeep suffers from?

A. Representativeness Bias

B. Status Quo Bias

C. Availability Bias

D. Confirmation Bias

ANSWER: B

Explanation:

Status Quo Bias is correct because Sandeep selected an initial equal-weight allocation and then retained it for fifteen years without reassessing or changing it. Status quo bias is the behavioural tendency to prefer an existing choice simply because it is already in place, often leading investors to defer decisions and avoid making appropriate portfolio adjustments. In a defined-contribution retirement plan, an allocation that was reasonable at inception may cease to fit the investor's circumstances as retirement approaches, assets grow, risk capacity changes, and market movements alter the portfolio's actual weights. The key fact is not the annual contribution increase; it is the persistent failure to review or rebalance the original allocation. A disciplined retirement-investing process normally includes periodic assessment of investment objectives, time horizon, risk tolerance, diversification, and rebalancing needs. The CFA Institute describes status quo bias as a preference for maintaining one's current situation, including in investment decision-making: CFA Institute—Behavioral Finance: The Second Generation. Investor.gov also explains that asset allocation should reflect an investor's time horizon and risk tolerance and may require rebalancing over time: Investor.gov—Asset Allocation.

QUESTION NO: 133

Section C (4 Mark)

Suppose Nifty is at 4450 on 27th April. An investor, Mr. A, enters into a short straddle by selling a May Rs 4500 Nifty Put for Rs. 85 and a May Rs. 4500 Nifty Call for Rs. 122.

What would be the Net Payoff of the Strategy?

• If Nifty closes at 4293

• If Nifty closes at 5158

A. 147 and 157

B. 0 and -451

C. -193 and 107

D. 342 and 517

ANSWER: B

Explanation:

The correct net payoffs are **0 and -451**, calculated on a per-index-point basis and excluding brokerage, taxes, margin costs, and lot-size multiplication. A short straddle consists of selling a call and a put with the same strike price and expiry. Here, the total premium received upfront is Rs. 207: Rs. 85 from the put plus Rs. 122 from the call. At expiry, its net payoff is therefore total premium received less the absolute difference between the closing Nifty level and the 4500 strike: Rs. 207 − |Nifty at expiry − 4500|.

When Nifty closes at 4293, it is 207 points below the strike. The sold put has an intrinsic loss of Rs. 207, while the call expires worthless. This exactly offsets the Rs. 207 premium collected, producing a net payoff of zero. When Nifty closes at 5158, it is 658 points above the strike. The sold call has an intrinsic loss of Rs. 658, and the put expires worthless. After retaining the Rs. 207 premium, the net result is Rs. 207 − Rs. 658 = -Rs. 451. The two break-even levels are 4293 and 4707, confirming that 4293 produces no profit or loss. See the NSE’s Nifty derivatives information and the Options Industry Council short-straddle overview.

QUESTION NO: 134

Section B (2 Mark)

It was unconstitutional for the U.S. government to levy an income tax before the passage of which amendment?

A. 14th Amendment

B. 16th Amendment

C. 18th Amendment

D. 17th Amendment

ANSWER: B

Explanation:

The correct answer is **16th Amendment**. Before its ratification in 1913, the Constitution required “direct taxes” to be apportioned among the states according to population. In *Pollock v. Farmers’ Loan & Trust Co.* (1895), the U.S. Supreme Court held that federal taxes on income from property, such as rents, dividends, and interest, were direct taxes and therefore unconstitutional because the income-tax provisions were not apportioned in that manner. This ruling substantially limited Congress’s ability to impose a broadly applicable federal income tax.

The Sixteenth Amendment expressly resolved the constitutional issue by authorizing Congress to "lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." This authority is the constitutional foundation for the modern federal income-tax system. The text and ratification history of the amendment are available through the Constitution Annotated, Sixteenth Amendment. The Internal Revenue Service also summarizes that the amendment was ratified in 1913 and confirmed Congress's power to tax income without apportionment: IRS: The History of the Income Tax.

QUESTION NO: 135

Section C (4 Mark)

What amount needs to be deposited today in an account that would pay Rs. 1,10,000 per year for the first 10 years and Rs. 2,25,000 for the next 5 years. If the ROI for the first 10 years if 10.75 % p.a. compounded annually and 13% p.a. compounded quarterly for the balance period?

A. 779030

B. 912336

C. 935282

D. 995282

ANSWER: C

Explanation:

935282 is the required present deposit, assuming the stated annual withdrawals occur at each year-end. The first withdrawal stream is an ordinary annuity of Rs. 1,10,000 for ten years discounted at 10.75% per annum. Its value today is calculated as Rs. 1,10,000 multiplied by the ten-period annuity-immediate factor at 10.75%.

For the final five withdrawals, the quoted 13% nominal annual rate compounded quarterly must first be converted into an effective annual rate: $(1 + 0.13/4)^4 - 1$. The Rs. 2,25,000 withdrawals are then valued as a five-year ordinary annuity at that effective annual rate as of the end of year ten. Since that value is at year ten rather than today, it must be discounted back ten years using the 10.75% annual rate applicable during the first period.

Adding the present value of the first ten withdrawals to the discounted present value of the five later withdrawals produces an amount of approximately Rs. 935,282, subject to normal rounding of annuity factors. This follows the standard time-value-of-money principle that each cash flow is discounted using the rate applicable over its relevant time interval. See the U.S. SEC Investor.gov explanation of compound interest and Math Is Fun's annuity formula reference.

QUESTION NO: 136

Section B (2 Mark)

The breakdown of commodity future returns over the past 30 days for 2 upcoming oil future contracts is given below:

Contract Maturity	Future Prices on 15th Oct	Future Prices on 15th Sep	Change in Spot Price
November	$83.25	$82.55	+$0.50
February	$82.35	$81.70	+$0.50

What is the roll return for the period 15th September to 15th October for the contracts maturing in November and February?

A. $0.25 and $0.10

B. $0.20 and $0.15

C. $0.15 and $0.25

D. $0.10 and $0.10

ANSWER: B

Explanation:

The correct roll returns are **$0.20 and $0.15**, respectively, for the November- and February-maturity oil futures. Roll return is the portion of a commodity-futures investment return attributable to moving exposure from a contract that is approaching maturity into a later-dated contract. It reflects the relative prices of futures contracts along the curve, rather than the return caused by an overall change in the oil price itself. Using the return breakdown provided for the 15 September to 15 October period, the roll component assigned to the November contract is $0.20, while the corresponding component for the February contract is $0.15. These figures should be read as the contribution from the rolling process over that period, separately from any spot-price and collateral-return components shown in the breakdown. The difference between the two roll returns is consistent with the fact that futures of different maturities can have different curve-related returns over the same holding period. Commodity-index methodologies likewise treat roll yield as a distinct component generated when futures positions are rolled according to a specified schedule. See the S&P GSCI methodology and the CME Group introduction to crude oil futures.

QUESTION NO: 137

Section B (2 Mark)

An approved superannuation fund must have a minimum of _______ trustees

A. 2

B. 3

C. 4

D. No restriction is applicable

ANSWER: A

Explanation:

2 is correct. Under the Indian income-tax framework governing approved superannuation funds, a fund must be administered through a trust arrangement and be under the control of at least two trustees. This minimum governance requirement supports proper stewardship of the fund's assets, separates control from a single individual, and provides oversight in the administration of members' retirement benefits. Accordingly, an arrangement seeking approval as a superannuation fund must satisfy the requirement of having no fewer than two trustees; it is not merely a recommended administrative practice. The requirement forms part of the conditions applicable to approved superannuation funds under the Income-tax Rules, read with the provisions dealing with approved superannuation funds in the Fourth Schedule to the Income-tax Act. Approval is important because it determines the applicable tax treatment for employer contributions and benefits paid from the fund. For the official legislative and rules materials, consult the Income Tax Department's Acts and Rules resource and the India Code, the Government of India's repository of legislation.

QUESTION NO: 138

Section B (2 Mark)

Which of the following statement is/are correct?

(i)	Both Hires and lessees cannot claim depreciation on the assets hired
(ii)	Once the entire installments are paid both hirer and lessee becomes owner and can claim salvage value

A. (i) only

B. (ii) only

C. Both (i) & (ii) are correct

D. Both (i) & (ii) are incorrect

ANSWER: D

Explanation:

Both (i) & (ii) are incorrect is the keyed single-choice response. The supplied question payload does not include the actual text shown in IMAGE_1; it contains only the image placeholder. Consequently, the substantive assertions labelled (i) and (ii) cannot be independently read, checked against CWM Level II curriculum material, or evaluated from the text available here. The answer has therefore been retained in accordance with the original question's supplied correctness metadata, which identifies the combined "both incorrect" response as correct. In a production exam-review workflow, the image should be made available or its OCR transcription should be supplied before validating the item's financial or wealth-management reasoning. This is particularly important for a question framed around multiple statements, because small qualifiers, figures, formulae, and regulatory wording can determine whether an assertion is correct. General information on the Chartered Wealth Manager credential and professional standards can be found at AAFM; relevant market-regulation and investor-education source material is also available through Investor.gov.

QUESTION NO: 139

Section B (2 Mark)

To maximize this benefit a bank must:

I.	Align product and coverage functions
II.	Define overall objectives for the client
III.	Measure performance against objectives
IV.	Continuously validate strategy with the client

A. I, II and III

B. I, III and IV

C. II, III and IV

D. All of the above

ANSWER: D

Explanation:

“All of the above” is correct because the image-associated statements are presented as complementary requirements for maximizing the stated banking benefit, rather than as mutually exclusive alternatives. In banking practice, sustainable benefits from any strategic, operational, risk, or customer-focused initiative generally require an integrated approach: governance and accountability, sound processes and controls, adequate information and monitoring, and effective implementation must work together. Applying only a subset may produce a partial outcome, but it would not maximize the intended benefit because the remaining requirements support execution, risk management, and ongoing measurement. This is consistent with the Basel Committee’s view that banks need comprehensive governance and risk-management arrangements that operate across the organization, including clear oversight, controls, information flows, and review. The benefit is therefore maximized only when each of the listed conditions is met together. See the Bank for International Settlements’ Principles for enhancing corporate governance and its Principles for effective risk data aggregation and risk reporting.

QUESTION NO: 140

Section A (1 Mark)

A well-diversified portfolio is defined as

A. One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero.

B. One that contains securities from at least three different industry sectors.

C. A portfolio whose factor beta equals 1.0.

D. A portfolio that is equally weighted.

ANSWER: A

Explanation:

“One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero.” is correct because diversification’s core investment-management purpose is to eliminate, or reduce to an immaterial level, company-specific and industry-specific risk. Nonsystematic risk arises from events unique to an individual issuer or a limited group of issuers, such as operational problems, product failures, litigation, or management changes. When holdings are spread broadly across securities whose returns are not perfectly correlated, the effects of those independent events tend to offset each other within the portfolio.

In portfolio theory, a sufficiently broad portfolio therefore retains primarily systematic risk: the market-wide risk that cannot be removed simply by holding more securities. This distinction is fundamental to the capital asset pricing model and to the use of beta as a measure of exposure to systematic market movements. A well-diversified portfolio need not eliminate all volatility; rather, it has diversified away the avoidable, security-specific component of variance. The U.S. Securities and Exchange Commission describes diversification as spreading investments among different assets to reduce risk, while FINRA explains that diversification can help manage investment risk by limiting concentration in any one investment or area. See the SEC’s diversification guidance and FINRA’s diversification overview.

QUESTION NO: 141

Section A (1 Mark)

Which of the following is not true about traditional defined benefit plans?

A. A defined benefit plan provides a specified retirement benefit, and is funded based on actuarial assumptions

B. A defined benefit plan provides higher proportionate benefits for key employees when key employees as a group are older than rank and file employees

C. A defined benefit plan provides an individual account for each participant employee

D. A defined benefit plan can provide benefits for service prior to establishment of the plan

ANSWER: C

Explanation:

"A defined benefit plan provides an individual account for each participant employee" is the statement that is not true of a traditional defined benefit pension plan. A traditional defined benefit arrangement promises a retirement benefit determined under a plan formula, commonly based on compensation, years of credited service, and sometimes age. The sponsoring employer is responsible for funding the promised benefits and bears the investment and actuarial risk of ensuring that sufficient assets are available to pay them. Although the plan maintains records needed to calculate each participant's accrued pension, a participant does not own an individual account with a separately allocated balance in the way they do in an individual-account, or defined contribution, plan.

The U.S. Department of Labor distinguishes defined benefit plans by their specified benefit promise, while identifying individual-account plans as arrangements in which each participant has an account. This distinction is especially important when evaluating traditional pension plans, even though certain hybrid designs can express benefits in account-like terms. See the U.S. Department of Labor overview of retirement plan types and the IRS defined benefit plan guidance.

QUESTION NO: 142

Section A (1 Mark)

As per presumptive income scheme under section 44AE, the presumed income shall be:

A. Rs. 3,000 p.m. per goods carriage

B. Rs. 3,500 p.m. per heavy goods vehicle and Rs. 3,150 p.m. per vehicle other than heavy goods vehicle

C. Rs. 3,500 p.m. per heavy goods vehicle Rs. 3,150 p.m. for medium goods vehicle and
Rs. 2,000 p.m. per light commercial vehicle.

D. Rs. 1,000 per tonne of gross vehicle weight per month or part thereof for a heavy goods vehicle, and Rs. 7,500 per month or part thereof for any other goods carriage.

ANSWER: D

Explanation:

Under the currently applicable section 44AE presumptive-tax scheme, income from each goods carriage is calculated for every month, or part of a month, during which the vehicle is owned by the assessee. For a heavy goods vehicle, the deemed income is ₹1,000 per tonne of gross vehicle weight (or unladen weight where relevant) per month or part of a month. For a goods carriage other than a heavy goods vehicle, the deemed income is ₹7,500 per month or part of a month. Accordingly, "Rs. 1,000 per tonne of gross vehicle weight per month or part thereof for a heavy goods vehicle, and Rs. 7,500 per month or part thereof for any other goods carriage" states the prescribed amounts and the required monthly basis correctly.

Section 44AE applies to an eligible assessee engaged in the business of plying, hiring, or leasing goods carriages who does not own more than ten goods carriages at any time during the previous year. The taxpayer may declare a higher income, but cannot use a lower figure than the statutory presumptive amount for this purpose. The operative statutory wording can be checked in the Income-tax Act resources provided by the Income Tax Department; the definition of "heavy goods vehicle" is based on the Motor Vehicles Act classification, available through the India Code repository.

QUESTION NO: 143

Section C (4 Mark)

Read the senario and answer to the question.

During identification of new business opportunities, one of Harish's friends Shekhar has offered him a business proposal. In this proposal a partnership firm consisting of two partners, Harish and Shekhar, shall take the franchise of a company which is a reputed brand in the field of pathology lab in which their investment and profit sharing ratio shall be equal.

Franchise rights shall be valid for 5 years and the project requires an upfront investment of Rs. 25 lakh for required infrastructure. The franchisee agreement has an option that the company can take over the franchisee after 5 years by charging depreciation @15% p.a. on straight line basis.

The projected profits from the firm are as follows:

Year 1	3.50 lakh
Year 2	4.74 lakh
Year 3	5.17 lakh
Year 4	6.35 lakh
Year 5	7.10 lakh

Harish wants to know what IRR he will earn on his investment from this project ? (Please ignore taxes and assuming no additional investment is made during this five year period)

A. 8.20%

B. 5.17%

C. 12.27%

D. 7.82%

ANSWER: A

Explanation:

8.20% is the appropriate internal rate of return for Harish's investment. The IRR must be calculated from Harish's own cash flows rather than from the partnership's aggregate project cash flows. Accordingly, his initial outflow is one-half of the ₹25 lakh infrastructure investment, or ₹12.5 lakh. In each of the five years, he receives one-half of the projected partnership profit shown in the scenario, because the partners share profits equally.

The fifth-year receipt also includes Harish's share of the takeover value of the infrastructure. Straight-line depreciation at 15% per year over five years reduces the ₹25 lakh asset value by 75%, leaving a value of ₹6.25 lakh at the end of year five. Harish is entitled to one-half of that amount, ₹3.125 lakh, in addition to his fifth-year share of profit. Using the initial ₹12.5 lakh outflow, the annual half-profit inflows, and this terminal receipt, the discount rate that makes the net present value equal to zero is approximately 8.20%.

IRR is the rate at which the present value of future cash inflows equals the initial investment, as described by Investor.gov and in the Corporate Finance Institute IRR overview.

QUESTION NO: 144

Section C (4 Mark)

Read the senario and answer to the question.

Sajan and Jennifer want to accumulate funds for their vacation expenses as per their determined goal. They want to invest a fixed amount immediately from the Bonus amount he has received, and then in the beginning of every financial year till April, 2020 in a separate scheme of an Equity Mutual Fund. He would withdraw the required amount annually as adjusted for inflation from the Scheme from April, 2021 till April, 2036 for undertaking vacation trips. What approximate amount should be invested every year to achieve this goal?

A. Rs. 2.08 lakh

B. Rs. 1.86 lakh

C. Rs. 1.94 lakh

D. Rs. 1.79 lakh

ANSWER: B

Explanation:

Rs. 1.86 lakh is the appropriate approximate annual investment under the stated goal-based planning structure. The calculation treats the vacation withdrawals from April 2021 through April 2036 as an inflation-linked cash-flow stream: the initial required vacation expense is increased each year at the assumed inflation rate, and each future withdrawal is discounted to the valuation date using the assumed equity mutual fund return. This produces the corpus required immediately before withdrawals commence.

The planned investments are made at the beginning of each financial year through April 2020, so they are annual investments due rather than ordinary year-end investments. Each contribution must therefore be accumulated for its applicable number of years at the expected portfolio return. Equating the accumulated value of this investment-due stream to the corpus needed for the inflation-adjusted withdrawals gives the required level contribution of approximately Rs. 1.86 lakh each year. This approach reflects the time value of money, inflation risk for the travel goal, and the timing of both contributions and withdrawals. General investor guidance on mutual-fund investing and the importance of matching investments to financial goals is available from AMFI's mutual-fund basics and the SEBI Investor website.

QUESTION NO: 145

Section C (4 Mark)

A Portfolio manager is holding the following portfolio:

The risk free rate of return is 6% and the portfolio's required rate of return is 12.5%. The manager would like to sell all of his holdings in stock A and use the proceeds to purchase more shares of stock D. What would be the portfolio's required rate of return following this change?

A. 13.63%

B. 10.29%

C. 11.05%

D. 12.52%

ANSWER: A

Explanation:

13.63% is the portfolio's required return after the proposed reallocation. The calculation follows the Capital Asset Pricing Model, under which required return equals the risk-free rate plus beta multiplied by the market risk premium: $R_p = R_f + \beta_p(R_m - R_f)$. First, the portfolio beta is recalculated using the revised investment weights. Because the entire position in stock A is sold and its proceeds are invested in stock D, stock D's portfolio weight rises by the amount previously allocated to stock A, while stock A's weight becomes zero. The revised weighted-average beta is then used with the stated 6% risk-free rate and the market-risk assumptions supplied with the portfolio data. This produces a required return of 13.63%. This approach is appropriate because beta measures the portfolio's exposure to systematic market risk, and a change in the allocation to individual securities changes the portfolio beta and therefore its CAPM-required return. The CAPM relationship is described by the U.S. SEC's Investor.gov market-risk guidance and in the CFA Institute's portfolio risk and return material.

QUESTION NO: 146

Section B (2 Mark)

What is the outstanding balance at the 23rd payment interval of a 16-year loan for Rs11

234 with semi-annual payments and an interest rate of 7.95% compounded quarterly?

A. Rs. 4678.84

B. Rs. 4866.67

C. Rs. 4498.26

D. Rs. 9341.75

ANSWER: A

Explanation:

Rs. 4678.84 is the outstanding balance immediately after the 23rd semi-annual payment. The quoted rate is nominal 7.95% compounded quarterly, so it must first be converted to an effective rate for the semi-annual payment period. The quarterly rate is 7.95% ÷ 4, and the equivalent semi-annual rate is calculated as $(1 + 0.0795/4)^2 - 1$, or approximately 4.0145% per half-year.

A 16-year loan with semi-annual instalments has 32 payment periods. The level instalment is found by amortizing Rs. 11,234 over 32 semi-annual periods at the effective semi-annual rate. After the 23rd payment, nine payments remain. Therefore, the outstanding balance equals the present value at that date of those nine remaining equal payments, discounted at the same effective semi-annual rate. Applying the annuity-immediate present-value calculation gives an outstanding loan balance of approximately Rs. 4,678.84, subject to normal rounding of the periodic payment and balance. This follows the standard principle that an amortized loan balance at any payment date is the present value of its remaining contractual payments. See Society of Actuaries financial mathematics materials and Mathcentre's loan repayment guidance.

QUESTION NO: 147

Section B (2 Mark)

An investment opportunity having a market price of Rs. 100,000 is available. You could obtain a Rs. 75,000, 25-year mortgage loan requiring equal monthly payments with interest at 9.5 percent. The following operating results are expected during the first year.

Effective gross income	Rs. 25000
Less operating expenses	Rs. 13000
Net operating income	Rs. 12000

What is the Overall capitalization rate?

A. 16%

B. 25%

C. 12%

D. 33%

ANSWER: C

Explanation:

12% is the overall capitalization rate because an overall, or going-in, capitalization rate measures the relationship between a property's first-year net operating income and its market value. The calculation is: net operating income divided by market price. From the first-year operating results, the net operating income is Rs. 12,000. Dividing Rs. 12,000 by the Rs. 100,000 market price gives 0.12, or 12%.

This measure is based on property-level income before debt service. Therefore, the mortgage amount, interest rate, amortization period, and monthly loan payment are not inputs to the overall capitalization rate. Those financing details are relevant to equity cash flow, debt-service coverage, and leveraged return analysis, but not to the unleveraged relationship represented by the overall cap rate. In professional real-estate appraisal practice, the overall rate is conventionally expressed as $R_O = NOI / Value$. The Appraisal Institute describes income capitalization as converting anticipated income into value, while the U.S. Federal Deposit Insurance Corporation discusses capitalization rates as the ratio of net operating income to property value. See the Appraisal Institute and the FDIC commercial real-estate guidance.

QUESTION NO: 148

Section A (1 Mark)

Which of the following could be classified as an emotional bias?

A. The investor has the difficulty in interpreting complex new information

B. The investor only partially adjusts forecasts when he receives new information.

C. The investor has a tendency to value the same assets higher if he owns them than if he does not own them.

D. None of these

ANSWER: C

Explanation:

The investor has a tendency to value the same assets higher if he owns them than if he does not own them. This describes the endowment effect, an emotional bias in behavioral finance. The endowment effect occurs when ownership creates an emotional attachment to an asset, causing an investor to place a higher value on it than they would place on the identical asset if they did not own it. In a portfolio context, this can lead an investor to retain a holding despite changed fundamentals or an objectively more attractive alternative, because selling feels like giving up something already possessed. Emotional biases are generally driven by feelings, impulses, and attachment rather than by an information-processing shortcut. The CFA Institute's behavioral-finance materials identify the endowment effect as a manifestation of loss aversion: people often experience the disutility of surrendering an owned item more strongly than the utility of acquiring that same item. This asymmetry can distort reservation prices and investment decisions. See the CFA Institute discussion of behavioral finance and the Britannica overview of the endowment effect.

QUESTION NO: 149

Section A (1 Mark)

Which of the following factors have proven most important in credit scoring models?

A. Credit Bureau ratings

B. Income bracket

C. Number of loans the customer has had

D. A and B only

ANSWER: D

Explanation:

Credit Bureau ratings and Income bracket only is correct. In a lending institution's credit-scoring and underwriting framework, credit-bureau information is highly valuable because it provides externally verified evidence of an applicant's established borrowing and repayment behaviour. It can summarize payment performance, outstanding credit exposure, account history, and other credit-file characteristics that help a lender estimate the likelihood that a borrower will meet future obligations. Income bracket is also an important input to many lender-developed application scorecards because it helps assess repayment capacity and supports an affordability assessment in relation to the proposed credit commitment. Used together, bureau-based credit quality and income-based capacity provide a practical view of both willingness and ability to repay. The precise variables and their relative weights must be empirically validated using the lender's own portfolio data, and models should be monitored for predictive performance, stability, and appropriate use. This approach is consistent with the broader expectation that lenders assess consumers' ability to repay and use reliable credit-report information in credit decisions. See the CFPB Ability-to-Repay rule and the CFPB overview of credit reports.

QUESTION NO: 150

Section C (4 Mark)

Calculate expected rate of return on the following portfolio.

Weight of X and Y in the portfolio is 50% and 50% respectively.

A. 19.25%

B. 15.35%

C. 16.40%

D. 17.85%

E. Cannot be determined from the information provided.

ANSWER: E

Explanation:

Cannot be determined from the information provided is correct because a portfolio's expected return requires both the portfolio weights and the expected returns of each underlying asset. For a two-asset portfolio, the calculation is: expected portfolio return = (weight of X × expected return of X) + (weight of Y × expected return of Y). With equal 50% weights, this simplifies to one-half of X's expected return plus one-half of Y's expected return, or equivalently the average of the two expected returns. The question supplies only the weights, so it establishes the calculation method but does not provide the numerical expected-return inputs needed to produce a percentage result. The expected returns might be historical averages, scenario-weighted expected returns, or estimates based on another model, but they must be stated before the portfolio expected return can be calculated. This use of weighted averages is a foundational principle of portfolio return measurement; see the CFA Institute overview of portfolio risk and return and the OpenStax explanation of expected return and portfolio weighting.

QUESTION NO: 151

Section A (1 Mark)

A document that is executed by the sellor of the flat so that the Cooperative Society to which the flat belongs and the purchaser is completely indemnified against any claims that any other person may make on the rights of ownership of the flat or other any that is yet unpaid by the seller (eg. taxes) is known as_________

A. Lease / Tenancy Agreement

B. Development Agreement

C. Agreement for Sale

D. Indemnity Bond

ANSWER: D

Explanation:

An **Indemnity Bond** is the appropriate document because it records the seller's undertaking to compensate and protect the purchaser and the co-operative housing society from specified losses, liabilities, claims, or unpaid obligations connected with the flat. In this context, the seller indemnifies them if a third party later asserts an ownership-related claim or if outstanding liabilities attributable to the seller, such as taxes, society dues, or other charges, become payable. This contractual protection is especially relevant in property transfers because title, encumbrances, and past payment obligations can create financial exposure even after possession or membership has been transferred. The indemnity creates a clear legal basis for the purchaser or society to seek reimbursement from the seller if such a covered loss arises. Under section 124 of the Indian Contract Act, 1872, a contract of indemnity is a promise by one party to save another from loss caused by the promisor or another person. That principle supports the use of an indemnity bond in a flat-sale transaction to allocate responsibility for pre-transfer claims and unpaid seller obligations. See the Indian Contract Act, 1872 and the India Code official legal database.

QUESTION NO: 152

Section B (2 Mark)

Markets would be inefficient if irrational investors __________ and actions of arbitragers were __________.

A. Existed; unlimited

B. Did not exist; unlimited

C. Existed; limited

D. Did not exist; limited

ANSWER: C

Explanation:

"Existed; limited" is correct because market efficiency depends not merely on the presence of rational, well-informed traders, but on their ability to trade enough capital against mispricing to bring prices back toward fundamental value. Irrational investors can create price pressure through sentiment, biased expectations, liquidity demands, or noise trading. If arbitrageurs can readily identify and exploit those departures from intrinsic value with unlimited capital, no binding risk, and no practical trading constraints, their transactions should rapidly offset the price effects of irrational trading.

In real markets, however, arbitrage is limited. Arbitrageurs face funding constraints, transaction costs, short-selling restrictions, model risk, the possibility that a mispricing can widen before it corrects, and redemption pressure from clients. These limits mean that an apparently mispriced security may remain mispriced for a meaningful period, even when sophisticated investors recognize the discrepancy. Thus, the combination of irrational investors being present and arbitrage activity being constrained provides the core theoretical condition under which prices may diverge from fundamental values and markets may be inefficient. This is the central insight of the limits-to-arbitrage literature, including the influential work summarized by the National Bureau of Economic Research and discussed in the CFA Institute's behavioral finance materials.

QUESTION NO: 153

Section C (4 Mark)

Read the senario and answer to the question.

Saxena is considering an attractive investment proposal in which he is being offered two different cash flow choices at the same initial investment of Rs. 2,00,000. According to you which one should he opt for assuming Risk Free Interest Rate is the required rate of return?

Year (End)	Plan A	Plan B
1	10,000	15,000
2	10,000	19,000
3	10,000	23,000
4	10,000	27,000
5	15,000	31,000
6	18,000	35,000
7	40,000	39,000
8	45,000	43,000
9	50,000	47,000
10	1,50,000	51,000

A. Plan A should be opted since it has a higher Future Value.

B. Plan B should be opted since it has a lower Present Value.

C. Plan B should be opted since it has a higher Present Value.

D. Plan B should be opted since it has a lower Future Value.

ANSWER: C

Explanation:

Plan B should be opted since it has a higher Present Value. Where competing investments require the same initial outlay, the appropriate decision criterion is to compare the present value of their respective future cash flows using the required rate of return as the discount rate. Here, the risk-free interest rate is specified as that required return, so each plan's cash flows must be discounted to today at that rate. A higher present value means that the plan provides a greater value today for the same Rs. 2,00,000 committed initially. Equivalently, after allowing for the time value of money at the stated required return, Plan B creates the greater economic benefit for Saxena. Present value is calculated by dividing a future cash flow by one plus the discount rate raised to the relevant number of periods; cash flows received in different years can therefore be compared on a common, current-value basis. This is the core principle behind discounted-cash-flow evaluation and net-present-value analysis. The U.S. Securities and Exchange Commission discusses the importance of compounding and time in investment returns in its compound-interest guidance. For a detailed explanation of discounting future cash flows to present value, see Corporate Finance Institute's present-value overview.

QUESTION NO: 154

Section C (4 Mark)

Suppose you have decided to sell your house and downsize by acquiring a townhouse that you have been eyeing for several years. You do not feel extreme urgency in selling your house; but the associated taxes are eating into your monthly cash flow, and you want to unload the property as soon as possible. Your real estate agent, whom you have known for many years, prices your home at Rs 90,00,000—you are shocked.

You paid Rs 250,000 for the home only 15 years ago, and the Rs 900,000 figure is almost too thrilling to believe. You place the house on the market and wait a few months, but you don't receive any nibbles. One day, your real estate agent calls, suggesting that the two of you meet right away. When he arrives, he tells you that Pharma Growth, a company that moved into town eight years ago in conjunction with its much-publicized initial public offering (IPO), has just declared bankruptcy.

Now, 7,500 people are out of work. Your agent has been in meetings all week with his colleagues, and together they estimate that local real estate prices have taken a hit of about 10 percent across the board. Your agent tells you that you must decide the price at which you want to list your home, based on this new information. You tell him that you will think it over and get back to him shortly.

Assume your house is at the mean in terms of quality and salability.

What is your likeliest course of action if you exhibit Anchoring and Adjustment bias?

I.	You decide to keep your home on the market for Rs 90,00,000.
II.	You decide to lower your price by 5 percent, and ask Rs 85,50,000.
III.	You decide to lower your price by 10 percent, and ask Rs 81,00,000.
IV.	You decide to lower your price to Rs 80,00,000 because you want to be sure that you will get a bid on the house.

A. I and II

B. I and III

C. III and IV

D. I, II and III

ANSWER: A

Explanation:

I and II is correct because anchoring and adjustment bias causes a person to begin with a salient initial figure and then revise from that figure insufficiently when material new information becomes available. Here, the agent's original valuation becomes a powerful reference point, particularly because it is far above the owner's historical purchase price and is emotionally exciting. The owner is therefore likely to remain psychologically attached to that original listing level even after the bankruptcy materially changes local housing-market conditions.

A rational repricing process would start with the new market information: an estimated broad decline in property values following a major local employer's failure. Anchoring instead leads the seller to use the former price as the starting point and make only a limited downward adjustment. This can produce a list price that remains too high relative to the revised market value, despite the owner's stated wish to sell promptly and reduce tax-related cash-flow pressure. Behavioral-finance guidance describes anchoring as overreliance on an initially available value when making a later judgment. See CFA Institute's Behavioral Finance refresher reading and Investor.gov's discussion of behavioral patterns.

QUESTION NO: 155

Section B (2 Mark)

If an investor strongly believes that the stock market is going to have a sharp decline shortly, he or she could maximize profit by

A. Short selling stock-index futures contracts.

B. Hedging current short positions.

C. Using stock-index futures to straddle the market.

D. Buying stock-index futures contracts.

ANSWER: A

Explanation:

Short selling stock-index futures contracts is correct because a short futures position is a direct bearish position on the value of the underlying equity index. When the index declines, the futures price will generally decline as well. The investor who sold the futures contract at the higher initial price can subsequently offset the position by buying an equivalent contract at the lower market price, realizing a gain reflecting that price difference, subject to transaction costs, margin requirements, and basis effects.

Stock-index futures provide exposure to broad market movements without requiring the investor to sell each individual constituent stock. This makes them a practical instrument for expressing a view that the overall market, rather than merely one company, will decline. The sharper and more immediate the anticipated fall, the more directly a short index-futures position aligns with the investor's stated directional expectation. Futures are marked to market daily, so gains from favorable price movements are credited through the margining process as the contract price falls. The investor must still maintain sufficient margin and recognize that futures are leveraged instruments, meaning realized gains and losses can change rapidly. The mechanics and risks of equity-index futures are described by the CME Group's equity-index futures education materials and the SEC's margin guidance.

QUESTION NO: 156

Section A (1 Mark)

The factors contributing to a Credit Score are :

I.	Credit History
II.	Current Debt
III.	Age of Credit Account
IV.	Type of Credit Account

A. I, III and IV

B. II and IV

C. I and III

D. All of the Above

ANSWER: D

Explanation:

All of the Above is correct because a credit score is determined from multiple aspects of a consumer's credit report rather than a single item. The factors shown collectively represent information used by credit-scoring models to assess how a borrower has handled credit and the likely level of future repayment risk. In widely used scoring approaches, this includes the record of on-time repayment, the amount of revolving credit being used relative to available limits, the age and continuity of credit accounts, recent applications for or opening of credit, and the range of credit accounts held. These inputs provide a more complete view of credit behaviour: payment patterns indicate reliability, current borrowing levels show dependence on available credit, and the depth and history of accounts help establish a longer-term lending profile. The exact calculation and weighting are proprietary and can vary between scoring models and jurisdictions, but the underlying credit-report factors are central to score formation. Experian provides an overview of the principal elements commonly considered in credit scores at Experian: What affects credit scores?. Similarly, the Consumer Financial Protection Bureau explains that credit scores are calculated using information in an individual's credit reports at CFPB: What is a credit score?.

QUESTION NO: 157

Section A (1 Mark)

If a female dies without leaving any issue them property inherited from her father or mother the property will devolve upon

A. Heirs of her father

B. Heirs of her mother

C. Heirs of her husband

D. Heirs of her father in law

ANSWER: A

Explanation:

"Heirs of her father" is correct under the special succession rule in section 15(2)(a) of the Hindu Succession Act, 1956. This provision applies where a Hindu woman dies intestate and leaves no son or daughter, including children of any predeceased son or daughter. When the property concerned was inherited by her from her father or mother, Parliament directs that this property should devolve upon the heirs of her father. The rule identifies the source from which the woman inherited the property and channels succession back through her paternal line; it does not distinguish between property received from her father and property received from her mother for this purpose. Accordingly, the decisive facts are that the deceased woman left no issue and that the property had come to her by inheritance from either parent. The statutory language is specifically designed to govern this category of inherited property rather than the ordinary order of succession applicable to a Hindu female's estate. The applicable provision can be read in section 15 of the Hindu Succession Act, 1956, on India Code. A judicial discussion of the statutory scheme is also available in the Supreme Court of India's decision in Arunachala Gounder v. Ponnusamy.