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AAFM CWM LEVEL 2

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QUESTION NO: 1

Section B (2 Mark)

Mr. Ram buys 100 calls on a stock with a strike of Rs.1,200. He pays a premium of Rs.50/call. A month later the stock trades in the market at Rs.1,300. Upon exercise he will receive _____.

- A. Rs. 10,000
- B. Rs. 1,200
- C. Rs. 6,000
- D. Rs. 1,150

ANSWER: A

QUESTION NO: 2

Section A (1 Mark)

An individual is said to be a resident in India in the previous year (in which the Feb month has 29 days) if he is in India in that year for a period of _____ days or more.

- A. 70
- B. 183
- C. 182
- D. 150

ANSWER: C

QUESTION NO: 3

Section A (1 Mark)

The Net Operating Income (NOI) for a real estate investment is calculated as:

- A. Gross potential income + vacancy and collection loss rate – insurance- real estate taxes-utility expenses- estimated maintenance expenses

B. Gross potential income-vacancy and collection loss rate – insurance- real estate taxesutility expenses- estimated maintenance expenses

Gross potential income - vacancy and collection loss rate + insurance- real estate taxesutility expenses- estimated maintenance expenses-financing cost

C. Gross potential income + vacancy and collection loss rate - insurance + real estate taxes-utility expenses- estimated maintenance expenses-depreciation

ANSWER: B

QUESTION NO: 4

Section C (4 Mark)

Pacific Asia reported net income of Rs770 million in 1993, after interest expenses of Rs320 million. (The corporate tax rate was 36%.) It reported depreciation of Rs960 million in that year, and capital spending was Rs1.2 billion. The firm also had Rs4 billion in debt outstanding on the books, rated AA (carrying a yield to maturity of 8%), trading at par (up from Rs3.8 billion at the end of 1992). The beta of the stock is 1.05, and there were 200 million shares outstanding (trading at Rs60 per share), with a book value of Rs5 billion. Pacific Asia paid 40% of its earnings as dividends and working capital requirements are negligible. (The Risk Free rate is 7%.)

Estimate the free cash flow to the firm in 1993.

- A. Rs785.45
- B. Rs 734.80
- C. Rs 689.20
- D. Rs 161.75

ANSWER: B

QUESTION NO: 5

Section A (1 Mark)

Garima deposits Rs. 2,000/- every month in an account and is getting interest @ 12 % per annum compounded monthly. How much will be her nest egg after 10 years ?

- A. 233853.54
- B. 460077.37
- C. 234987.56

D. 564234.44

ANSWER: B

QUESTION NO: 6

Section B (2 Mark)

Investors will choose investments that resonate with their own personality or that have characteristics that investors can relate to their own behavior. Taking the opposite view, investors ignore potentially good investments because they can't relate to or do not come in contact with characteristics of those investments. For example, thrifty people may not relate to expensive stocks (high price/earnings multiples) and potentially miss out on the benefits of owning these stocks.

Which of the following Availability Bias have been exhibited in the case above?

- A. Retrievability.
- B. Categorization.
- C. Resonance.
- D. Narrow range of experience.

ANSWER: C

QUESTION NO: 7

Section B (2 Mark)

Contribution under a defined benefit plan

- A. Will be fixed in relation to the wages earned
- B. Will be determined based on the benefits earned
- C. Will remain unaltered once earned
- D. Will be decided by the members of the benefit scheme

ANSWER: B

QUESTION NO: 8

Section B (2 Mark)

Calculate the duration of a 10 year annual annuity that has a yield of 7%.

- A. 5.50 Years
- B. 4.94 Years
- C. 3.85 Years
- D. 6.50 Years

ANSWER: C

QUESTION NO: 9

Section A (1 Mark)

Which of following is not an exclusion under a health policy?

- A. Pre existing conditions
- B. Accident injury
- C. Elective surgery
- D. Intentional self inflicted injury

ANSWER: B

QUESTION NO: 10

Section A (1 Mark)

Which type of portfolio allocation is usually done once every few years?

- A. Integrated asset allocation
- B. Strategic asset allocation
- C. Tactical asset allocation
- D. Command asset allocation

ANSWER: B

QUESTION NO: 11

Section B (2 Mark)

The income of any university or other educational institution existing solely for educational purposes and not for the purposes of profit is exempt under clause (iiia) of Section 10(23C) if the aggregate annual receipts of such university or educational institution do not exceed.

- A. Rs.100 crores
- B. Rs.1 crore,
- C. Rs. 10 crores
- D. Rs. 10 lakhs

ANSWER: B

QUESTION NO: 12

Section A (1 Mark)

Endorsements modify

- A. Life & Health Insurance contracts
- B. Property & Liability Insurance contracts
- C. Both of the above
- D. None of the above

ANSWER: B

QUESTION NO: 13

Section B (2 Mark)

In regard to moving averages, it is considered to be a _____ signal when market price breaks through the moving average from _____.

- A. Bullish: below
- B. Bearish; above
- C. Bullish above

D. A and B

ANSWER: D

QUESTION NO: 14

Section B (2 Mark)

Major phases of budgeting process are:

- A. Assessing Current situation and recommendation of products
- B. Recommendation of products and Planning Financial direction
- C. Assessing current situation and planning financial direction
- D. None of the above

ANSWER: C

QUESTION NO: 15

Section C (4 Mark)

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

- \$321500 in SGD and he is a Singapore citizen
 - £ 35214p.a (only dividends) and he is a UK citizen
- A. £ 6715.80 and 2843.50 SGD
 - B. £ 13431.60 and 6906.25 SGD
 - C. £ 26863.20 and 11375 SGD
 - D. £ 11444.55 and 64300 SGD

ANSWER: D

QUESTION NO: 16

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

QUESTION NO: 17

Section C (4 Mark)

Read the scenario 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

QUESTION NO: 18

Section B (2 Mark)

In US, all states except _____ require their state, via state constitutional or statutory requirements, to balance their budget.

- A. Vermont
- B. Texas
- C. All states require a balanced budget
- D. North Carolina

ANSWER: A

QUESTION NO: 19

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

QUESTION NO: 20

Section A (1 Mark)

A bank is considering making a loan to Neil Garg. Neil has bounced three cheques in the last year and already has Rs 1,00,000 on a credit card and an automobile loan with a large balance. What aspect of evaluating a consumer loan application is this fact concerned with?

- A. Income level
- B. Deposit balance
- C. Employment and residential stability
- D. Pyramiding of debt

ANSWER: D