



**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**END OF SEMESTER EXAMINATION**  
**BFS 3101: FINANCIAL PLANNING AND WEALTH MANAGEMENT**

**DATE:** Monday, 24<sup>th</sup> July 2023

**TIME:** 15:30-17:30

*Answer question one (Compulsory) and any other two questions.*

**QUESTION ONE**

a) Read the **case scenario** below and answer the questions that follow:

Joy Kamau, 34, is considering taking the plunge—she is not only engaged to be married but is also debating whether to purchase a new home. Joy owns a cupcake café. It has been open for over a year and has earned rave reviews in the local press and from its customers, who just cannot get enough of her delicious cupcakes. One such customer, who stopped by on a whim in the café's first week of business, is Richard. After a whirlwind courtship, Richard, a self-employed web page designer, proposed, and Joy agreed to be his wife. The bungalow that Joy has been renting for the past five years is too small for the soon-to-be newlyweds, so Joy and Richard are trying to decide if they should move to another rental or purchase a home of their own. They agreed to visit their local banker to get an idea of how much home they can afford with their combined incomes.

**Current Financial Situation for Joy and Richard**

<b>Assets (Joy and Richard combined):</b> Checking account: Kshs.40,300 Savings account: Kshs.550,200 Emergency fund savings account: Kshs.190,100 Cars: Kshs. 120,000 (Joy) and Kshs.200,000 (Richard)	<b>Liabilities (Joy and Richard combined):</b> Student loan balance: Kshs. 0 Credit card balance: Kshs.0 Car loans: Kshs.80,000
<b>Income:</b> Joy: Kshs.450,000 gross income (Kshs. 310,500 net income after taxes) <b>Richard:</b> Kshs. 700,000 gross income (Kshs. 590,000 net income after taxes)	<b>Monthly Expenses (Joy and Richard combined):</b> Utilities: Kshs.1600; Food: Kshs.3250; Gas/maintenance: Kshs.2750; Credit card payment: Kshs. 0; Car loan payment: Kshs. 2890; Entertainment: Kshs. 3000

**Required:**

- i. Using the Personal Financial Planner Sheet 40, Housing Needs, compare the advantages and the disadvantages of renting a home or apartment versus purchasing a home **(10 marks)**
- ii. Joy and Richard are estimating that they will be putting Kshs.400,000 from their savings as a down payment on their home purchase. Using the traditional financial guideline suggestion of “two and a half times your salary plus your down payment,” calculate approximately how much Joy and Richard can spend on a house? **(5 marks)**
- iii. Joy and Richard found a brand-new, three-bedroom, 2½-bath home in a quiet neighborhood for sale. The listing price is Kshs. 2,750,000. They placed a bid of Kshs. 2,600,000 on the home. The seller's counteroffer was Kshs. 2,730,000. What should Joy and Richard do next to demonstrate to the owner that they are serious buyers **(5 marks)**

- b) The financial planning process is a logical, six-step procedure that can be adapted to any life situation. Graphically illustrate the financial planning process. **(10 marks)**

**Total: 30 marks**

## **QUESTION TWO**

Multiple choice questions: **Each 2 marks**

- i. Kevin wishes to borrow Kshs. 18,000 to buy a new phone. The rate is 8.6% over four years with monthly payments. Find the monthly payment:
  - a. Kshs. 444.52
  - b. Kshs. 286.21
  - c. Kshs. 665
- ii. How much money must Sylvia's wealthy uncle Victor give her now to finance four years of college, assuming an annual cost of Kshs.480,000 and an interest rate of 6% (applied to the principal until disbursed)?
  - a. Kshs.2,800,000
  - b. Kshs.1,663,250.7
  - c. Kshs.3,254,100.2
- iii. How much money must Ubah set aside at age 20 to accumulate retirement funds of Kshs.1,000,000 at age 65, assuming a rate of interest of 7%?
  - a. Kshs.65,404.5
  - b. Kshs.56,894.5
  - c. Kshs.47,613.5
- iv. If Amina deposits Kshs. 20,000 in a 5-year certificate of deposit at 5.2%, how much will it be worth in five years:
  - a. Kshs.25,769.7.
  - b. Kshs.42,562.5
  - c. Kshs.3,500,245
- v. Deepak chooses to invest Kshs.500/month in an international stock mutual fund. Assuming an annual rate of return of 9%, how much will this fund be worth if Deepak is retiring in 40 years?
  - a. Kshs. 5,340,665.25
  - b. Kshs. 2,340,660.1
  - c. Kshs. 6,580,500.2
- vi. If Peris deposits Kshs.2,000 in a 5-year certificate of deposit at 5.2% with quarterly compounding, how much will it be worth in five years?
  - a. Kshs.4,400.94
  - b. Kshs.3,339.41
  - c. Kshs.2,589.52
- vii. To have Kshs. 60,000 in an education in 10 years, what amount should Kristie deposit in a savings account that earns 12 percent, compounded quarterly?
  - a. Kshs.18,420
  - b. Kshs.17,785
  - c. Kshs.23,203
- viii. How much would Tracie have to deposit now to be able to withdraw Kshs.6,500 at the end of each year for 20 years from an account that earns 11 percent?
  - a. Kshs.6,852.45.
  - b. Kshs.5,175.95.
  - c. Kshs.9,230.25.

- ix. How much would Farah have in savings if she kept Kshs.2,000 on deposit for eight years at 8 percent, compounded semiannually?
- Kshs.3,250
  - Kshs.2,862
  - Kshs.3,746
- x. How much interest would Ivy earn if she deposited Kshs.3,000 at 6 percent for 27 months?
- Kshs.405
  - Kshs.524
  - Kshs.870

**Total: 20 marks**

**QUESTION THREE**

a) Read the case scenario below and answer the questions that follow:

“Wow, you mean you have three job offers? How did that happen?” “I’m not quite sure, Leslie,” responded Emily. “I guess I just carefully prepared for my job search.” “Ahhh . . . could you be a bit more specific for those of us who have no job offers?” asked Christine. “After researching various organizations, I tried to match my abilities and experiences to their needs,” Emily continued. “Then, in addition to my résumé, I sent a portfolio with samples of my research work and creative projects.” “OK, Emily, which of the three jobs are you going to take?” asked Whitney. “Again, I’m not quite sure. I’ve created a comparison of the three to help me decide,” Emily replied. “Let me see that!” exclaimed Margaret. “Wow, you take this career search stuff seriously!”

<b>Job offer A</b>	<b>Job offer B</b>	<b>Job offer C</b>
Advertising account assistant for international promotions with global company with offices in 17 countries.	Marketing assistant for a medium-sized equipment company; sales offices in eight southeastern states.	Public relations director in office of a local nonprofit organization assisting low-income families with food and housing.

**Required**

- Which recommended six steps might Emily take when deciding which position to accept **(6 marks)**
  - What factors would you consider when selecting an employment position? **(4 marks)**
- b) State whether the statements are **True/False (Each 2 marks)**
- Most people agree that emotional problems, the use of money to punish, the expectation of instant comfort, keeping up with the Joneses, overindulgence of children, misunderstanding or lack of communication among family members, and the amount of finance charges are common reasons for excessive indebtedness **(True/False)**
  - A personal cashflow statement, also known as a net worth statement, is prepared by listing all items of value (assets) and all amounts owed to others (liabilities) **(True/False)**
  - Timing purchases, comparing buying sources and brands, using label information, computing unit prices, and evaluating warranties are common strategies for effective purchasing **(True/False)**
  - The four general risk management techniques are risk avoidance, risk reduction, risk assumption, and risk shifting **(True/False)**
  - The cost of automobile insurance is affected by the amount of coverage, automobile type, rating territory, driver classification, differences among insurance companies, and premium discounts **(True/False)**

**Total: 20 marks**

## QUESTION FOUR

- a) Deone is planning for her retirement. She has determined that her car is worth Kshs. 100,000; her home is worth Kshs 1,500,000; her personal belongings are worth Kshs.1,000,000 and her stocks and bonds are worth Kshs 3,000,000. She owes Kshs.500,000 on her home and Kshs. 50,000 on her car.

### Required

- Calculate Deone's net worth.?  
**(5 marks)**
- b) The rule of 72 provides a guideline for determining how long it takes your money to double. This rule can also be used to determine your earning rate. If your money is expected to double in 12 years, what is your rate of return?  
**(3 marks)**
- c) If Rachel desired to have Kshs. 1,000,000 in savings eight years from now, what amount would she need to deposit in an account that earns 5 percent?  
**(2 marks)**
- d) Using a well labelled diagram distinguish between the eight components of personal financial planning.  
**(10 marks)**

**Total: 20 marks**

## QUESTION FIVE

- a) Read the case extract below and answer the questions that follow:

A married couple, Patricia and Ryan, have just learned about the death of their friend, Lloyd, and wondered whether Lloyd had provided for his family. Ryan admits he doesn't even have a will. What would happen to their children if Ryan died today? David Kanyora, an estate planning attorney, explains that the first step in estate planning is to identify all of your assets. He reminds Patricia and Ryan that most people forget that estate planning is not just for the rich and famous. Patricia and Ryan believe their net worth is not much, even though they own a home, savings accounts, and treasury bills. Their attorney friend calculates that Patricia and Ryan have a net worth of about Kshs 10 million. The couple is startled. The attorney explains that they already have a will even though they never wrote one.

### Required

- i. The attorney David explains that Patricia and Ryan already have a will in the case extract above. What is the name given to this will and who writes this will?  
**(4 marks)**
  - ii. Lloyd who was a friend to Patricia and Ryan died without a will. Dying without a will is called?  
**(2 marks)**
  - iii. What triggered Patricia and Ryan to start thinking about planning their estate? What is the first step they should take in estate planning?  
**(4 marks)**
- b) State whether the statements are **True/False (Each 1 mark)**
- i. Tax evasion is the use of legitimate methods to reduce one's taxes while in contrast, tax avoidance is the use of illegal actions to reduce one's taxes (**True/False**)
  - ii. Life insurance is a contract between an insurance company and a policyholder under which the company agrees to pay a specified sum to a beneficiary upon the insured's death. (**True/False**)
  - iii. Investors may experience two types of risk: a risk you will not receive periodic income payments and a risk that an investment will decrease in value. (**True/False**)
  - iv. A dividend reinvestment plan allows you to purchase stock directly from a corporation without having to use an account executive or a brokerage firm, while a direct investment plan allows you the option to reinvest your cash dividends to purchase stock of the corporation (**True/False**)
  - v. Direct real estate investments, include a home, a vacation home, commercial property, and undeveloped land, while indirect real estate investments include real estate syndicates, REITs, mortgages, and participation certificates (**True/False**)

**Total: 20 marks**