



**STRATHMORE BUSINESS SCHOOL  
BACHELOR OF FINANCIAL SERVICES**

**END OF SEMESTER EXAMINATION**

**BFS 3101: FINANCIAL PLANNING AND WEALTH MANAGEMENT**

**DATE:** Mon, 22<sup>nd</sup> July 2024

**TIME:** 13:00 – 15:00

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**Instructions:**

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

**QUESTION ONE**

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

In a recent month, the Muluwa family had a budget deficit, which is something they want to avoid so they do not have future financial difficulties. Jason and Karen Muluwa and their children plan to discuss the situation after dinner this evening. While at work, Jason was talking with his friend Ken. Ken had been a regular saver since he was very young, starting with a small savings account. Those funds were then invested in various stocks and mutual funds. Jason asked Ken, “How come you never seem to have financial stress in your household?” Ken replied, “Do you know where your money is going each month? Saving goals?” “Not really,” was Jason’s response. “You’d be surprised by how much is spent on little things you might do without,” Ken responded. “I guess so. I just don’t want to have to go around with a notebook writing down every amount I spend,” Jason said in a troubled voice. “Well, you have to take some action if you want your financial situation to change,” Ken countered. That evening, the Muluwa family met to discuss their budget situation based on the advice given by Ken.

**Required:**

- i. Ken advised Jason the four phases involved in the budgeting activity process. Discuss the **four** phases in the budgeting activity **(8 marks)**
- ii. Explain what the Muluwa family saving goals would be based on when preparing their budget. **(4 marks)**
- iii. The Muluwa family has Kshs. 1,450,000 in assets and Kshs. 630,000 in liabilities. What is the family’s net worth? **(3 marks)**
- iv. Successful money management involves the budgeting process but also other

activities. Explain the other activities involved.

**(5 marks)**

**b) State whether the statements are True/False (Each 2 marks)**

- i. 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, your rate of return will be 6% **(True/False)**
- ii. Health insurance is protection that provides payment of benefits for a covered sickness or injury while disability income insurance protects your most valuable asset: the ability to earn income. **(True/False)**
- iii. Indirect real estate investments include real estate syndicates, mortgages, and participation certificates while direct real estate investments, include a home, a vacation home, commercial property, and undeveloped land **(True/False)**
- iv. Tax avoidance is the use of illegal actions to reduce one's taxes while in contrast tax evasion is the use of legitimate methods to reduce one's taxes **(True/False)**
- v. Risk avoidance, risk reduction, risk assumption, and risk shifting are the four general risk management techniques **(True/False)**

**Total: 30 marks**

## **QUESTION TWO**

- a) The Jakes family has health insurance coverage that pays 75% of out-of-hospital expenses after a Kshs. 600 deductible per person. Jake incurred doctor and prescription medication expenses of Kshs.1,380. What amount would the insurance company pay? **(3 marks)**
- b) How much money must Janet set aside at age 20 to accumulate retirement funds of Kshs. 1,000,000 at age 65, assuming a rate of interest of 7%? **(3 marks)**
- c) Amina chooses to invest Kshs.600/month in an international stock mutual fund. Assuming an annual rate of return of 9%, how much will this fund be worth if Amina is retiring in 40 years? **(4 marks)**
- d) Graphically illustrate the **six** steps in the financial planning process. **(10 marks)**

**Total: 20 marks**

## **QUESTION THREE**

- a) Read the case scenario below and answer the questions that follow:  
"My account balance is a little lower than I expected," commented Melanie as she reviewed her bank statement. "Wait a minute! There's nearly Kshs.1000 in fees for ATM withdrawals and other

service charges.” “Oh no! I also went below the minimum balance required for my free checking account,” Melanie groaned. “That cost me Kshs. 550!” Melanie is frustrated with fees paid for financial services, specifically mobile banking, prepaid debit card and check-cashing outlet.

**Required;**

- i. What are the costs and benefits Melanie may encounter when using each of the three stated financial services **(6 marks)**
  - ii. Explain the factors that Melanie should have considered when selecting the three financial services? **(4 marks)**
- b) State whether the statements are **True/False (Each 2 marks)**
- i. A night trader is an individual who buys and then later sells stocks and other securities in a very short period of time. **(True/False)**
  - ii. Selling short includes selling stock that has been borrowed from a brokerage firm and must be replaced at a later date. **(True/False)**
  - iii. Timing purchases, comparing buying sources and brands, using label information, computing unit prices, and evaluating warranties are common strategies for effective purchasing **(True/False)**
  - iv. 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)**
  - v. 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)**

**Total: 20 marks**

#### **QUESTION FOUR**

Several students were discussing the benefits of saving and investing earlier in their life. They encountered the following scenarios.

- a) Pauline 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? **(5 marks)**
- b) How much would David have in savings if he kept Kshs. 2,000 on deposit for eight years at 8 percent, compounded semiannually? **(5 marks)**
- c) To have Kshs. 60,000 in an education fund in 10 years, what amount should Neema deposit in

- a savings account that earns 12 percent, compounded quarterly? **(5 marks)**
- d) How much interest would Mark pay to borrow Kshs. 6,700 for 8 months at 12 percent? **(3 marks)**
- e) Masai desired to have Kshs. 1,000,000 in savings eight years from now, what amount would he need to deposit in an account that earns 5 percent? **(2 marks)**
- Total: 20 marks**

#### QUESTION FIVE

- a) Estate planning is an essential part of retirement planning and an integral part of financial planning. The first part of estate planning consists of building your estate; the second part consists of transferring your estate, at your death, in the manner you have specified.
- Required;**
- i. Discuss the legal aspects involved in estate planning **(6 marks)**
  - ii. Distinguish between the **four** types of wills involved in the second part of estate planning **(8 marks)**
- b) When selecting a place to live, you need to consider your needs, life situation, and financial resources. These factors will influence your selection of housing. Illustrate the stages in the home-buying process **(6 marks)**
- Total: 20 marks**