



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

Date: Tuesday, 2nd August 2022

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

- a) Read the **Case extract** below and answer the questions that follow

Terry, age 23, has recently decided to switch from attending Strathmore University part-time to full-time in order to pursue her Bachelor of Financial Services degree and aims to graduate within the next three years. She has 55 credit hours remaining to earn her bachelor's degree and knows that it will be a challenge to complete her course of study while still working part-time in the bakery department of a local grocery store, where she earns Kshs. 1,250 a week. Terry wants to keep her part-time job at the grocery store, as she loves baking and creates very decorative cakes. She dreams of opening her own cupcake café within the next five years. She also realizes that by returning to school full-time, she will forgo any free time that she enjoys now socializing with friends. Terry currently shares a small apartment with a friend, and they split all of the associated living expenses, such as rent and utilities. She would really like to eventually have a place of her own. Her car is still going strong, even though it is seven years old, and she has no plans to buy a new one any time soon. She is carrying a balance on her credit card and is making regular monthly payments of Kshs.500 with hopes of paying it off within a year. Terry has also recently taken out a student loan to cover her educational costs and expenses. Terry also began depositing Kshs.

22,000 a year in a savings account that earns 6 percent interest, in hopes of having the Kshs. 90,000 down payment needed to start the cupcake café two years after graduation.

Current Financial Situation

- Checking account: Kshs. 12,500
- Emergency fund savings account: Kshs. 31,000
- Car: Kshs. 40,000
- Student loan: Kshs. 54,000
- Credit card balance: Kshs. 40,000
- Net monthly salary: Kshs.5000

Required

- i. Using the personal financial planner sheet: Personal Financial Goals, as a guide, what are Terry's short-term financial goals? **(5 marks)**
 - ii. Review Terry's current financial situation. Using the SMART approach, what recommendations would you make for her to achieve her long-term goals? (Give alternatives to her saving and investment plan) **(8 marks)**
 - iii. Terry needs to save a total of Kshs. 90,000 to get started in her cupcake café venture. She is presently depositing Kshs. 22,000 each year in a regular savings account earning 6% p.a. How much will she have accumulated four years from now in this regular savings account, assuming she will be leaving her emergency fund savings account balance untouched and for a rainy day? Will she be able to start her cupcake café? **(5 marks)**
- b) Noah has been renting a bungalow for the past 7 years. His friend Jakes recently bought a house and explained to Noah the advantages of buying a house. Noah decides to follow Jakes advice and purchase a home of his own. He uses his savings to pay a down-payment to the house he wants to buy and the remaining money, he decides to borrow from his bank. He therefore borrows a 5-year loan of Kshs. 10,000,000 at 10% interest rate from his Bank.

Required

- i. List two advantages of buying a house that Jakes convinced Noah and two advantages you would give Noah to remain in the rental house. **(4 marks)**

- ii. If the bank requires 5 equal end of year repayments, prepare Noah's loan amortization schedule. **(8 marks)**

Total: 30 marks

QUESTION TWO

- I. Anita receives a phone call from an individual she has not spoken with previously. The caller is excited, just having heard that a new mutual fund is positioned to deliver larger gains in the coming year. The caller wishes to purchase shares of the fund through her. Keeping in mind stages of the overall personal finance planning process, which of the following questions that address the first two stages of the financial planning process should she ask the caller? **(2 marks)**

(1) What are your goals for this investment?

(2) What other investments do you have?

(3) What is your date of birth?

(4) Do you want your dividends reinvested?

- a. 1 and 2 only
- b. 2 and 4 only
- c. 1, 2 and 3 only
- d. 1, 2 and 4 only

- II. John's friend Ephas wants to start investing for retirement living expenses. He invests Kshs. 2000 in a pension fund every year earning an annual interest of 8%. How much investment would he have at the end of 20 years? **(3 marks)**

- a. Kshs. 28,973
- b. Kshs. 91,524
- c. Kshs. 226,566

- III. When a lender extends credit to its customers, it recognizes that some customers will be unable or unwilling to pay for their purchases. Therefore, lenders must establish policies

for determining who will receive credit. Most lenders build their credit policies around the five Cs of credit. Which of the following statements is FALSE based on the five Cs of credit? **(2 marks)**

- a. Character is the borrower's attitude toward credit obligations.
- b. Capacity refers to general economic conditions that can affect your ability to repay a loan.
- c. Capital refers to your assets or net worth.
- d. Collateral is an asset that you pledge to a financial institution to obtain a loan

IV. Career development follows a series of stages. Which of the following characteristics refer to the pre-entry and career exploration stage? **(2 marks)**

- a. Make financial and personal plans for retirement
- b. Seek new challenges and expanded responsibility
- c. Assess personal interests and set career goals
- d. Concentrate on an area of specialization

V. You make an investment plan to purchase stocks. You decide to purchase a growth stock that does not pay dividends. In this situation, you plan to make money based upon an increase in the value of the stock over a long period of time. Your investment objective is to make at least 6 percent on your investment each year. When you initially purchased the stock, you invested Kshs. 240,000. Three years have passed, and the value of your investment is now Kshs. 270,000. You want to evaluate whether you are meeting your investment objective of 6 percent each year. Using the annualized holding period yield formula, evaluate the performance of your investment. **(4 marks)**

VI. Collins agrees that by accomplishing his short-term goal, he can budget Kshs. 5,000 a year toward his long-term investment goals. He is estimating that with the allocations recommended by his financial advisor he will see an average return of 7 percent on his investments. He wants to withdraw in 15 years and will need Kshs. 100,000. Will Collin be on track to reaching his long-term financial goal of having Kshs. 100,000 **(4 marks)**

VII. Tumaini sets aside Kshs. 6000 for unexpected expenses and financial emergencies. She saves the single deposit in a bank earning an annual interest of 3%. How much savings would she have at the end of 2 years? **(3 marks)**

- a. Kshs. 6,365
- b. Kshs. 6,956
- c. Kshs. 8,064

QUESTION THREE

a) A financial plan is a formalized report that summarizes the client’s current financial situation, analyzes their financial needs, and recommends future financial activities You are a financial planner and you have been approached by three clients: a single parent a young couple and a middle-aged person/ couple.

Client and Goal	Short Term financial strategy	Long term financial strategy
Single parent: Provide Kshs. One million education fund for their children		
Young couple: Save for down payment for home purchase		
Middle-aged person or couple: Provide for financial needs of parents		

Required

You are to create a financial plan for each client, showing one short-term financial strategy and long-term financial strategy giving their goals. **(6 marks)**

- b) Explain why the statements are TRUE/FALSE for marks allocation **(Each 2 marks)**
 - i. Francis invested Kshs. 5000 in a fund offering a rate of return of 12% p.a, it will take him 6 years for his investment to reach Kshs. 10,000 using the rule of 72. **(True/False)**
 - ii. In the financial planning process, the fourth step is implementing the strategies of the financial plan constructed in the third step **(True/False)**

- iii. Tax evasion is the use of legitimate methods to reduce one's taxes while tax avoidance is the use of illegal actions to reduce one's taxes. **(True/False)**
- iv. Effie borrows Kshs. 18,000 to buy a new phone. The rate is 8.6% over four years with monthly payments. The monthly payment would be Kshs. 444.52 **(True/False)**.
- v. Younger investors invest more heavily in stocks and mutual funds that invest in stocks. As investors get older, their asset allocations change and become more conservative **(True/False)**.
- vi. Doris invests Kshs. 2,000 a year at 9% for 9 years from ages 22 to 30, at age 65 this fund would be worth Kshs. 579,471 **(True/False)**.
- vii. Personal financial planning has eight components, and the last component focuses on retirement and estate planning **(True/False)**.

Total: 20 marks

QUESTION FOUR

- a) Isaack is trying to decide between two different stock investments, and she asks for your help. Information about each investment is below.

Company	Price per share (Kshs.)	Annual Dividend (Kshs.)	After-Tax Income current year (Kshs.)	Projected Earnings Next year (Kshs.)	Number of shares outstanding
La Scale Finance Ltd	24	0.40	35 million	39 million	20 million shares
El Creative Ltd	40	0.56	122 million	90 million	140 million shares

Required

- i. Calculate the dividend yield for each company. **(3 marks)**
- ii. Calculate the earnings per share for each company **(3 marks)**
- iii. Calculate the price-earnings (P-E) ratio for each company. **(3 marks)**
- iv. Based on this information, which company would you recommend? **(3 marks)**

- b) Linda purchased 10, Kshs. 1,000 corporate bonds issued by Team logistics. The annual interest rate for the bonds is 4 percent.

Required

- i. What is the annual interest amount for each bond **(2 marks)**
- ii. If the bonds have a current price quotation of 106, what is the current price of this bond **(2 marks)**
- iii. Given the above information, what is the current yield for a bond? **(2 marks)**
- iv. If comparable bonds are paying 3.80 percent, what is the approximate market value for the bonds? **(2 marks)**

Total: 20 marks

QUESTION FIVE

The BFS third year students formed investment groups during the semester. They implemented the financial planning principles and techniques they learned to a low-income earner contributing to the Sustainable Development Goals. The different investment groups in class prepared Case Studies on each of their low-income earner. You have been requested to present from your Group Case Study the following:

- i. Brief history of the low-income earner and its operations **(6 marks)**
- ii. The dilemma experienced by the low-income earner **(6 marks)**
- iii. The solution proposed by your group to the low-income earner **(8 marks)**

Total: 20 marks