

# [Personal financial management](https://assignbuster.com/personal-financial-management/)

Test Optional Extra Credit Due 3/4 Rule: Complete the following 4 problems. Each one is worth 22. 5 points and the total is 90 points. If the score of this optional extra credit is higher than your original test 1 score, then it will be used as your new Test 1 score.
Problems:
1. Use future value and present value calculations (see tables in Appendix A) to determine the following:
a. The future value of a $700 savings deposit after eight years at an annual interest rate of 3 percent.
$700 x 1. 267 = $886. 90
b. The future value of saving $2, 500 a year for five years at an annual interest rate of 4 percent.
$2, 500 x 5. 416 = $13, 540
c. The present value of a $2, 000 savings account that will earn 3 percent interest for four years.
$2, 000 x 0. 885 = $1, 770

2. Use the following items to prepare a balance sheet and a cash flow statement for Helen Meyer. Determine her total assets, total liabilities, net worth, total cash inflows, total cash outflows, and cash surplus (or deficit).
Rent for the month, $550
Monthly take-home salary, $2, 750
Cash in checking account, $400
Savings account balance, $1, 570
Spending for food, $350
Balance of educational loan, $1, 270
Current value of automobile, $6, 500
Telephone bill paid for month, $70
Credit card balance, $275
Loan payment, $110
Auto insurance, $210
Household possessions, $2, 975
Stereo equipment, $1, 150
Payment for electricity, $125
Lunches/parking at work, $175
Donations to church, $75
Home computer, $1, 250
Value of stock investment, $750
Clothing purchase, $120
Restaurant spending, $90
Balance Sheet of Helen Meyer as of XXXX
Assets
Liquid Assets
Cash in checking account $400
Savings account balance $1, 570
Total Liquid Assets$1, 970
Personal Possessions
Current value of automobile$6, 500
Stereo equipment$1, 150
Home computer$1, 250
Household possessions$2, 975
Total household assets$11, 875
Investment Assets
Value of stock investment$750
Total investment assets$750
Total assets$14, 595
Liabilities
Current Liabilities
Credit card balance$275
Total current liabilities$275
Long-Term Liabilities
Balance of educational loan$1, 270
Total long-term liabilities$1, 270
Total liabilities$1, 545
Net worth$13, 050
Cash Flow Statement
Cash Inflow
Monthly take-home salary $2, 750 x 12$33, 000
Total cash inflow$33, 000
Cash Outflow
Rent for the month $550 x 12 $6, 600
Spending for food$350
Lunches/parking at work$175
Clothing purchase$120
Telephone bill paid for month $70 x 12$840
Loan payment$110
Payment for electricity$125
Donations to church$75
Restaurant spending$90
Total cash outflows$8, 485
Cash surplus$24, 515
3. Carla Lopez needs to manage her financial plans. You, as a financial planner, are asked for the advice.
a. She deposits $3, 000 a year into her retirement account. If these funds have an average earning of 8 percent over the 40 years until her retirement, what will be the value of her retirement account?
$3, 000 x 259. 06 = $777, 180
b. She currently earns $50, 000 a year and is offered a job in another city for $56, 000. The city she will move to has 8 percent higher living expenses than her current city. What quantitative analysis should she consider before taking the new position?
Current Salary: $50, 000
Minimum Expected Salary: $50, 000 x (1+8%) = $54, 000
Offered Salary: $56, 000 > $54, 000
=> She should accept the offer.
c. She has liquid assets of $2, 680 and current liabilities of $2, 436. What is her current ratio? What comments do you have about this financial position?

Current Assets: $2, 680
Current Liabilities: $2, 436
Current Ratio: Current Assets / Current Liabilities = 2, 680/2, 436 = 1. 10
As the value of the current ratio is greater than 1. 0 therefore it can be stated that she has a good liquidity position as she has sufficient liquid assets to pay off her current liabilities if they fall due in the short term.
4. Wilbur has gathered the following information for his current tax year.
Earning from wages$52, 175
Interest earned on savings$210
IRA deduction$2, 570
Checking account interest$55
Four exemptions$3, 500 each
Current standard deductions for filing status $9, 000
Amount withheld for federal income tax$3, 420
Tax credit for childcare$450
Filing status married filing jointly
a. What is Wilbur’s taxable income? (Refer to Exhibit 4-1, p. 108)
Adjusted Gross Income
Earning from wages$52, 175
Interest earned on savings$210
Checking account interest$55
\_\_\_\_\_\_\_\_
$52, 440
Less: Adjustment to Income
IRA deduction$(2, 570)
Amount withheld for federal $(3, 420)
income tax
\_\_\_\_\_\_\_\_
Adjusted Gross Income$46, 450
Less: Itemized Exemptions and $(14, 000)
Deductions ($3, 500x4)
Less: Standard Exemptions and $(9, 000)
Deductions
\_\_\_\_\_\_\_\_
Taxable Income$23, 450
b. What is his total tax liability? (Use Exhibit 4-7, p. 122) What is his average tax rate?

Taxable Income$23, 450
$0-$14, 320 @ 10%$1, 432
$14, 320-$23, 450 @ 15%$1, 370
Total Tax Liability$2, 802
Less: Childcare Credit$(450)
Net Tax Liability$2, 352
Average Tax Rate: Total Tax Liability / Taxable Income: $2, 352/$23, 450 = 10. 03%
c. Based on his withholding, will Wilbur receive a refund or owe additional tax? What is the amount?

Since, the tax liability is less than the withheld amount therefore a refund will be made.