

# [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.