

Personal financial management



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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.

$$\$700 \times 1.267 = \$886.90$$

b. The future value of saving \$2,500 a year for five years at an annual interest rate of 4 percent.

$$\$2,500 \times 5.416 = \$13,540$$

c. The present value of a \$2,000 savings account that will earn 3 percent interest for four years.

$$\$2,000 \times 0.885 = \$1,770$$

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 $\$2, 750 \times 12$ \$33, 000

Total cash inflow\$33, 000

Cash Outflow

Rent for the month $\$550 \times 12$ \$6, 600

Spending for food\$350

Lunches/parking at work\$175

Clothing purchase\$120

Telephone bill paid for month $\$70 \times 12$ \$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?

$$\$3,000 \times 259.06 = \$777,180$$

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: $\$50,000 \times (1+8\%) = \$54,000$

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: $\text{Current Assets} / \text{Current Liabilities} = 2,680 / 2,436 = 1.10$

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.

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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.