**Week 4 : Managing Credit - Midterm**

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| |  | | --- | | **1.**(TCO A) Jean and Jim have liquid assets of $3,600 and other assets of $42,800. Their total liabilities equal $26,000. What is their net worth? (Show all work.) (Points : 10)          Net Worth = Total Assets - Total Liabilities  Net Worth = (42800 + 3600) - 26000  Net Worth = $20400.00 |  |  | | --- | | **2.**(TCO A) Construct a balance sheet from the following information. Be sure the format is correct. (Show all work.) Cash on hand                        $500 Bank credit card balance          750 Taxes due                               500 Utility bills (over due)                120 Auto loan balance                 6,000 Mortgage                            45,000 Primary residence               60,000 Jewelry                                1,200 Stocks                                 6,000 Coin collection                      2,500 2001 Toyota                         7,500 Auto payment                         250 (Points : 20)           Assets  Liquid Assets  Cash on hand 500  Total Liquid Assets 500    Investments  Stock 6000  Total Investments 6000    Real Property  Primary Residence 60000  Total Real Property 60000    Personal Property  Jewelery 1200  Coin Collection 2500  Auto: 2001 Toyota 7500  Total Personal Property 11200  Total Assets 77700    Liabilities and Networth  Current Liabilities  Bank Credit card balance 750  Taxes due 500  Utilities 120  Total Current Liabilities 1370    Long Term Liabilities  Auto Loan Balance 6000  Mortgage 45000  Auto Payment 250  Total Long Term Liabilities 51250    Total Liabilities 52620    Net Worth 25080    Total Liabilities and Net Worth 77700 |  |  | | --- | | **3.**(TCO A) The following questions are worth 5 points each. Please show all work.  a. Inflation is expected to average five percent for the long term and Mr. Smith earned $74,000 this year, how much must he earn in 20 years just to keep up with inflation and maintain the balance between his income and his increasing expenditures? b. Jamie wants to have $2,000,000 for her retirement in 35 years. How much should she save annually if she thinks she can earn eight percent on her investments? c. The Flemings will need $160,000 annually for 30 years during retirement. How much will they need at retirement if they can earn a four percent rate of return? d. The Hamptons want to have $2,500,000 for their retirement in 30 years. How much should they save annually if they think they can earn seven percent on their investments?  (Points : 20)          a.74000 X (1+0.05)^20 = 196344.03  b.A = P(1+r)^n  2000000 = P(1+0.05)^35  (2000000/14.78)35 = P  P = 386.22  c) Annual widthdrawl = Inditial Deposit/Present Value Annuity Factor  Inditial Deposit = Annual Withdrawl \* Present Value Annuity Factor = 160,000 X 21 = $3,360,000 |  |  | | --- | | **4.**(TCO B) From the information given below, determine Mary's gross income for tax purposes:  salary                                                                      $32,000 interest (checking account)                                              $25 cash received as birthday gift                                       $1,000 dividends (mutual funds)                                              $5,500 alimony payments received from ex-spouse                 $24,000 life insurance benefits received from aunt's death          $50,000  (Points : 20)          Gross Income = Salary + Interest (Checking Account) + dividends ( mutual funds) + Alimony  Gross Income = 32000 + 25 + 5,500 + 24000 = $61525  Gross Income = $61525 |  |  | | --- | | **5.**(TCO B) Mary has the following expenses that he wants to include as itemized deductions for the year. Her adjusted gross income is $80,000. What is the total itemized deduction she can take? (Show all work.)  Medical expenses              $4,500 Home mortgage interest       8,000 Credit card interest                 450 Charitable contributions        1,500 State property taxes             2,400 Job related expenses           1,900  (Points : 20)   mortgage , state property tax, job relatated expense  8000 - 2400 - (1900 - (80,000 \*.01) = $11500 |  |  | | --- | | **6.**(TCO C) You have a stock mutual fund in which you put $3,000 per year. How much will you accumulate in the account in 25 years if the interest rate is 10 percent?  What if instead you have $4,000 to deposit in the mutual fund earning 10 percent? If you add $2,000 to that account annually, how much will you have accumulated in 15 years? (Calculate the answer for each option. Show all work.)  (Points : 20)          Future Value = Amount Invested x Future Value Factor  Future Value = (3000 X 25) X 1.772 = $132,900  Future Value = (4000 x 15) X 1.772 = $106320  Future Value = (6000 X15) X 1.772 = $159,480 |  |  | | --- | | **7.**(TCO C) Leslie has been offered the choice of either a $1,000 rebate or a 5.5 percent, 48-month loan for the new car she is purchasing. If Leslie will be financing $15,000 and she can get a 7.5 percent, 48-month loan at her credit union, should she take the $1,000 rebate or the 5.5 percent loan? (Show all work.) (Points : 20)          5.5 percent loan will result in a total of $16,744.66  a 1000 off and and a 7.5 Interest wil result $16,248.22  so she should take the 1000 off and 7.5 interest |  |  | | --- | | **8.**(TCO C) On September 8 Maggie lost her wallet. The following four credit cards were in it, and the following charges were made before she was able to report the cards missing. How much is she legally responsible for?  Visa card                  $195 MasterCard                 $25 American Express     $500 Discover                    $300  (Points : 10)          there is a $50 maximum liability, as per the law, that she can be charged for each card. She would owe visa $50, mastercard $25, AMEX $50, and Discover $50. |  |  | | --- | | **9.**(TCO C) Joe is purchasing a new truck for $30,000. Joe is making a $2,000 down payment, and he will make 60 monthly payments of $541 each. What are the total finance costs on this loan? (Points : 10)          there are no finance costs because the question does not mention any loan amount or interest rate. He is paying down the principle. The formula is this question would (P x (i / 12)) / (1 - (1 + i / 12)-n) = monthly car payment. However, we dont know the interest or the principle loan amount. Two unknowns can not be in the same equation. | |

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