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| **1.**(TCO A) Use future or present value techniques to solve the following problems:  (Note: You can use tables or a financial calculator. If you use a calculator, please provide the inputs you used to solve the problems) (5 pts each = total 20 pts).  a. Starting with $20,000, how much will you have in 20 years if you can earn five percent on your money?  b. If you inherited $100,000 today and invested all of it in a security that paid an eight percent rate of return, how much would you have in 15 years?  c. If the average new home costs $200,000 today, what will be the value in 10 years if inflation is four percent per year?  d. If you can earn nine percent per year, how much will you have to save each year if you want to retire in 40 years with $3 million?  (Points : 20)  a)  Interest Rate Per Time Period = 5%  Number of Time Periods = 20  Present Value = 20,000  Future Value = $53,065.95  b)  Interest Rate Per Time Period = 8%  Number of Time Periods = 15  Present Value = 100,000  Future Value = $317,216.91  c)  Interest Rate Per Time Period = 4%  Number of Time Periods = 10  Present Value = 200,000  Future Value = $296,048.86  d)  Interest Rate Per Time Period = 9%  Number of Time Periods = 40  Present Value = 3000000  Future Value = $95,512.75 |

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| **2.**(TCO A) Construct a balance sheet for the Jones family from the following information. Be sure the format is correct. (20 pts for Balance Sheet) Is the Jones family solvent or insolvent? Yes, No? Explain. (5 pts) (Show all work.) (25 pts total for problem).  Cash on hand                               500  Bank credit card balance            5,000 Auto loan balance                    20,000 Mortgage                               150,000 Primary residence (FMV)        225,000 Jewelry                                     1,000 Stocks                                    10,000 Stamp collection                       1,500 2010 Acura                             20,000  (Points : 25)         Assets  Liquid Assets  Cash on hand 500  Total Liquid Assets 500    Investments  Stock 10,000  Total Investments 10000    Real Property  Primary Residence 225000  Total Real Property 225000    Personal Property  Jewelery 1000  Stamp Collection 1,500  Auto: 2010 Acura 20000  Total Personal Property 22500  Total Assets 258000    Liabilities and Networth  Current Liabilities  Bank Credit card balance 5000  Total Current Liabilities 5000    Long Term Liabilities  Auto Loan Balance 20000  Mortgage 150000  Total Long Term Liabilities 170000    Total Liabilities 175000    Net Worth 83000    Total Liabilities and Net Worth 258000  The Jones family is solvent as they have 258000 in assets and only 175000 in liability. They have a positive networth which allows them to pay any obligation or debts. |

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| **3.**(TCO B) Given the following data, calculate the David Brown's family Adjusted Gross Income (AGI). What are their total itemized deductions? How many personal exemptions do they receive and how much does that save them in taxes if each exemption is worth $3,650 and they are in the 15 percent marginal tax bracket? David is married and has two dependent children. Show all work for full credit. Make sure you account for each piece of data given. (10 pts for each part of the question for a total of 30 pts)  W-2 Wages                                   $50,000 Mortgage Interest Paid                       6,500 Dividends Received                               500 Long Term Capital Gains                    2,000 Long Term Capital (Loss)                      500 Interest Income                                      50 State Tax Refund                                  300 Deductible IRA Contribution                 5,000 Property Taxes Paid                           1,200 Rental Prop. Passive Income               2,500 Charitable Contributions                      5,000 Medical Expenses                              4,500 Alimony Paid to Ex-Wife                     4,000 Un-reimbursed Employee Misc. Expenses                                    900  (Points : 30)        Filing status Head of household  Total exemptions claimed: 2  Personal exemption no  Spouse exemption no  Dependents 2  Wages, salaries, tips, etc $50,000  Taxable interest $50  Tax-exempt interest $0  Ordinary dividends (this includes any qualified dividends) $500  Qualified dividends (included in ordinary dividends above) $0  Taxable refunds or credits of state and local income taxes $300  Alimony received $0  Business income or loss (Schedule C & E subject to self-employment taxes) $0  Short term capital gain or loss\* $0  Long term capital gain or loss\* $2,000  Other gains or losses $0  Taxable IRA distributions $0  Taxable pensions and annuity distributions $0  Income from rentals, royalties, S corps and Schedule E (not included above) $2,500  Farm income or loss (Schedule F) $0  Unemployment compensation $0  Taxable social security benefits $0  Other income $0  Total income $55,350  Educator expenses $0  Certain business expenses (form 2106) $0  Health Savings Account (HSA) deduction (form 8889) $0  Moving expenses (form 3903) $0  Self-employment tax deduction (Schedule SE) $0  Self-employed SEP, SIMPLE and qualified plans $0  Self-employed health insurance deduction $0  Penalty on early withdrawal of savings $0  Alimony paid $4,000  IRA deduction $5,000  Student loan interest deduction $0  Tuition and fees deduction (Form 8917) $0  Domestic production activities deduction (form 8903) $0  Total adjustments $9,000  Adjusted gross income (AGI) $46,350  Total Credits: 0  65 or older? no  Blind? no  Spouse 65? no  Spouse blind? no  Married filing separately no  Itemized deductions $900  Can someone claim you as a dependent? no  Standard deduction $8,500  Standard deduction to use (after any income phase-out) $8,500  Deduction for exemptions $7,400  Taxable income $30,450  Tax\* $3,660  You had a total of $2,000 subject to the lower long term capital gains and dividend tax rates. This reduced your total taxes due by $300.  Alternative Minimum Tax (AMT) $0  Total with AMT $3,660  Foreign tax credit (form 1116) $0  Credit for child and dependent care credit expenses (form 2441) $0  Education credits (form 8863) $0  Retirement savings contributions credit (form 8880) $2,000  Child tax credit $0  Based on 0 qualifying dependents.  Residential energy credits (Form 5695) $0  Other credits that are not refundable $0  Total credits that are non-refundable $2,000  Total tax after credits $1,660  Self-employment tax (Schedule SE) $0  Unreported Social Security and Medicare tax (forms 4137 & 5329) $0  Additional tax on IRAs and other retirement plans (form 5329) $0  Household employment taxes (Schedule H) and Advanced earned income credit (W-2 box 9) $0  Repayment 2008 first time homebuyer credit (Form 5405) $0  Total other taxes $0  Total tax before refundable credits $1,660  Earned income credit $0  Non-taxable combat pay $0  Reduction for Scholarships, penal income, and retirement income $0  Number of qualifying children 0  Lived in the U.S? yes  Qualified child of another? no  Age 25 to 65? yes  Additional child tax credit (form 8812) $0  American opporunity credit (Form 8863) $0  Other credits that are refundable, including first time homeowner (Form 5405), credit for prior year AMT (Form 8801) and other refundable credits and payments $0  Total refundable credits $0  Total tax $1,660  Federal income tax withheld on Forms W-2 and 1099 $0  Estimated tax payments and amount applied on last years return $1,200  Excess social security and RRTA tax withheld $0  Any other payments including amount paid with request for extension $0  Total payments $1,200  This is 3.00% of their total income of $55,350. their total tax payments and refundable credits for the year were $1,200. their outstanding tax bill is estimated at $460. their income puts you in the 15.00% tax bracket. |

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| **4.**(TCO C) Alan and Barbara are in the process of purchasing their first home. However, they cannot decide whether a 15-year fixed rate mortgage or a 30-year fixed rate mortgage is best for them. They have decided to finance $200,000 and can get the 15-year mortgage at 4.5 percent and the 30-year mortgage at 5 percent. (Total 35 pts)  First of all, calculate the monthly payment of each loan. (15 pts)  Next, discuss the pros and cons of a 15-year mortgage versus a 30-year mortgage. (15 pts)  (Points : 35)        15 years  P = L[c(1 + c)n]/[(1 + c)n - 1]  c = 4.5/12  L = 200,000  n = 15  P = $1529.99/month  1529.99 x 180 = 275398.2  30 years  P = L[c(1 + c)n]/[(1 + c)n - 1]  c = 5/12  L = 200,000  n = 30  P = $1073.64/month  1073.64 x 360 = $386510.4  The benefit of having a 15 year mortgage is that the total money paid Principal and interest is less than one of 30 years.. you're gonna be almost 100k less. However, the con of a 15 year mortgage is that the monthly payments are bit higher.. about 500 dollars more. |

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| **5.**(TCO D) John Jones is married with son, and would like to purchase enough life insurance to provide the following for his family:  Pay off home mortgage                   $200,000 Pay off car loan                                 20,000 Final burial expenses                         10,000 College education for his son              60,000 Annual living expenses for his family   60,000/year for 20 years  If he were to die, his son and wife would receive $14,400 annually for 12 years from Social Security. His wife is also the primary beneficiary of his $100,000 group life policy. Given this information, how much more life insurance does John need? Additionally, John would like to keep his cash outlay as low as possible and the insurance policy that he purchases to last only 20 years. (20 pts) What type of insurance policy would you recommend? (10 pts) (Show all calculations for full credit). (Total of 30 pts.)  (Points : 30)  yearly income needed 60,000  number of years 20  total living need 1200000    special needs  Pay off home mortgage 200,000  Pay off car loan 20000  Final burial expenses 10,000  College education for his son 50,000  total financial resources needed 280,000      financial resources avaiable after death  annual social security survior 14,400  number of years 12  life policy 100,000  financial resources available 272800    Additional life insurance needed  1,207,200  he needs 1,207,200  he should get whole life insurance because it is is designed to provide ongoing insurance coverage during an individual’s entire life. In addition to death protection, whole life insurance has a savings feature, called cash value, that results from the investment earnings on paid-in insurance premiums. Thus, whole life pro- vides not only insurance coverage but also a modest return on your investment. The most noteworthy advantage of whole life insurance is that premium payments con- tribute toward building an estate, regardless of how long the insured live. |

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| **6.**(TCO E) Discuss the type of individual securities or mutual funds that you believe are suitable for an aggressive investor whose primary investment goal is capital accumulation over the longer term (say 10 years or more) and why. (10 pts). Now think about an investor and discuss the advice you would give them if they have a low tolerance for risk, a shorter time horizon, and a need for current income. (10 pts) Do you take taxes into account when making your recommendations? (10 pts) Please be specific in your answer. (30 total pts) (Points : 30)  Aggressive Growth Common Stock funds invest primarily in common stocks to maximize capital gains. They may invest in out-of-favor companies or companies in new industries. Current income, that is dividends, is not a significant factor. Capital gains are just the increase in the value of an investment. These types of mutual funds invest in many different securities, including new industry stocks, small-company stocks, and practice investment techniques such as selling stocks short, futures, and options.  as an advisor i would tell them to look into income funds where you can seek a high level of current income by investing in both equity securities (generally high yielding common and preferred stocks) and debt instruments (e.g., high yielding bonds). Growth and income funds incorporate both increased capital gains and producing steady income. They are less volatile than aggressive growth funds. |

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| **7.**(TCO F) You are trying to help a friend decide on what type of IRA to use for his retirement plan. How would you outline the differences between a traditional deductible IRA, a traditional non-deductible IRA, and a Roth IRA to him? (Please explain in detail and emphasize the tax issues of each) (40 pts total) (Points : 40)  Traditional (deductible) IRA, which can be opened by anyone without a retirement plan at his or her place of employment, regardless of income level, or by couples filing jointly who, even if they are covered by retirement plans at their places of employment, have adjusted gross incomes of less than $70,000 (or single tax payers with AGIs of less than $50,000). Individuals who qualify may make tax-deductible contributions of up to $4,000 a year to their accounts (an equal tax-deductible amount can be contributed by a nonworking spouse). This maximum annual contribution increases to $5,000 in 2008 and beyond (and there’s a catch-up contribution of an additional $1,000 per year that individuals age 50 or older can make). All account earnings grow tax free until withdrawn, when ordinary tax rates apply (though a 10 percent penalty normally applies to withdrawals made before age 591/2).  Nondeductible (after-tax) IRA, which is open to anyone, regardless of their income level or whether they’re covered by a retirement plan at their workplace. Contributions of up to $4,000 a year in 2006, rising (as with the traditional IRA) to $5,000 in 2008, can be made to this account; but they’re made with after-tax dollars (that is, the contributions are not tax deductible). However, the earnings do accrue tax free and are not subject to tax until they are withdrawn, after the individual reaches age 591/2 (funds withdrawn before age 591/2 may be subject to the 10 percent penalty).  Roth IRAs are a lot like Roth 401(k)s, which we discussed earlier. Roth IRAs are the newest kid on the block (available only since 1998); they can be opened by couples filing jointly with adjusted gross incomes of up to $150,000 (singles up to $95,000), whether or not they have other retirement or pension plans. But the neatest part of the Roth IRA is its tax features—although the annual contributions of up to $4,000 a person in 2006, rising (as with the traditional IRA) to $5,000 in 2008, are made with nondeductible/after- tax dollars, all earnings in the account grow tax free. And all withdrawals from the account are also tax free, as long as the account has been open for at least 5 years and the individual is past the age of 591/2. In other words, as long as these conditions are met, you won’t have to pay taxes on any withdrawals you make from your Roth IRA! |

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| **8.**(TCO G) The following questions pertain to the four basic estate planning documents.  What is a will? What is a living will? What is a healthcare power of attorney? What is a financial power of attorney, and why is important that individuals have these four documents? (40 pts total) (Points : 40)  What is a will? A will is a written, legally enforceable expres- sion or declaration of a person’s wishes concerning the disposition of his or her property on death.  A living will is a legal document that a person uses to make known his or her wishes regarding life prolonging medical treatments. It can also be referred to as an advance directive, health care directive, or a physician's directive. A living will should not be confused with a living trust, which is a mechanism for holding and distributing a person's assets to avoid probate. It is important to have a living will as it informs your health care providers and your family about your desires for medical treatment in the event you are not able to speak for yourself.  A healthcare power of attorney is a document, signed by a competent adult, i.e., "principal," designating a person that the principal trusts to make health care decisions on the principal's behalf should the principal be unable to make such decisions. The individual chosen to act on the principal's behalf is referred to as an "agent."  A financial power of attorney (FPOA) is a written document through which a competent adult, known as the principal, appoints and authorizes another competent adult, known as the attorney-in-fact (A-I-F), to act on the principal’s behalf. Financial powers of attorney usually cover financial, business, personal and real estate matters.  These documents are important because it designates an individual to make the right choice in the even that you are not able to. The individual is able to designate assets and make the right decisions accordingly that can benefit everyone. |