(Continued)

a. Their only source of income is Raul's salary, which amounts to $5,000 a month before taxes. Felicia wants to show the $5,000 as their monthly income, whereas Raul argues that his take-home pay of $3,917 is the correct value to show.

b. Felicia wants to make a provision for *fun money*, an idea that Raul doesn't understand. He asks, "Why do we need fun money when everything is provided for in the budget?"

LO6 **5. *Calculating present and future values.* Use future or present value techniques to solve the following problems.**

Table A

a. If you inherited $45,000 today and invested all of it in a security that paid a 7 percent rate of return, how much would you have in 25 years?

b. If the average new home costs $275,000 today, how much will it cost in 10 years if the price increases by 5 percent each year?

c. You think that in 15 years, it will cost $214,000 to provide your child with a 4-year college education. Will you have enough if you take $75,000 today and invest it for the next 15 years at 4 percent?

Table D

d. If you can earn 4 percent, how much will you have to save each year if you want to retire in 35 years with $1 million?

LO6 **6. *Funding a retirement goal.* Jamal Doran wishes to have $800,000 in a retirement fund 20 years from now. He can create the retirement fund by making a single lump-sum deposit today.**

Table D

a. If upon retirement in 20 years, Jamal plans to invest $800,000 in a fund that earns 4 percent, what is the maximum annual withdrawal he can make over the following 15 years?

Table D

b. How much would Jamal need to have on deposit at retirement in order to withdraw $35,000 annually over the 15 years if the retirement fund earns 4 percent?

Table D

c. To achieve his annual withdrawal goal of $35,000 calculated in part b, how much more than the amount calculated in part a must Jamal deposit today in an investment earning 4 percent annual interest?

Numerator

	Asset/Liability	Sub-total
Personal property:		
Furniture	1,050	
Clothing	900	
		1,950
Investments:		
U.S. government savings bonds	500	
Stock of Alpha Corp.	3,000	
		3,500

From the data given, prepare Leslie Eastman's balance sheet, dated June 30, 2016 (follow the balance sheet form shown in Worksheet 2.1). Then evaluate her balance sheet relative to the following factors: (a) solvency, (b) liquidity, and (c) equity in her dominant asset.

LO3 **3.** ***Preparing personal income and expense statement.*** **Use Worksheet 2.2. Parker and Kylie Cleary are about to construct their income and expense statement for the year ending December 31, 2016. They have put together the following income and expense information for 2016:**

Kylie's salary	$47,000
Reimbursement for travel expenses	1,950
Interest on:	
Savings account	110
Bonds of Beta Corporation	70
Groceries	4,150
Rent	9,600
Utilities	960
Gas and auto expenses	650
Ned's tuition, books, and supplies	3,300
Books, magazines, and periodicals	280
Clothing and other miscellaneous expenses	2,700
Cost of photographic equipment purchased with charge card	2,200
Amount paid this year on photographic equipment	1,600
Kylie's travel expenses	1,950
Purchase of a used car (cost)	9,750
Outstanding loan balance on car	7,300
Purchase of bonds in Beta Corporation	4,900

Using the information provided, prepare an income and expense statement for the Cleary for the year ending December 31, 2016 (follow the form shown in Worksheet 2.2).

LO5 **4.** ***Preparing cash budget.*** **Raul and Felicia Ojeda are preparing their 2017 cash budget. Help the Ojedas reconcile the following differences, giving reasons to support your answers.**

LO2, 3 1. *Preparing financial statements.* Harrison Purvis is preparing his balance sheet and income and expense statement for the year ending December 31, 2016. He is having difficulty classifying six items and asks for your help. Which, if any, of the following transactions are assets, liabilities, income, or expense items?

a. Harrison rents a house for $1,350 a month.

b. On June 21, 2016, Harrison bought diamond earrings for his wife and charged them using his *MasterCard*. The earrings cost $900, but he hasn't yet received the bill.

c. Harrison borrowed $3,500 from his parents last fall, but so far, he has made no payments to them.

d. Harrison makes monthly payments of $225 on an installment loan; about half of it is interest, and the balance is repayment of principal. He has 20 payments left, totaling $4,500.

e. Harrison paid $3,800 in taxes during the year and is due a tax refund of $650, which he hasn't yet received.

f. Harrison invested $2,300 in some common stock.

g. Harrison's Aunt June gave him a birthday gift of $300.

LO2, 4 2. *Preparing personal balance sheet. Use Worksheet 2.1.* Leslie Eastman banker has asked her to submit a personal balance sheet as of June 30, 2016, in support of an application for a $6,000 home improvement loan. She comes to you for help in preparing it. So far, she has made the following list of her assets and liabilities as of June 30, 2016:

	Asset/Liability	Sub-total
Cash on hand	$70	
Balance in checking account	180	
Balance in money market deposit account with Northwest Savings	650	900
Bills outstanding:		
Telephone	$20	
Electricity	70	
Charge account balance	190	
Visa	180	
MasterCard	220	
Taxes	400	
Insurance	220	$1,300
Condo and property		68,000
Condo mortgage loan		52,000
Automobile: 2012 Honda Civic		9,775
Installment loan balances:		
Auto loans	3,000	
Furniture loan	500	3,500