

## COMMENTS ON CHAPTER 2 HOMEWORK (pages 80-82 of your textbook)

Please download the three required worksheets first. These are available at the XTRA website that is listed in your brochure and also linked on my website (<http://www.johnzietlow.com>, click on Personal Finance and you will see the link near the top of the page).

### PROBLEM 6 – DOWNLOAD WORKSHEET 2.2

Elizabeth’s “home and property” is her home. It is worth \$68,000. Her loan balance on that property is right now \$52,000.

For purposes of Elizabeth’s ratio calculations in the homework (Problem 6):

- Exactly  $\frac{1}{2}$  of her “Auto loans” is due within one year. Ideally, we would include interest as well, but we don’t have that information, so cannot include interest.
  - All of her “Furniture loan” is due within one year.
  - “Dominant asset” is the one with the largest dollar value on her balance sheet.
  - Use more than only the current liabilities in her “Total current debts” in the liquidity ratio.
  - See the text, where it covers ratios, for explanations of how to interpret the ratios you calculate.
  - Think: which ratio should I use to evaluate liquidity? Calculate that ratio, and then write a couple of sentences to assess or evaluate whether that is good or not. Do the same on solvency. “Dominant asset” is the one with the largest dollar value on her balance sheet.
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IF YOU DID NOT UNDERSTAND THE CLASS COVERAGE OF EXHIBIT 2.7, HERE IS ANOTHER EXPLANATION OF THAT. THESE ARE NOT THE NUMBERS YOU WILL USE IN YOUR HOMEWORK, HOWEVER.

- Here’s an explanation of how the authors arrived at the “Total current debts” (footnote (a) in Exhibit 2.7, page 69 of the textbook): First, take the current liabilities from the balance sheet (pg. 58), which is \$905. On the Income and Expense Statement, anything listed as a loan would represent one year’s worth of loan payments (although, admittedly, there is some interest included here, which we don’t want to include, but must since we can’t split it out). So, take one year’s mortgage payment of \$16,864 (from the Income and Expense Statement on page 63), one year’s auto loan payment of \$2,520 (from the Income and Expense Statement on page 63), one year’s furniture/appliance loan payments of \$800 (assumed that these would be due within one year; from the Income and Expense Statement on page 63), one year’s education loans of \$900 (assumed that these would be due within one year; from the Income and Expense Statement on page 63), and one year’s loan payments to parents of \$600 (assumed that these would be due within one year; from the Income and Expense Statement on page 63), Note: If any of these loans had been paid off in full during the

previous period, we would not want to include them in our “Total current debts”. So, we get “Total current debts” for the liquidity ratio of \$22,589 (= \$905 + \$16,864 + \$2,520 + \$800 + \$900 + \$600).

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**See the text, where it covers ratios, for explanations of how to interpret the ratios you calculate.**

### PROBLEM 7 – DOWNLOAD WORKSHEET 2.3

- Use the example on pages 61-top of 67, especially the template on page 63, to complete Problem 7.
- Use \$2,450 for the autos loan payments.
- “Reimbursement for travel expenses” is “other income”.
- The “Interest on” savings account and Alpha bonds has to go somewhere in the Income section, since it is interest the Schwartz’s received on their investments.
- You will have several “Other items” in the expenses: Chuck’s tuition, books and supplies, Books, magazines and periodicals, Judy’s travel expenses, and Purchase of bonds in Alpha Corporation. The \$1,600 “Amount paid to date on photographic equipment” should all be considered an expense (if we were doing a balance sheet, we would put \$600 as the liability on the balance sheet).
- Use the difference between the purchase amount for the used car and the “Outstanding loan balance on car” to get the amount actually paid (ideally, we would include interest payments, too, but don’t have that information here). (If we were doing a balance sheet, we would list \$7,300 as the liability amount for the auto loan.)

### PROBLEM 10 – DOWNLOAD WORKSHEET 2.4

You have not yet recorded 30 days of your personal expenses (hopefully you did get started on this; if not, start today to keep track of every cash, check, credit card, or debit card expenditure of 25 cents or more, and keep doing this for 30 days; then, you can revise your cash budget), so this will be strictly a guesstimate. Use the format in the worksheet, but only do 3 months of projections. The text presentation of this starts at the bottom of page 72, and goes through the middle of page 76 (you are doing a cash budget, but you do not need to also do a budget control schedule). Especially note the example on page 72, which gives you a template to follow in doing your own cash budget. However, in this exercise you will project *your* personal (or household, if you are the head of a household) income and expenses for the next three months. Don’t forget two easily-overlooked items: “fun money” and “tithes and offerings”.