

A Note To Students

Math skills are vital in business, investing, and everyday life as a consumer. *Math for Business and Life* was written to provide these math skills. This *Student Solutions Manual* provides written solutions to all Chapter Review Problems and Practice Tests. Here are a few suggestions for using this manual:

- While the manual is a valuable study aid, don't compromise other elements for a successful course, such as attending class regularly, reading the text, and studying with other students.
- Don't use the manual as a crutch. Try to solve the problems without referring to this manual; you will learn more by struggling a bit, trying to define the problem. Compare your answer with that found in Appendix B of the text. If your answer is wrong, compare your solution with the solution in this manual.

Best wishes for a successful course, as well as success in your business and personal ventures.



John Webber

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Chapter I Whole Numbers and Decimals

Unit I.1 Reading, writing, and rounding numbers

- Four hundred twenty-eight
- Eight million, two hundred fifty-seven thousand, one hundred sixteen
- Seven and eight-tenths
- Twelve and twelve ten-thousandths
- 426,000
- .426
- 400.026
- 14,726,111.2
- 8.1 trillion $\longrightarrow$ 8,1 $\longrightarrow$ 8,100,000,000,000
- 76.12506 $\longrightarrow$ 76.13
- 123,678,499 $\longrightarrow$ 123,678,000
- 23,467.5000001 $\longrightarrow$ 23,468
- 45,951 $\longrightarrow$ 46,000

Unit I.2 Working with whole numbers

14.

$$\begin{array}{r} 12 \\ 123 \\ 456 \\ 54 \\ + 8 \\ \hline 641 \end{array}$$

15.

$$\begin{array}{r} 12 \\ 76 \\ 7 \\ 341 \\ + 25,018 \\ \hline 25,442 \end{array}$$

16.

$$\begin{array}{r} 1 \quad 11 \\ 15,000 \\ 2,111 \\ 7,085 \\ + 12,448 \\ \hline 36,644 \end{array}$$

17.

$$\begin{array}{r} 5 \quad 12 \\ 127 \\ - 12 \\ \hline 115 \end{array} \quad \begin{array}{l} \uparrow \text{Check by} \\ \text{adding up.} \\ 5 + 2 = 7, \text{ etc.} \end{array}$$

18.

$$\begin{array}{r} 1,171 \\ - 489 \\ \hline 682 \end{array} \quad \begin{array}{l} \uparrow \text{Check by} \\ \text{adding up.} \end{array}$$

19.

$$\begin{array}{r} 0 \quad 10 \quad 16 \quad 11 \\ 12,762 \\ - 1,134 \\ \hline 11,628 \end{array} \quad \begin{array}{l} \uparrow \text{Check by} \\ \text{adding up.} \end{array}$$

20.

$$\begin{array}{r} 123 \\ \times 45 \\ \hline 615 \\ 492 \\ \hline 5,535 \end{array}$$

21.

$$\begin{array}{r} 1,832 \\ \times 45 \\ \hline 9160 \\ 7328 \\ \hline 82,440 \end{array}$$

22.

$$\begin{array}{r} 1,800 \xrightarrow{\text{Pretend}} \begin{array}{r} 18 \quad 2 \text{ zeros} \\ \times 12 \quad + 1 \text{ zero} \\ \hline 36 \quad 3 \\ 18 \\ 216 \end{array} \xrightarrow{\text{attach 3 zeros}} 216,000 \end{array}$$

23.

$$\begin{array}{r} 16 \\ 3 \overline{)48} \\ \underline{3} \\ 18 \\ \underline{18} \end{array}$$

24.

$$\begin{array}{r} 147 \\ 24 \overline{)3528} \\ \underline{24} \\ 112 \\ \underline{96} \\ 168 \\ \underline{168} \end{array}$$

25.

$$\begin{array}{r} 212 \text{ R32} \\ 41 \overline{)8724} \\ \underline{82} \\ 52 \\ \underline{41} \\ 114 \\ \underline{82} \\ 32 \end{array}$$

Unit I.3 Strategy for solving word problems

26. $\$24,300 - \$5,275 = \$19,025$

27.

$$\begin{array}{ccc} 53 & \text{pretend} & 53 \\ \times 40 & \longrightarrow & \times 4 \text{ (1 zero ignored)} \\ & & \underline{212} \longrightarrow 2,120 \text{ seats} \end{array}$$

28. Your score: $4 + 5 + 3 + 4 + 7 + 6 + 4 + 2 + 5 = 40$

Over par: $40 - 36 = 4$

29.

$$\begin{array}{r} 96 \\ \times 3 \\ \hline 288 \text{ cans} \end{array}$$

30.

$$\begin{array}{r} 12 \text{ cases} \\ 24 \overline{)288} \\ \underline{24} \\ 48 \\ \underline{48} \end{array}$$

31.

	Rounded	
\$ 980	\$1,000	
425	400	
<u>+ 310</u>	<u>+ 300</u>	
	\$1,700	Think: $10 + 4 = 14$; $+ 3 = 17$

Unit I.4 Working with decimal numbers

32. 1,128.509

33. 451.91

34. 24,198.4964

35. 122.23

36. 6.82

37. 12,648.532

38. 236.145

39. 28.0101

40. 114.68964

41. 4.55

42. 51.37

43. 11.84

44.

$$\begin{array}{ccc} 1000 & 47.\overline{000} \longrightarrow & 47,000 \\ (3 \text{ zeros}) & 3 \text{ places right} & \end{array}$$

45.

$$\begin{array}{ccc} 100 & 4.68 \longrightarrow & .0468 \\ (2 \text{ zeros}) & 2 \text{ places left} & \end{array}$$

46. $\$77.85 + \$32 + \$450 + 92.16 = \652.01

47. $\$745.26 - \$110.78 = \$634.48$

48. $22 \text{ acres} + 105.643 \text{ acres} + .92 \text{ acres} = \mathbf{128.563 \text{ acres}}$
49. $\$50 - \$8.52 = \mathbf{\$41.48}$
50. $322 \text{ sq ft} \times \$9.50 \text{ per sq ft} = \mathbf{\$3,059}$
51. $18.5 \text{ lb} \times \$0.39 \text{ per lb} = \$7.215 = \mathbf{\$7.22}$ (rounded)
52. $1,872.4 \text{ miles} \times \$0.55 \text{ per mile} = \mathbf{\$1,029.82}$
53. $295.75 \text{ sq ft} \div 3.5 \text{ sq ft per glove} = 84.5 \text{ gloves} = \mathbf{84 \text{ full gloves}}$

Challenge problems

54. $26,007.4 \text{ ending miles} - 23,578.9 \text{ beginning miles} = \mathbf{2,428.5 \text{ miles}}$
55. To figure gallons used, we must start with a full tank and end with a full tank, ignoring gallons used in the initial fill-up: $14.6 \text{ gal} + 17.4 \text{ gal} + 11.7 \text{ gal} + 15.6 \text{ gal} + 17.1 \text{ gal} + 9.4 \text{ gal} = \mathbf{85.8 \text{ gal}}$
56. miles per gallon means "miles divided by gallons," so: $2,428.5 \text{ miles} \div 85.8 \text{ gal} = \mathbf{28.3 \text{ mpg}}$
57. Miles: $34,428.3 - 34,122.8 = 305.5$
 Charge
 For miles: $305.5 \text{ mi} \times \0.24 \$ 73.32
 Daily charge: $2 \text{ days} \times \$49$ + 98.00
 \$171.32
- 58.
- | | |
|--------------------------------|-----------------------------------|
| Heartbeats per minute | 73 |
| | <u>$\times 60$</u> |
| a. Heartbeats per hour | 4,380 |
| | <u>$\times 24$</u> |
| b. Heartbeats per day | 105,120 |
| | <u>$\times 365.25$</u> |
| c. Heartbeats per year | 38,395,080 |
| | <u>$\times 70$</u> |
| d. Heartbeats per 70-year life | 2,687,655,600 |
59. $\$3,450 \times 12 \text{ months} = \mathbf{\$41,400}$
60. Rent per square foot means "rent divided by square feet," so $\$41,400 \div 9,720 \text{ sq ft} = \mathbf{\$4.26 \text{ per sq ft}}$
61. $151 \text{ lb} - 124 \text{ lb} = \mathbf{27 \text{ lb}}$
62. Pounds per month means "pounds divided by months," so: $27 \text{ lb} \div 3 \text{ months} = \mathbf{9 \text{ lb per month}}$

63.

$10 \times \$700$	\$7,000
$4 \times \$725$	2,900
$2 \times \$750$	<u>1,500</u>
Total monthly rent	\$11,400
	<u>$\times 12$</u>
Total annual rent	\$136,800

64.

Total annual rent	\$136,800
Less expenses	<u>- 41,000</u>
Amount after expenses	\$ 95,800
Less mortgage payments: $12 \times \$7,730$	<u>- 92,760</u>
Amount after mortgage payments	\$ 3,040

65.

Lodging: 14 nights $\times$ \$85 =	\$1,190.00
Meals:	
Cost per day: 4 people $\times$ \$24 per day = \$96	
Cost for 15 days: \$96 per day $\times$ 15 days =	1,440.00
Gas:	
Gallons required: 3,300 miles $\div$ 22 miles per gallon = 150 gallons	
Cost of gas: 150 gallons $\times$ \$4.19 per gallon	628.50
Entertainment: 15 days $\times$ \$60 =	<u>+ 900.00</u>
Total budget	\$4,158.50

66. Staples: $4 \times \$33.50 =$ **\$134.00** $\leftarrow$ This is the better deal
 Central Supply: $3 \times \$46.89 =$ \$140.67

67. Extra cost of upgrade plan: $\$74.95 - \$43.95 = \$31$
 Number of texts available: $\$31 \div \0.20 per text = **155 text messages**

Practice Test

- Eighty-seven thousand, twenty-two and thirty-five hundredths
- 300.084**
- 26.1 billion $\longrightarrow$ 26,1 $\longrightarrow$ **26,100,000,000**
- 618.7665 $\longrightarrow$ **618.77**
- \$28,958 $\longrightarrow$ **\$29,000**
- 3,275**
- 126**
- 322,000**
- 127.4**
- $\$4 + \$5 + \$2 =$ **\$11**
- $\$22,400 - \$4,200 + \$1,228.50 + \$135 =$ **\$19,563.50**
- 112 acres + 84.625 acres + .82 acres = **197.445 acres**

13.

Carpet	\$21.25
Pad	4.65
Installation	<u>4.00</u>
Total cost per sq yd	$\$29.90 \times 182.5 \text{ sq yd} =$ \$5,456.75

14.

word problem guide

- | | |
|----------------|---|
| 1. Solving for | Miles per gallon |
| 2. Known facts | Traveled 1,051.6 miles (13,904.2 miles - 12,852.6 miles = 1,051.6 miles)
Used 53.82 gallons of gas |
| 3. Procedure | Miles per gallon means "miles divided by gallons," so
$1,051.6 \text{ miles} \div 53.82 \text{ gallons} =$ 19.5 mpg |

Chapter 2 Fractions

Unit 2.1 Types of fractions and modifying fractions

1. The top number (3) is the numerator. The bottom number (4) is the denominator.

2. (proper) 3. (mixed) 4. (improper) 5. (improper)

$$6. = \frac{(4 \times 3) + 2}{3} = \frac{14}{3}$$

$$7. = \frac{(2 \times 8) + 7}{8} = \frac{23}{8}$$

$$8. = \frac{(2 \times 6) + 5}{6} = \frac{17}{6}$$

$$9. \quad \begin{array}{r} 1 \\ 2 \overline{)3} \longrightarrow 2 \overline{)3} \\ \underline{2} \\ 1 \text{ (remainder)} \end{array} \quad \begin{array}{r} 1 \frac{1}{2} \text{ (remainder)} \\ 2 \text{ (divisor)} \\ \underline{2} \\ 1 \end{array}$$

$$10. \quad \begin{array}{r} 2 \\ 3 \overline{)8} \longrightarrow 3 \overline{)8} \\ \underline{6} \\ 2 \end{array} \quad \begin{array}{r} 2 \frac{2}{3} \\ 3 \overline{)8} \\ \underline{6} \\ 2 \end{array}$$

$$11. \rightarrow \frac{3}{4} = \frac{?}{12} \rightarrow \frac{3}{4} = \frac{9}{12}$$

$$12. \rightarrow \frac{7}{6} = \frac{?}{30} \rightarrow \frac{7}{6} = \frac{35}{30}$$

$$13. = \frac{6 \div 3}{21 \div 3} = \frac{2}{7}$$

$$14. = \frac{76 \div 19}{437 \div 19} = \frac{4}{23}$$

$$\begin{array}{r} 5 \\ 76 \overline{)437} \\ \underline{380} \\ 57 \end{array} \quad \begin{array}{r} 1 \\ 57 \overline{)76} \\ \underline{57} \\ 19 \end{array} \quad \begin{array}{r} 3 \\ 19 \overline{)57} \\ \underline{57} \\ 0 \end{array}$$

Unit 2.2 Working with fractions and mixed numbers

$$15. = \frac{2+3}{7} = \frac{5}{7}$$

$$16. = \frac{3-1}{5} = \frac{2}{5}$$

$$17. = \frac{2+5-1}{11} = \frac{6}{11}$$

$$18. = \frac{6}{15} + \frac{5}{15} = \frac{11}{15}$$

$$19. = \frac{20}{15} - \frac{3}{15} = \frac{17}{15}$$

$$20. = \frac{9}{24} + \frac{6}{24} - \frac{4}{24} = \frac{9+6-4}{24} = \frac{11}{24}$$

$$21. = \frac{2}{3} \times \frac{3}{5} = \frac{2}{5}$$

$$22. = \frac{4}{5} \times \frac{3}{8} = \frac{3}{10}$$

$$23. = \frac{4 \times 2}{3 \times 5} = \frac{8}{15}$$

$$24. = \frac{3}{5} \times \frac{3}{4} = \frac{3 \times 3}{5 \times 4} = \frac{9}{20}$$

$$25. \quad \begin{array}{r} \rightarrow 4 \frac{1}{4} \rightarrow 4 \frac{3}{12} \\ + 2 \frac{1}{3} \rightarrow + 2 \frac{4}{12} \\ \hline \text{Need LCD} \quad 6 \frac{7}{12} \end{array}$$

$$26. \quad \begin{array}{r} \rightarrow 2 \frac{3}{4} \rightarrow 2 \frac{9}{12} \\ + 2 \frac{2}{3} \rightarrow + 2 \frac{8}{12} \\ \hline \text{Need LCD} \quad 4 \frac{17}{12} = 4 + 1 \frac{5}{12} = 5 \frac{5}{12} \end{array}$$

$$27. \quad \begin{array}{r} \rightarrow 4 \frac{3}{4} \rightarrow 4 \frac{3}{4} \\ - 2 \frac{1}{2} \rightarrow - 2 \frac{2}{4} \\ \hline \text{Need LCD} \quad 2 \frac{1}{4} \end{array}$$

$$28. \quad \begin{array}{r} \rightarrow 4 \frac{1}{4} \rightarrow 4 \frac{3}{12} \rightarrow 3 \frac{15}{12} \\ - 2 \frac{1}{3} \rightarrow - 2 \frac{4}{12} \rightarrow - 2 \frac{4}{12} \\ \hline \text{Need LCD} \quad \text{Must borrow} \quad 1 \frac{11}{12} \end{array}$$

$$29. = \frac{17}{4} \times \frac{7}{3} = \frac{17 \times 7}{4 \times 3} = \frac{119}{12} = 9 \frac{11}{12}$$

$$30. = \frac{17}{4} \div \frac{7}{3} = \frac{17}{4} \times \frac{3}{7} = \frac{51}{28} = 1 \frac{23}{28}$$

$$31. \quad \begin{array}{r} 9 \frac{1}{2} \rightarrow 9 \frac{2}{4} \\ + \frac{3}{4} \rightarrow + \frac{3}{4} \\ + \frac{1}{2} \rightarrow + \frac{2}{4} \\ \hline \end{array}$$

$$\text{Need LCD} \quad 9 \frac{7}{4} = 9 + \frac{7}{4} = 9 + 1 \frac{3}{4} = 10 \frac{3}{4} \text{ inches}$$

$$32. 3 \frac{2}{3} \div \frac{1}{3} = \frac{11}{3} \div \frac{1}{3} = \frac{11}{3} \times \frac{3}{1} = 11 \text{ loaves}$$

$$33. 7 \times \frac{1}{5} = \frac{7}{1} \times \frac{1}{5} = \frac{7}{5} = 1 \frac{2}{5} \text{ acres}$$

$$34. \$150,000 \times \frac{4}{5} = \frac{\$150,000}{1} \times \frac{4}{5} = \$120,000 \quad \$150,000 \text{ Price} - \$120,000 \text{ Loan} = \$30,000$$

35. $150 \div 1\frac{1}{4} = 150 \div \frac{5}{4} = \frac{150}{1} \times \frac{4}{5} = 120$ days
36. $\$120 \times 2\frac{1}{2} = \$120 \times \frac{5}{2} = \frac{560}{1} \times \frac{5}{2} = \300
37. $\frac{1}{5} + \frac{1}{3} = \frac{3}{15} + \frac{5}{15} = \frac{8}{15}$ Daniel must buy: $\frac{15}{15} - \frac{8}{15} = \frac{7}{15}$ interest
38. Saturday rate: $\$8 \times 1\frac{1}{2} = \frac{54}{1} \times \frac{3}{2} = \12 per hour 5 hours $\times$ \$12 per hour = **\$60**
39. $2\frac{3}{4} \div \frac{1}{4} = \frac{11}{4} \div \frac{1}{4} = \frac{11}{4} \times \frac{4}{1} = 11$ feet
40. Discount: $\$44 \times \frac{1}{4} = \frac{11}{1} \times \frac{1}{4} = \11 Sale price: $\$44 - \$11 = \$33$
41. $85 \div 2\frac{1}{3} = 85 \div \frac{7}{3} = \frac{85}{1} \times \frac{3}{7} = \frac{255}{7} = 36\frac{3}{7} = 36$ whole shirts

Unit 2.3 Fraction/decimal conversions

42. 13.38 Thirteen and thirty-eight hundredths = $13\frac{38}{100} = 13\frac{19}{50}$
43. Three tenths = $\frac{3}{10}$
44. Three hundred seventy-five thousandths = $\frac{375}{1,000} = \frac{375 \div 125}{1,000 \div 125} = \frac{3}{8}$

45.
$$\begin{array}{r} \text{3125} \\ 16 \overline{) 5.0000} \\ \underline{48} \downarrow \\ 20 \\ \underline{16} \downarrow \\ 40 \\ \underline{32} \downarrow \\ 80 \\ \underline{80} \end{array}$$

46.
$$\begin{array}{r} \text{.66} \\ 3 \overline{) 2.00} \\ \underline{18} \downarrow \\ 20 \\ \underline{18} \\ 2 \text{ (repeating)} \end{array}$$

47.
$$\begin{array}{r} \text{.4545} = \overline{.45} \\ 11 \overline{) 5.0000} \\ \underline{44} \downarrow \\ 60 \\ \underline{55} \downarrow \\ 50 \\ \underline{44} \downarrow \\ 60 \\ \underline{55} \end{array}$$

48.
$$\begin{array}{r} \text{.8} \\ 5 \overline{) 4.0} \\ \underline{40} \end{array}$$

49. Problems 45 and 48 are terminating; 46 and 47 are repeating.
50. $\frac{1}{2} \times .57 = .5 \times .57 = .285$ acres
51. $\frac{1}{7} \times \frac{\$12,320,000}{1} = \frac{\$12,320,000}{7} = \$1,760,000$
52. **Yes.** Both fractions can be converted to terminating decimals: $.25 + .20 = .45$
53. **No.** $\frac{1}{3}$ cannot be converted to a terminating decimal.

Challenge problems

54. Length of fence (inches): $118 \times 12 = 1,416$ inches
 Number of slats: $1,416 \div 3\frac{3}{4} = 1,416 \div 3.75 = 377.6 = 378$ full slats
 Cost: 378 slats $\times$ \$1.25 = **\$472.50**
55. Flour: $1\frac{2}{3} \times 3\frac{1}{2} = \frac{5}{3} \times \frac{7}{2} = \frac{5 \times 7}{3 \times 2} = \frac{35}{6} = 5\frac{5}{6}$ cups
 Peanut butter: $\frac{1}{3} \times 3\frac{1}{2} = \frac{1}{3} \times \frac{7}{2} = \frac{7}{6} = 1\frac{1}{6}$ cups
 Eggs: $2 \times 3\frac{1}{2} = \frac{2}{1} \times \frac{7}{2} = 7$ eggs
56. $\frac{1}{4} + \frac{1}{5} + \frac{1}{8} = \frac{10}{40} + \frac{8}{40} + \frac{5}{40} = \frac{10+8+5}{40} = \frac{23}{40} \rightarrow \frac{40}{40} - \frac{23}{40} = \frac{17}{40}$ for other things

57. Housing: $\frac{1}{4} \times \$68,400 = .25 \times \$68,400 =$ **\$17,100**
 Food: $\frac{1}{5} \times \$68,400 = .20 \times \$68,400 =$ **\$13,680**
 Transportation: $\frac{1}{8} \times \$68,400 = .125 \times \$68,400 =$ **\$ 8,550**
 Other: $\frac{17}{40} \times \$68,400 = .425 \times \$68,400 =$ **\$29,070**
\$68,400
58. $\frac{1}{3} \times 252 = \frac{1}{3} \times \frac{252}{1} = \frac{252}{3} = 84 \text{ acres} \rightarrow 252 - 84 =$ **168 acres available**
59. $168 \div \frac{3}{8} = \frac{168}{1} \times \frac{8}{3} =$ **448 homesites**
60. Revenue: $448 \times \$125,000$ **\$56,000,000**
 Costs: $\$30,000,000 + \$12,000,000$ **-42,000,000**
 Projected profit **\$14,000,000**
61. $2\frac{1}{4} \longrightarrow 2\frac{2}{8}$
 $1\frac{3}{8} \longrightarrow 1\frac{3}{8}$
 $+4\frac{1}{2} \longrightarrow +4\frac{4}{8}$
Need LCD $7\frac{9}{8} = 7 + \frac{9}{8} = 7 + 1\frac{1}{8} =$ **$8\frac{1}{8}$ yards**
62. $195 \div 8\frac{1}{8} = 195 \div \frac{65}{8} = \frac{195}{1} \times \frac{8}{65} =$ **24 suits**
63. $\$3,000 \div 24 \text{ suits} =$ **\$125 per suit**
64. $\$125 + \$120 + \$75 =$ **\$320**
65. **Corner B is the lowest**, since it is $60\frac{3}{8}$ inches below the builder's level.

Corner A. $60\frac{3}{8} - 59\frac{1}{2} = 60\frac{3}{8} - 59\frac{4}{8} = 59\frac{11}{8} - 59\frac{4}{8} = \frac{7}{8} \text{ inch. Point A is } \frac{7}{8} \text{ of an inch higher than B.}$

Corner C. $60\frac{3}{8} - 58\frac{3}{16} = 60\frac{6}{16} - 58\frac{3}{16} = 2\frac{3}{16} \text{ inch. Point C is } 2\frac{3}{16} \text{ inches higher than B.}$

Corner D. $60\frac{3}{8} - 59\frac{11}{16} = 60\frac{6}{16} - 59\frac{11}{16} = 59\frac{22}{16} - 59\frac{11}{16} = \frac{11}{16} \text{ inch. Point D is } \frac{11}{16} \text{ of an inch higher than B.}$

Practice Test

1. $3\frac{5}{8} = \frac{(3 \times 8) + 5}{8} = \frac{29}{8}$
2. $\frac{13}{3} = 4\frac{1}{3}$
3. $\frac{21}{27} = \frac{21 \div 3}{27 \div 3} = \frac{7}{9}$
4. $\frac{153}{198} = \frac{153 \div 9}{198 \div 9} = \frac{17}{22}$
5. $\frac{2}{5} + \frac{2}{3} - \frac{1}{4} = \frac{24}{60} + \frac{40}{60} - \frac{15}{60} = \frac{24+40-15}{60} = \frac{49}{60}$
6. $1\frac{2}{3} \times \frac{5}{4} = \frac{5}{3} \times \frac{5}{4} = \frac{5 \times 5}{3 \times 4} = \frac{25}{12} = 2\frac{1}{12}$
7. $2\frac{1}{4} \div \frac{5}{7} = \frac{9}{4} \div \frac{5}{7} = \frac{9}{4} \times \frac{7}{5} = \frac{9 \times 7}{4 \times 5} = \frac{63}{20} = 3\frac{3}{20}$
8. $3\frac{2}{3} \longrightarrow 3\frac{8}{12} \longrightarrow 2\frac{20}{12}$
 $-1\frac{3}{4} \longrightarrow -1\frac{9}{12} \longrightarrow -1\frac{9}{12}$
Need LCD *Must borrow* **$1\frac{11}{12}$**
9. $.625 = \text{six hundred twenty-five thousandths} = \frac{625}{1,000} = \frac{625 \div 125}{1,000 \div 125} = \frac{5}{8}$
10. $\begin{array}{r} 16 \overline{) 11.0000} \\ \underline{96} \\ 140 \\ \underline{128} \\ 120 \\ \underline{112} \\ 80 \\ \underline{80} \\ 0 \end{array}$ **$.6875 + 4 = 4.6875$**

11. $3\frac{1}{2} \longrightarrow 3\frac{4}{8}$
 $\frac{5}{8} \longrightarrow \frac{5}{8}$
 $\frac{5}{8} \longrightarrow \frac{5}{8}$
 Need LCD $3\frac{14}{8} = 3 + \frac{14}{8} = 3 + 1\frac{6}{8} = 4\frac{6}{8} = 4\frac{3}{4}$ inches
12. Length of fence (inches): $155 \times 12 = 1,860$ inches
 Number of slats: $1,860 \div 3.75 = 496$ slats
 Cost: $496 \text{ slats} \times \$1.45 = \$719.20$

Chapter 3 Equations: A Guide to Finding the Unknown

Unit 3.1 Mathematical symbols and expressions

1. **False.** $\neq$ means "is not equal to"
2. 4×9 $4 \cdot 9$ $4(9)$
3. **False.** Means 17 divided by 13.
4. a. **Yes** b. **No** c. **Yes**
5. 6^4
6. $4^7 = 4 \cdot 4 \cdot 4 \cdot 4 \cdot 4 \cdot 4 \cdot 4 = 16,384$
7. $= 4 + 10 = 14$
8. $= (11)^2 = 121$
9. $= 8 + 9 = 17$
10. $= 5[2 + 3(2) - 5] + 3 = 5[2 + 6 - 5] + 3 = 5[3] + 3 = 15 + 3 = 18$
11. $= 3 + (+5) + (-2) - (+2) - (-6) = 3 + 5 - 2 - 2 + 6 = 10$
12. $= 12$
13. $= -7$
14. $(2)(-3) = -6$; $(-6)(2) = -12$; $(-12)(4) = -48$; $(-48)(-3) = 144$; $(144)(-2) = -288$
15. $= 6$
16. $= 2q + 2r$
17. $= 15a + 10b$
18. $= 2y - y + 2 = y + 2$
19. $= 3m + 4m + 2 - 3m + 6 = 4m + 8$
20. **Cannot simplify**

Unit 3.2 Equations: Solving for the unknown

21. **b is an equation;** the other two are expressions (no equal sign).

$$\begin{array}{r} x - 8 = 27 \\ \underline{+8} \quad \underline{+8} \\ x = 35 \end{array}$$

$$\begin{array}{r} y + 17 = 23 \\ \underline{-17} \quad \underline{-17} \\ y = 6 \end{array}$$

$$\begin{array}{r} 3a = 15 \\ \underline{\frac{3}{3}a} \quad \underline{\frac{15}{3}} \\ a = 5 \end{array}$$

$$\begin{array}{r} \frac{t}{8} = 3 \\ \frac{8}{1} \left(\frac{t}{8} \right) = 8(3) \\ t = 24 \end{array}$$

$$\begin{array}{r} \frac{2}{7}y = 3 \\ \frac{7}{2} \left(\frac{2}{7}y \right) = \frac{7}{2} \left(\frac{3}{1} \right) \\ y = \frac{21}{2} \end{array}$$

$$\begin{array}{r} 2b + 7 = 43 \\ \underline{-7} \quad \underline{-7} \\ 2b = 36 \\ \underline{\frac{2b}{2}} \quad \underline{\frac{36}{2}} \\ b = 18 \end{array}$$

$$\begin{aligned}
 28. \quad 3m - (m - 4) &= 14 \\
 3m - m + 4 &= 14 \\
 2m + 4 &= 14 \\
 \underline{-4} \quad \underline{-4} & \\
 2m &= 10 \\
 \underline{\frac{2m}{2}} &= \underline{\frac{10}{2}} \\
 m &= 5
 \end{aligned}$$

$$\begin{aligned}
 29. \quad 2p - 4 &= 5p + 8 \\
 \underline{-2p} \quad \underline{-2p} & \\
 -4 &= 3p + 8 \\
 \underline{-8} \quad \underline{-8} & \\
 -12 &= 3p \\
 \underline{\frac{-12}{3}} &= \underline{\frac{3p}{3}} \\
 -4 &= p
 \end{aligned}$$

$$\begin{aligned}
 30. \quad 3(3x + 5) - 19 &= 2(x + 5) \\
 9x + 15 - 19 &= 2x + 10 \\
 9x - 4 &= 2x + 10 \\
 \underline{-2x} \quad \underline{-2x} & \\
 7x - 4 &= 10 \\
 \underline{+4} \quad \underline{+4} & \\
 7x &= 14 \\
 \underline{\frac{7x}{7}} &= \underline{\frac{14}{7}} \\
 x &= 2
 \end{aligned}$$

$$\begin{aligned}
 31. \quad 3(3x + 5) - 19 &= 2(x + 5) \\
 \downarrow \quad \quad \downarrow & \\
 3(3(2) + 5) - 19 &= 2(2 + 5) \\
 3(6 + 5) - 19 &= 2(7) \\
 3(11) - 19 &= 14 \\
 33 - 19 &= 14 \\
 14 &= 14
 \end{aligned}$$

$$32. \quad FV = PV(1+i)^n = \$500(1+.04)^5 = \$500(1.04)^5 \approx \$500(1.21665290) \approx \mathbf{\$608.33}$$

$$33. \quad FV = PV(1+i)^n \quad \text{The compound interest formula}$$

$$\frac{FV}{(1+i)^n} = PV \quad \text{Divide each side by } (1+i)^n$$

$$PV = \frac{FV}{(1+i)^n} \quad \text{Rearrange so PV is on the left}$$

Unit 3.3 Guideline for solving word problems

$$34. \quad 7c$$

$$35. \quad x + 12 \text{ or } 12 + x$$

$$36. \quad a - 5$$

$$37. \quad 2(x + y + z)$$

$$38. \quad y = x + 4$$

$$39. \quad r + 2 = t + 4$$

$$40. \quad \frac{n}{3} = 18$$

$$41. \quad ? = \$65,000$$

$$\begin{aligned}
 B + M &= \$65,000 \\
 \downarrow \quad \downarrow & \\
 B + B + \$8,000 &= \$65,000 \\
 2B + \$8,000 &= \$65,000 \\
 2B &= \$57,000 \\
 B &= \$28,500
 \end{aligned}$$

Britney	\$28,500
Megan: \$28,500 + \$8,000	<u>36,500</u>
	\$65,000

42. Note: Because the letter "O" resembles the number zero, let's use "F" for offices.

$$\begin{aligned}
 ? &= 6,100 \\
 F + W + S &= 6,100 \\
 \downarrow \quad \downarrow \quad \downarrow & \\
 1,300 + 2S + S &= 6,100 \\
 1,300 + 3S &= 6,100 \\
 3S &= 4,800 \\
 S &= 1,600
 \end{aligned}$$

Offices	1,300 sq ft
Showroom	<u>1,600 sq ft</u>
Warehouse: 2(1,600 sq ft)	<u>3,200 sq ft</u>
	6,100 sq ft

$$43. \quad ? = \$280,000$$

$$\begin{aligned}
 L + H &= \$280,000 \\
 \downarrow \quad \downarrow & \\
 L + 2.5L &= \$280,000 \\
 3.5L &= \$280,000 \\
 L &= \$80,000
 \end{aligned}$$

Land	\$ 80,000
Home: 2.5(\$80,000)	<u>200,000</u>
	\$280,000

44. $? = \$350,000$

$$\begin{array}{rcl} 2C + W & = & \$350,000 \\ \downarrow & & \downarrow \\ 2\left(\frac{2}{3}W\right) + W & = & \$350,000 \\ \frac{4}{3}W + W & = & \$350,000 \\ \frac{4}{3}W + \frac{3}{3}W & = & \$350,000 \end{array}$$

$$\begin{array}{rcl} \frac{7}{3}W & = & \$350,000 \\ \frac{3}{7}\left(\frac{7}{3}W\right) & = & \frac{3}{7}(\$350,000) \\ W & = & \$150,000 \end{array}$$

Wife	\$150,000
Child #1: $\$150,000 \times \frac{2}{3}$	100,000
Child #2: $\$150,000 \times \frac{2}{3}$	<u>100,000</u>
	\$350,000

45. $? = 238$

$$\begin{array}{rcl} C + T & = & 238 \\ \downarrow & & \downarrow \\ 6T + T & = & 238 \\ 7T & = & 238 \\ T & = & 34 \end{array}$$

Trucks	34
Cars: $6(34)$	<u>204</u>
	238

46. $? = \$58$

$$\begin{array}{rcl} P - D & = & \$58 \\ \downarrow & & \downarrow \\ P - \frac{1}{3}P & = & \$58 \\ \frac{2}{3}P & = & \$58 \\ \frac{3}{2}\left(\frac{2}{3}P\right) & = & \frac{3}{2}(\$58) \\ P & = & \$87 \end{array}$$

Original price	\$87
Discount: $\frac{1}{3}(\$87)$	<u>-29</u>
Amount after discount	\$58

Challenge problems

47. a. $1.5(4,000 \text{ lb}) = \mathbf{6,000 \text{ lb}}$

b. $? = 6,000 \text{ lb}$

$$\begin{array}{rcl} S + C + G + W & = & 6,000 \text{ lb} \\ \downarrow & & \downarrow & & \downarrow & & \downarrow \\ 5W + 2W + 7W + W & = & 6,000 \text{ lb} \\ 15W & = & 6,000 \text{ lb} \\ W & = & 400 \text{ lb} \end{array}$$

Water	400 lb
Sand: $5(400 \text{ lb})$	2,000 lb
Cement: $2(400 \text{ lb})$	800 lb
Gravel: $7(400 \text{ lb})$	<u>2,800 lb</u>
	6,000 lb

48.

Home	\$190,000
Additional	<u>+ 19,000</u>
Total	\$209,000

49. The \$190,000 guess is too high, because it results in total coverage of \$209,000 instead of \$198,000. So, try a lower guess. If that guess results in total coverage that is too low, try a higher guess; if that guess results in total coverage that is too high, try a lower guess. Keep narrowing down the guess until total coverage is \$198,000.

Home	\$180,000
Additional	<u>+ 18,000</u>
Total	\$198,000 (works!)

50. $? = \$3,590$

$$\begin{array}{rcl} P + T & = & \$3,590 \\ \downarrow & & \downarrow \\ P + .07P & = & \$3,590 \\ 1.07P & = & \$3,590 \\ P & = & \$3,355.14 \end{array}$$

Price of products	\$3,355.14
Sales tax: $\$3,355.14 \times .07$	<u>+ 234.86</u>
Total collected from customers	\$3,590.00

51. $\quad ? = 18 \text{ oz}$

$$\begin{array}{rcl} C + A + M & = & 18 \text{ oz} \\ \downarrow \quad \downarrow \quad \downarrow & & \\ 2M + 3C + M & = & 18 \text{ oz} \\ \downarrow & & \\ 2M + 3(2M) + M & = & 18 \text{ oz} \\ 2M + 6M + M & = & 18 \text{ oz} \\ 9M & = & 18 \text{ oz} \\ M & = & 2 \text{ oz} \end{array}$$

There are twice as many cashews as macadamia nuts ($C = 2M$)

Macadamia nuts	2 oz
Cashews: 2(2 oz)	4 oz
Almonds: 3(4 oz)	<u>12 oz</u>
	18 oz

52. $\quad ? = \$180,000$
 $L - F - A = \$180,000$

$$\begin{array}{rcl} L - .0225 L - \$3,200 & = & \$180,000 \\ .9775 L - \$3,200 & = & \$180,000 \\ .9775 L & = & \$183,200 \\ L & = & \$187,416.88 \end{array}$$

Loan amount	\$187,416.88
Fee to lender: $\$187,416.88 \times .0225$	- 4,216.88
Additional fees	<u>- 3,200.00</u>
Net proceeds	\$180,000.00

53. $F + V = R$
 $\downarrow \quad \downarrow \quad \downarrow$
 $\$13,000 + \$8C = \$28C$
 $\$13,000 = \$20C$
 $650 = C$

Fixed costs	\$13,000
Variable costs: 650(\$8)	<u>+ 5,200</u>
Total costs	<u>\$18,200</u>
Revenues: 650(\$28)	<u>\$18,200</u>

54. $650 \text{ customers} \div 25 \text{ days} = 26 \text{ customers per day}$

Practice Test

1. **False** 2. $4^3 = 4 \cdot 4 \cdot 4 = 64$ 3. $2 + 8 \times 4 = 2 + 32 = 34$ 4. $= 2 + 3(7 - 4)^2 = 2 + 3(3)^2 = 2 + 3(9) = 2 + 27 = 29$

5. $(2)(-3) = -6$; $(-6)(-2) = 12$; $\frac{12}{-4} = -3$ 6. $= 5 - 6a + 8 + 3a = -3a + 13$ 7. $\frac{+12}{m} = \frac{+12}{40}$

8. $\frac{5}{4} \cdot \frac{4}{5} y = \frac{5}{4} \left(\frac{28}{1} \right)$
 $y = 35$ 9. $3p = 12$
 $p = 4$ 10. $8p - 4 - 3p + 4 = 2p + 5$
 $5p = 2p + 5$
 $3p = 5$
 $p = \frac{5}{3}$ 11. $m + 4 = n + 3$

12. $\quad ? = \$30,000$

$$\begin{array}{rcl} B + C & = & \$30,000 \\ \downarrow \quad \downarrow & & \\ B + B + \$5,000 & = & \$30,000 \\ 2B + \$5,000 & = & \$30,000 \\ 2B & = & \$25,000 \\ B & = & \$12,500 \end{array}$$

Brandy	\$12,500
Carlos: $\$12,500 + \$5,000$	<u>17,500</u>
	\$30,000

13. $F + V = R$
 $\downarrow \quad \downarrow \quad \downarrow$
 $\$4,800 + \$0.015C = \$0.06C$
 $\$4,800 = \$0.045C$
 $\frac{\$4,800}{\$0.045} = C$
 $106,667 \approx C$

Fixed costs	\$4,800
Variable costs: $106,667(\$0.015) \approx$	<u>+1,600</u>
Total costs	<u>\$6,400</u>
Revenues: $106,667(\$0.06) \approx$	<u>\$6,400</u>

Chapter 4 Percents

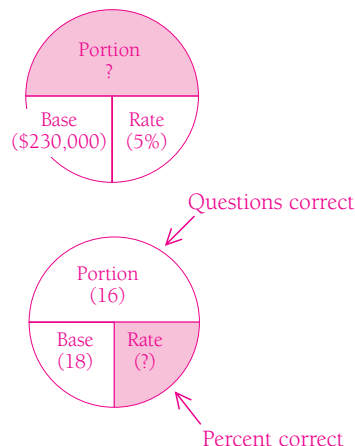
Unit 4.1 Percent conversions

1. $= .063 = 6.3\%$
2. $= 1.35 = 135\%$
3. $= 52.1\% = .521$
4. $= 08.3\% = .083$
5. $= 137.5\% = 1.375$
6. $= 00.625\% = .00625$
7. $= .375 = 37.5\%$
8. $= 1.25 = 125\%$
9. $= 36 \times \frac{1}{100} = \frac{36}{100} = \frac{9}{25}$
10. $= 62\frac{1}{2}\% = \frac{125}{2} \times \frac{1}{100} = \frac{125}{200} = \frac{5}{8}$

Unit 4.2 The percent formulas

11. Portion = Base $\times$ Rate = $\$400 \times 7\% = \$400 \times .07 = \$28$
12. Portion = Base $\times$ Rate = $250 \times 35\% = 250 \times .35 = 87.5$
13. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{60}{40\%} = \frac{60}{.40} = 150$
Check answer: $150 \times 40\% = 60$
14. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{240}{75\%} = \frac{240}{.75} = 320$
Check answer: $320 \times 75\% = 240$
15. Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{25}{50} = .50 = 50\%$
Check answer: $50 \times 50\% = 25$
16. Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{117}{90} = 1.30 = 130\%$
Check answer: $90 \times 130\% = 117$

17. Portion = Base $\times$ Rate = $\$230,000 \times 5\% = \$230,000 \times .05 = \$11,500$

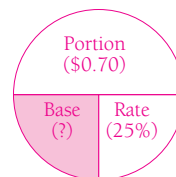


18. You get 16 correct, so: Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{16}{18} \approx .889 \approx 88.9\%$

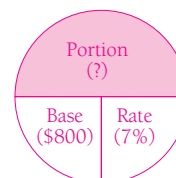
19. Matt: Portion = Base $\times$ Rate = $\$42,700 \times 60\% = \$42,700 \times .60 = \$25,620$
Robbie: Portion = Base $\times$ Rate = $\$42,700 \times 40\% = \$42,700 \times .40 = 17,080$
\$42,700

20. Questions you must answer correctly: Portion = Base $\times$ Rate = $35 \times 85\% = 35 \times .85 = 29.75$
Because it is not possible to get .75 of a question correct, you must get at least 30 questions correct to get at least 85%.
This means **you can miss no more than 5 questions** to get a B.

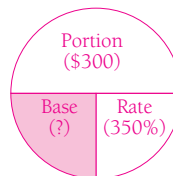
21. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{\$0.70}{25\%} = \frac{\$0.70}{.25} = \2.80
Check answer: $\$2.80 \times 25\% = \0.70



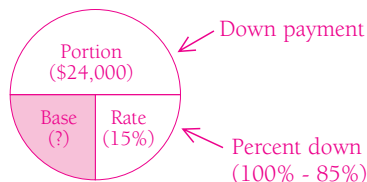
22. Portion = Base $\times$ Rate = $\$800 \times 7\% = \$800 \times .07 = \$56$



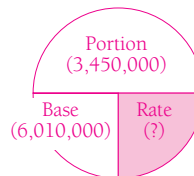
23. $\text{Base} = \frac{\text{Portion}}{\text{Rate}} = \frac{\$300}{350\%} = \frac{\$300}{3.50} = \mathbf{\$85.71}$
 Check answer: $\$85.71 \times 350\% = \299.99 (penny difference due to rounding cost to exactly \$85.71)



24. $\text{Base} = \frac{\text{Portion}}{\text{Rate}} = \frac{\$24,000}{15\%} = \frac{\$24,000}{.15} = \mathbf{\$160,000}$
 Check answer: $\$160,000 \times 15\% = \$24,000$



25. $\text{Rate} = \frac{\text{Portion}}{\text{Base}} = \frac{3,450,000}{6,010,000} \approx .574 \approx \mathbf{57.4\%}$



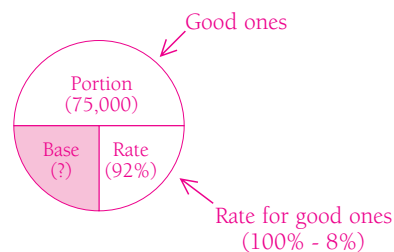
Unit 4.3 Increase and decrease problems

26. Sales tax: $\text{Portion} = \text{Base} \times \text{Rate} = \$970 \times 6.75\% = \$970 \times .0675 = \mathbf{\$65.48}$
 Total amount due: $\$970$ (original amount) + $\$65.48$ (increase) = $\mathbf{\$1,035.48}$

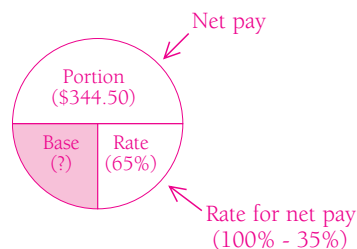
27. Amount of decrease: $\text{Portion} = \text{Base} \times \text{Rate} = \$872 \times 3\% = \$872 \times .03 = \26.16
 New amount: $\$872$ (original amount) - $\$26.16$ (decrease) = $\mathbf{\$845.84}$

28. Pay raise: $\text{Portion} = \text{Base} \times \text{Rate} = \$9.70 \times 10\% = \$9.70 \times .10 = \0.97
 New hourly rate: $\$9.70$ (original amount) + $\$0.97$ (increase) = $\mathbf{\$10.67}$

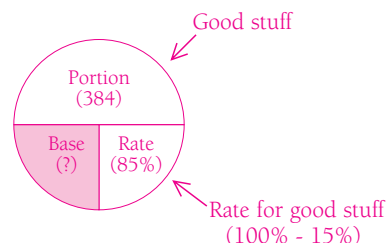
29. $\text{Base} = \frac{\text{Portion}}{\text{Rate}} = \frac{75,000}{92\%} = \frac{75,000}{.92} \approx 81,521.74 \approx \mathbf{81,522 \text{ batteries}}$
 Note: .74 of a battery is not much good, so we round up to 81,522.
 Check answer: $81,522 - 8\%(81,522) \approx 75,000$



30. $\text{Base} = \frac{\text{Portion}}{\text{Rate}} = \frac{\$344.50}{65\%} = \frac{\$344.50}{.65} = \mathbf{\$530}$
 Check answer: $\$530 - 35\%(\$530) = \$344.50$



31. $\text{Base} = \frac{\text{Portion}}{\text{Rate}} = \frac{384}{85\%} = \frac{384}{.85} \approx 451.76 \text{ sq ft} \approx \mathbf{452 \text{ sq ft}}$
 Check answer: $451.76 - 15\%(451.76) = 384.00$



32. Percent increase = $\frac{\text{Amount of increase}}{\text{Original amount}} = \frac{14,817 - 13,577}{13,577} = \frac{1,240}{13,577} \approx .091 \approx 9.1\%$
33. Percent increase = $\frac{\text{Amount of increase}}{\text{Original amount}} = \frac{\$479 - \$429}{\$429} = \frac{\$50}{\$429} \approx .117 \approx 11.7\%$
34. Percent decrease = $\frac{\text{Amount of decrease}}{\text{Original amount}} = \frac{433 - 402}{433} = \frac{31}{433} \approx .072 \approx 7.2\%$
35. Percent increase = $\frac{\text{Amount of increase}}{\text{Original amount}} = \frac{\$750 - \$675}{\$675} = \frac{\$75}{\$675} \approx .111 \approx 11.1\%$
36. Percent increase = $\frac{\text{Amount of increase}}{\text{Original amount}} = \frac{11,844.22 - 10,242.53}{10,242.53} = \frac{1,601.69}{10,242.53} \approx .156 \approx 15.6\%$
37. Percent decrease = $\frac{\text{Amount of decrease}}{\text{Original amount}} = \frac{\$2,200 - \$1,477}{\$2,200} = \frac{\$723}{\$2,200} \approx .329 \approx 32.9\%$
38. Percent increase = $\frac{\text{Amount of increase}}{\text{Original amount}} = \frac{43.5 - 31.9}{31.9} = \frac{11.6}{31.9} \approx .364 \approx 36.4\%$

The article is incorrect. Loan volume has increased 36.4% not 26.7%. Whoever prepared the article made a mistake by dividing the increase (\$11.6 million) by the *new* amount (\$43.5 million).

39. Percent decrease = $\frac{\text{Amount of decrease}}{\text{Original amount}} = \frac{\$45.95 - \$24.99}{\$45.95} = \frac{\$20.96}{\$45.95} \approx .456 \approx 45.6\%$

Challenge problems

40. Total commission: $\$235,000 \times 7\% = \$235,000 \times .07 = \$16,450$
 Company share: $\$16,450 \times 60\% = \$16,450 \times .60 = \$9,870$
 Your share: $\$9,870 \times 70\% = \$9,870 \times .70 = \mathbf{\$6,909}$
41. Portion = Base $\times$ Rate = $\$42,378 \times 13\% = \$42,378 \times .13 = \mathbf{\$5,509.14}$
42. Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{\$2,000}{\$28,000} \approx .071 \approx 7.1\%$
43. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{\$8,718.45}{13\%} = \frac{\$8,718.45}{.13} = \mathbf{\$67,065}$
44. Cost of meal $\$55.00$
 Sales tax: $\$55 \times 7\%$ $+ 3.85$
 Cost, including sales tax $\$58.85$
 Tip: $\$58.85 \times 15\%$ $+ 8.83$
 Total cost $\mathbf{\$67.68}$
- No**, the total cost is more than you have.
45. Amount of increase: Portion = Base $\times$ Rate = $\$1,250 \times 20\% = \250
 New amount: $\$1,250$ (original amount) + $\$250$ (increase) = $\mathbf{\$1,500}$
46. Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{\$2,450}{\$1,500} \approx 1.6333 \approx 163.3\%$
47. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{\$422,500}{9.5\%} = \frac{\$422,500}{.095} = \$4,447,368.42 \approx \mathbf{\$4,447,000}$
48. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{\$1,200}{70\%} = \frac{\$1,200}{.70} = \mathbf{\$1,714.29}$
- Check answer: $\$1,714.29 - 30\%(\$1,714.29) = \$1,200.00$
49. Percent decrease = $\frac{\text{Amount of decrease}}{\text{Original amount}} = \frac{\$24.99 - \$8.99}{\$24.99}$
 $= \frac{\$16.00}{\$24.99} \approx .640 \approx 64\%$
50. Percent decrease = $\frac{\text{Amount of decrease}}{\text{Original amount}} = \frac{68.8 - 56.5}{68.8}$
 $= \frac{12.3}{68.8} \approx .1788 \approx 17.88\%$
51. Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{7.33}{8.85} \approx .83 \approx 83\%$

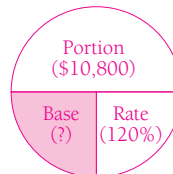
52. Mr. Ely received only \$650.50 back from his original \$1,000 investment! This happened because Volatile always increased from lower prices and dropped 20% from higher prices. For example, on the first day, the stock value increased 20%, turning it into \$1,200. But on the second day, the value decreased \$240 (20% × \$1,200), turning it into only \$960. Then the cycle kept repeating, sending the price lower and lower.

Practice Test

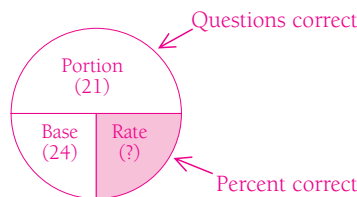
1. $.065 = \frac{65}{1000} = 6.5\%$ 2. $87\frac{1}{2}\% = 87.5\% = .875$ 3. $\frac{5}{16} = .3125 = 31.25\%$
4. $12.5\% = 12\frac{1}{2}\% = \frac{25}{2}\% = \frac{25}{2} \times \frac{1}{100} = \frac{25}{200} = \frac{1}{8}$
5. Portion = Base × Rate = \$210,000 × 20% = \$210,000 × .20 = **\$42,000**

6. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{\$10,800}{120\%} = \frac{\$10,800}{1.20} = \mathbf{\$9,000}$

Check answer: \$9,000 + 20%(\$9,000) = \$10,800



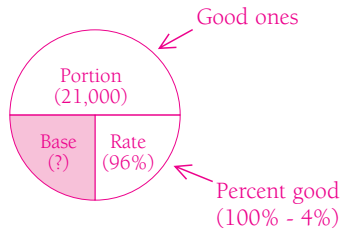
7. Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{21}{24} \approx .875 = 87.5\%$



8. Sales tax : Portion = Base × Rate = \$750 × 7% = \$750 × .07 = \$52.50
Total amount: \$750 (original amount) + \$52.50 (increase) = **\$802.50**

9. Base = $\frac{\text{Portion}}{\text{Rate}} = \frac{21,000}{96\%} = \frac{21,000}{.96} = \mathbf{21,875 \text{ tires}}$

Check answer: 21,875 - 4%(21,875) = 21,000



10. Percent decrease = $\frac{\text{Amount of decrease}}{\text{Original amount}} = \frac{8,422 - 8,318}{8,422} = \frac{104}{8,422} \approx .012 \approx 1.2\%$

Chapter 5 Trade and Cash Discounts

Unit 5.1 Trade discounts

	Product	List price	Trade discount rate	Trade discount amount	Net price
1.	TV	\$900	30%	$\$900 \times 30\% = \mathbf{\$270}$	$\$900 - \$270 = \mathbf{\$630}$
2.	Copy machine	\$700	25%	$\$700 \times 25\% = \mathbf{\$175}$	$\$700 - \$175 = \mathbf{\$525}$

	Product	List price	Trade discount rate	Complement of rate	Net price
3.	TV	\$900	30%	$100\% - 30\% = 70\%$	$\$900 \times 70\% = \mathbf{\$630}$
4.	Copy machine	\$700	25%	$100\% - 25\% = 75\%$	$\$700 \times 75\% = \mathbf{\$525}$

5. **Answers are the same, confirming both approaches work.**

6. List price	\$6,400
First discount: $\$6,400 \times 25\%$	<u>- 1,600</u>
Price after first discount	\$4,800
Second discount: $\$4,800 \times 10\%$	<u>- 480</u>
Price after second discount	\$4,320
Third discount: $\$4,320 \times 10\%$	<u>- 432</u>
Net price	\$3,888

7. Step 1 (complements)	Step 2 (multiply complements)	Step 3 (complement of Step 2)
25% 10% 10%	75% $\times$ 90% $\times$ 90%	100.00%
↓ ↓ ↓	= .75 $\times$.90 $\times$.90	<u>- 60.75%</u>
75% 90% 90%	= .6075	39.25%
	= 60.75%	

8. It means that a 39.25% single discount is identical to a 25/10/10 series discount.

9. List price	\$6,400
Trade discount: $\$6,400 \times 39.25\%$	<u>- 2,512</u>
Net price	\$3,888

Unit 5.2 Cash discounts

10. List price	\$800.00
Less returned goods	<u>- 50.00</u>
Price of goods after returns	\$750.00
Less trade discount: $\$750 \times 20\%$	<u>- 150.00</u>
Net price	\$600.00
Less cash discount: $\$600 \times 4\%$	<u>- 24.00</u>
Net price, less cash discount	\$576.00
Add freight	<u>+ 20.00</u>
Net amount due	\$596.00

11. a. Cash discount: $\$240 \times 3\% = \7.20

b. Net amount due: $\$240 - \$7.20 = \$232.80$

c. Last day of discount period: October 7 + 20 = **October 27**

d. Last day of credit period: October 7 is day 280; $280 + 45 = 325$. Day 325 is **November 21**.

12. Discount = $\$75.20 \times 1\% = \0.75 ; net amount due = $\$75.20 - \$0.75 = \$74.45$

13. a. Last day of discount period: The credit period begins on July 23, the date the goods were received. July 23 is day 204; $204 + 15 = 219$; day 219 is **August 7**.

b. Last day of credit period: $204 + 45 = 249$; day 249 is **September 6**.

14. a. Last day of discount period: The credit period does not begin until the last day of August (because the invoice is dated after the 25th of the month). The last day of the discount period is 10 days beyond August 31, which is **September 10**.

b. The last day of credit period: Because the invoice does not specify when the credit period ends, we assume the credit period extends 20 days past the last day of the discount period, which is **September 30**.

15. The discount period ends 100 days ($10 + 90 = 100$) after the date of the invoice. February 5 is day 36. The last day of the discount period is day 136 ($36 + 100 = 136$). Day 136 is **May 15** (remember, because the year is a leap year, 1 must be added to each day after February 28: so May 16 is day 137 and May 15 is day 136).

16. Amount credited = $\frac{\text{Amount paid}}{\text{Complement of cash discount rate}} = \frac{\$10,000}{100\% - 3\%} = \frac{\$10,000}{97\%} = \frac{\$10,000}{.97} = \$10,309.28$

17. $\frac{6}{94} \times \frac{365}{30 - 10} = \frac{6}{94} \times \frac{365}{20} = \frac{6 \times 365}{94 \times 20} = \frac{2,190}{1,880} \approx 1.1649 \approx 116.49\%$

Challenge problems

18. **Cash discount**

19. **True**

20. **False**. Trade discounts are given as an incentive to buy the product, regardless of whether the invoice is paid within the discount period.

21. Company A: $\$3,200 - 30\%(\$3,200) = \$2,240.00$
Company B: $\$2,900 - 20\%(\$2,900) = \$2,320$; $\$2,320 - 10\%(\$2,320) = \mathbf{\$2,088.00}$
 Company C: $\$3,450 - 20\%(\$3,450) = \$2,760$; $\$2,760 - 15\%(\$2,760) = \$2,346$; $\$2,346 - 5\%(\$2,346) = \$2,228.70$

	Product	List price	Trade discount rate	Net price	Cash discount	Net amount due
22.	Tent	\$500	30%	\$350.00	2%	\$343.00
23.	Backpack	\$350	30/10	\$220.50	8%	\$202.86
24.	Sleeping Bag	\$400	25/15/5	\$242.25	4%	\$232.56

25. List price $\$455.00$
 Trade discount amount: $\$455 \times 25\%$ $\underline{-113.75}$
 Net price **\$341.25**

26. October 3 + 15 = **October 18**

27. Net price $\$341.25$
 Cash discount: $\$341.25 \times 3\%$ $\underline{-10.24}$
 Net amount due **\$331.01**

28. October 3 is day number 276; $276 + 45 = 321$. Day 321 is **November 17**.

29. $\frac{3}{97} \times \frac{365}{45-15} = \frac{3}{97} \times \frac{365}{30} = \frac{3 \times 365}{97 \times 30} = \frac{1,095}{2,910} \approx .3763 \approx \mathbf{37.63\%}$

30. $15 \times \$183.25 = \mathbf{\$2,748.75}$
 $3 \times \$195.50 = \mathbf{\$586.50}$
 $24 \times \$34.98 = \mathbf{\$839.52}$

31. **No.** There is an error for the Sub-Zero Sleeping Bags:

Subtotal	\$586.50
First discount: $\$586.50 \times 20\%$	$\underline{-117.30}$
Price after first discount	\$469.20
Second discount: $\$469.20 \times 5\%$	$\underline{-23.46}$
Net price	\$445.74

32. Total Net Prices: $\$2,199.00 + \$445.74 + \$671.62 = \$3,316.36$
 Balance Due: $\$3,316.36 + \$182.00 = \mathbf{\$3,498.36}$

33. **a.** Last day of discount period: March 13 + 15 = **March 28**
b. Last day of credit period: March 13 is day 72; $72 + 45 = 117$. Day 117 is **April 27**.

34. Total Net price (from Problem 32) $\$3,316.36$
 Cash discount: $\$3,316.36 \times 3\%$ $\underline{-99.49}$ *Remember, the discount does not apply to freight*
 Net price, less cash discount $\$3,216.87$
 Add freight $\underline{+182.00}$
 Net amount due **\$3,398.87**

35. Let's use our equation-solving skills from Chapter 3.

$? = \$8.78$	Something = \$8.78
$P - D = \$8.78$	Price - trade discount = \$8.78
$P - 30\%P = \$8.78$	Substitute: $D = 30\%P$
$70\%P = \$8.78$	Combine terms on left ($100\%P - 30\%P = 70\%P$)
$P = \mathbf{\$12.54}$	Divide both sides of equation by 70% (or .70)

36. List price $\$12.54$
 Trade discount: $\$12.54 \times 30\%$ $\underline{-3.76}$
 Net price **\$8.78**

Practice Test

- List price \$820.00
 Trade discount amount: $\$820 \times 25\%$ -205.00
 Net price **\$615.00**
- List price \$22.00
 First discount: $\$22 \times 20\%$ - 4.40
 Price after first discount \$17.60
 Second discount: $\$17.60 \times 10\%$ - 1.76
 Net price **\$15.84**
- Step 1 (complements)** **Step 2 (multiply complements)** **Step 3 (complement of Step 2)**

$20\% \quad 15\% \quad 5\%$ $\downarrow \quad \downarrow \quad \downarrow$ $80\% \quad 85\% \quad 95\%$	$80\% \times 85\% \times 95\%$ $= .80 \times .85 \times .95$ $= .646$ $= 64.6\%$	100.0% $\underline{- 64.6\%}$ 35.4%
---	---	---
- October 28 is day 301; $301 + 20 = 321$. Day 321 is **November 17**.
- List price \$820.00
 Trade discount: $\$820 \times 25\%$ -205.00
 Net price \$615.00
 Cash discount: $\$615 \times 2\%$ - 12.30
 Net amount due **\$602.70**
- Amount credited = $\frac{\text{Amount paid}}{\text{Complement of cash discount rate}} = \frac{\$11,500}{100\% - 5\%} = \frac{\$11,500}{95\%} = \frac{\$11,500}{.95} = \$12,105.26$
- $\frac{8}{92} \times \frac{365}{60 - 10} = \frac{8}{92} \times \frac{365}{50} = \frac{8 \times 365}{92 \times 50} = \frac{2,920}{4,600} \approx .6348 \approx 63.48\%$

Chapter 6 Markup and Markdown

Unit 6.1 Markup

	Cost	Markup(\$)	Selling price
1.	\$3,000	\$700	\$3,700
2.	\$1.69	\$0.50	\$2.19
3.	\$120	\$65	\$185
4.	\$300	\$200	\$500

5. **\$0. Selling price is the same as cost.** 6. **False**

7.

$$S = C + M$$

$$S = \$700 + 20\%(\$700)$$

$$S = \$700 + \$140$$

$$S = \mathbf{\$840}$$

8.

$$S = C + M$$

$$\$360 = 100\%C + 20\%C$$

$$\$360 = 120\%C$$

$$\$360 = 1.20C$$

$$\frac{\$360}{1.20} = \frac{\cancel{120}}{1.20} C$$

$$\mathbf{\$300} = C$$

9.

$$S = C + M$$

$$\$250 = C + 30\%(\$250)$$

$$\$250 = C + \$75$$

$$\mathbf{\$175} = C$$

$$\begin{aligned}
 10. \quad S &= C + M \\
 100\%S &= \$168 + 30\%(S) \\
 70\%S &= \$168 \\
 .70S &= \$168 \\
 \frac{\cancel{70}S}{.70} &= \frac{\$168}{.70} \\
 S &= \$240
 \end{aligned}$$

$$\begin{aligned}
 11. \quad S &= C + M \\
 S &= \$19.50 + 20\%(\$19.50) \\
 S &= \$19.50 + \$3.90 \\
 S &= \$23.40
 \end{aligned}$$

$$\begin{aligned}
 12. \quad S &= C + M \\
 \$22.50 &= 100\%C + 20\%C \\
 \$22.50 &= 120\%C \\
 \$22.50 &= 1.20C \\
 \frac{\$22.50}{1.20} &= \frac{\cancel{120}C}{1.20} \\
 \$18.75 &= C
 \end{aligned}$$

Unit 6.2 Percent markup

13. a. $M = S - C = \$72 - \$48 = \$24$
 b. Percent markup on cost $= \frac{M}{C} = \frac{\$24}{\$48} = .50 = 50\%$
 c. Percent markup on selling price $= \frac{M}{S} = \frac{\$24}{\$72} \approx .333 \approx 33.3\%$

	Percent markup on cost	Percent markup on selling price
14.	40%	$\frac{40\%}{100\% + 40\%} = \frac{40\%}{140\%} = \frac{.40}{1.40} \approx .286 \approx 28.6\%$
15.	25%	$\frac{25\%}{100\% + 25\%} = \frac{25\%}{125\%} = \frac{.25}{1.25} = .20 = 20\%$
16.	$\frac{30\%}{100\% - 30\%} = \frac{30\%}{70\%} = \frac{.30}{.70} \approx .429 \approx 42.9\%$	30%
17.	$\frac{25\%}{100\% - 25\%} = \frac{25\%}{75\%} = \frac{.25}{.75} \approx .333 \approx 33.3\%$	25%

18. Markup $= 60\%(\$40) = .60(\$40) = \$24$
 19. $S = C + M = \$40 + \$24 = \$64$
 20. $\frac{60\%}{100\% + 60\%} = \frac{60\%}{160\%} = \frac{.60}{1.60} = .375 = 37.5\%$
 21. Markup $= 37.5\%(\$64) = .375(\$64) = \$24$ (This is the same dollar amount of markup found in Problem 18)

Unit 6.3 Markdown

22. **False**

23. $\$250 - \$50 = \$200$

24. Original marked price $\$900$
 Dollar markdown: $\$900 \times 15\%$ $\underline{-135}$
 Reduced price $\$765$

25. Original marked price $\$870$
 Dollar markdown: $\$870 \times 10\%$ $\underline{-87}$
 Reduced price $\$783$

26. **Dependable Appliance Company (\$765)**

27. Original marked price $\$500$
 Markdown 1: $\$500 \times 25\%$ $\underline{-125}$
 Reduced price, after markdown 1 $\$375$
 Markdown 2: $\$375 \times 20\%$ $\underline{-75}$
 Reduced price, after markdown 2 $\$300$

28. **Step 1 Find dollar markdown:** $\$9,500 - \$8,250 = \$1,250$

Step 2 Find percent markdown: $\frac{\$1,250}{\$9,500} \approx .132 \approx 13.2\%$

29. **Step 1 Determine desired sales proceeds from entire stock**

$$\begin{aligned} S &= C + M \\ S &= \$120 + 25\%(\$120) \quad (C = 200 \times \$0.60 = \$120) \\ S &= \$120 + \$30 \\ S &= \$150 \end{aligned}$$

Step 2 Deduct proceeds from products sold at a discount

Desired sales proceeds (from Step 1)	\$150
Less proceeds from those sold at cost: 30 mangos ($200 \times 15\% = 30$) $\times \$0.60$	<u>- 18</u>
Proceeds required from top-quality mangos	\$132

Step 3 Find original marked price

200 total mangos - 30 sold at cost - 40 discarded ($200 \times 20\% = 40$) = 130 mangos
 130 mangos will sell at original marked price, so: $\$132 \div 130 \approx \$1.015 \approx \mathbf{\$1.02 \text{ each}}$ (Always round up.)

30.	130 mangos at full price: $130 \times \$1.02$	\$132.60	
	30 mangos at cost: $30 \times \$0.60$	18.00	
	+ 40 mangos discarded	<u>+ 0.00</u>	
	200	\$150.60	← Total sales proceeds are slightly more than the desired \$150 because we rounded up the original marked price to \$1.02.

31. Price/cost ratio = $\frac{\text{Price}}{\text{Cost}} = \frac{\$1.02}{\$0.60} = 1.70$

32. $\$0.70 \times 1.70 = \mathbf{\$1.19 \text{ each}}$

Unit 6.4 Break-even analysis

33.	List price	\$620.00
	Trade discount: $\$620 \times 20\%$	<u>- 124.00</u>
	Cost	\$496.00

34.	Cost	\$496.00
	Markup: $\$496 \times 45\%$	<u>+223.20</u>
	Original marked price	\$719.20

35.	Cost	\$496.00
	Amount to cover operating expenses: $\$496 \times 28\%$	<u>+138.88</u>
	Break-even price	\$634.88

36. Because he sold the table for more than the break-even price (\$634.88), he has a *profit*: $\$710 - \$634.88 = \mathbf{\$75.12 \text{ profit}}$

37. Because he sold the table for less than the break-even price (\$634.88), but more than cost (\$496), he has an *operating loss*: $\$634.88 - \$615 = \mathbf{\text{operating loss of } \$19.88}$.

38. Because he sold the table for less than cost (\$496), he has an *absolute loss*: $\$496 - \$440 = \mathbf{\text{absolute loss of } \$56}$

39. Number of units needed = $\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}} = \frac{\$5,300}{\$68.50 - \$26.75} = \frac{\$5,300}{\$41.75} = 126.95 = \mathbf{127 \text{ cutting boards}}$

40.	Revenues: 282 cutting boards $\times \$68.50$	\$19,317.00
	Less fixed costs	- 5,300.00
	Less variable costs: $282 \times \$26.75$	<u>- 7,543.50</u>
	Projected profit	\$ 6,473.50

Challenge problems

	Cost	Markup			Selling price
		% of cost	Dollar amount	% of selling price	
41.	\$1,300	40%	\$520	—	\$1,820
42.	\$180	97.2%	\$175	49.3%	\$355
43.	\$2,550	—	\$850	25%	\$3,400
44.	\$28.50	—	—	30%	\$40.71
45.	\$3,913.04	15%	\$586.96	13.0%	\$4,500
46.	—	20%	—	16.7%	—
47.	—	150%	—	60%	—

48. $\$165 - \$95 = \$70$ 49. $\frac{\$70}{\$95} \approx .737 \approx 73.7\%$ 50. $\frac{\$70}{\$165} \approx .424 \approx 42.4\%$

51. Original marked price \$165.00
 Markdown 1: $\$165 \times 20\%$ − 33.00
 Reduced price, after markdown 1 \$132.00
 Markdown 2: $\$132 \times 15\%$ − 19.80
 Reduced price, after markdown 2 \$112.20
 Markdown 3: $\$112.20 \times 10\%$ − 11.22
 Reduced price, after markdown 3 **\$100.98**

52. $\$100.98$ reduced price - $\$95.00$ cost = **\$5.98**

53. $\frac{\$5.98}{\$95} \approx .063 \approx 6.3\%$

54. $\$165$ original marked price - $\$100.98$ reduced price = **\$64.02** 55. $\frac{\$64.02}{\$165} = .388 = 38.8\%$

56. $M = S - C = 4.90 - 1.25 = 3.65$ Percent markup on cost = $\frac{3.65}{1.25} \approx 2.92 \approx 292\%$

57. The 100% markup is based on the \$20 cost. The 50% markdown is based on the \$40 retail price.

Cost \$20.00
 Markup: $\$20 \times 100\%$ +20.00
 Original marked price \$40.00
 Markdown: $\$40.00 \times 50\%$ −20.00
 Reduced price **\$20.00**

58. Cost to manufacturer \$192.45
 Markup: $\$192.45 \times 30\%$ + 57.74
 Manufacturer's list price \$250.19
 Less trade discount: $\$250.19 \times 15\%$ − 37.53
 Net price to wholesaler \$212.66
 Less cash discount: $\$212.66 \times 1\%$ − 2.13
 Net amount due \$210.53
 Markup: $\$210.53 \times 35\%$ + 73.69
 Wholesaler's list price \$284.22
 Less trade discount: $\$284.22 \times 10\%$ − 28.42
 Net price to retailer \$255.80*
 Less cash discount: $\$255.80 \times 2\%$ − 5.12
 Net amount due **\$250.68**

Retailer's original marked price:

$$\begin{aligned} S &= C + M \\ S &= \$250.68 + 30\%S \\ 70\%S &= \$250.68 \\ S &= \$358.11* \end{aligned}$$

Original marked price \$358.11
 Markdown: $\$358.11 \times 25\%$ − 89.53
 Reduced price **\$268.58**

*Note: Round intermediate results to the nearest penny (don't use chain calculations).

Practice Test

- $$\begin{aligned} S &= C + M \\ S &= \$525 + 60\%(\$525) \\ S &= \$525 + \$315 \\ S &= \mathbf{\$840} \end{aligned}$$
- $$\begin{aligned} S &= C + M \\ \$45 &= 100\%C + 125\%C \\ \$45 &= 225\%C \\ \$45 &= 2.25C \\ \frac{\$45}{2.25} &= \frac{2.25C}{2.25} \\ \$20 &= C \end{aligned}$$
- $$\begin{aligned} S &= C + M \\ \$200 &= C + 40\%(\$200) \\ \$200 &= C + \$80 \\ \$120 &= C \end{aligned}$$
- $$\begin{aligned} M &= S - C = \$77 - \$55 = \$22 \\ \text{Percent markup on cost} &= \frac{\$22}{\$55} = .40 = 40\% \end{aligned}$$
- $$\frac{40\%}{100\% + 40\%} = \frac{40\%}{140\%} = \frac{.40}{1.40} \approx .286 \approx 28.6\%$$
- Original marked price \$5,500
 Markdown 1: $\$5,500 \times 10\%$ − 550
 Reduced price, after markdown 1 \$4,950
 Markdown 2: $\$4,950 \times 10\%$ − 495
 Reduced price, after markdown 2 **\$4,455**
- Step 1 Find dollar markdown:** $\$1,200 - \$780 = \$420$
Step 2 Find percent markdown: $\frac{\$420}{\$1,200} = .35 = 35\%$

8. **Step 1 Determine desired sales proceeds from entire stock**

$$\begin{aligned}
 S &= C + M \\
 S &= \$96 + 25\%(\$96) & (C = 300 \text{ lb} \times \$0.32 = \$96) \\
 S &= \$96 + \$24 \\
 S &= \$120
 \end{aligned}$$

Step 2 Deduct proceeds from products sold at a discount

Desired sales proceeds (from Step 1)	\$120
Less proceeds from those sold at 75% of cost:	
75 lb (300 lb $\times$ 25% = 75) $\times$ \$0.24 (\$0.32 cost $\times$ 75% = \$0.24)	<u>- 18</u>
Proceeds required from top-quality bananas	\$102

Step 3 Find original marked price

300 lb - 75 lb sold at discount - 45 lb discarded (300 lb $\times$ 15% = 45) = 180 lb
 180 lb will sell at original marked price, so: $\$102 \div 180 \approx \$0.567 \approx \text{\$0.57 per pound}$ (Always round up.)

Check answer

180 lb at full price: 180 $\times$ \$0.57	\$102.60
75 lb at 75% of cost: 75 $\times$ \$0.24	18.00
+ 45 lb discarded	<u>+ 0.00</u>
300	\$120.60

↑
 Total sales proceeds are slightly more than the desired \$120 because we rounded up the original marked price to \$0.57.

9. Price/Cost ratio = $\frac{\text{Price}}{\text{Cost}} = \frac{\$157.50}{\$90} = 1.75$

10. Break-even price: $\$22 + 25\%(\$22) = \$22 + \$5.50 = \$27.50$

Because the product is sold for more than cost (\$22), but less than the breakeven point (\$27.50), **there is an operating loss** (\$27.50 - \$24 = \$3.50 operating loss).

11. Number of units needed = $\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}} = \frac{\$4,910}{\$0.06 - \$0.02} = \frac{\$4,910}{\$0.04} = 122,750 \text{ copies}$

Chapter 7 CheckingAccounts

Unit 7.1 Checking account balance

1. **True**
2. **(c)** from bank statement
3. **(a)** debit memo
4. **(c)** from bank statement
5. **(b)** credit memo
6. $\$2,450.00 + \$18,422.00 - \$17,948.00 = \text{\$2,924.00}$
7. **False.** If your deposit is made late in the day, after the bank teller starts a new day's business, your deposit will be dated with a later date.
8. **(b)** August
9. **B-** As of September 30, the bank does not know about check 474. If that check had been paid by the bank during September, the bank balance would be less.
10. **C-** As of September 30, you did not know about the service charge; you find out a few days later, when the bank statement arrives. If the service charge had been entered, your checkbook balance would be less.
11. **C-** As of September 30, your checkbook balance does not reflect this automatic withdrawal. If it did, the balance would be \$225 less.
12. **C-** Your checkbook balance does not reflect the transaction. If you had entered the transaction, your checkbook balance would be \$100 less.

13. **None** As of September 30, both the bank balance and your checkbook balance reflect the correct amount of the deposit. If your checkbook had *not* been corrected during September, a \$50 addition must be made on the checkbook balance side of the reconciliation.
14. **None** The deposit would appear as an addition to the bank balance side of the *August* reconciliation, but by September 30, the bank balance reflects the deposit.
15. **B-** The bank still does not know about check 457. If check 457 had been paid, the bank balance would be less.
16. **B+** As of September 30, the bank balance does not reflect this deposit. If the deposit were reflected, the bank balance would be greater.
17. **C-** Your records do not reflect the debit memo. If entered, your balance would be less.
18. **C+** As of September 30, you did not know about the interest; you find out a few days later, when the bank statement arrives. If entered, your balance would be greater.
19. **C-** As of September 30, your checkbook reflects a wrong amount. If the check had been recorded correctly, your balance would be less.
20. Reconciliation Period Ending June 30, 20xx

CHECKBOOK BALANCE	
1. Ending balance in your check register	\$12,434.74
2. Add:	
June interest	12.51
Error ck 579	20.00
3. Subtotal	\$12,467.25
4. Subtract:	
Check printing charges	82.00
5. TOTAL	\$12,385.25

BANK STATEMENT	
1. Ending balance on bank statement	\$13,556.25
2. Add: Outstanding deposits	
June 30	900.00
3. Subtotal	\$14,456.25
4. Subtract: Outstanding checks	
ck 583	220.00
ck 585	1,851.00
5. TOTAL	\$12,385.25

21. Reconciliation Period Ending October 31, 20xx

CHECKBOOK BALANCE	
1. Ending balance in your check register	\$18,837.00
2. Add:	
October interest	32.18
Ck 858 error	27.00
3. Subtotal	\$18,896.18
4. Subtract:	
Debit memo (October 18)	11.00
5. TOTAL	\$18,885.18

BANK STATEMENT	
1. Ending balance on bank statement	\$18,443.18
2. Add: Outstanding deposits	
October 31	1,400.00
3. Subtotal	\$19,843.18
4. Subtract: Outstanding checks	
ck 844	180.00
ck 863	778.00
5. TOTAL	\$18,885.18

Challenge problems

22.

Check Number	Date	Description of Transaction	(-) Payment/Debit	(+) Deposit/Credit	Balance
	10-5	Open account		700.00	700.00
101	10-8	Friendly Grocery	150.00		550.00
102	10-14	The Car Doctor; car repair	176.00		374.00
	10-15	Paycheck		1,800.00	2,174.00
103	10-15	Security Mortgage Co; mortgage payment	1,322.00		852.00
104	10-29	Friendly Grocery	327.25		524.75
	10-31	Paycheck		1,800.00	2,324.75

23.

BANK STATEMENT				Statement Date: October 31, 20xx					
Previous Balance:	\$0.00	Total Deposits:	\$2,511.32	Total Checks:	\$1,639.00	Other Debits:	\$28.75	Current Balance:	\$843.57
Deposits and other credits:									
Deposit	10-5	700.00							
Deposit	10-15	1,800.00							
Interest	10-31	11.32							
Checks:									
101	10-9	150.00							
102	10-17	167.00							
103	10-19	1,322.00							
Other debits:									
Ck printing		28.75							

$\$0.00$ (previous balance) + $\$2,511.32$ (total deposits) - $\$1,639.00$ (total checks) - $\$28.75$ (other debits) = **\$843.57**

24. Reconciliation Period Ending October 31, 20xx

CHECKBOOK BALANCE		BANK STATEMENT	
1. Ending balance in your check register	\$2,324.75	1. Ending balance on bank statement	\$843.57
2. Add:		2. Add: Outstanding deposits	
ck 102 (written for \$167, not \$176)	9.00	October 31	1,800.00
October interest	11.32		
3. Subtotal	\$2,345.07	3. Subtotal	\$2,643.57
4. Subtract:		4. Subtract: Outstanding checks	
ck printing charges	28.75	ck 104	327.25
5. TOTAL	\$2,316.32	5. TOTAL	\$2,316.32

25. **Step 1 (review outstanding deposits):** Determine if the \$1,800 deposit (October 31) has been credited to the account.
Step 2 (review outstanding checks): Check 104 has not been outstanding very long.
Step 3 (enter adjustments): There are three adjustments on the left side of the reconciliation form that must be entered in the checkbook records. (1) \$9 must be added to reflect the correct amount of check 102; (2) October interest of \$11.32 must be added; (3) check printing charges of \$28.75 must be deducted.

26. $\$2,324.75$ (checkbook balance, before adjustments—see Problem 22) + $\$9.00$ + $\$11.32$ - $\$28.75$ = **\$2,316.32**

Practice Test

- (a) **Debit memo.** Your checking account balance must be *decreased* to reflect the correct amount of the deposit.
- $\$482.33 + \$700 + \$145.45 + \$1,200 - \$228 - \$145.22 - \$950 - \$45 = \mathbf{\$1,159.56}$
- Reconciliation Period Ending April 30, 20xx

CHECKBOOK BALANCE		BANK STATEMENT	
1. Ending balance in your check register	\$5,545.90	1. Ending balance on bank statement	\$5,466.35
2. Add:		2. Add: Outstanding deposits	
April interest	18.45	April 30	650.00
3. Subtotal	\$5,564.35	3. Subtotal	\$6,116.35
4. Subtract:		4. Subtract: Outstanding checks	
Check printing charges	78.00	ck 928	320.00
Cash withdrawal April 22	200.00	ck 930	510.00
5. TOTAL	\$5,286.35	5. TOTAL	\$5,286.35

4. **False**; you will discover the error when you do your bank reconciliation.
5. **Add \$9.22 for March interest and deduct \$48.25 for check printing fees.**

Chapter 8 Payroll

Unit 8.1 Gross pay: Wages and incentive plans

1. **False**; Some employees are exempt, including many managers and seasonal workers.
2. **True**
- 3.

Name	M	T	W	Th	F	S	Total hours	Regular hours	Overtime hours	Reg. rate per hour	Overtime rate	Regular pay	Overtime pay	Gross pay
Don Day	8	8	8	10	8	4.5	46.5	40	6.5	8.00	12.00	320.00	78.00	398.00
Joy Erb	8	8	8	8	8	8	48	40	8	8.25	12.375	330.00	99.00	429.00
Bo Hart	8	8	8	8	8	0	40	40	0	7.25	10.875	290.00	0.00	290.00
Thu Ho	8	8	8	10	4	0	38	38	0	8.25	12.375	313.50	0.00	313.50

4. You: $\$1,295 \times 12$ \$15,540.00
 Betty: $\$640 \times 24$ \$15,360.00
Brad: $\$310 \times 52.14$ weeks **\$16,163.40**
 Meg: $\$600 \times 26.07$ biweekly periods \$15,642.00

5. $8 \text{ cars} \times \$150 = \mathbf{\$1,200}$

6. Base salary: $40 \text{ hours} \times \5.50 \$220.00
 Piecework: $32 \text{ sleeping bags} \times \1.50 + 48.00
 Gross pay **\$268.00**

7. $100 \times \$1.75$ \$175
 $100 \times \$2.00$ 200
 $+144 \times \$2.25$ +324
 344 **\$699**

8. Net sales: $\$125,800 - \$2,592 \text{ returns} = \$123,208$

Commission: $\$123,208 \times 3\%$ \$3,696.24
 Less draw: $2 \text{ draws} \times \$1,200$ - 2,400.00
 Commission still due **\$1,296.24**

9. Salary: $2 \times \$800$ \$1,600
 Commission:
 Net sales: $\$128,300 - \$3,400$ \$124,900
 Base amount - 80,000
 Overage \$ 44,900 $\times$ 3% +1,347
 Total earnings **\$2,947**

Unit 8.2 Payroll deductions for employees

10. **(b)** is true.
11. **False**

12.

Employee	W-4 form	Prior YTD earnings	Gross pay this period	Gross pay this period subject to:		Deductions from employee's pay							Net pay
				SS	MED	SS	MED	FIT	SIT	Other	Explain	Total	
Dan Bevan	M-1	63,750	1,275	1,275	1,275	79.05	18.49	140.19	63.75	50.00	Savings	351.48	923.52
Ashlie Dobbs	S-1	14,580	810	810	810	50.22	11.75	97.58	40.50	—	—	200.05	609.95
Ian Rice	M-3	6,500	1,140	1,140	1,140	70.68	16.53	98.01	57.00	—	—	242.22	897.78
Totals	—	84,830	3,225	3,225	3,225	199.95	46.77	335.78	161.25	50.00	—	793.75	2,431.25

13. **False**

14. Social Security:

Limit	\$110,100
Prior earnings	<u>- 108,000</u>
Amount subject to Social Security tax	\$ 2,100 × 6.2% = \$130.20

Medicare: \$2,400 × 1.45% = **\$34.80**

Unit 8.3 Employer taxes and settling up with the IRS

15. **True**

16. **False.** Unemployment tax is an expense of employers.

17. **\$199.95.** American must pay a matching amount; because \$199.95 was withheld from employee's pay, American must pay an additional \$199.95 for Social Security.

18. **\$46.77.** American must pay a matching amount.

19.

Employee	Prior YTD Earnings	Gross pay this period	Gross pay this pay period subject to	
			FUT	SUT
Dan Bevan	63,750	1,275	0	0
Ashlie Dobbs	14,580	810	0	420
Ian Rice	6,500	1,140	500	1,140
Total	—	3,225	500	1,560

Tax rates	<u>×0.8%</u>	<u>×2.5%</u>
Tax	\$4.00	\$39.00

20.	Gross pay (from Problem 12)	\$3,225.00
	Employer's share of Social Security tax (from Problem 17)	199.95
	Employer's share of Medicare tax (from Problem 18)	46.77
	FUT (from Problem 19)	4.00
	SUT (from Problem 19)	39.00
	Health insurance premiums: 3 employees × \$100	300.00
	Contribution to employees' retirement plans: \$3,225 × 8%	<u>+ 258.00</u>
	Total payroll expenses	\$4,072.72

21. **True**

22. **True**

23. **Step 1** \$140,000 × 92.35% = \$129,290

Step 2 FICA tax on first \$110,000: \$110,000 × 15.3% \$16,845.30

FICA tax on remainder: 2.9%(\$129,290 - \$110,100) + 556.51

Total, rounded **\$17,402.00**

24.	Federal income tax	\$17,211
	Self-employment FICA tax (from Problem 23)	<u>+ 17,402</u>
	Total tax liability	\$34,613

25. Total tax liability (from Problem 24) \$34,613
 Amounts already paid to IRS: $4 \times \$9,000$ \$36,000
 Lee has paid too much to the IRS; he will get a **refund of \$1,387** (\$36,000 - \$34,613).

Challenge problems

26. Base salary: 40 hours $\times$ \$8.50 \$340.00
 Piecework: 48 tents $\times$ \$2.50 + 120.00
 Gross pay \$460.00
27. $\$460 \text{ gross pay} \div 40 \text{ hours} = \text{\$11.50 per hour}$
28. Social Security tax: $\$2,500 \times 6.2\% = \text{\$155.00}$
 Medicare tax: $\$2,500 \times 1.45\% = \text{\$36.25}$
 Federal income tax:
 Step 1 Illustration 8-2, semimonthly: $\$158.33 \times 2 = \316.66
 Step 2 $\$2,500 - \$316.66 = \$2,183.34$
 Step 3 Illustration 8-3, Table 3 (semimonthly), married, over \$1,063 but not over \$3,283:
 $\$72.50 + 15\%(\$2,183.34 - \$1,063) = \$72.50 + 15\%(\$1,120.34) = \$72.50 + \$168.05 = \text{\$240.55}$
 State income tax: $\$2,500 \times 6.5\% = \text{\$162.50}$
29. Gross pay \$2,500.00
 Less deductions:
 Social Security tax \$155.00
 Medicare tax 36.25
 Federal income tax 240.55
 State income tax 162.50
 Savings plan deduction + 75.00
 Total deductions - 669.30
 Net pay \$1,830.70
30. a. Social security tax: Matching amount from Problem 28 **\$155.00**
 b. Medicare tax: Matching amount from Problem 28 **\$36.25**
 c. FUT:
 Limit: \$7,000
 Prior year-to-date earnings - 5,000
 Amount subject to FUT $\$2,000 \times 0.8\%$ **\$16.00**
 d. SUT: $\$2,500 \times 2\%$ **\$50.00**
31.

Amounts owed to IRS		Amounts already paid to IRS	
Income tax liability	\$16,378	Federal income tax w/h Galey's pay	\$ 4,940
Connie's self-employment tax	<u>+ 7,489</u>	Estimated payments: $4 \times \$4,500$	<u>+18,000</u>
Total tax liability	\$23,867	Total already paid to IRS	\$22,940

 Galey and Connie have not paid enough. **They owe an additional \$927** (\$23,867 - \$22,940).

Practice Test

1. Overtime hours: 44 total hours - 40 regular hours = 4 overtime hours
 Overtime rate: $\$9.75 \text{ regular rate} \times 1.5 = \14.625
 Pay for regular hours: 40 hours $\times$ \$9.75 \$390.00
 Pay for overtime: 4 hours $\times$ \$14.625 + 58.50
 Gross pay for week \$448.50
2. Monthly: $\$3,500 \times 12$ \$42,000.00
 Weekly: $\$820 \times 52.14$ **\$42,754.80**

3.

Base salary: 40 hours $\times$ \$7.50	\$300.00	
Piecework: 63 coats $\times$ \$2.50	<u>+157.50</u>	
Gross pay	\$457.50	

4. Social Security tax:

Limit	\$110,100	
Prior earnings	<u>-108,200</u>	
Amount subject to Social Security tax	\$ 1,900 $\times$ 6.2%	\$117.80
Medicare tax: \$2,200 $\times$ 1.45%		<u>+ 31.90</u>
Total FICA tax		\$149.70

5. **Step 1** Using Illustration 8-2, weekly: $\$73.08 \times 1 \text{ allowance} = \73.08
Step 2 $\$800.00 - \$73.08 = \$726.92$
Step 3 Using Illustration 8-3, Table 1 (weekly), single person, over \$721 but not over \$1,688:
 $\$93.60 + 25\%(\$726.92 - \$721) = \$93.60 + 25\%(\$5.92) = \$93.60 + \$1.48 = \mathbf{\$95.08}$

6. **False**

7.

Limit:	\$7,000	
Prior earnings	<u>- 6,400</u>	
Amount subject to FUT	\$ 600 $\times$ 0.8%	= \$4.80

8. **Step 1** $\$105,200 \times 92.35\% = \$97,152$ (rounded)
Step 2 FICA tax: $\$97,152 \times 15.3\% = \mathbf{\$14,864}$ (rounded)

9.

	Amounts owed to IRS	Amounts already paid to IRS
Income tax liability	\$13,280	Federal income tax w/h Margie's pay
Terry's self-employment tax	<u>+ 4,192</u>	\$ 7,970
Total tax liability	\$17,472	Estimated payments: 4 $\times$ \$2,500
		<u>+10,000</u>
		\$17,970

Terry and Margie have paid too much. **They will get a refund of \$498** (\$17,970 - \$17,472).

Chapter 9 Simple and Compound Interest

Unit 9.1 Computing simple interest and maturity value

1. **\$10,000** 2. **1 year** 3. **October 1, 2014**
4. $I = PRT = \$10,000 \times 8\% \times 1 = \mathbf{\$800}$ 5. $M = P + I = \$10,000 + \$800 = \mathbf{\$10,800}$
6. $I = PRT = \$10,000 \times 8\% \times \frac{8}{12} = \533.33 $M = P + I = \$10,000 + \$533.33 = \mathbf{\$10,533.33}$
7. $I = PRT = \$10,000 \times 8\% \times \frac{14}{12} = \933.33 $M = P + I = \$10,000 + \$933.33 = \mathbf{\$10,933.33}$
8. **False.** *I* stands for the dollar amount of interest; *R* stands for interest rate.
9. **False.** *T* stands for time, in years.

	Date of loan	Date of payment	Number of days
10.	Jan. 11, 2013	Oct. 28, 2013	290 days
11.	July 13, 2013	Feb. 21, 2014	223 days
12.	Dec. 18, 2015	Mar. 23, 2016 (leap year)	96 days

10. Oct. 28 $\rightarrow$ Day 301
 Jan. 11 $\rightarrow$ Day -11
290

11. Number of days left in first year: 365 - 194 (day number for July 13) = 171
 Number of days in next year: Feb. 21 $\rightarrow$ +52
223

12. Number of days left in first year: 365 - 352 (day number for Dec. 18) = 13
 Number of days in next year: Mar. 23 $\rightarrow$ 82 + 1 (for leap year) = +83
96

	Date of loan	Term	Maturity date
13.	May 15, 2013	60 days	$135 + 60 = 195 \rightarrow$ July 14
14.	Aug. 2, 2013	180 days	$214 + 180 = 394$; $394 - 365 = 29 \rightarrow$ Jan. 29
15.	Jan. 18, 2016	90 days	$18 + 90 = 108 \rightarrow$ Apr. 17 (leap year)

16. $I = PRT = \$15,000 \times 13\% \times \frac{90}{360} = \487.50

17. $I = PRT = \$15,000 \times 13\% \times \frac{90}{365} = \480.82

18. **False**

19. **False**; the law does not apply to business loans, loans over \$25,000 (unless they are secured by real estate), most public utility fees, and student loan programs.

20. **True**

21. $I = PRT = \$25,000 \times 11.5\% \times \frac{120}{365} = \945.21

22. $I = PRT = \$25,000 \times 11.5\% \times \frac{89}{365} = \701.03

23.

Day number	Total payment	Interest	Principal	Balance
0	—	—	—	\$25,000.00
24	\$8,000.00	\$189.04	\$7,810.96	\$17,189.04
89	\$17,541.06	\$352.02	\$17,189.04	\$0.00
Totals	\$25,541.06	\$541.06	\$25,000.00	—

Procedure for payment on day 24

$$I = PRT = \$25,000.00 \times 11.5\% \times \frac{24}{365} = \$189.04$$

$$\text{Principal} = \$8,000.00 - \$189.04 = \$7,810.96$$

$$\text{Balance} = \$25,000.00 - \$7,810.96 = \$17,189.04$$

Procedure for payment on day 89

$$I = PRT = \$17,189.04 \times 11.5\% \times \frac{65}{365} = \$352.02 \quad (89 \text{ days} - 24 \text{ days} = 65 \text{ days})$$

$$\text{Principal} = \$17,189.04 \text{ (previous balance)}$$

$$\text{Total payment} = \$352.02 + \$17,189.04 = \$17,541.06$$

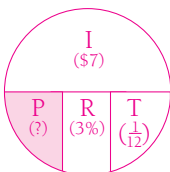
24. Problem 21: **\$945.21** Problem 22: **\$701.03** Problem 23: **\$541.06**

Unit 9.2 Solving for principal, rate, and time

25. $P = \frac{I}{RT}$ $R = \frac{I}{PT}$ $T = \frac{I}{PR}$

	I	P	R	T
26.	\$320.83	\$5,000	11%	7 months
27.	\$63.75	\$4,500	8.5%	2 months
28.	2,964.75	\$35,400	16.75%	6 months
29.	\$275	\$2,000	11%	1.25 yrs = 15 months

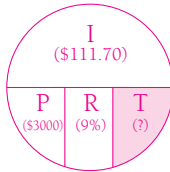
30.



$$P = \frac{I}{RT} = \frac{\$7}{3\% \times \frac{1}{12}} = \frac{\$7}{.03 \times 1 + 12} = \frac{\$7}{.0025} = \$2,800$$

$$\text{Check answer: } I = PRT = \$2,800 \times 3\% \times \frac{1}{12} = \$7.00$$

31.

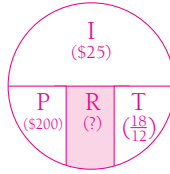


$$T = \frac{I}{PR} = \frac{\$111.70}{\$3,000 \times 9\%} = \frac{\$111.70}{\$270} \approx .4137037$$

$$365 \text{ days} \times .4137037 = \mathbf{151 \text{ days}}$$

$$\text{Check answer: } I = PRT = \$3,000 \times 9\% \times \frac{151}{365} = \$111.70$$

32.



$$R = \frac{I}{PT} = \frac{\$25}{\$200 \times \frac{18}{12}} = \frac{\$25}{\$300} \approx .0833 \approx \mathbf{8.33\%}$$

33.

Principal (P) for APR purposes is the amount of money you have use of: $\$5,000 - \$100 \text{ fee} = \$4,900$

Interest (I) for APR purposes is total finance charges:

$$I = PRT = \$5,000 \times 9\% \times \frac{180}{365} = \$221.92$$

$$\text{Set-up fee} \quad \quad \quad + \underline{100.00}$$

$$\text{Total finance charges} \quad \quad \quad \$321.92$$

$$R = \frac{I}{PT} = \frac{\$321.92}{\$4,900 \times \frac{180}{365}} \approx \frac{\$321.92}{\$2,416.44} \approx .1332 \approx \mathbf{13.32\%}$$

34.

$$I = PRT = \$3,500 \times 13\% \times \frac{90}{360} = \$113.75$$

$$R = \frac{I}{PT} = \frac{\$113.75}{\$3,500 \times \frac{90}{365}} \approx \frac{\$113.75}{\$863.01} \approx .1318 \approx \mathbf{13.18\%}$$

← Even though interest is calculated using a 360-day year, an APR always uses a 365-day year

35.

Interest will be $\$40 \text{ per week} \times 2 \text{ weeks} = \80

$$R = \frac{I}{PT} = \frac{\$80}{\$500 \times \frac{14}{365}} \approx \frac{\$80}{\$19.17808219} \approx 4.1714 \approx \mathbf{417.14\%}$$

36.

$$D = MRT = \$2,000 \times 15\% \times \frac{60}{360} = \$50$$

← Remember, the discount method uses a 360-day year to calculate interest

Proceeds = $M - D = \$2,000 - \$50 = \$1,950$ (this is money you have use of)

$$R = \frac{I}{PT} = \frac{\$50}{\$1,950 \times \frac{60}{365}} \approx \frac{\$50}{\$320.55} \approx .1560 \approx \mathbf{15.60\%}$$

← Even though interest is calculated using a 360-day year, an APR always uses a 365-day year

Unit 9.3 Compound interest

$$37. \frac{8}{2} = 4(\%) \quad 38. \frac{7}{4} = 1.75(\%) \quad 39. \frac{7.5}{12} = .625(\%)$$

$$40. I = PRT = \$700 \times 5\% \times 3 = \$105$$

$$M = P + I = \$700 + \$105 = \mathbf{\$805}$$

41.

	Interest	Balance
Beginning	—	\$700.00
1 year	$\$700 \times 5\% = \35.00	\$735.00
2 years	$\$735 \times 5\% = \36.75	\$771.75
3 years	$\$771.75 \times 5\% = \38.59	\$810.34

42.

	Interest	Balance
Beginning	—	\$700.00
6 months	$\$700 \times 2.5\% = \17.50	\$717.50
12 months	$\$717.50 \times 2.5\% = \17.94	\$735.44
18 months	$\$735.44 \times 2.5\% = \18.39	\$753.82*
24 months	$\$753.82 \times 2.5\% = \18.85	\$772.67
30 months	$\$772.67 \times 2.5\% = \19.32	\$791.99
36 months	$\$791.99 \times 2.5\% = \19.80	\$811.79

*Note: Without rounding intermediate results,
 $\$735.4375 + \$18.3859375 = \$753.8234375$

43. George Lavin (Problem 42) ended up with the most. The more often interest is compounded, the more interest is earned.

44. 6.125% compounded semiannually. Periodic rate = $\frac{6.125}{2} = 3.0625\%$:

6 months: $\$100 + 3.0625\% = \103.06

12 months: $+ 3.0625\% = \$106.22 \rightarrow \text{APY} = 6.22\%$

6% compounded monthly. Periodic rate = $\frac{6}{12} = 0.50\%$. Tip: Be sure to use chain calculations (don't round intermediate results).

1 months: $\$100 + 0.50\% = \100.50

7 months: $+ 0.50\% = \$103.55$

2 months: $+ 0.50\% = \$101.00$

8 months: $+ 0.50\% = \$104.07$

3 months: $+ 0.50\% = \$101.51$

9 months: $+ 0.50\% = \$104.59$

4 months: $+ 0.50\% = \$102.02$

10 months: $+ 0.50\% = \$105.11$

5 months: $+ 0.50\% = \$102.53$

11 months: $+ 0.50\% = \$105.64$

6 months: $+ 0.50\% = \$103.04$

12 months: $+ 0.50\% = \$106.17 \rightarrow \text{APY} = 6.17\%$

Your bank (6.125% compounded semiannually) provides the greater return (6.22% APY vs. 6.17% APY).

45. Periodic rate = $\frac{5.75}{2} = 2.875\%$. Tip: Be sure to use chain calculations

(don't round intermediate results).

6 months: $\$100 + 2.875\% = \102.88

12 months: $+ 2.875\% = \$105.83 \rightarrow \text{APY} = 5.83\%$

Challenge problems

46. Number of days: Oct. 16 $\rightarrow$ Day 289 $I = PRT = \$285 \times 18\% \times \frac{54}{365} = \7.59
 Aug. 23 $\rightarrow$ Day $\frac{-235}{54}$ $M = P + I = \$285 + \$7.59 = \mathbf{\$292.59}$

47. Invoice amount \$2,450
 Discount: $\$2,450 \times 4\%$ $\frac{-98}{98}$
 Net amount due \$2,352

If Alyce fails to pay the invoice within the discount period she is, in effect, borrowing \$2,352 for 20 days and paying an extra \$98 as interest, so:

$$R = \frac{I}{PT} = \frac{\$98}{\$2,352 \times \frac{20}{365}} = \frac{\$98}{\$128.88} \approx .7604 \approx \mathbf{76.04\%}$$

48. $R = \frac{I}{PT} = \frac{\$15}{\$150 \left(\frac{30}{365} \right)} \approx \frac{\$15}{\$12.3288} \approx 1.21666 \approx \mathbf{121.67\%}$

49. Number of days left in first year: $365 - 334$ (day number for Nov. 30) = 31
 Number of days in next year: May 4 $\rightarrow + \frac{124}{155}$

$$I = PRT = \$845.23 \times 12\% \times \frac{155}{365} = \mathbf{\$43.07}$$

50. $\$845.23 \times 6\% = \mathbf{\$50.71}$

51. $\$845.23 + \$43.07 \text{ interest} + \$50.71 \text{ penalty} = \mathbf{\$939.01}$

52. $R = \frac{I}{PT} = \frac{\$43.07 + \$50.71}{\$845.23 \times \frac{155}{365}} \approx \frac{\$93.78}{\$358.93} \approx .2613 \approx \mathbf{26.13\%}$

53. The second bond pays 8.5% compounded annually, resulting in an APY of 8.5%. Let's find the APY for the first bond.

$$\text{Periodic rate} = \frac{8.35}{2} = 4.175(\%); \text{ using chain calculations:}$$

$$\begin{aligned} \$100 + 4.175\% &= \$104.18 \\ + 4.175\% &= \$108.52 \rightarrow \text{APY} = \mathbf{8.52\%} \end{aligned}$$

The APY for the first bond is 8.52%, greater than the 8.5% provided by the second bond.

54. **10.69% simple interest**

$$I = PRT = \$1,000 \times 10.69\% \times 5 = \$534.50$$

$$M = P + I = \$1,000 + \$534.50 = \mathbf{\$1,534.50}$$

8.75% compounded semiannually

$$\begin{aligned} \text{Balance in 6 months: } \$1,000 + 4.375\% &= \$1,043.75 \\ \text{Balance in 12 months: } + 4.375\% &= \$1,089.41 \\ \text{Balance in 18 months: } + 4.375\% &= \$1,137.08 \\ \text{Balance in 24 months: } + 4.375\% &= \$1,186.82 \\ \text{Balance in 30 months: } + 4.375\% &= \$1,238.75 \\ \text{Balance in 36 months: } + 4.375\% &= \$1,292.94 \\ \text{Balance in 42 months: } + 4.375\% &= \$1,349.51 \\ \text{Balance in 48 months: } + 4.375\% &= \$1,408.55 \\ \text{Balance in 54 months: } + 4.375\% &= \$1,470.17 \\ \text{Balance in 60 months: } + 4.375\% &= \mathbf{\$1,534.49} \end{aligned}$$

The ending balances are almost identical, showing that, for a 5-year period, 8.75% compounded semiannually is equivalent to 10.69% simple interest.

Practice Test

- False.** *I* stands for the dollar amount of interest; *R* stands for interest rate.
- $I = PRT = \$12,000 \times 9.5\% \times \frac{8}{12} = \760 $M = P + I = \$12,000 + \$760 = \mathbf{\$12,760}$
- June 22 $\rightarrow$ Day $173 + 120 = 293 \rightarrow$ **Oct. 20**
- Number of days left in first year: $365 - 357$ (day number for Dec. 23) 8
Number of days in next year: Apr. 10 $\rightarrow 100 + 1$ (for leap year) + 101
109
 $I = PRT = \$1,500 \times 9\% \times \frac{109}{365} = \mathbf{\$40.32}$

5.

Day number	Total payment	Interest	Principal	Balance
0	—	—	—	\$15,000.00
22	\$3,000.00	\$81.37	\$2,918.63	\$12,081.37

$$I = PRT = \$15,000.00 \times 9\% \times \frac{22}{365} = \$81.37$$

$$\text{Principal} = \$3,000.00 - \$81.37 = \$2,918.63$$

$$\text{Balance} = \$15,000.00 - \$2,918.63 = \mathbf{\$12,081.37}$$

6. Principal (*P*) for APR purposes is the amount of money you have use of: $\$3,000 - \$100 \text{ fee} = \$2,900$.
Interest (*I*) for APR purposes is total finance charges:

$$\begin{aligned} I = PRT &= \$3,000 \times 7\% \times \frac{90}{360} = \$52.50 \\ \text{Set-up fee} &+100.00 \\ \text{Total finance charges} &\mathbf{\$152.50} \end{aligned}$$

$$R = \frac{I}{PT} = \frac{\$152.50}{\$2,900 \times \frac{90}{365}} \approx \frac{\$152.50}{\$715.07} \approx .2133 \approx \mathbf{21.33\%}$$

$\nwarrow$ Even though interest is calculated using a 360-day year, an APR always uses a 365-day year

7. $D = MRT = \$30,000 \times 13.5\% \times \frac{180}{360} = \$2,025$
 Remember, the discount method uses a 360-day year to calculate interest

Proceeds = $M - D = \$30,000 - \$2,025 = \$27,975$ (this is amount you have use of)

$$R = \frac{I}{PT} = \frac{\$2,025}{\$27,975 \times \frac{180}{365}} \approx \frac{\$2,025}{\$13,795.89} \approx .1468 \approx \mathbf{14.68\%}$$

8.

	Interest	Balance
Beginning	—	\$500.00
6 months	$\$500.00 \times 3\% = \15.00	\$515.00
12 months	$\$515.00 \times 3\% = \15.45	\$530.45
18 months	$\$530.45 \times 3\% = \15.91	\$546.36
24 months	$\$546.36 \times 3\% = \16.39	\$562.75

9. Periodic rate = $\frac{7.15}{2} = 3.575\%$
 $\$100 + 3.575\% = \103.58
 $+ 3.575\% = \$107.28 \rightarrow \mathbf{APY = 7.28\%}$

Chapter 10 Future Value and Present Value: Using Formulas

Unit 10.1 Time-value-of-money terminology

1. **12** (3 years $\times$ 4 periods per year)
2. **1.5%** ($6\% \div 4 = 1.5\%$)
3. **\$1,000** (this is the amount that happens at the beginning of the first period)
4. **\$50** (this is the amount that happens every period)
5. **\$1,847.68** (this is the amount that happens at the end of the last period)
6. **False.** PV is \$4,000 because that's the amount that happened at the beginning of the first period.
7. No one receives a check for \$1,600, so **\$1,600 is not a time-value-of-money variable.**
8. **\$6,000** (this is the amount that happens at the end of the last period)

Unit 10.2 Future value

9. Formula 1A ($n = 170$; $i = 4\% = .04$): $FV = PV(1 + i)^n = \$42(1.04)^{170} = \mathbf{\$33,030.64}$
10. Formula 1B ($n = 30$; $i = 8\% = .08$): $FV = PMT \left[\frac{(1 + i)^n - 1}{i} \right] = \$2,000 \left[\frac{(1.08)^{30} - 1}{.08} \right] = \mathbf{\$226,566.42}$
11. Formula 1B ($n = 40$; $i = 2\% = .02$): $FV = PMT \left[\frac{(1 + i)^n - 1}{i} \right] = \$365 \left[\frac{(1.02)^{40} - 1}{.02} \right] = \mathbf{\$22,046.72}$
12. Formula 1B ($n = 51 \times 12 = 612$; $i = 7.5\% \div 12 = .625\% = .00625$):

$$FV = PMT \left[\frac{(1 + i)^n - 1}{i} \right] = \$135 \left[\frac{(1.00625)^{612} - 1}{.00625} \right] = \mathbf{\$956,673.97}$$
13. As noted for Formula 1B in Illustration 10-1, if payments are made at the *beginning* of each period, we multiply by $(1 + i)$:
 $\$956,673.97 \times (1 + i) = \$956,673.97 \times 1.00625 = \mathbf{\$962,653.18}$
14.

Ending balance	\$962,653.18
Total amount deposited: $612 \times \$135 =$	<u>- 82,620.00</u>
Interest earned	\$880,033.18

15. $i = 7\% \div 12 \approx .5833333\% \approx .005833333$:

$$35: FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$100 \left[\frac{(1.005833333)^{120} - 1}{.005833333} \right] = \$17,308.48$$

$$45: FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$100 \left[\frac{(1.005833333)^{240} - 1}{.005833333} \right] = \$52,092.66$$

$$55: FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$100 \left[\frac{(1.005833333)^{360} - 1}{.005833333} \right] = \$121,997.09$$

$$65: FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$100 \left[\frac{(1.005833333)^{480} - 1}{.005833333} \right] = \$262,481.31$$

16. Formula 1A ($n = 100$; $i = 12\% = .12$): $FV = PV(1+i)^n = FV = \$500(1.12)^{100} = \$41,761,132.86$

17. Formula 1A ($n = 18$; $i = 5\% = .05$): $FV = PV(1+i)^n = FV = \$2,550(1.05)^{18} = \$6,136.88$

18. Formula 1A ($n = 40$; $i = -5\% = -.05$):

$$FV = PV(1+i)^n = FV = 4,400(1+(-0.05))^{40} = 4,400(0.95)^{40} = 565.45 = \text{about 565 elephants}$$

Unit 10.3 Present value

19. Formula 2A ($n = 10$; $i = 3\% = .03$): $PV = \frac{FV}{(1+i)^n} = \frac{\$5,000}{(1.03)^{10}} = \$3,720.47$

20. Formula 2B ($n = 4 \times 4 = 16$; $i = 6\% \div 4 = 1.5\% = .015$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = 600,000 \text{ euros} \left[\frac{1 - \frac{1}{(1.015)^{16}}}{.015} \right] = 8,478,758.43 \text{ euros}$$

21. $180 \times \$1,300 = \$234,000$

22. **No**; you need to find the *present value* of the money saved.

23. Formula 2B ($n = 15 \times 12 = 180$; $i = 9\% \div 12 = .75\% = .0075$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$1,300 \left[\frac{1 - \frac{1}{(1.0075)^{180}}}{.0075} \right] = \$128,171.43$$

24. **No**; the value of the device (\$128,171.43) is less than its \$150,000 cost.

25. $100 \times \$700 = \$70,000$

26. Formula 2B ($n = 100$; $i = 6\% \div 12 = 0.5\% = .005$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$700 \left[\frac{1 - \frac{1}{(1.005)^{100}}}{.005} \right] = \$54,979.85$$

27. Let's look at this from the standpoint of an investor who might buy your bond. Let's find the PV of the interest checks (using Formula 2B), then the PV of the maturity value (using Formula 2A). $n = 13 \times 2 = 26$; $i = 8\% \div 2 = 4\% = .04$:

$$\text{PV of interest checks: } PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$30 \left[\frac{1 - \frac{1}{(1.04)^{26}}}{.04} \right] = \$479.48$$

$$\text{PV of maturity value: } PV = \frac{FV}{(1+i)^n} = \frac{\$1,000}{(1.04)^{26}} = \$360.69$$

$$\text{Total PV} = \$479.48 + \$360.69 = \$840.17$$

28. The bond is worth less than \$1,000 **because the 6% rate is less than the 8% prevailing rate** that investors can earn.

29. Formula 2A ($n = 20$, $i = 8\% = .08$): $PV = \frac{FV}{(1+i)^n} = \frac{\$1,000}{(1.08)^{20}} = \mathbf{\$214.55}$

30. Formula 2B ($n = 6$; $i = 9\% \div 12 = .75\% = .0075$): $PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$700 \left[\frac{1 - \frac{1}{(1.0075)^6}}{.0075} \right] = \$4,091.92$

Adjust (payments at *beginning* of each month): $\$4,091.92 \times 1.0075 = \mathbf{\$4,122.61}$

Challenge problems

31. What \$5,800 will grow to. Formula 1A ($n = 5 \times 2 = 10$; $i = 8\% \div 2 = 4\% = .04$):

$$FV = PV(1+i)^n = \$5,800(1.04)^{10} = \mathbf{\$8,585.42}$$

What \$100 each 6 months will grow to. Formula 1B:

$$FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$100 \left[\frac{(1.04)^{10} - 1}{.04} \right] = \mathbf{+1,200.61}$$

Total FV $\mathbf{\$9,786.03}$

32. $\$45,000 \times 7.65\% = \mathbf{\$3,442.50}$

33. $\$3,442.50$ (employee share) + $\$3,442.50$ (employer share) = $\mathbf{\$6,885}$

34. $\$6,885 \div 4 = \mathbf{\$1,721.25}$

35. Formula 1B ($n = 40 \times 4 = 160$; $i = 7\% \div 4 = 1.75\% = .0175$):

$$FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$1,721.25 \left[\frac{(1.0175)^{160} - 1}{.0175} \right] = \mathbf{\$1,480,390.69}$$

36. Formula 2B ($n = 28 \times 12 = 336$; $i = 9\% \div 12 = .75\% = .0075$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$25,000 \left[\frac{1 - \frac{1}{(1.0075)^{336}}}{.0075} \right] = \mathbf{\$3,062,600.87}$$

37. You will receive the net amount of \$5,500 at the beginning of each month. Let's find PV using Formula 2B, assuming payments are made at the *end* of each month. Then, as indicated in Illustration 10-1, we will multiply the result by $(1+i)$. ($n = 20 \times 12 = 240$; $i = 9\% \div 12 = .75\% = .0075$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$5,500 \left[\frac{1 - \frac{1}{(1.0075)^{240}}}{.0075} \right] = \$611,297.25$$

Because payments are made at the *beginning* of each period: $\$611,297.25 \times 1.0075 = \mathbf{\$615,881.98}$

Your leasehold interest is worth \$615,881.98; the paragraph in the lease that allows you to sublease the space is very valuable to you and is very costly to the landlord.

38. Formula 2B ($n = 10$; $i = 8\% = .08$): $PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$500,000 \left[\frac{1 - \frac{1}{(1.08)^{10}}}{.08} \right] = \mathbf{\$3,355,040.70}$

39. Formula 1B ($n = 10$; $i = 8\% = .08$): $FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$500,000 \left[\frac{(1.08)^{10} - 1}{.08} \right] = \mathbf{\$7,243,281.23}$

40. Find what \$750 per quarter will accumulate to. Formula 1B ($n = 25 \times 4 = 100$; $i = 6\% \div 4 = 1.5\% = .015$):

$$FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$750 \left[\frac{(1.015)^{100} - 1}{.015} \right] = \$171,602.28$$

Now find what \$171,602.28 will grow to over 10 years. Formula 1A ($n = 10 \times 4 = 40$; $i = 6\% \div 4 = 1.5\% = .015$):

$$FV = PV(1+i)^n = \$171,602.28(1.015)^{40} = \mathbf{\$311,289.69}$$

41. $(40 \times \$6,000) + (20 \times \$9,000) = \mathbf{\$420,000}$

42. **No**; must compare the *present value* of Michael's offer with the \$240,000 cash offer.

43. **Step 1.** Find the PV of the \$6,000 quarterly payments. Formula 2B ($n = 10 \times 4 = 40$; $i = 8\% \div 4 = 2\% = .02$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$6,000 \left[\frac{1 - \frac{1}{(1.02)^{40}}}{.02} \right] = \$164,132.88$$

Step 2. Find the PV of the \$9,000 quarterly payments. Formula 2B ($n = 5 \times 4 = 20$; $i = 8\% \div 4 = 2\% = .02$):

$$PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$9,000 \left[\frac{1 - \frac{1}{(1.02)^{20}}}{.02} \right] = \$147,162.90$$

Step 3. The amount found in Step 2 (\$147,162.90) is the PV *at the beginning of that stream of payments*—namely 10 years from now. Let's find the PV of \$147,162.90 to be received 10 years from now. We will use Formula 2A ($n = 10 \times 4 = 40$; $i = 8\% \div 4 = 2\% = .02$):

$$PV = \frac{FV}{(1+i)^n} = \frac{\$147,162.90}{(1.02)^{40}} = \$66,648.67$$

Step 4. The present value of the first stream of payments (\$6,000 per quarter for 10 years) is \$164,132.88. The present value (as of today) of the second stream of payments (\$9,000 per quarter for 5 years) is \$66,648.67. The present value of all of the cash flows is: $\$164,132.88 + \$66,648.67 = \mathbf{\$230,781.55}$.

44. **Florence should accept Ishiro's offer**, because his \$240,000 cash offer is better than Michael's offer, which has a present value of \$230,781.55.

Practice Test

1. $n = 5 \text{ years} \times 4 \text{ periods per year} = \mathbf{20}$

2. **\$420** (this is the amount that happened at the beginning of the first period)

3. $FV = PV(1+i)^n = \$500(1.12)^{50} = \mathbf{\$144,501.09}$

4. Formula 1B ($n = 50 \times 12 = 600$; $i = 6.75\% \div 12 = .5625\% = .005625$):

$$FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$100 \left[\frac{(1.005625)^{600} - 1}{.005625} \right] = \mathbf{\$496,875.02}$$

5. Formula 1A ($n = 18$; $i = 4\% = .04$): $FV = PV(1+i)^n = \$3,800(1.04)^{18} = \mathbf{\$7,698.10}$

6. Formula 2A ($n = 20$; $i = 8\% = .08$): $PV = \frac{FV}{(1+i)^n} = \frac{\$1,000}{(1.08)^{20}} = \mathbf{\$214.55}$

7. $n = 12 \times 12 = 144$; $i = 9.75\% \div 12 = .8125\% = .008125$, so:

$$\text{PV of annual savings (Formula 2B): } PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$800 \left[\frac{1 - \frac{1}{(1.008125)^{144}}}{.008125} \right] = \$67,757.52$$

$$\text{PV of salvage value (Formula 2A): } PV = \frac{FV}{(1+i)^n} = \frac{\$8,000}{(1.008125)^{144}} = + 2,494.70$$

$$\text{Total PV} \quad \quad \quad \mathbf{\$70,252.22}$$

Chapter 11 Sinking Funds, Annuities, and More: Using Formulas

Unit 11.1 Sinking funds

- Formula 2A ($n = 6.5 \times 4 = 26$; $i = 8\% \div 4 = 2\% = .02$): $PV = \frac{FV}{(1+i)^n} = \frac{\$50,000}{(1.02)^{26}} = \mathbf{\$29,878.96}$
- Formula 4A ($n = 6.5 \times 4 = 26$; $i = 8\% \div 4 = 2\% = .02$): $PMT = \frac{FV(i)}{(1+i)^n - 1} = \frac{\$50,000(.02)}{(1.02)^{26} - 1} = \mathbf{\$1,484.96}$
- Formula 4A ($n = 4.5 \times 4 = 18$; $i = 3\% \div 4 = .75\% = .0075$): $PMT = \frac{FV(i)}{(1+i)^n - 1} = \frac{\$40,000(.0075)}{(1.0075)^{18} - 1} = \mathbf{\$2,083.91}$
- $I = PRT = \pounds 86,500,000 \times 6\% \times 1 = \mathbf{\pounds 5,190,000}$
- Formula 4A ($n = 20$; $i = 8\% = .08$): $PMT = \frac{FV(i)}{(1+i)^n - 1} = \frac{\pounds 86,500,000(.08)}{(1.08)^{20} - 1} = \mathbf{\pounds 1,890,216.06}$
- $\pounds 5,190,000$ (interest to bondholders) + $\pounds 1,890,216.06$ (sinking fund deposit) = $\mathbf{\pounds 7,080,216.06}$
- First, let's determine how many months it will take. Using Formula 5 ($i = 8\% \div 12 \approx .66667\% \approx .0066667$):

$$n = \frac{-\ln \left[\frac{PV + \left(\frac{PMT}{i} \right)}{\frac{PMT}{i} - FV} \right]}{\ln(1+i)} = \frac{-\ln \left[\frac{\$0 + \left(\frac{-\$180}{.0066667} \right)}{\frac{-\$180}{.0066667} - \$1,000,000} \right]}{\ln(1.0066667)} = 547.60 \text{ months} = 45.63 \text{ years}$$

28 years (Kristi's age now) + 45.63 years = **73.63 years old**

Unit 11.2 Annuities

- $I = PRT = \$500,000 \times 6.75\% \times \frac{1}{12} = \mathbf{\$2,812.50}$
- Formula 4B ($n = 40 \times 12 = 480$; $i = 6.75\% \div 12 = .5625\% = .005625$):

$$PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$500,000(.005625)}{1 - \frac{1}{(1.005625)^{480}}} = \mathbf{\$3,016.78}$$
- Formula 4B ($n = 30 \times 12 = 360$; $i = 6.75\% \div 12 = .5625\% = .005625$):

$$PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$500,000(.005625)}{1 - \frac{1}{(1.005625)^{360}}} = \mathbf{\$3,242.99}$$
- Using the right-hand column of Ill. 10-1: $\$3,242.99 \div (1+i) = \$3,242.99 \div 1.005625 = \mathbf{\$3,224.85}$
- Formula 4B ($n = 150$; $i = 5.5\% = .055$): $PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$4,000,000(.055)}{1 - \frac{1}{(1.055)^{150}}} = \$220,071.56$
 Adjust because distributions are at the *beginning* of each year: $\$220,071.56 \div 1.055 = \mathbf{\$208,598.64}$

Unit 11.3 Loan payments

- Formula 4B ($n = 6 \times 12 = 72$; $i = 6.5\% \div 12 \approx .541667\% \approx .00541667$):

$$PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$27,500(.00541667)}{1 - \frac{1}{(1.00541667)^{72}}} = \mathbf{\$462.27}$$
- $72 \times \$462.27 = \$33,283.44$; $\$33,283.44 - 27,500.00 = \mathbf{\$5,783.44}$
- Formula 4B ($n = 24$; $i = 1.75\% = .0175$): $PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$900(.0175)}{1 - \frac{1}{(1.0175)^{24}}} = \mathbf{\$46.25}$

$$16. \text{ 15-year } (i = 7.25\% \div 12 \approx .604167\% \approx .0064167): \text{PMT} = \frac{\text{PV}(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$150,000(.0064167)}{1 - \frac{1}{(1.0064167)^{180}}} = \mathbf{\$1,369.29}$$

$$\text{30-year } (i = 7.5\% \div 12 = .625\% = .00625): \text{PMT} = \frac{\text{PV}(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$150,000(.00625)}{1 - \frac{1}{(1.00625)^{360}}} = \mathbf{\$1,048.82}$$

$$17. \$1,369.29 - \$1,048.82 = \mathbf{\$320.47}$$

$$18. \text{ 15-year loan: } 180 \times \$1,369.29 = \$246,472.20; \$246,472.20 - \$150,000 = \mathbf{\$96,472.20}$$

$$\text{30-year loan: } 360 \times \$1,048.82 = \$377,575.20; \$377,575.20 - \$150,000 = \mathbf{\$227,575.20}$$

$$19. \$227,575.20 - \$96,472.20 = \mathbf{\$131,103}$$

$$20. n = 20 \times 12 = 240; i = 8.875\% \div 12 \approx .7395833\% \approx .007395833$$

$$\text{PMT} = \frac{\text{PV}(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$365,000(.007395833)}{1 - \frac{1}{(1.007395833)^{240}}} = \mathbf{\$3,254.71}$$

21. We will use Formula 5. $\text{PV} = \$138,743.03$; $i = 8.75\% \div 12 \approx .729167\% \approx .00729167$. Because the PMT is *paid*, it is a negative number.

$$n = \frac{-\ln \left[\frac{\text{PV} + \left(\frac{\text{PMT}}{i} \right)}{\frac{\text{PMT}}{i} - \text{FV}} \right]}{\ln(1+i)} = \frac{-\ln \left[\frac{\$138,743.03 + \left(\frac{-\$1,180.05}{.00729167} \right)}{\frac{-\$1,180.05}{.00729167} - \$0} \right]}{\ln(1.00729167)} = \mathbf{268.00 \text{ months}} \text{ (22 years and 4 months)}$$

Unit 11.4 Solving for rate (i)

$$22. i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{\$520,000}{\$4,000} \right)^{\frac{1}{200}} - 1 = .0246 = \mathbf{2.46\%}$$

$$23. i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{\$165,000}{\$2,450} \right)^{\frac{1}{62}} - 1 = .0703 = \mathbf{7.03\%}$$

$$24. i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{30.6}{9.9} \right)^{\frac{1}{50}} - 1 = .0228 = \mathbf{2.28\%} \quad i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{100}{30.6} \right)^{\frac{1}{20}} - 1 = .0610 = \mathbf{6.10\%}$$

$$i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{226.4}{100} \right)^{\frac{1}{28}} - 1 = .0296 = \mathbf{2.96\%} \quad i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{226.4}{9.9} \right)^{\frac{1}{98}} - 1 = .0325 = \mathbf{3.25\%}$$

$$25. i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{\$532,500}{\$750} \right)^{\frac{1}{14}} - 1 = .5983 = \mathbf{59.83\%}$$

$$26. i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{\$23,000}{\$15,600} \right)^{\frac{1}{12}} - 1 = .0329 = \mathbf{3.29\%}$$

No; your salary has increased 3.29% per year, which is less than the average annual inflation rate.

27. Formulas are not designed to solve for i when periodic payments are involved. Let's use the Guess and Check Method. One approach would be to find the present value of the cash flows using different rates, until a rate results in a present value of \$1,200 (the price paid for the stock). Let's try 14%:

$$\text{PV of dividends: } PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$50 \left[\frac{1 - \frac{1}{(1.14)^{12}}}{.14} \right] = \$ 283.01$$

$$\text{PV of sales proceeds: } PV = \frac{FV}{(1+i)^n} = \frac{\$4,200}{(1.14)^{12}} = + 871.75$$

$$\text{Total PV} = \$1,154.76$$

The PV of \$1,154.76 is fairly close to our \$1,200 target figure, but is a bit too low. When calculating present value, reducing the rate increases the present value, so we need try a lower rate. Let's try 13.5%:

$$\text{PV of dividends: } PV = PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$50 \left[\frac{1 - \frac{1}{(1.135)^{12}}}{.135} \right] = \$ 289.33$$

$$\text{PV of sales proceeds: } PV = \frac{FV}{(1+i)^n} = \frac{\$4,200}{(1.135)^{12}} = + 918.97$$

$$\text{Total PV} = \$1,208.30$$

We are getting very close. The rate needs to be just a bit higher. Let's try 13.58%:

$$\text{PV of dividends: } PV = PV = PMT \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$50 \left[\frac{1 - \frac{1}{(1.1358)^{12}}}{.1358} \right] = \$ 288.31$$

$$\text{PV of sales proceeds: } PV = \frac{FV}{(1+i)^n} = \frac{\$4,200}{(1.1358)^{12}} = + 911.23$$

$$\text{Total PV} = \$1,199.54$$

A rate of 13.58% results in a present value of \$1,199.54, which is very close to our target figure of \$1,200. **You earned approximately 13.58%, compounded annually.**

Challenge problems

28. $I = PRT = \$650,000 \times 6\% \times \frac{1}{12} = \$3,250$

29. **The savings plan balance will increase** because the interest you earn is greater than the amount you withdraw.

30. What \$650,000 will grow to: Formula 1A ($n = 40 \times 12 = 480$; $i = 6\% \div 12 = .5\% = .005$):

$$FV = PV(1+i)^n = \$650,000(1.005)^{480} = \$ 7,122,344.89$$

Decrease in FV because of the \$3,000 monthly withdrawal:

$$\text{Formula 1B } (n = 480; i = .005): FV = PMT \left[\frac{(1+i)^n - 1}{i} \right] = \$3,000 \left[\frac{(1.005)^{480} - 1}{.005} \right] = - 5,974,472.20$$

$$\text{Balance in 40 years} = \$1,147,872.69$$

(In spite of making hefty withdrawals, the balance has increased from \$650,000 to \$1,147,872.69.)

31. Formula 5 ($i = 6\% \div 12 = .5\% = .005$; $PV = \text{negative } \$650,000$; $PMT = \$3,500$; $FV = 0$):

$$n = \frac{-\ln \left[\frac{PV + \left(\frac{PMT}{i} \right)}{\frac{PMT}{i} - FV} \right]}{\ln(1+i)} = \frac{-\ln \left[\frac{-\$650,000 + \left(\frac{\$3,500}{.005} \right)}{\frac{\$3,500}{.005} - \$0} \right]}{\ln(1.005)} = 529.13 \text{ months (44.09 years)}$$

32. Formula 2A ($n = 2.5 \times 12 = 30$; $i = 6\% \div 12 = 0.5\% = .005$): $PV = \frac{FV}{(1+i)^n} = \frac{\$8,000}{(1.005)^{30}} = \$6,888.24$

33. Formula 4A ($n = 2.5 \times 12 = 30$; $i = 6\% \div 12 = 0.5\% = .005$):
$$\text{PMT} = \frac{\text{FV}(i)}{(1+i)^n - 1} = \frac{\$8,000(.005)}{(1.005)^{30} - 1} = \mathbf{\$247.83}$$

34. What \$2,400 will grow to (Formula 1A): $\text{FV} = \text{PV}(1+i)^n = \$2,400(1.005)^{30} = \$2,787.36$

Additional FV required: $\$8,000 - \$2,787.36 = \$5,212.64$

PMT needed to accumulate \$5,212.64 (Formula 4A):
$$\text{PMT} = \frac{\text{FV}(i)}{(1+i)^n - 1} = \frac{\$5,212.64(.005)}{(1.005)^{30} - 1} = \mathbf{\$161.48}$$

35. Note: 35.9 cents, written in terms of dollars, is \$0.359, so:
$$i = \left(\frac{\text{FV}}{\text{PV}} \right)^{\frac{1}{n}} - 1 = \left(\frac{\$4,399}{\$0.359} \right)^{\frac{1}{35}} - 1 = .0742 = \mathbf{7.42\%}$$

36. Formula 2B ($n = 30 \times 12 = 360$; $i = 6.75\% \div 12 = .5625\% = .005625$):

$$\text{PV} = \text{PMT} \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$1,100 \left[\frac{1 - \frac{1}{(1.005625)^{360}}}{.005625} \right] = \mathbf{\$169,596.55}$$

37. First, let's find the amount needed at the start of the 30-year withdrawal stage. We need to know PV and we know PMT, so we use Formula 2B ($n = 30 \times 12 = 360$; $i = 6\% \div 12 = .5\% = .005$):

$$\text{PV} = \text{PMT} \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$2,000 \left[\frac{1 - \frac{1}{(1.005)^{360}}}{.005} \right] = \$333,583.23$$

Now, let's find the amount Jacob needs to deposit at the end of each month over the next 35 years to accumulate the \$333,583.23. We need to know PMT and we know FV, so we use Formula 4A ($n = 35 \times 12 = 420$):

$$\text{PMT} = \frac{\text{FV}(i)}{(1+i)^n - 1} = \frac{\$333,583.23(.005)}{(1.005)^{420} - 1} = \mathbf{\$234.14}$$

38.

Total amount to be received: $360 \times \$2,000 =$	\$720,000.00
Total amount to be deposited: $420 \times \$234.14 =$	<u>- 98,338.80</u>
Interest earned	\$621,661.20

39. Projected tuition, 8 years from now: $\text{FV} = \text{PV}(1+i)^n = \$6,000(1.04)^8 = \$8,211.41$
Amount needed in fund 8 years from now (assuming withdrawals are at the *end* of each year):

$$\text{PV} = \text{PMT} \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] = \$8,211.41 \left[\frac{1 - \frac{1}{(1.06)^8}}{.06} \right] = \$28,453.40$$

Adjust, because withdrawals are at *beginning* of each year: $\$28,453.40 \text{ (rounded)} \times 1.06 = \$30,160.60$

Amount to be deposited at the end of each year to accumulate \$30,160.60 in 8 years:

$$\text{PMT} = \frac{\text{FV}(i)}{(1+i)^n - 1} = \frac{\$30,160.60(.06)}{(1.06)^8 - 1} = \mathbf{\$3,047.30}$$

Practice Test

1. First, figure the required deposit assuming deposits are made at the *end* of each month.

$$\text{Formula 4A } (n = 18 \times 12 = 216; i = 6\% \div 12 = .5\% = .005): \text{PMT} = \frac{\text{FV}(i)}{(1+i)^n - 1} = \frac{\$35,000(.005)}{(1.005)^{216} - 1} = \$90.36$$

We need to adjust the answer because deposits are made at the *beginning* of each period. You can deposit less because the plan starts earning interest sooner. So, we *divide* the answer by $(1+i)$:

$$\$90.36 \div (1+i) = \$90.36 \div 1.005 = \mathbf{\$89.91}$$

2. Formula 5 ($i = 6\% \div 12 = .5\% = .005$; $PV = \text{negative } \$5,500$; $PMT = \text{negative } \$400$; $FV = \$22,000$):

$$n = \frac{-\ln \left[\frac{PV + \left(\frac{PMT}{i} \right)}{\frac{PMT}{i} - FV} \right]}{\ln(1 + i)} = \frac{-\ln \left[\frac{-\$5,500 + \left(\frac{-\$400}{.005} \right)}{\frac{-\$400}{.005} - \$22,000} \right]}{\ln(1.005)} = \mathbf{35.38 \text{ months}}$$

3. Formula 4B ($n = 30 \times 12 = 360$; $i = 6.5\% \div 12 \approx .5416667\% \approx .005416667$):

$$PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$250,000(.005416667)}{1 - \frac{1}{(1.005416667)^{360}}} = \mathbf{\$1,580.17}$$

4. Formula 4B ($n = 4 \times 12 = 48$; $i = 6.5\% \div 12 \approx .5416667\% \approx .005416667$):

$$PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$13,500(.005416667)}{1 - \frac{1}{(1.005416667)^{48}}} = \mathbf{\$320.15}$$

5. Formula 4B ($n = 30 \times 12 = 360$; $i = 6.75\% \div 12 = .5625\% = .005625$):

$$PMT = \frac{PV(i)}{1 - \frac{1}{(1+i)^n}} = \frac{\$240,000(.005625)}{1 - \frac{1}{(1.005625)^{360}}} = \$1,556.64$$

Total interest: $(360 \times \$1,556.64) - \$240,000 = \$560,390.40 - \$240,000.00 = \mathbf{\$320,390.40}$

6. Formula 3 ($n = 10$; $FV = \$165,000$; $PV = \$108,000$): $i = \left(\frac{FV}{PV} \right)^{\frac{1}{n}} - 1 = \left(\frac{\$165,000}{\$108,000} \right)^{\frac{1}{10}} - 1 = .0433 = \mathbf{4.33\%}$

Chapter 12 Future Value and Present Value: Using Financial Calculators

Unit 12.1 Time-value-of-money terminology

- 12 (3 years $\times$ 4 periods per year = 12)
- 1.5% ($6\% \div 4 = 1.5\%$)
- \$1,000 (this is the amount that happens at the beginning of the first period)
- \$50 (this is the amount that happens every period)
- \$1,847.68 (this is the amount that happens at the end of the last period)
- False.** PV is \$4,000 because that's the amount that happened at the beginning of the first period.
- No one receives a check for \$1,600, so **\$1,600 is not a time-value-of-money variable.**
- \$6,000** (this is the amount that happens at the end of the last period)

Unit 12.2 Financial calculators

- We should clear the TVM registers if the upcoming problem is an entirely new problem. If the upcoming problem is merely a variation of the preceding problem, it is easier to not clear the registers and instead change the values that are different.
- By using this approach, we don't have to change the "periods per year" setting from problem to problem; we must, however, enter the *periodic rate* in the *i*-register.
- False.** We can review the values by pressing [RCL] [N], [RCL] [PV], etc.
- False.** Values can be entered in any order.
- 3**
- True**
- False.** You do not make a payment of \$600, so you should *not* enter \$600 in the PMT register. Instead, you should enter \$100 (actually, negative \$100) in the PMT register.

Unit 12.3 Future value

16.

N	i	PV	PMT	FV
170	4	-42		33,030.64

17.

N	i	PV	PMT	FV
30	8		-2,000	226,566.42

18.

N	i	PV	PMT	FV
40	2		-365	22,046.72

19.

N	i	PV	PMT	FV
$51 \times 12 = 612$	$7.5 \div 12 = 0.625$		-135	956,673.97

20. Change to “begin” mode. Then solve for FV (it is not necessary to re-enter amounts). Answer is **\$962,653.18**. *Suggestion:* After getting the answer, don’t forget to put calculator back in “end” mode.

21.

Ending balance	\$962,653.18
Total amount deposited: $612 \times \$135 =$	<u>- 82,620.00</u>
Interest earned	\$880,033.18

22.

N	i	PV	PMT	FV
$10 \times 12 = 120$	$7 \div 12 = 0.58\bar{3}$		-100	17,308.48
$20 \times 12 = 240$	↑		↑	52,092.67
$30 \times 12 = 360$	↑		↑	121,997.10
$40 \times 12 = 480$	↑		↑	262,481.34

23.

N	i	PV	PMT	FV
100	12	-500		41,761,132.86

24.

N	i	PV	PMT	FV
18	5	-2,550		6,136.88

25.

N	i	PV	PMT	FV
40	-5	-4,400		565.45

There will be about **565 elephants**.

Unit 12.4 Present value

26.

N	i	PV	PMT	FV
10	3	-3,720.47		5,000

27.

N	i	PV	PMT	FV
$4 \times 4 = 16$	$6 \div 4 = 1.5$	-8,478,758.43 euros	600,000	

28. $180 \times \$1,300 = \$234,000$

29. **No**; you need to find the *present value* of the money saved.

30.

N	i	PV	PMT	FV
$15 \times 12 = 180$	$9 \div 12 = 0.75$	-128,171.43	1,300	

31. No; the value of the device (\$128,171.43) is less than its \$150,000 cost.

32. $100 \times \$700 = \$70,000$

33.

N	i	PV	PMT	FV
100	$6 \div 12 = 0.50$	-54,979.85	700	

34. Let's look at this from the standpoint of an investor who wants to earn 8% compounded semiannually. The investor would receive interest checks of \$30 each 6 months for 13 years, plus the \$1,000 maturity value in 13 years.

N	i	PV	PMT	FV
$13 \times 2 = 26$	$8 \div 2 = 4$	-840.17	30	1,000

35. The bond is worth less than \$1,000 **because the 6% rate is less than the 8% prevailing rate** that investors can earn.

36.

N	i	PV	PMT	FV
20	8	-214.55		1,000

37.

N	i	PV	PMT	FV
6	$9 \div 12 = 0.75$	4,122.61	-700 Begin*	

*Note: Don't forget to put back in "end" mode.

Challenge problems

38.

N	i	PV	PMT	FV
$5 \times 2 = 10$	$8 \div 2 = 4$	-5,800	-100	9,786.03

39. $\$45,000 \times 7.65\% = \$3,442.50$ 40. $\$3,442.50$ (employee share) + $\$3,442.50$ (employer share) = **\$6,885**41. $\$6,885 \div 4 = \$1,721.25$

42.

N	i	PV	PMT	FV
$40 \times 4 = 160$	$7 \div 4 = 1.75$		-1,721.25	1,480,390.69

43.

N	i	PV	PMT	FV
$28 \times 12 = 336$	$9 \div 12 = 0.75$	3,062,600.87	-25,000	

44.

N	i	PV	PMT	FV
$20 \times 12 = 240$	$9 \div 12 = 0.75$	-615,881.98	5,500 Begin*	

*Note: You collect \$27,500 per month and pay \$22,000, keeping the difference of \$5,500 at the beginning of each month. Don't forget to put your calculator back in "end" mode.

Your leasehold interest is worth \$615,881.98; the paragraph in the lease that allows you to sublease the space is very valuable to you and is very costly to the landlord.

45.

N	i	PV	PMT	FV
10	8	-3,355,040.70	500,000	

46.

N	i	PV	PMT	FV
↑	↑	0	-500,000	7,243,281.23

47. First, let's find what \$750 per quarter will accumulate to.

N	i	PV	PMT	FV
$25 \times 4 = 100$	$6 \div 4 = 1.5$		-750	171,602.28

Now, let's find what the \$171,602.28 will grow to over the final 10 years.

N	i	PV	PMT	FV
$10 \times 4 = 40$	↑	-171,602.28	0	311,289.69

*Note: Answer assumes we round the FV amount, from Step 1, to the nearest penny before entering in the PV register.

Practice Test

1. $n = 5 \text{ years} \times 4 \text{ periods per year} = 20$

2. \$420 (this is the amount that happened at the beginning of the first period)

3.

N	i	PV	PMT	FV
50	12	-500		144,501.09

4.

N	i	PV	PMT	FV
$50 \times 12 = 600$	$6.75 \div 12 = 0.5625$		-100	496,875.02

5.

N	i	PV	PMT	FV
18	4	-3,800		7,698.10

6.

N	i	PV	PMT	FV
20	8	-214.55		1,000

7.

N	i	PV	PMT	FV
$12 \times 12 = 144$	$9.75 \div 12 = 0.8125$	-70,252.22	800	8,000

Chapter 13 Sinking Funds, Annuities, and More: Using Financial Calculators

Unit 13.1 Sinking funds

1.

N	i	PV	PMT	FV
$6.5 \times 4 = 26$	$8 \div 4 = 2$	-29,878.96		50,000

2.

N	i	PV	PMT	FV
↑	↑	0	-1,484.96	↑

3.

N	i	PV	PMT	FV
↑	↑	-4,700	-1,251.38	50,000

4.

N	i	PV	PMT	FV
$4.5 \times 4 = 18$	$3 \div 4 = 0.75$		-2,083.91	40,000

5. $I = PRT = £86,500,000 \times 6\% \times 1 = \text{£}5,190,000$

6.

N	i	PV	PMT	FV
20	8		-1,890,216.06	86,500,000

7. $£5,190,000$ (interest to bondholders) + $£1,890,216.06$ (sinking fund deposit) = **£7,080,216.06**

8. First, let's determine how many months it will take. Then, we will figure her age.

N	i	PV	PMT	FV
547.60	$8 \div 12 = 0.66$		-180	1,000,000

$547.60 \text{ months} \div 12 = 45.63 \text{ years}$. 28 years (Kristi's age now) + 45.63 years = 73.63 (**73 years old**)

Unit 13.2 Annuities

9. $I = PRT = \$500,000 \times 6.75\% \times \frac{1}{12} = \text{\$}2,812.50$

10.

N	i	PV	PMT	FV
$40 \times 12 = 480$	$6.75 \div 12 = 0.5625$	-500,000	3,016.78	0

11.

N	i	PV	PMT	FV
$30 \times 12 = 360$	↑	↑	3,242.99	0

12.

N	i	PV	PMT	FV
290.14 months	↑	↑	3,500	0

$290.14 \text{ months} \div 12 = 24.18 \text{ years}$

13. **It will increase** because the withdrawals are less than the interest you earn.

14.

N	i	PV	PMT	FV
$25 \times 12 = 300$	↑	↑	2,700	587,608.96

15.

N	i	PV	PMT	FV
150	5.5	-4,000,000	208,598.64 Begin*	

*Note: Don't forget to put back in "end" mode.

Unit 13.3 Loan payments

16.

N	i	PV	PMT	FV
$6 \times 12 = 72$	$6.5 \div 12 = 0.5416$	27,500	-462.27	

17. $72 \times \$462.27 = \$33,283.44$; $\$33,283.44 - 27,500.00 = \text{\$}5,783.44$

18.

N	i	PV	PMT	FV
24	1.75*	900	-46.25	

*Note: The periodic rate is 1.75(%), not $1.75 \div 12$.

19.

N	i	PV	PMT	FV
$15 \times 12 = 180$	$7.25 \div 12 = 0.6041\bar{6}$	150,000	-1,369.29	
$30 \times 12 = 360$	$7.5 \div 12 = 0.625$	↑	-1,048.82	

20. $\$1,369.29 - \$1,048.82 = \$320.47$

21. 15-year loan: $180 \times \$1,369.29 = \$246,472.20$; $\$246,472.20 - \$150,000 = \$96,472.20$
 30-year loan: $360 \times \$1,048.82 = \$377,575.20$; $\$377,575.20 - \$150,000 = \$227,575.20$

22. $\$227,575.20 - \$96,472.20 = \$131,103$

23.

N	i	PV	PMT	FV
$20 \times 12 = 240$	$4.875 \div 12 = 0.40625^*$	365,000	-2,383.71	

*Note: We can find the decimal equivalent of $\frac{7}{8}$ by dividing 7 by 8, getting 0.875. So, $4\frac{7}{8} = 4.875$.

24.

N	i	PV	PMT	FV
268.00 months	$8.75 \div 12 = 0.7291\bar{6}$	138,743.03	-1,180.05	

25.

N	i	PV	PMT	FV
261.22 months	↑	↑	-1,190.05	
215.03 months	↑	↑	-1,280.05	

Challenge problems

26.

N	i	PV	PMT	FV
5	4	-400,000		486,661.16

27.

N	i	PV	PMT	FV
$5 \times 4 = 20$	$6 \div 4 = 1.5$	0	-20,735.00 Begin*	↑

*Note: Don't forget to put back in "end" mode.

28.

N	i	PV	PMT	FV
165.34 months	$8 \div 12 = 0.6\bar{6}$	500	-5	

29.

N	i	PV	PMT	FV
61.02 months	↑	↑	-10	

30. No. The extra \$5 a month applies entirely to principal, reducing the balance more quickly.

31.

N	i	PV	PMT	FV
54 months	$11 \div 12 = 0.91\bar{6}$	13,841.90	-326.14	

32.

N	i	PV	PMT	FV
49.87 months	↑	13,007.90*	↑	

*Note: \$13,841.90 - \$834 extra principal = \$13,007.90

The loan term will be reduced by 4.13 months (54 months before making the extra payment - 49.87 months = 4.13 months).

33.

a. Rebate

b. 2.9%

N	i	PV	PMT	FV
$5 \times 12 = 60$	$8.5 \div 12 = 0.708\bar{3}$	22,000*	-451.36	
↑	$2.9 \div 12 = 0.241\bar{6}$	25,500	-457.07	

*Note: \$25,500 - \$3,500 rebate = \$22,000

34.

N	i	PV	PMT	FV
$30 \times 12 = 360$	$4.75 \div 12 = 0.3958\bar{3}$	172,530.35	-900	

35.

First, let's find the amount needed at the start of the 30-year withdrawal stage.

N	i	PV	PMT	FV
$30 \times 12 = 360$	$6 \div 12 = 0.50$	-333,583.23	2,000	

Now, let's find the amount Jacob needs to deposit at the end of each month over the next 35 years to accumulate the \$333,583.23.

N	i	PV	PMT	FV
$35 \times 12 = 420$	↑	0	-234.14	333,583.23

By depositing \$234.14 at the end of each month over the next 35 years, Jacob will be able to withdraw \$2,000 at the end of each month for the following 30 years.

36.

Total amount to be received: $360 \times \$2,000 =$	\$720,000.00
Total amount to be deposited: $420 \times \$234.14 =$	<u>- 98,338.80</u>
Interest earned	\$621,661.20

37.

Projected tuition, 8 years from now:

N	i	PV	PMT	FV
8	4	-6,000		8,211.41

Amount needed in fund 8 years from now:

N	i	PV	PMT	FV
4	6	-30,160.61	8,211.41 Begin*	

*Note: Don't forget to put your calculator back in "end" mode.

Amount to be deposited at the end of each year to accumulate \$30,160.61 in 8 years:

N	i	PV	PMT	FV
8	6		-3,047.31	30,160.61

Practice Test

1.

N	i	PV	PMT	FV
$18 \times 12 = 216$	$6 \div 12 = 0.50$		-89.91 Begin*	35,000

*Note: Don't forget to put your calculator back in "end" mode.

2.	N	i	PV	PMT	FV
	35.38 months	$6 \div 12 = 0.50$	-5,500	-400	22,000

3.	N	i	PV	PMT	FV
	$30 \times 12 = 360$	$6.5 \div 12 = 0.541\bar{6}$	-250,000	1,580.17	

4.	N	i	PV	PMT	FV
	$4 \times 12 = 48$	$6.5 \div 12 = 0.541\bar{6}$	13,500	-320.15	

5.	N	i	PV	PMT	FV
	$20 \times 12 = 240$	$7.625 \div 12 = 0.63541\bar{6}$	140,000	-1,138.56	

6.	N	i	PV	PMT	FV
	$40 \times 12 = 480$	$7.25 \div 12 = 0.6041\bar{6}$	180,000	-1,151.41	

Total interest: $(480 \times \$1,151.41) - \$180,000 = \$552,676.80 - \$180,000 = \$372,676.80$

Chapter 14 Installment Loans and Open-End Credit

Unit 14.1 Cost of installment buying

- (c) **greater than \$177.08**. If Maria's credit union charged no interest, her monthly payment would be \$177.08 ($\$8,500 \div 48 = \177.08); with interest, her payment will be more than \$177.08.
- (b) **greater than 6.5%**, because the \$50 fee is just like interest, paid in advance, which has the effect of increasing the interest rate.

3.	Price of car	\$28,500
	Tax and license fees	1,700
	Origination fee	+ 300
	Total amount needed	\$30,500
	Less down payment	- 3,000
	Required loan	\$27,500

4.	Step 1	Total of all payments: $48 \times \$664.92$	\$31,916.16
	Step 2	Less loan amount	-27,500.00
		Interest portion of payments	\$ 4,416.16
	Step 3	Plus prepaid loan costs	+ 300.00
		Total finance charges	\$ 4,716.16

5.	Step 1	Cost of the purchase: $\$28,500 + \$1,700$ tax and license	\$30,200.00
	Step 2	Add finance charges (from Problem 2)	+ 4,716.16
		Total cost, including finance charges	\$34,916.16

6.	Cost of the purchase: $\$6,200 + \500.00 tax and license	\$6,700.00
	Finance charge	
	Total of all payments: $24 \times \$235.18$	\$5,644.32
	Less loan amount	-5,200.00
	Interest portion of payments	444.32
	Total cost, including finance charges	\$7,144.32

If you paid cash (without needing a loan), your total cost would be \$6,700. But since you get a loan, you must pay \$444.32 of interest, pushing your total cost to \$7,144.32.

Unit 14.2 Paying off an installment loan

7. **False.** Because interest is figured on the unpaid balance, interest decreases as the loan balance goes down.
8. **False.** A 365-day year is used.
9. **(d)**

10. Days in June: $30 - 12 = 18$ June has 30 days; not charged interest on first 12 days
 Days in July $+16$
34 days

11.

Due date	Date received	Total payment	Interest	Principal	Balance
July 1	(Start)	—	—	—	\$1,000.00
Aug. 1	July 28	\$254.71	\$6.66	\$248.05	\$751.95
Sep. 1	Aug. 29	\$254.71	\$5.93	\$248.78	\$503.17
Oct. 1	Sep. 27	\$254.71	\$3.60	\$251.11	\$252.06
Nov. 1	Nov. 1	\$254.24	\$2.18	\$252.06	\$0.00

Procedure for August 1 payment

Number of days: $28 - 1 = 27$

Interest: $I = PRT = \$1,000 \times 9\% \times \frac{27}{365} = \6.66

Principal: $\$254.71 - \$6.66 = \$248.05$

New balance: $\$1,000 - \$248.05 = \$751.95$

Procedure for November 1 payment

Number of days: 3 days in Sep. + 31 days in Oct. + 1 day in Nov. = 35

Interest: $I = PRT = \$252.06 \times 9\% \times \frac{35}{365} = \2.18

Principal: \$252.06 (previous balance)

Total payment: $\$2.18 + \$252.06 = \$254.24$

12.

Due date	Date received	Total payment	Interest	Principal	Balance
Oct. 1	Oct. 1	—	—	—	\$2,182.64
—	Oct. 27	\$2,203.63	\$20.99	\$2,182.64	\$0.00

Procedure for October 27 payment

Number of days: $27 - 1 = 26$

Interest: $I = PRT = \$2,182.64 \times 13.5\% \times \frac{26}{365} = \20.99

Principal: \$2,182.64 (previous balance)

Total payment: $\$20.99 + \$2,182.64 = \$2,203.63$

Unit 14.3 Open-end credit

13. a. $\frac{13}{12} \approx 1.083333(\%)$ b. $\frac{13}{365} \approx 0.035616(\%)$
14. Let's convert the 1.75% periodic rate to an annual rate: $1.75 \times 12 = 21.00$ So, the **15.9% rate is lower.**

15.

Charge card statement: July 10			
Date	Item	Amount	New balance
6/11	Previous balance brought forward		\$420
6/18	Charge	\$50	\$470
6/24	Payment	\$150 Credit	\$320
6/30	Charge	\$80	\$400
7/5	Charge	\$40	\$440

Number of days		Balance		Subtotal
7 (June 11, 12, 13, 14, 15, 16, 17)	×	\$420	=	\$ 2,940
6 (June 18, 19, 20, 21, 22, 23)	×	470	=	2,820
6 (June 24, 25, 26, 27, 28, 29)	×	320	=	1,920
5 (June 30, July 1, 2, 3, 4)	×	400	=	2,000
<u>+ 6 (July 5, 6, 7, 8, 9, 10)</u>	×	<u>440</u>	=	<u>+ 2,640</u>
30				\$12,320

$$\text{Average daily balance} = \frac{\$12,320}{30} = \$410.67$$

16. $\$410.67 \text{ (average daily balance)} \times 1.25\% = \5.13

17. Daily periodic rate: $\frac{8.75}{365} \approx 0.02397260(\%)$ Interest = $\$48,700 \times 0.02397260\% \times 31 = \361.91

Challenge problems

18. $\$8,300 \text{ (price of car)} + \$550 \text{ (tax \& license fees)} + \$50 \text{ (processing fee)} - \$700 \text{ (cash)} = \$8,200$

19. Total of all payments: $36 \times \$247.61 = \$8,913.96$
 Less loan amount $- 8,200.00$
 Interest portion of payments \$ 713.96
 Plus prepaid loan costs $+ 50.00$
 Total finance charges \$ **763.96**

20. Cost of the purchase: $\$8,300 + \$550 = \$8,850.00$
 Add finance charge (from Problem 19) $+ 763.96$
 Total cost, including finance charges **\$9,613.96**

21.

Due Date	Date Received	Total Payment	Interest	Principal	Balance
Sep. 8	(Start)	—	—	—	\$8,200.00
Oct. 8	Oct. 6	\$247.61	\$34.60	\$213.01	\$7,986.99
Nov. 8	Nov. 10	\$300.00	\$42.12	\$257.88	\$7,729.11

Procedure for October 8 payment

Number of days: 22 days in Sep. $(30 - 8 = 22) + 6$ days in Oct. = 28

Interest: $I = PRT = \$8,200 \times 5.5\% \times \frac{28}{365} = \34.60

Principal: $\$247.61 - \$34.60 = \$213.01$

Balance: $\$8,200 - \$213.01 = \$7,986.99$

Procedure for November 8 payment

Number of days: 25 days in Oct. $(31 - 6 = 25) + 10$ days in Nov. = 35

Interest: $I = PRT = \$7,986.99 \times 5.5\% \times \frac{35}{365} = \42.12

Principal: $\$300 - \$42.12 = \$257.88$

Balance: $\$7,986.99 - \$257.88 = \$7,729.11$

22.

Due date	Date received	Total payment	Interest	Principal	Balance
Apr. 8	Apr. 8	—	—	—	\$418.22
—	May 3	\$419.80	\$1.58	\$418.22	\$0.00

Procedure for May 3 payment

Number of days: 22 days in Apr. (30 - 8 = 22) + 3 days in May = 25

Interest: $I = PRT = \$418.22 \times 5.5\% \times \frac{25}{365} = \1.58

Principal: \$418.22 (previous balance)

Total payment: \$1.58 + \$418.22 = \$419.80

Practice Test1. **Finance charge****Step 1** Total of all payments: $60 \times \$386.66$ \$23,199.60**Step 2** Less loan amount - 20,000.00

Interest portion of payments \$ 3,199.60

Total cost**Step 1** Cost of the purchase: \$22,200 + \$1,500 tax and license \$23,700.00**Step 2** Add finance charge (above) + 3,199.60Total cost **\$26,899.60**

2. Interest is calculated through the date payment is received by the lender—August 7.

Using the days-in-month method: 26 days in July (31 - 5) + 7 days in August = **33 days**.

3.

Due date	Date received	Total payment	Interest	Principal	Balance
Nov. 18	(Start)	—	—	—	\$2,400.00
Dec. 18	Dec. 16	\$100.00	\$18.41	\$81.59	\$2,318.41

Procedure

Number of days: 12 days in Nov. (30 - 18 = 12) + 16 days in Dec. = 28

Interest: $I = PRT = \$2,400 \times 10\% \times \frac{28}{365} = \18.41

Principal: \$100 - \$18.41 = \$81.59

New balance: \$2,400 - \$81.59 = \$2,318.41

4.

Due date	Date received	Total payment	Interest	Principal	Balance
—	May 24	—	—	—	\$1,489.23
—	June 2	\$1,492.13	\$2.90	\$1,489.23	\$0.00

Procedure

Number of days: 7 days in May (31 - 24 = 7) + 2 days in Jun. = 9

Interest: $I = PRT = \$1,489.23 \times 7.9\% \times \frac{9}{365} = \2.90

Principal: \$1,489.23 (previous balance)

Total payment: \$2.90 + \$1,489.23 = \$1,492.13

5. Daily periodic rate: $\frac{8.5}{365} \approx 0.02328767\%$ Interest = $\$92,817 \times 0.02328767\% \times 30 = \648.45

Chapter 15 Home Ownership and Mortgage Loans

Unit 15.1 Home ownership and mortgage payments

- False;** your home is real estate, not personal property.
- True**
- The first lender gets \$123,200; the second lender gets \$16,800.
- The first lender gets \$123,200; the second lender gets \$24,400; Nash gets the remaining \$7,400.
- False**
- Step 1** Monthly gross income: $\$3,600 + \$1,300 = \$4,900.00$
Step 2 Use the front-end ratio (29%):

a. Amount available for housing costs: $\$4,900 \times 29\%$	\$1,421.00
b. Subtract monthly property taxes and insurance: $(\$1,700 + \$575) \div 12$	<u>- 189.58</u>
c. Amount available for monthly payment	<u>\$1,231.42</u>

Step 3 Use the back-end ratio (41%):

a. Amount available for housing costs and consumer debt: $\$4,900 \times 41\%$	\$2,009.00
b. Subtract monthly property taxes and insurance (see above)	- 189.58
c. Subtract consumer debt: $\$295 + \$20 + \$20$	<u>- 335.00</u>
d. Amount available for monthly payment	<u>\$1,484.42</u>

Step 4 Using the front-end ratio, their maximum monthly payment is \$1,231.42. Using the back-end ratio, the maximum monthly payment is \$1,484.42. Their maximum monthly payment is the lesser of the two: **\$1,231.42.**
- | | |
|--|---------------------|
| Total amount to be repaid: $360 \times \$1,074.62$ | \$386,863.20 |
| Subtract principal portion (loan amount) | <u>-150,000.00</u> |
| Interest portion of payments | \$236,863.20 |
- $(\$1,725 + \$575) \div 12 = \$2,300 \div 12 = \mathbf{\$191.67}$
- $\$1,074.62 \text{ (PI)} + \$191.67 \text{ (TI)} = \mathbf{\$1,266.29 \text{ (PITI)}}$
- Yes.** If taxes or insurance change, the TI portion of the payment changes, resulting in a change in the total (PITI) payment.

Unit 15.2 Paying off a mortgage loan and increasing equity

- The TI portion of the payment does not apply to the debt.

Payment number	Payment (PI)	Interest	Principal	Balance
New loan	—	—	—	\$150,000.00
1	\$1,074.62	\$968.75	\$105.87	\$149,894.13
2	\$1,074.62	\$968.07	\$106.55	\$149,787.58

Payment 1 Interest: $I = PRT = \$150,000 \times 7.75\% \times \frac{1}{12} = \mathbf{\$968.75}$
 Principal = $\$1,074.62 - \$968.75 = \mathbf{\$105.87}$
 Balance = $\$150,000 - \$105.87 = \mathbf{\$149,894.13}$

Payment 2 Interest: $I = PRT = \$149,894.13 \times 7.75\% \times \frac{1}{12} = \mathbf{\$968.07}$
 Principal = $\$1,074.62 - \$968.07 = \mathbf{\$106.55}$
 Balance = $\$149,894.13 - \$106.55 = \mathbf{\$149,787.58}$

- True**
- False.** If an amortization schedule were printed for a car loan, it would soon be worthless, because interest is figured to the date payment is received, and payments are often made a few days early or a few days late.
- $\$315,000 - \$147,300 = \mathbf{\$167,700}$

Unit 15.3 Amortization with a financial calculator

15. Be sure to set decimal at 2 places when amortizing. And give your calculator ample time between keystrokes (look at your display after pressing each key).

HP 10BII+	TI BAII PLUS
(a) calculate monthly payment C ALL 0.00 120,000 PV 120,000.00 30 x 12 = N 360.00 6 ÷ 12 = I/YR 0.50 PMT -719.46 (b) first payment AMORT 1 - 1 = -119.46 PRIN = -600.00 INT = 119,880.54 BAL (c) interest, first 8 payments 1 INPUT 8 AMORT 1 - 8 = = -4,783.10 INT (d) balance after payment 102 1 INPUT 102 AMORT 1 - 102 = = = 104,155.45 BAL (e) interest, all 360 payments 1 INPUT 360 AMORT 1 - 360 = = -139,006.67 INT (f) final monthly payment = 1.07 BAL* + 719.46 = 720.53	(a) calculate monthly payment 2ND CLR TVM ??? 120,000 PV PV=120,000.00 30 x 12 = N N=360.00 6 ÷ 12 = I/Y I/Y=0.50 CPT PMT PMT= -719.46 (b) first payment 2ND AMORT 2ND CLR WORK P1=1.00 ↓ P2=1.00 ↓ BAL=119,880.54 ↓ PRN= -119.46 ↓ INT= -600.00 (c) interest, first 8 payments ↓ ↓ 8 ENTER P2= 8.00 ↓ ↓ ↓ INT= -4,783.10 (d) balance after payment 102 ↓ ↓ 102 ENTER P2=102.00 ↓ ↓ ↓ BAL=104,155.45 (e) interest, all 360 payments ↑ 360 ENTER P2=360.00 ↓ ↓ ↓ INT= -139,006.67 (f) final monthly payment ↑ ↑ BAL=1.07* + 719.46 = 720.53 2ND QUIT 0.00

Note: The balance is \$1.07, indicating that the final payment must be \$1.07 greater to end up with an ending balance of \$0.00.

- 16.

HP 10BII+	TI BAII PLUS
calculate monthly payment C ALL 0.00 350,000 PV 350,000.00 25 x 12 = N 300.00 10.25 ÷ 12 = I/YR 0.85 PMT -3,242.34 first calendar-year 1 INPUT 5 AMORT 1 - 5 = -1,285.56 PRIN = -14,926.14 INT = 348,714.44 BAL second calendar-year 6 INPUT 17 AMORT 6 - 17 = -3,317.85 PRIN = -35,590.23 INT = 345,396.59 BAL	calculate monthly payment 2ND CLR TVM ??? 350,000 PV PV=350,000.00 25 x 12 = N N=300.00 10.25 ÷ 12 = I/Y I/Y=0.85 CPT PMT PMT= -3,242.34 first calendar-year 2ND AMORT 2ND CLR WORK P1=1.00 ↓ 5 ENTER P2=5.00 ↓ BAL=348,714.44 ↓ PRN= -1,285.56 ↓ INT= -14,926.14 second calendar-year ↓ 6 ENTER ↓ 17 ENTER P2=17.00 ↓ ↓ ↓ BAL=345,396.59 ↓ ↓ ↓ PRN= -3,317.85 ↓ ↓ ↓ INT= -35,590.23

(continued on next page)

HP 10BII+ (continued)	TI BAII PLUS (continued)
third calendar-year	third calendar-year
AMORT * 18 - 29	CPT * P1=18.00
-3,674.38 PRIN	P2=29.00
-35,233.70 INT	BAL=341,722.21
341,722.21 BAL	PRN= -3,674.38
	INT= -35,233.70
	0.00
	QUIT

Note: For the second calendar-year, there were 12 payments. Because the next series of payments (the third calendar-year) also includes 12 payments, we don't have to tell the calculator the beginning and ending payment numbers.

17.

HP 10BII+	TI BAII PLUS
CALL 0.00	CLR TVM 7.??
100,000 PV 100,000.00	100,000 PV PV=100,000.00
30 12 N 360.00	30 12 N N=360.00
9 12 I/YR 0.75	9 12 I/Y I/Y=0.75
PMT -804.62	PMT PMT= -804.62

Note: Don't clear registers; Problems 19-23 are a continuation.

18.

360 × \$804.62	\$289,663.20
Less principal portion (loan amount)	<u>- 100,000.00</u>
Interest portion	\$189,663.20

19.

HP 10BII+	TI BAII PLUS
(keystrokes continued from Problem 17)	(keystrokes continued from Problem 17)
1 INPUT 360 AMORT 1-360	AMORT CLR WORK P1=1.00
-189,667.92 INT	↓ 360 ENTER P2=360.00
4.72 BAL	BAL=4.72
	INT= -189,667.92

Note: Don't clear registers; Problems 21-23 are a continuation.

20. There is a difference of \$4.72. The answer to Problem 19 (\$189,667.92) is the correct answer. The answer to Problem 18 (\$189,663.20) is based on making 360 payments of \$804.62. As shown in Problem 19, the unpaid balance after making 360 payments of \$804.62 is \$4.72, so the final payment must be increased \$4.72 (to \$809.34) to end up with a zero balance.

Total paid: (359 × \$804.62) + (1 × \$809.34)	\$289,667.92
Less principal portion of payments (loan amount)	<u>- 100,000.00</u>
Interest (matches answer of Problem 19)	\$189,667.92

21.

HP 10BII+	TI BAII PLUS
(keystrokes continued from Problem 19)	(keystrokes continued from Problem 19)
1 INPUT 180 AMORT 1-180	AMORT CLR WORK P1=1.00
79,331.49 BAL	↓ 180 ENTER P2=180.00
	BAL=79,331.49

Note: Don't clear registers; Problem 23 is a continuation.

22. Interest is figured on the unpaid balance. Because the balance is greater during the first half of the loan, interest is higher. So principal is lower during the first half, resulting in slow reduction during the first half.

23. How many months will be left on the loan when the balance is half repaid?

HP 10BII+		TI BAII PLUS	
(keystrokes continued from Problem 21)		(keystrokes continued from Problem 21)	
50,000	PV	50,000.00	
N		83.98	
		2ND QUIT	0.00
		50,000	PV
		CPT	N
			PV=50,000.00
			N=83.98

24. 360 months - 83.98 months left (see Problem 23) $\approx$ 276 months elapsed; 276 months $\div$ 12 = 23 years. **It will take about 23 years for the loan to be half repaid.**

Unit 15.4 Repayment variations and loan charges

25. $6.10\% + 0.50\% = 6.60\%$. However, because of the 1% annual cap, the rate will be $5.50\% + 1\% = 6.50\%$.

26. **It increases** with the increase in the interest rate.

27. $I = PRT = \$340,000 \times 9.75\% \times \frac{1}{12} = \$2,762.50$.

28. **\$340,000**; the balance remains unchanged because payments cover interest, but no principal.

29. Interest: $I = PRT = \$225,000 \times 7\% \times \frac{1}{12} = \$1,312.50$

Principal: \$1,100 total paid - \$1,312.50 = negative \$212.50

(Notice, the \$1,100 monthly payment is not enough to cover interest, so the balance will increase.)

Balance: $\$225,000 + \$212.50 = \$225,212.50$ (This is a negative amortization loan.)

30. Maximum total balances allowed: $\$265,000 \times 75\% = \$198,750$
 Less current loan balances $-172,200$
 Available line of credit **\$ 26,550**

31. **True.**

32. $\$700,000 \times 1\frac{1}{4}\% = \$700,000 \times 1.25\% = \$8,750$

33. $(\$320,000 \times 0.5\%) + (\$320,000 \times 0.75\%) + \$750 + \$70 + \$700 + \$970 + \$400 + \$200 + \$95 = \$7,185$

34. **True.**

Challenge problems

35. Monthly income: $\$1,250 + \$1,100 + \$760 + \10 monthly interest = \$3,120
 Amount available for housing costs: $\$3,120 \times 30\%$ \$936.00
 Subtract monthly property taxes and insurance: $(\$975 + \$490) \div 12$ -122.08
 Amount available for mortgage payment **\$813.92**

36. Amount available for housing costs and consumer debt: $\$3,120 \times 41\%$ \$1,279.20
 Subtract monthly property taxes and insurance (see above) -122.08
 Subtract consumer debt: $\$110 + \$30 + \$10 + \45 -195.00
 Amount available for mortgage payment **\$ 962.12**

37. Using the front-end ratio, their maximum payment is \$813.92. Using the back-end ratio, the maximum payment is \$965.12. Their maximum payment is the lesser of the two: **\$813.92.**

38. PI \$ 714.65
 TI: $(\$948 + \$520) \div 12 =$ $+122.33$
 PITI **\$836.98**

39. Initial deposit into escrow account \$270.00
 Add monthly deposits: $7 \times \$122.33 =$ + 856.31
 Less property taxes paid -948.00
 Ending escrow balance **\$178.31**

40. $I = PRT = \$115,000 \times 7\% \times \frac{1}{12} = \670.83
 Principal = \$714.65 (PI portion of payment) - \$670.83 = \$43.82
 Balance = $\$115,000 - \$43.82 = \$114,956.18$

41. $\$142,000$ (value) - $\$112,581$ (first mortgage) - $\$18,300$ (second mortgage) = **$\$11,119$**
42. The **first lender gets the first \$116,100; the second lender gets the remaining \$18,400**. Mort and Carla get nothing.
- 43.
- | | |
|------------------------------------|------------------|
| Selling price | \$180,000 |
| Balance, first mortgage | - 108,434 |
| Balance, second mortgage | - 4,500 |
| Commission: $\$180,000 \times 6\%$ | - 10,800 |
| Other selling expenses | - 2,200 |
| Net proceeds | \$ 54,066 |

Practice Test

- Monthly gross income: $\$4,550 + \$5,200 = \$9,750$
 Amount available for housing costs and consumer debt: $\$9,750 \times 41\% = \$3,997.50$
 Subtract monthly property taxes and insurance: $(\$2,780 + \$750) \div 12 = 294.17$
 Subtract consumer debt: $\$391 + \$275 + \$318 + \$1,350 + \$25 + \$25 = 2,384.00$
 Amount available for monthly payment **$\$1,319.33$**
- $I = PRT = \$105,000 \times 6.5\% \times \frac{1}{12} = \568.75
 Principal: $\$663.67 - \$568.75 = \$94.92$
 Balance: $\$105,000 + \$94.92 = \mathbf{\$104,905.08}$
- PI $\$872.55$
 TI: $(\$1,325 + \$710) \div 12 = 169.58$
 PITI **$\$1,042.13$**
- The first calendar year, you make 9monthly payments. For calendar-year 2, you make payments 10-21.

HP 10BII+	TI BAII PLUS
<i>calculate monthly payment</i> C ALL 0.00 270,000 PV 270,000.00 20 $\times$ 12 = N 240.00 4.75 $\div$ 12 = I/YR 0.40 PMT -1,774.80 <i>interest, second calendar year</i> 10 INPUT 21 AMORT 10-21 = = -12,345.93 INT	<i>calculate monthly payment</i> 2ND CLR TVM ??? 270,000 PV PV=270,000.00 20 $\times$ 12 = N N=240.00 4.75 $\div$ 12 = I/Y I/Y=0.40 CPT PMT PMT= -1,774.80 <i>interest, second calendar year</i> 2ND AMORT 2ND CLR WORK P1=1.00 10 ENTER P1=10.00 $\downarrow$ 21 ENTER P2=21.00 $\downarrow$ $\downarrow$ $\downarrow$ INT= -12,345.93 2ND QUIT 0.00

- For year 2, your rate will be the 5% T-bill rate + $\frac{1}{2}\%$, or 5.5%. For year 3, the rate could be the 6.25% T-bill rate + $\frac{1}{2}\%$, or 6.75%; however, because of the annual cap, your rate is limited to **6.5%** (5.5% rate for year 2 + 1% annual cap).
- $\$174,500 \times 80\% = \$139,600$; $\$139,600 - \$103,200 = \mathbf{\$36,400}$
- $(\$170,000 \times 0.5\%) + (\$170,000 \times 0.875\%) + \$70 + \$475 + \$630 + \$400 + \$125 + \$70 =$
 $\$850 + \$1,487.50 + \$70 + \$475 + \$630 + \$400 + \$125 + \$70 = \mathbf{\$4,107.50}$

Chapter 16 Stocks, Bonds, and Mutual Funds

Unit 16.1 Stocks

1. **False**
2. **False.** Preferred stockholders are paid before common stockholders but after creditors.
3.

Total dividends	\$1,575,000
Dividends for preferred stock: \$400,000 last year + \$600,000 this year	<u>-1,000,000</u>
Dividends available to common stockholders	\$ 575,000

Dividends per share of common stock: $\$575,000 \div 1,150,000 \text{ shares} = \0.50
 Your dividend: $75 \text{ shares} \times \$0.50 \text{ per share} = \mathbf{\$37.50}$

4. **False.** Commissions vary, depending on the services the stockbroker provides.
5. **False.** The largest stock exchange in the United States is the New York Stock Exchange.
6. **True**

7.

52 weeks		Div	Yld%	PE Ratio	Vol 100s	Close	Net Chg
Hi	Lo						
92.13	78.25	1.40	1.6	27	352	86.56	-0.63

- a. **\$92.13** per share
 - b. **\$78.25** per share
 - c. **\$86.56** per share
 - d. **Decreased \$0.63** per share
 - e. **35,200 shares** ($352 \times 100 = 35,200$)
 - f. $1.40 \text{ (amount in "Div" column)} \div 86.56 \text{ (amount in "Close" column)} \approx .0162 \approx \mathbf{1.62\%}$
 - g. $PE = \frac{P}{E} = \frac{\$86.56}{\$3.21} \approx 26.97 \approx \mathbf{27}$
8. $(100 \text{ shares} \times \$38.50) + \$80 = \$3,850 + \$80 = \mathbf{\$3,930}$
 9. $(100 \text{ shares} \times \$46) - \$120 = \$4,600 - \$120 = \mathbf{\$4,480}$

10.

Company	Price per share	Earnings per share	PE ratio
A	\$65.00	\$8.13	8.00
B	\$65.00	\$5.91	11.00
C	\$65.00	\$2.22	29.28

11. If we owned stock in Company A, our share of earnings would be \$8.13 for each share of stock we owned. Someone willing to pay \$65 for a share of stock **would be paying about \$8.00 for each \$1 of annual earnings** (assuming that annual earnings remain constant).
12. **Company A.** The price-earnings ratio for Company A is 8.00, indicating the investor pays \$8.00 to get \$1 (of earnings) back. For Company B, an investor pays \$11.00 to get \$1 back. For Company C, an investor pays \$29.28 to get \$1 back. An investment in Company A requires the smallest outlay to get \$1 back.
13. **Investors apparently feel Company C has a much better future than is indicated by current earnings.**

Unit 16.2 Bonds

14. **True**
15. **True**
16. **False**
17. **True**
18. **(c) Premium.** Investors would prefer to have your 7% bond rather than a new 6% bond, so they will pay a premium for your bond.
19. **(b) Discount.** Investors would prefer to have a new 8% bond rather than your 7% bond, so they will buy your bond only if you sell at a discount.

20. $8\frac{5}{8}\% = 8.625\%$ 21. **2026** 22. **30 bonds** 23. $\$1,000 \times 126.765\% = \$1,267.65$
24. **The prevailing rate for new bonds is less than the coupon rate for this bond; therefore, investors are willing to pay a premium for this bond.**
25. $\$1,000 \times 0.583\% = \5.83 ; price **decreased \$5.83**
26. $\text{Cur Yld} = \frac{\text{Coupon rate}}{\text{Close column value}} = \frac{8.625}{126.765} \approx .0680 \approx \mathbf{6.80\%}$
27. Price per bond: $\$5,000 \times 133 \frac{13}{32}\% = \$5,000 \times 133.40625\% =$ $\$6,670.3125$
 Number of bonds $\times$ 3
 Total price $\$ \mathbf{20,010.94}$

Unit 16.3 Mutual funds

28. **True**

29.

Total of closing prices	Liabilities	Shares outstanding	NAV
\$23,478,000	\$4,122,000	800,000	$\frac{\$23,478,000 - \$4,122,000}{800,000} = \frac{\$19,356,000}{800,000} = \mathbf{\$24.20}$
\$8,155,000	\$1,050,000	450,000	$\frac{\$8,155,000 - \$1,050,000}{450,000} = \frac{\$7,105,000}{450,000} = \mathbf{\$15.79}$
\$745,000,000	\$192,000,000	5,820,000	$\frac{\$745,000,000 - \$192,000,000}{5,820,000} = \frac{\$553,000,000}{5,820,000} = \mathbf{\$95.02}$

30. **True** 31. **True**

Challenge problems

32. **Stock** 33. **Stock** 34. **Bond** 35. **Both** 36. **Bond**

37. a. Before-tax return 6.75
 Portion to taxman: $6.75 \times 28\% =$ -1.89
 After-tax return 4.86
- b. After-tax return 5.25 **(The municipal bond has the greater after-tax return)**

38. Let's determine which rate is better by finding what an arbitrary \$100 grows to over 1 year at each rate:

7.6% compounded annually: $\$100 + 7.6\% =$ $\$107.60$
 7.5% compounded semiannually: Periodic rate = $7.5\% \div 2 = 3.75\%$
 Balance in 6 months: $\$100 + 3.75\% =$ $\$103.75$
 Balance in 12 months: $+ 3.75\% =$ $\$107.64$

Because its ending balance is greater, **the bond paying 7.5% compounded semiannually provides the greater return.** In fact, that bond earns the same as one paying 7.64% compounded annually, because $\$100 + 7.64\%$ also results in an ending balance of \$107.64. Using the terminology of Unit 9.3, a rate of 7.5% compounded semiannually has an *annual percentage yield (APY)* of 7.64%.

Practice Test

1. Total dividends $\$1,275,000$
 Dividends for preferred stock: $\$200,000$ last year + $\$400,000$ this year $= \underline{\underline{\$600,000}}$
 Dividends available to common stockholders $\$ \mathbf{675,000}$
- Dividends per share of common stock: $\$675,000 \div 562,500$ shares = $\$1.20$
 Your dividend: 150 shares $\times$ $\$1.20$ per share = $\mathbf{\$180}$

52 weeks		Div	Yld%	PE Ratio	Vol 100s	Close	Net Chg
Hi	Lo						
51.38	38.25	.60	1.3	25	1613	44.94	-0.88

a. \$51.38 per share b. 161,300 shares ($1,613 \times 100 = 161,300$) c. 60¢ per share

3. $(125 \times \$44.94) + \$120 = \$5,617.50 + \$120 = \$5,737.50$

4. $PE = \frac{P}{E} = \frac{\$86.75}{\$2.28} \approx 38.05 \approx 38$

Bond	Cur Yld	Vol	Close	Net Chg
IBM 8 $\frac{3}{8}$ 18	6.3	30	132.758	+ 1.27

$(\$1,000 \times 132.758\%) - \$75 = \$1,327.58 - \$75 = \$1,252.58$

6. $\$1,000 \times 8\frac{3}{8}\% = \$1,000 \times 8.375\% = \$83.75$

7. (a) **less than the coupon rate**, as evidenced by the bonds being priced at a premium; buyers are willing to pay a premium for this bond because it has an excellent interest rate.

8.	Price per bond: $\$5,000 \times 112 \frac{17}{32}\% = \$5,000 \times 112.53125\% =$	\$5,626.5625
	Number of bonds	$\times \frac{4}{1}$
	Total price	\$ 22,506.25

9. $NAV = \frac{\$12,742,000 - \$3,450,000}{900,000} = \frac{\$9,292,000}{900,000} = \$10.32$

Chapter 17 Additional Applications Using Financial Calculators

Unit 17.1 Solving for interest rate paid

N	i	PV	PMT	FV
$4 \times 12 = 48$	$7.2 \div 12 = 0.60$	27,500	-661.08	
↑	$0.65 \times 12 \approx 7.77$	27,200	↑	

N	i	PV	PMT	FV
36	$1.49 \times 12 \approx 17.92$	2,150	-77.64	

N	i	PV	PMT	FV
36	$1.09 \times 12 \approx 13.12$	4,000	-135	

You should borrow from your credit union at 11.75% because your friend is charging you 13.12% interest.

4. **Step 1** (dollar amount of interest): $I = PRT = \$800 \times 10\% \times 1 = \80.00
Step 2 (add to loan amount): $\$800 + \$80 = \$880$
Step 3 (divide by total number of payments): $\$880 \div 12 = \73.33

N	i	PV	PMT	FV
12	$1.50 \times 12 \approx 17.96$	800	-73.33*	

*Note: Entered as a rounded amount (not the unrounded result of Step 3, above).

5.	N	i	PV	PMT	FV
	6	$2.63 \times 12 = 31.54^*$	470	-83.50 Begin**	

*Note: Even though you pay only 6 monthly payments, we multiply the periodic rate (2.63%) by 12, not 6, because there are 12 months in a year.

**Note: Don't forget to put back in "end" mode when finished.

6.	N	i	PV	PMT	FV
	$25 \times 12 = 300$	$6.5 \div 12 = 0.541\bar{6}$	90,000	-607.69	
	↑	$0.59 \times 12 \approx 7.07$	85,475*	↑	

*Note: The *reportable* APR reflects origination fee, points, and mortgage insurance: $\$90,000 - \$4,525 = \$85,475$.

7.	N	i	PV	PMT	FV
	↑	$0.60 \times 12 \approx 7.21$	84,347*	↑	

*Note: A *real* APR reflects all loan costs. You receive net proceeds of \$84,347 after loan costs are deducted: $\$90,000 - \$4,525 - \$1,128 = \$84,347$. Notice, \$400 hazard insurance and \$425 into escrow account are *not* loan costs.

8. **More.** By prepaying the loan, loan costs must be spread over a shorter period of time; this has the effect of increasing the APR.

9.	N	i	PV	PMT	FV
	$25 \times 12 = 300$	$6.5 \div 12 = 0.541\bar{6}$	90,000	-607.69	
	$6 \times 12 = 72$	$0.66 \times 12 \approx 7.89$	84,347	↑	-79,450.80*

*Note: FV amount (79,450.80) is the balance after payment 72, found by amortizing 72 payments. Remember to enter in the FV register as a *negative* value.

10.	N	i	PV	PMT	FV
	$25 \times 12 = 300$	$6.875 \div 12 = 0.57291\bar{6}$	90,000	-628.94	
	$6 \times 12 = 72$	$0.65 \times 12 \approx 7.82$	86,147	↑	-79,936.39*

*Note: FV amount (\$79,936.39) is the balance after payment 72, found by amortizing 72 payments.

11. **The 6.875% loan has a lower APR (7.82%) than the 6.5% loan (7.89%).**

12.	N	i	PV	PMT	FV
	$30 \times 12 = 360$	$9.5 \div 12 = 0.791\bar{6}$	80,000	-672.68	
	$8 \times 12 = 96$	$0.90 \times 12 \approx 10.77$	74,700**	↑	-74,374.40*

*Note: FV amount (\$74,374.40) is the balance after payment 96, found by amortizing 96 payments.

**Note: $\$80,000 - \$2,300$ loan costs - $\$3,000$ prepayment penalty for paying off old loan early = $\$74,700$.

13. **Yes, unless you expect rates to drop.** The 10.77% APR of the new loan is less than the 11.5% note rate of your existing loan.

Unit 17.2 Growth rates

14.	N	i	PV	PMT	FV
	62	7.03	-2,450		165,000

15.	N	i	PV	PMT	FV
	50	2.28	-9.9		30.6
	20	6.10	-30.6		100
	28	2.96	-100		226.4
	98	3.25	-9.9		↑

16.	N	i	PV	PMT	FV
	12	3.29	-15,600		23,000

No; your salary has increased 3.29% per year, which is less than the average annual inflation rate.

17.	N	i	PV	PMT	FV
	69	2.76	-0.62		4.05

18.	N	i	PV	PMT	FV
	35	7.42	-0.359		4.399

Unit 17.3 Solving for interest rate earned

19.	N	i	PV	PMT	FV
	4	8.84	-28,500		40,000

20.	N	i	PV	PMT	FV
	8	8.05	-940	70	1,000

21. The prevailing rate for similar bonds was apparently greater than the 7% coupon rate, so the seller had to discount the price of the bond to attract investors.

22. Because you were able to buy the note at a discount.

23.	N	i	PV	PMT	FV
	5	10.71	-940	70	1,130

24. Because you were able to sell the bond at a premium.

25. True

26. False

27.	N	i	PV	PMT	FV
	5	23.51	-305.75		878.95

28.	N	i	PV	PMT	FV
	$6 \times 12 = 72$	$-0.37 \times 12 = -4.45$		-40 Begin*	2,522

*Note: Don't forget to put back in "end" mode.

29.	N	i	PV	PMT	FV
	14	59.83	-750		532,500

Unit 17.4 Cash flow problems

30. $(66 \times \$500) + (120 \times \$750) = \$123,000$

31.

HP 10BII+				TI BAII PLUS				
	C ALL		0.00	CF		CLR WORK	CFo=0.00	
60,000	+/-	CFj	-60,000.00	60,000	+/-	ENTER	CFo=-60,000.00	
500	CFj	66	 66.00	↓ 500	ENTER	↓ 66	ENTER	F01=66.00*
750	CFj	99	 99.00	↓ 750	ENTER	↓ 120	ENTER	F02=120.00
750	CFj	21	 21.00	IRR	CPT		IRR=0.79	
	IRR/YR		0.79	x 12	=		9.52	
x 12	=		9.52		QUIT		0.00	

You will earn **9.52% compounded monthly**.

32.

HP 10BII+				TI BAII PLUS			
	C ALL		0.00	CF	2ND	CLR WORK	CFo=0.00
50,000	+/-	CFj	-50,000.00	50,000	+/-	ENTER	CFo=-50,000.00
5,200	+/-	CFj	-5,200.00	↓ 5,200	+/-	ENTER	C01=-5,200.00
1,400	+/-	CFj	-1,400.00	↓ ↓ 1,400	+/-	ENTER	C02=-1,400.00
3,500	CFj		3,500.00	↓ ↓ 3,500	ENTER		C03=3,500.00
7,700	CFj		7,700.00	↓ ↓ 7,700	ENTER		C04=7,700.00
10,000	+	84,000	=	↓ ↓ 10,000	+	84,000	= *
	IRR/YR		14.04	ENTER			C05=94,000.00
				IRR	CPT		IRR=14.04
				2ND	QUIT		0.00

*Note: Because the \$10,000 Year 5 cash flow and the \$84,000 sales proceeds both occur at the end of year 5, we combine before entering.

33. $(42 \times \$700) + (180 \times \$800) = \$173,400$

34.

HP 10BII+				TI BAII PLUS				
	C ALL		0.00	CF		CLR WORK	CFo=0.00	
0	CFj *		0.00	0	ENTER	*	CFo=0.00	
700	CFj 42		Nj 42.00	↓ 700	ENTER	↓ 42	ENTER F01=42.00	
800	CFj 99		Nj ** 99.00	↓ 800	ENTER	↓ 180	ENTER F02=180.00	
800	CFj 81		Nj 81.00	NPV 8.75	÷	12	=	ENTER I=0.73
8.75	÷ 12	=	I/YR 0.73	↓	CPT		NPV=84,240.19	
	NPV		84,240.19		QUIT		0.00	

*Note: Because we do not know the amount, we enter a zero cash flow at the beginning of the first period.

**Note: For the HP 10BII, the maximum value that can go in the Nj register is 99.

Challenge problems

35. **b and d**; we can find a YTM on a bond and a yield on a note (based on a certain price).

N	i	PV	PMT	FV
4	3.33	-3,930		4,480

N	i	PV	PMT	FV
↑	5.15	↑	75	↑

38.

HP 10BII+			TI BAII PLUS		
2ND C ALL		0.00	CF 2ND CLR WORK		CFo=0.00
3,930 +/- CFj		-3,930.00	3,930 +/- ENTER		CFo=-3,930.00
75 CFj		75.00	↓ 75 ENTER		C01=75.00
100 CFj		100.00	↓ 100 ENTER		C02=100.00
0 CFj		0.00	↓ 0 ENTER		C03=0.00
150 + 4,480 = CFj *		4,630.00	↓ 150 + 4,480 = *		4,630.00
IRR/YR		5.28	ENTER		C04=4,630.00
			IRR CPT		IRR=5.28
			2ND QUIT		0.00

39.

N	i	PV	PMT	FV
200	2.46	-4,000		520,000

40.

- a. Before-tax return 6.75
 Portion to taxman: $6.75 \times 28\% =$ -1.89
 After-tax return 4.86
- b. After-tax return 5.25 (The municipal bond has the greater after-tax return)

41. $157 \times \$550 = \$86,350$

42.

N	i	PV	PMT	FV
157	$0.62 \times 12 = 7.47$	-55,000	550	

Your yield will be 7.47% compounded monthly.

43. To earn a rate greater than 7.47% you must pay **less than \$55,000**.

44.

N	i	PV	PMT	FV
↑	$8.5 \div 12 = 0.708\bar{3}$	-52,010.73	↑	

45.

Let's find the annual percentage yield (APY) for the 7.5% bond. Using an arbitrary \$100 deposit:

Balance in 6 months: $\$100 + 3.75\% = \103.75 Balance in 12 months: $+ 3.75\% = \$107.64 \rightarrow$ The APY is 7.64%7.5% compounded semiannually is equivalent to 7.64% compounded annually, so **the bond paying 7.5% semiannually provides a greater return.**

Practice Test

1.

N	i	PV	PMT	FV
6	$3.46 \times 12 \approx 41.54$	345	-62.50 Begin*	

*Note: Don't forget to put back in "end" mode.

2.

N	i	PV	PMT	FV
$20 \times 12 = 240$	$6.75 \div 12 = 0.5625$	220,000	-1,672.80	
$6 \times 12 = 72$	$0.62 \times 12 \approx 7.48$	212,800**	↑	-181,492.23*

*Note: FV amount (181,492.23) is the balance after payment 72, found by amortizing 72 payments. Enter in the FV register as a *negative* value.**Note: $\$220,000 - \$7,200$ loan costs = $\$212,800$. The \$400 and \$350 amounts are not loan costs.

3.	N	i	PV	PMT	FV
	10	4.38	-155,000		238,000

4.	N	i	PV	PMT	FV
	$17 \times 2 = 34$	$3.94 \times 2 \approx 7.88$	-965	37.50	1,000

Your YTM is 7.88% compounded semiannually.

5.	HP 10BII+				TI BAII PLUS			
		C ALL		0.00	CF		CLR WORK	CFo=0.00
	12,000			-12,000.00	12,000			CFo=-12,000.00
	200		20	20.00		200		F01=20.00
	0		4	4.00		0		F02=4.00
	250		7	7.00*		250		F03=7.00*
	250		+ 17,300	17,550.00		250	+ 17,300	C04=17,550.00
		IRR/YR		2.49		IRR		IRR=2.49
			4	9.95			4	9.95
								0.00

*Note: The last \$250 dividend happened at the same time as the sale, so the two cash flows are combined.

6.	HP 10BII+				TI BAII PLUS			
		C ALL		0.00	CF		CLR WORK	CFo=0.00
	0		*	0.00	0		*	CFo=0.00
	650		34	34.00		650		F01=34.00
	850		99	99.00		850		F02=180.00
	850		81	81.00		NPV	9	I=0.75
	9		+ 12	0.75				NPV=84,446.54
		NPV		84,446.54				0.00

*Note: Because we do not know the amount, we enter a zero cash flow at the beginning of the first period.

Chapter 18 Financial Statements How to Read and Interpret

Unit 18.1 Income statements

- (a) net income
- (b) over a given period of time
- False

	4.	5.	6.
Revenues	\$108,000	\$120,000	\$ 69,000
Total expenses	\$ 28,000	\$130,000	\$42,000
Net income (or loss)	\$ 80,000	(\$10,000)	\$27,000

- Net sales = Gross sales - Sales returns - Sales discounts = \$805,000 - \$5,400 - \$15,700 = \$783,900
- Cost of goods sold = Beginning inventory + Cost of goods purchased - Ending inventory
= \$82,400 + \$264,000 - \$94,800 = \$251,600
- Gross profit = Net sales - Cost of goods sold = \$783,900 - \$251,600 = \$532,300
- Net income = Gross profit - Operating expenses = \$532,300 - \$371,300 = \$161,000

Unit 18.2 Balance sheets

11. **A** 12. **E** 13. **B** 14. **G** 15. **A** 16. **C** 17. **D** 18. **E&F*** 19. **B** 20. **G**

*Note: For Problem 18, part of the mortgage will be paid within 1 year (or operating cycle); this amount (principal portion only, without interest) is a current liability. The remainder of the mortgage balance is a long-term liability.

21. Owner's equity = Assets - Liabilities = \$135,700 - \$24,800 = **\$110,900**

22. **False**

	23.	24.	25.
Total assets	\$128,000	\$820,000	\$219,000
Total liabilities	\$ 65,000	\$148,000	\$192,000
Equity	\$ 63,000	\$672,000	\$27,000

26. **False.** The equity section is called stockholders' equity.

27. **True**

28. **False.** The difference is called net worth.

Unit 18.3 Trend and ratio analysis

29. **True**

30.

BBB OFFICE SUPPLY, INC.
Comparative Income Statement (2012 vs 2011)

	Annual Amounts		Percent of Net Sales		Increase (or Decrease)	
	2012	2011	2012	2011	Amount	Percent
Gross sales	\$346,200	\$364,900	101.1	100.5	(\$18,700)	(5.1)
Sales returns	3,800	1,700	1.1	0.5	2,100	123.5
Net sales	\$342,400	\$363,200	100.0	100.0	(\$20,800)	(5.7)
Cost of goods sold	153,100	148,700	44.7	40.9	4,400	3.0
Gross profit	\$189,300	\$214,500	55.3	59.1	(\$25,200)	(11.7)
Total operating expenses	177,700	153,400	51.9	42.2	24,300	15.8
Net income (before income taxes)	\$11,600	\$61,100	3.4	16.8	(\$49,500)	(81.0)
Less income taxes	4,000	22,000	1.2	6.1	(18,000)	(81.8)
Net income (after income taxes)	\$7,600	\$39,100	2.2	10.8	(\$31,500)	(80.6)

(continued on next page)

BBB OFFICE SUPPLY, INC.
Comparative Balance Sheet (Dec. 31, 2012 vs Dec. 31, 2011)

	Year-end Amounts		Percent of Total		Increase (or Decrease)	
	2012	2011	2012	2011	Amount	Percent
Assets						
Current assets						
Cash	\$23,100	\$36,100	17.7	22.1	(\$13,000)	(36.0)
Accounts receivable	42,000	45,100	32.2	27.6	(3,100)	(6.9)
Merchandise inventory	58,100	73,800	44.5	45.2	(15,700)	(21.3)
Prepaid expenses	300	300	0.2	0.2	0	0
Total current assets	\$123,500	\$155,300	94.6	95.2	(\$31,800)	(20.5)
Plant and equipment, net	7,100	7,900	5.4	4.8	(800)	(10.1)
Total assets	\$130,600	\$163,200	100.0	100.0	(\$32,600)	(20.0)
Liabilities						
Accounts payable	\$18,000	\$19,000	13.8	11.6	(\$1,000)	(5.3)
Total liabilities	\$18,000	\$19,000	13.8	11.6	(\$1,000)	(5.3)
Stockholders' Equity						
Common stock	\$100,000	\$100,000	76.6	61.3	\$0	0
Retained earnings	12,600	44,200	9.6	27.1	(31,600)	(71.5)
Total stockholders' equity	\$112,600	\$144,200	86.2	88.4	(\$31,600)	(21.9)
Total liabilities and SH equity	\$130,600	\$163,200	100.0	100.0	(\$32,600)	(20.0)

31. The answer is a bit subjective, but here are a few ideas.

- Sales decreased 5.1%.
- Cost of goods sold increased 3.0%, even though sales decreased.
- Expenses increased 15.8%, even though sales decreased.
- Total stockholders' equity decreased \$31,600.

32. Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$123,500}{\$18,000} \approx 6.9$

For each dollar of current liabilities, BBB has about \$6.90 of current assets.

33. Acid-test ratio = $\frac{\text{Cash} + \text{Accounts receivable}}{\text{Current liabilities}} = \frac{\$23,100 + \$42,000}{\$18,000} = \frac{\$65,100}{\$18,000} \approx 3.6$

For each dollar of current liabilities, BBB has about \$3.60 of highly liquid assets.

34. Debt ratio = $\frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$18,000}{\$130,600} \approx .138 \approx 13.8\%$

For each dollar of assets, BBB owes 13.8¢.

35. Inventory turnover = $\frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{\$153,100}{(\$73,800 + \$58,100) \div 2} = \frac{\$153,100}{\$65,950} \approx 2.3$

Inventory was sold 2.3 times during the year.

36. Cost of goods sold as % of net sales = $\frac{\text{Cost of goods sold}}{\text{Net sales}} = \frac{\$153,100}{\$342,400} \approx .447 \approx 44.7\%$

BBB's goods cost 44.7% of what they sold for.

37. Profit margin, before tax = $\frac{\text{Net income, before tax}}{\text{Net sales}} = \frac{\$11,600}{\$342,400} \approx 0.034 \approx 3.4\%$

BBB's profit is 3.4% of net sales.

38. Return on equity = $\frac{\text{Net income, after tax}}{\text{Equity}} = \frac{\$7,600}{\$112,600} \approx .067 \approx 6.7\%$

BBB's profit, after tax, is 6.7% of stockholders' equity.

39. (b) Worse

40. a. **Increase profits.** By increasing profits, LMN will have more cash or accounts receivable, thereby increasing current assets.
 b. **Increase long-term financing.** By doing this, LMN will increase long-term liabilities and increase cash. Because long-term liabilities do not affect the current ratio, the ratio will be improved.
 c. **Reduce dividends.** By reducing dividends, cash will not decrease as much.
 d. **Sell additional stock.** By doing this, cash will be increased without affecting current liabilities.
41. (a) **High.** Businesses prefer selling their inventory quickly.
42. a. **Do more advertising.** By doing more advertising, sales should increase, thereby contributing to a quicker inventory turnover.
 b. **Improve sales staff.** Maybe the sales staff is not assisting customers adequately. By giving better assistance, sales should increase.
 c. **Reduce inventory.** If inventory is excessive, reducing inventory may be a good strategy. However, if the inventory is not excessive, decreasing inventory may lead to a decrease in sales.

Challenge problems

43. Sole proprietorship and partnership 44. Partnership and corporation
 45. Corporation 46. Corporation 47. Sole proprietorship and corporation 48. (c)

49. Income tax paid by corporation: $\$1,200,000 \times 34\%$ \$408,000
 Income tax paid by stockholders:
 Profit \$1,200,000
 Less income tax paid by corporation - 408,000
 Available for dividends \$ 792,000 $\times 35\%$ +277,200
 Total \$685,200
- Percent of profit paid as income tax = $\frac{\$685,200}{\$1,200,000} = .571 = 57.1\%$

50.

FISHER'S CLOTHING STORE, INC.				
Income Statement for the Quarter Ended March 31, 2013				
Revenue from sales				
Gross sales				\$1,653,800
Less: Sales returns				<u>143,700</u>
Net sales				\$1,510,100
Cost of goods sold				
Merchandise inventory, January 1, 2013		\$436,000		
Purchases		\$922,800		
Less: Purchase returns	\$5,300			
Purchase discounts	<u>13,800</u>			
Subtotal		<u>19,100</u>		
Net purchases		\$903,700		
Add transportation in		<u>3,400</u>		
Cost of goods purchased			<u>907,100</u>	
Goods available for sale			\$1,343,100	
Merchandise inventory, March 31, 2013			<u>461,900</u>	
Cost of goods sold				<u>881,200</u>
Gross profit from sales				\$628,900
Less operating expenses				<u>296,600</u>
Net income (before income taxes)				\$332,300
Less income tax expense				<u>110,000</u>
Net income (after income taxes)				<u>\$222,300</u>

51.

WAYNE'S CORNER MARKET, INC.				
Balance Sheet: June 30, 2013				
Assets				
Current assets				
Cash		\$22,800		
Merchandise inventory		42,200		
Prepaid expenses		<u>800</u>		
Total current assets			\$65,800	
Plant and equipment				
Store equipment		\$42,000		
Less accumulated depreciation		<u>10,500</u>		
			<u>31,500</u>	
Total assets			<u>\$97,300</u>	
Liabilities				
Current liabilities				
Accounts payable		\$38,100		
Long-term liabilities				
Notes payable		<u>5,000</u>		
Total liabilities			\$43,100	
Stockholders' Equity				
Common stock: 1,000 shares @ \$20		\$20,000		
Retained earnings		<u>34,200</u>		
Total stockholders' equity			<u>54,200</u>	
Total liabilities and stockholders' equity			<u>\$97,300</u>	

Practice Test

1. **An income statement is for a period of time, not a certain date.** The last line should read something like "For June 2006," "For quarter ending June 30, 2013," or "For six months ending June 30, 2013."
2.
 - a. Net sales = Gross sales - Sales returns - Sales discounts = \$220,000 - \$1,500 - \$2,000 = **\$216,500**
 - b. Cost of goods sold = Beginning inventory + Cost of goods purchased - Ending inventory = \$92,000 + \$145,000 - \$95,000 = **\$142,000**
 - c. Gross profit = Net sales - Cost of goods sold = \$216,500 - \$142,000 = **\$74,500**
 - d. Net income = Gross profit - Operating expenses = \$74,500 - \$30,000 = **\$44,500**
3.

Assets: \$28,000 + \$52,000 + \$60,000 + \$2,000 + \$50,000 =	\$192,000
Liabilities	<u>- 24,000</u>
Equity	\$168,000

4. $\$42,100 \div \$152,800 \approx .276 \approx \mathbf{27.6\%}$

5.

Item	2013	2012	Increase (or Decrease)	
			Amount	Percent
Cash	\$27,000	\$23,000	\$4,000	17.4
Accounts receivable	\$52,000	\$58,000	(\$6,000)	(10.3)

6. a. $\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$120,000}{\$72,000} \approx \mathbf{1.7}$

For each dollar of current liabilities, the company has about \$1.70 of current assets.

b. $\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$150,000}{\$280,000} \approx .536 \approx \mathbf{53.6\%}$

For each dollar of assets, the company owes about 53.6¢.

c. $\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{\$140,000}{(\$60,000 + \$68,000) \div 2} = \frac{\$140,000}{\$64,000} \approx \mathbf{2.2}$

Inventory was sold 2.2 times during the year.

Chapter 19 Inventory and Overhead

Unit 19.1 Inventory methods: Assigning a cost to ending inventory

1. **True**

2.	Beginning inventory:	8 × \$11.35	\$ 90.80
	March 23:	12 × \$11.62	139.44
	May 5:	17 × \$11.55	196.35
	July 23:	25 × \$12.25	306.25
	September 18:	<u>15 × \$12.47</u>	<u>+187.05</u>
	Totals	77	\$919.89

3.	From beginning inventory:	1 × \$11.35	\$11.35
	From March 23:	1 × \$11.62	11.62
	From July 23:	2 × \$12.25	24.50
	From September 18:	<u>3 × \$12.47</u>	<u>+37.41</u>
	Totals	7	\$84.88

4. Average unit cost = $\frac{\text{Total cost available for sale}}{\text{Number of units available for sale}} = \frac{\$919.89}{77} = \$11.95$

Ending inventory = 7 × \$11.95 = **\$83.65**

5. Because the FIFO method assumes that the oldest goods were sold first, the 7 hammers in ending inventory are the most *recently* purchased.

7 hammers × \$12.47 (from the September 18 purchase) = **\$87.29**

6. LIFO method assumes that the ending inventory consists of the oldest goods.

7 hammers × \$11.35 (from beginning inventory) = **\$79.45**

7.	Specific identification:	COGS = Cost of goods available for sale - ending inventory = \$919.89 - \$84.88 = \$835.01
	Weighted average:	COGS = Cost of goods available for sale - ending inventory = \$919.89 - \$83.65 = \$836.24
	FIFO:	COGS = Cost of goods available for sale - ending inventory = \$919.89 - \$87.29 = \$832.60
	LIFO:	COGS = Cost of goods available for sale - ending inventory = \$919.89 - \$79.45 = \$840.44

8. By thinking of COGS as an expense, we find that the **FIFO** method (with the lowest COGS) will result in the greatest profit.

9. The method with the greatest ending inventory (**FIFO**) will produce the greatest total assets, and therefore the greatest equity.

Unit 19.2 Overhead: Spreading expenses to departments

10. **False.** In some cases, using floor space is appropriate. In other cases, it is more appropriate to use something else, such as building value, number of employees, or sales.

11. A: $\frac{365,000}{1,850,000} \times \$65,000 = \$12,824.32 \approx \mathbf{\$12,800}$
 B: $\frac{420,000}{1,850,000} \times \$65,000 = \$14,756.76 \approx \mathbf{\$14,800}$
 C: $\frac{1,065,000}{1,850,000} \times \$65,000 = \$37,418.92 \approx \mathbf{\$37,400}$
 Total allocation \$65,000

12. A: $\frac{422,000}{1,612,000} \times \$40,000 = \$10,471.46 \approx \mathbf{\$10,471}$
 B: $\frac{377,000}{1,612,000} \times \$40,000 = \$9,354.84 \approx \mathbf{\$9,355}$
 C: $\frac{813,000}{1,612,000} \times \$40,000 = \$20,173.70 \approx \mathbf{\$20,174}$
 Total allocation \$40,000

13. A: $\frac{12,000}{84,400} \times \$7,100 = \$1,009.48 \approx \text{\$1,010}$
 B: $\frac{18,500}{84,400} \times \$7,100 = \$1,556.28 \approx \text{\$1,560}$
 C: $\frac{53,900}{84,400} \times \$7,100 = \$4,534.24 \approx \text{\$4,530}$
 Total allocation \$7,100

Challenge problems

14. A: $\frac{16}{64} \times \$18,210 = \$4,552.50 \approx \$4,553$ **\$ 4,552** ← (The rounded total [\$18,211] is \$1 too high, so one of the rounded amounts must be decreased \$1. Dept. A requires the least adjustment.)
 B: $\frac{15}{64} \times \$18,210 = \$4,267.97 \approx \$4,268$ **\$ 4,268**
 C: $\frac{33}{64} \times \$18,210 = \$9,389.53 \approx \underline{\$9,390}$ **\$ 9,390**
 Total allocation \$18,211 \$18,210

15.

Available for sale	Weighted average	FIFO	LIFO
4 × \$480 \$ 1,920	$\frac{\$23,160}{46} = \503.48	3 × \$520 = \$1,560.00	3 × \$480 = \$1,440.00
10 × \$490 4,900			
12 × \$495 5,940	3 × \$503.48 = \$1,510.44		
<u>20 × \$520 +10,400</u>			
46 \$23,160			

Practice Test

1.

Available for sale	Weighted average	FIFO	LIFO
12 × \$180 \$ 2,160	$\frac{\$11,400}{59} = \193.22	8 × \$200 = \$1,600.00	8 × \$180 = \$1,440.00
10 × \$190 1,900			
12 × \$195 2,340	8 × \$193.22 = \$1,545.76		
<u>25 × \$200 + 5,000</u>			
59 \$11,400			
2.

Available for sale	Specific identification	COGS
35 × \$340 \$11,900	12 × \$340 \$ 4,080	\$76,150 - \$11,510 = \$64,640
40 × \$350 14,000	4 × \$350 1,400	
<u>150 × \$335 +50,250</u>	<u>18 × \$335 + 6,030</u>	
225 \$76,150	34 \$11,510	
3. c
4. Total sq ft: 22,000 + 37,000 + 25,000 + 18,000 = 102,000 sq ft
 Department 1 share: $\frac{22,000}{102,000} \times \$15,788 = \text{\$3,405.25}$

Chapter 20 Depreciation

Unit 20.1 Depreciation for financial accounting

- False
- \$1,300
- 5 years
- \$150
- \$1,150 (\$1,300 - \$150). This is the amount that can be depreciated.
- \$230 × 3 years = **\$690**
- \$1,300 - \$690 = **\$610**
- False. To take depreciation, a business must *own* the asset.
- False. Part of the purchase price is for land, and because land does not wear out, only the building portion can be depreciated.

10. Annual depreciation = $\frac{\text{Depreciable basis}}{\text{Useful life}} = \frac{\$2,000}{5} = \$400$

11.

Year	Depreciation expense	Accumulated depreciation	Book value
Begin	—	—	\$2,400
1	\$400	\$ 400	\$2,000
2	\$400	\$ 800	\$1,600
3	\$400	\$1,200	\$1,200
4	\$400	\$1,600	\$800
5	\$400	\$2,000	\$400

12. Depreciation per unit = $\frac{\text{Depreciable basis}}{\text{Total estimated units of production}} = \frac{\$2,000}{160,000} = \$0.0125$ (1.25¢ per copy)

Year	Annual depreciation	Book value
Begin	—	\$2,400
1	34,200 copies × \$0.0125 ≈ \$428	\$1,972
2	35,800 copies × \$0.0125 ≈ \$448	\$1,524
3	30,100 copies × \$0.0125 ≈ \$376	\$1,148
4	38,400 copies × \$0.0125 = \$480	\$668
5	35,200 copies × \$0.0125 = \$440; limited to \$268*	\$400
Total	\$2,000	NA

*Note: Because book value cannot go below the \$400 salvage value, year 5 depreciation is limited to \$268.

13. Rate = $\frac{200\%}{5} = 40\%$ (For each year, multiply the previous year-end book value by 40%.)

Year	Annual depreciation	Book value
Begin	—	\$2,400
1	\$2,400 × 40% = \$960	\$1,440
2	\$1,440 × 40% = \$576	\$864
3	\$864 × 40% ≈ \$346	\$518
4	\$518 × 40% ≈ \$207; limited to \$118*	\$400
5	\$0	\$400
Total	\$2,000	NA

*Note: Because book value cannot go below the \$400 salvage value, depreciation for year 4 is limited to \$118, and no depreciation is taken in year 5.

14. The determining factor is when the asset is placed in service (June 17). Because the desk was not placed in service during the first 15 days of June, you get no depreciation for June. You get depreciation for **6 months** (July through December).

15. Year 1: $\frac{\$1,400}{7} \times \frac{6}{12} = \100 Year 2: $\frac{\$1,400}{7} = \200

Unit 20.2 Depreciation for federal income taxes (MACRS)

16. **True**

17. **False.** 27.5-year property is presumed to have been purchased in the middle of the *month* it was purchased.

18. **5 years** (See Illustration 20-3)

19. **5 years**

20. **39 years**
21. **7 years**
22. Use the rates of Illustration 20-4: $\$2,500 \times 20\% = \500
23. $\$8,000 \times 7.41\% \approx \593
24. $\$800 \times 32\% = \256
25. Illustration 20-5: $\$220,000 \times 1.364\% \approx \$3,001$
26. Illustration 20-6: $\$970,000 \times 2.564\% \approx \$24,871$
27. Illustration 20-7: $\$970,000 \times 2.5\% = \$24,250$
28. For MACRS, we don't decide on a useful life; the IRS dictates the life. In Illustration 20-3, we find the recovery period for a copy machine is 5 years not 3 years. Also, for MACRS we ignore salvage value. Use Illustration 20-4.

Year 1: $\$1,500 \times 20\%$	\$300
Year 2: $\$1,500 \times 32\%$	480
Year 3: $\$1,500 \times 19.20\%$	288
Year 4: $\$1,500 \times 11.52\%$	173
Year 5: $\$1,500 \times 11.52\%$	173
Year 6: $\$1,500 \times 5.76\%$	+ 86
Total	\$1,500

29. **You get only half a year's depreciation in year 1; this carries some depreciation into year 6.**
30. Building value = $\$250,000 \times 80\% = \$200,000$. Use Illustration 20-5, September column.

Year 1: $\$200,000 \times 1.061\%$	\$2,122
Year 2: $\$200,000 \times 3.636\%$	\$7,272
Year 3: $\$200,000 \times 3.636\%$	\$7,272

31. **Taxpayers are allowed only 11.5 months depreciation for year 1.**

32. a. Section 179 expense deduction (maximum for 2012) **\$125,000**
- b. MACRS depreciation
- Depreciable basis: $\$140,000 - \$125,000 = \$15,000$
- Depreciation (7-year property): $\$15,000 \times 14.29\%$ **\$2,144 (rounded)**

Challenge problems

33. Calendar-year 1: $\frac{\$27,000}{5} \times \frac{7}{12} = \$3,150$
- Calendar-year 2: $\frac{\$27,000}{5} = \$5,400$
- Calendar-year 3: $\frac{\$27,000}{5} = \$5,400$
34. Rate = $\frac{200\%}{5} = 40\%$ (For each 12 months, multiply the previous year-end book value by 40%.)

Months	Depreciation	Book value
Begin	—	\$35,000
1–12	$\$35,000 \times 40\% = \$14,000$	\$21,000
13–24	$\$21,000 \times 40\% = \$8,400$	\$12,600
25–36	$\$12,600 \times 40\% = \$5,040$; limited to \$4,600	\$8,000

Calendar-year 1: $\$14,000 \times \frac{7}{12} \approx \$8,167$

Calendar-year 2: $(\$14,000 \times \frac{5}{12}) + (\$8,400 \times \frac{7}{12}) \approx \$10,733$

Calendar-year 3: $(\$8,400 \times \frac{5}{12}) + (\$4,600 \times \frac{7}{12}) \approx \$6,183$

35. Calendar-year 1: $\$35,000 \times 20\% = \$7,000$
- Calendar-year 2: $\$35,000 \times 32\% = \$11,200$
- Calendar-year 3: $\$35,000 \times 19.20\% = \$6,720$

36. Straight-line: $\$3,150 + \$5,400 + \$5,400 = \$13,950$
 200% declining-balance: $\$8,167 + \$10,733 + \$6,183 = \$25,083 \leftarrow$ (200% declining balance has the greatest)
 MACRS: $\$7,000 + \$11,200 + \$6,720 = \$24,920$

Practice Test

1. a. **\$30,000** b. **5 years** c. **\$5,000** d. **\$25,000** e. **\$10,000** f. **\$20,000**
2. $\frac{\$5,000}{250,000} = \0.02 (2¢ per copy) Year 1: $78,200 \text{ copies} \times \$0.02 = \mathbf{\$1,564}$ Year 2: $65,300 \times \$0.02 = \mathbf{\$1,306}$
3. $\frac{12.5\%}{8} = 15.625\%$ (For each year, multiply the previous year-end book value by 15.625%.)

Year	Annual depreciation	Book value
Begin	—	\$2,000
1	$\$2,000 \times 15.625\% \approx \mathbf{\$313}$	\$1,687
2	$\$1,687 \times 15.625\% \approx \mathbf{\$264}$	\$1,423

4. Get no depreciation for the first 9 months.
 Year 1: $\$313 \times \frac{3}{12} \approx \mathbf{\$78}$ Year 2: $(\$313 \times \frac{9}{12}) + (\$264 \times \frac{3}{12})$
 $= \$234.75 + \$66 \approx \mathbf{\$301}$
5. Desks have 7-yr recovery period; salvage value is ignored.
 Year 1: $\$2,000 \times 14.29\% \approx \mathbf{\$286}$ Year 2: $\$2,000 \times 24.49\% \approx \mathbf{\$490}$
6. Building value = $\$850,000 \times 80\% = \$680,000$
 Use Illustration 20-5, July column: Year 1: $\$680,000 \times 1.667\% \approx \mathbf{\$11,336}$ Year 2: $\$680,000 \times 3.636\% \approx \mathbf{\$24,725}$
7. a. Section 179 expense deduction (maximum for 2011) **\$125,000**
 b. MACRS depreciation
 Depreciable basis: $\$133,000 - \$125,000 = \$8,000$
 Depreciation: $\$8,000 \times 14.29\%$ **\$1,143**

Chapter 21 Taxes: Income, Sales, and Property

Unit 21.1 Federal income tax

1. **False**
2. (a) **Tax tables**
3. Ill. 21-1, “\$16,450–\$16,500” range, single column: **\$2,046**
4. **Step 1 (locate the schedule):** Ill. 21-2, Schedule Y-1
Step 2 (find the range): “over \$69,000 but not over \$139,350”
Step 3 (find difference): $\$133,400 - \$69,000 = \$64,400$
Step 4 (multiply by rate): $\$64,400 \times 25\% = \$16,100$
Step 5 (find the tax): $\$16,100 + \$9,500 = \mathbf{\$25,600}$
5. **Step 1 (locate the schedule):** Ill. 21-2, Schedule Y-1
Step 2 (find the range): “over \$139,350 but not over \$212,300”
Step 3 (find difference): $\$162,400 - \$139,350 = \$23,050$
Step 4 (multiply by rate): $\$23,050 \times 28\% = \$6,454$
Step 5 (find the tax): $\$6,454 + \$27,087.50 = \$33,541.50 \approx \mathbf{\$33,542}$

6. **Tom (\$42,000)**
 Ill. 21-1, “\$42,000–\$42,050” range, married filing separately column: **\$6,631**
Shauna (\$120,400)
Step 1 (locate the schedule): Ill. 21-2, Schedule Y-2
Step 2 (find the range): “over \$106,150 but not over \$189,575”
Step 3 (find difference): \$120,400 - \$106,150 = \$14,250
Step 4 (multiply by rate): \$14,250 × 33% = \$4,702.50
Step 5 (find the tax): \$4,702.50 + \$23,756.75 = \$28,459.25 ≈ **\$28,459**
7. **Tom (\$42,000)**
 Ill. 21-1, “\$42,000–\$42,050” range, single column: **\$6,631**
Shauna (\$120,400)
Step 1 (locate the schedule): Ill. 21-2, Schedule X
Step 2 (find the range): “over \$83,600 but not over \$174,400”
Step 3 (find difference): \$120,400 - \$83,600 = \$36,800
Step 4 (multiply by rate): \$36,800 × 28% = \$10,304
Step 5 (find the tax): \$10,304 + \$17,025 = **\$27,329**
8. Married filing jointly: **\$33,542** *This is the least tax*
 Married filing separately: \$6,631 (Tom) + \$28,459 (Shauna) **\$35,090** *This is the greatest tax*
 Single: \$6,631 (Tom) + \$27,329 (Shauna) **\$33,960**
9. **Step 1 (find the range):** Ill. 21-3, “over \$10,000,000 but not over \$15,000,000”
Step 2 (find difference): \$12,525,000 - \$10,000,000 = \$2,525,000
Step 3 (multiply by rate): \$2,525,000 × 35% = \$883,750
Step 4 (find the tax): \$883,750 + \$3,400,000 = **\$4,283,750**

Unit 21.2 Sales tax

10. **False.** Sales tax is charged only on sales to consumers. Sales tax is not charged on goods purchased for resale.

- | | | | |
|-----|------------------------|----------------|--|
| 11. | Cost of merchandise | \$20.49 | |
| | Sales tax (from chart) | <u>+ 1.23</u> | |
| | Total amount due | \$21.72 | |
-
- | | | | |
|-----|-------------------------|----------------|--|
| 12. | Cost of merchandise | \$20.49 | |
| | Sales tax: \$20.49 × 6% | <u>+ 1.23</u> | |
| | Total amount due | \$21.72 | |
-
- | | | | |
|-----|------------------|-------------------|-------------------|
| 13. | Price of new car | \$22,400 | |
| | Less trade-in | <u>- 6,500</u> | |
| | Net price | \$15,900 × 6.5% = | \$1,033.50 |
-
- | | | | | |
|-----|----------------------------|--------------------|--------------------------------|--------------------|
| 14. | Your city | | Different part of state | |
| | Price | \$18,700.00 | Price | \$18,300.00 |
| | Sales tax: \$18,700 × 6.5% | <u>1,215.50</u> | Sales tax: \$18,300 × 7.25% | <u>1,326.75</u> |
| | Total amount due | \$19,915.50 | Total amount due | \$19,626.75 |

Unit 21.3 Property tax

15. **(b)** State and local governments
16. $\$350,000 \times 50\% = \mathbf{\$175,000}$
17. Tax rate = $\frac{\text{Total budget of the taxing entity}}{\text{Total assessed value within the taxing entity}} = \frac{\$25,194,500}{\$3,825,876,200} \approx .0065853 \approx \mathbf{.006586}$ (rounded up)
18. **Tax rates are rounded up to ensure adequate revenues.** A tax rate of .006585 would not produce enough money: $\$3,825,876,200 \times .006585 = \$25,193,394.78$ (a bit short of the \$25,194,500 needed).
19. $\$175,000 \text{ Assessed value} \times .024593 \text{ Tax rate} = \mathbf{\$4,303.78}$

20. Property tax = $\frac{\text{Assessed value}}{\$100} \times \text{Tax rate} = \frac{\$175,000}{\$100} \times \$2.452 = \$4,291.00$
21. Property tax = Assessed value $\times$ Tax rate = $\$248,000 \times 1.8565\% = \$4,604.12$
22. Property tax = $\frac{\text{Assessed value}}{1,000} \times \text{Mill levy} = \frac{\$720,000}{1,000} \times 21.344 = \$15,367.68$

Challenge problems

23. Ill. 21-1, “\$70,800–\$70,850” range, married filing jointly column: **\$9,956**
24. **Step 1 (locate the schedule):** Ill. 21-2, Schedule Y-1
Step 2 (find the range): “over \$69,000 but not over \$139,350”
Step 3 (find difference): $\$70,824 - \$69,000 = \$1,824$
Step 4 (multiply by rate): $\$1,824 \times 25\% = \456
Step 5 (find the tax): $\$456 + \$9,500 = \$9,956$
25. Same
26. A likely guess: **Tax tables are, for most people, easier to use than tax rate schedules.**
27. **25%** (found in Step 4 of Problem 24)
28. **The 25% means that for each additional dollar of taxable income, Cary and Judy must pay 25% to the IRS.** For example, if Cary and Judy had \$100 of additional taxable income, they would pay an extra \$25 to the IRS.
29. $\frac{\$9,956 \text{ (tax, Problem 23)}}{\$70,824 \text{ (taxable income)}} \approx .1406 \approx \mathbf{14.06\%}$
30. Assessed value = $\$200,000 \times 25\% = \$50,000$
Property tax = $\frac{\text{Assessed value}}{1,000} \times \text{Mill levy} = \frac{\$50,000}{1,000} \times 51.044 = \mathbf{\$2,552.20}$

Practice Test

1. Ill. 21-1, “\$41,800–\$41,850” range, single column: **\$6,581**
2. **Step 1 (locate the schedule):** Ill. 21-2, Schedule Y-1
Step 2 (find the range): “over \$139,350 but not over \$212,300”
Step 3 (find difference): $\$182,488 - \$139,350 = \$43,138$
Step 4 (multiply by rate): $\$43,138 \times 28\% = \$12,078.64$
Step 5 (find the tax): $\$12,078.64 + \$27,087.50 = \$39,166.14 \approx \mathbf{\$39,166}$
3. Illustration 21-3: $\$35,911,080 \times 35\% = \mathbf{\$12,568,878}$
4.

Cost of TV	\$6,800
Sales tax: $\$6,800 \times 6.75\%$	<u>+ 459</u>
Total amount due	\$7,259
5.

Price of new vehicle	\$47,500
Less trade-in	<u>- 8,000</u>
Net price	$\$39,500 \times 7\% = \mathbf{\$2,765}$
6. Tax rate = $\frac{\text{Total budget of the taxing entity}}{\text{Total assessed value within the taxing entity}} = \frac{\$8,255,500}{\$952,844,200} \approx .0086641 \approx \mathbf{.008665}$ (round up)
7. Property tax = $\frac{\text{Assessed value}}{\$100} \times \text{Tax rate} = \frac{\$450,000}{\$100} \times \$2.628 = \mathbf{\$11,826}$

Chapter 22 Insurance

Unit 22.1 Property insurance

- False.** Each policy explains what hazards are covered. If the loss results from a hazard covered in the policy, the insured gets reimbursed; if the loss results from a hazard not covered in the policy, the insured is not reimbursed.
- \$750** (You will receive the cost to replace the camera.)
- \$600** (This was the value of the camera immediately prior to the loss).
- $\$750$ (replacement cost) - $\$500$ (deductible) = **\$250**
- | | |
|--|-----------------|
| Total annual premium | \$280.00 |
| Earned portion: $\$280 \times \frac{218}{365}$ | <u>- 167.23</u> |
| Refund | \$112.77 |
- False.** There are several different types of homeowner's policies, each covering different hazards.
- | | |
|---|---------------------------------|
| Basic premium (look across \$170,000 row to column 4) | \$753.00 |
| Security system discount: $\$753 \times 5\%$ | <u>- 37.65</u> |
| Subtotal | \$715.35 |
| Premium for additional liability coverage | <u>+ 60.00</u> |
| Total annual premium | \$775.35 (\$775 rounded) |
- False.** Most homeowner's policies automatically cover personal belongings for a percent of the policy's face value.
- | | |
|--|-------------------------------------|
| Basic premium: $\frac{\$1,550,000}{\$1,000} \times \$2.70$ | \$4,185.00 |
| Discount for having \$1,000 deductible: $\$4,185 \times 4\%$ | <u>- 167.40</u> |
| Subtotal | \$4,017.60 |
| Additional liabilities coverage: $\frac{\$1,550,000}{\$1,000} \times \$0.20$ | <u>+ 310.00</u> |
| Total annual premium | \$4,327.60 (\$4,328 rounded) |
- False.** Collision coverage pays for damage to the insured's car only.
- False.** With no-fault coverage, reimbursement for bodily injury (up to a certain dollar limit) is made *without regard to who was at fault*.

Unit 22.2 Life insurance

- False.** Rates vary greatly, depending on age, sex, and medical condition.
- Decreasing term**
- Whole-life**
- Universal life**
- Term insurance**
- $\frac{\$200,000}{\$1,000} \times \$2.66 = \532
- \$532** (The premium stays the same for the 15-year period.)
- $\frac{\$200,000}{\$1,000} \times \$6.58 = \$1,316$
- $\frac{\$200,000}{\$1,000} \times \$9.63 = \$1,926$
- \$1,926** (The premium stays the same for life.)
- Remember, the rates of Ill. 22-3 are for males. Rates for females are those of a male 4 years younger, so
 $\frac{\$120,000}{\$1,000} \times \$7.06$ (rate for a 23 year old) = **\$847.20**
- True**
- Using Ill. 22-5, 10 years, Option 1: $\frac{\$100,000}{\$1,000} \times \$96 = \$9,600$
- Using Ill. 22-5, 10 years, Option 2: $\frac{\$100,000}{\$1,000} \times \$258 = \$25,800$ of coverage

26. Using Ill. 22-5, 10 years, Option 3: **18 years, 74 days**
27. **False.** The beneficiary can elect to receive the money over time; several annuity plans are available.

Challenge problems

28.

N	i	PV	PMT	FV
6	$5.30 \times 12 \approx 63.57$	450	-85 Begin*	

*Note: $\$450 \div 6 = \75 ; $\$75 + \10 carrying charge = $\$85$.

29.

N	i	PV	PMT	FV
15	6.15		-715 Begin*	17,870

*Note: $\$892$ (total premium) - $\$177$ (insurance portion) = $\$715$ to cash value (savings) portion. Don't forget to put back in "end" mode.

30.

N	i	PV	PMT	FV
$20 \times 12 = 240$	$0.40 \times 12 \approx 4.82^*$	-150,000	975	

*Note: If, by chance, you forgot to change back to "End" mode, you would have gotten a wrong answer.

Practice Test

- $\$650$ (cost to replace) - $\$500$ (deductible) = **\$150**
- | | |
|--|-----------------|
| Annual premium | \$620.00 |
| Earned portion: $\$620 \times \frac{145}{365}$ | <u>- 246.30</u> |
| Refund | \$373.70 |
- | | |
|---|---------------------------------|
| Basic premium (look across \$180,000 row to column 3) | \$641.00 |
| Burglar alarm discount: $\$641 \times 5\%$ | <u>- 32.05</u> |
| Subtotal | \$608.95 |
| Smoke alarm discount: $\$608.95 \times 3\%$ | <u>- 18.27</u> |
| Subtotal | \$590.68 |
| New home discount: $\$590.68 \times 10\%$ | <u>- 59.07</u> |
| Annual premium | \$531.61 (\$532 rounded) |
- | | |
|--|-------------------------------------|
| Basic premium: $\frac{\$700,000}{\$1,000} \times \$3.90$ | \$2,730.00 |
| Discount for having \$2,500 deductible: $\$2,730 \times 6\%$ | <u>- 163.80</u> |
| Subtotal | \$2,566.20 |
| Additional liability coverage: $\frac{\$700,000}{\$1,000} \times \$0.20$ | <u>+ 140.00</u> |
| Total annual premium | \$2,706.20 (\$2,706 rounded) |
- None are true.** Collision covers damage to *your* car caused by collision. With no-fault insurance, reimbursement for bodily injury (up to a certain dollar limit) is made *without regard* to who was at fault. If another driver damages your car and has no insurance, your company pays only if you have uninsured motor vehicle coverage.
- True**
- With term insurance, we pay for insurance only. With whole life, we pay for insurance plus savings.**
- Rates of Ill. 22-3 are for males; for females, deduct 4 years, so: $\frac{\$70,000}{\$1,000} \times \$7.39 = \mathbf{\$517.30}$ (same for her entire life)
- Ill. 22-5, 20 years, Option 2: $\frac{\$200,000}{\$1,000} \times \$548 = \mathbf{\$109,600}$

Chapter 23 Measurements: Real-World Applications

Unit 23.1 Length, area, and volume: Applications

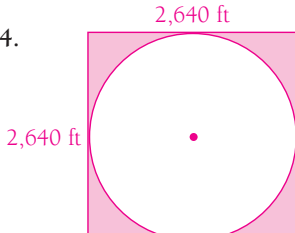
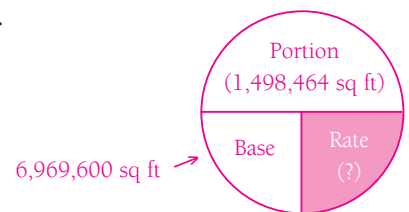
1. 90° 2. **True** 3. $10 \text{ ft} + 12 \text{ ft} + 13 \text{ ft} + 20 \text{ ft} + 20 \text{ ft} = 75 \text{ ft}$ 4. $23.32 \text{ in.} + 12 \text{ in.} + 20 \text{ in.} = 55.32 \text{ in.}$
5. $10 \text{ ft} + 20 \text{ ft} + 5 \text{ ft} + 10 \text{ ft} + 15 \text{ ft} + 10 \text{ ft} + 5 \text{ ft} + 20 \text{ ft} + 5 \text{ ft} + 5 \text{ ft} + 10 \text{ ft} + 5 \text{ ft} = 120 \text{ ft}$
6. $P = 2(L + W) = 2(660 \text{ ft} + 330 \text{ ft}) = 2(990 \text{ ft}) = 1,980 \text{ ft}$
7. r, d, c . Diameter is twice the radius; circumference is about 3.14 times the diameter.
8. $C = \pi d \approx 3.14(48 \text{ in.}) \approx 150,72 \text{ in.}$
9. $d = \frac{c}{\pi} \approx \frac{44 \text{ ft}}{3.14} \approx 14.01 \text{ ft}$
10. Rectangle: $A = LW = (38 \text{ in.})(30 \text{ in.})$ $1,140 \text{ in.}^2$
 Triangle: $A = \frac{1}{2}bh = \frac{1}{2}(7 \text{ in.})(30 \text{ in.})$ $+ 105 \text{ in.}^2$
 Total area **$1,245 \text{ sq in.}$**
11. Entire circle: $A = \pi r^2 \approx 3.14(15 \text{ in.})(15 \text{ in.})$ 706.50 in.^2
 Inner circle: $A = \pi r^2 \approx 3.14(3 \text{ in.})(3 \text{ in.})$ $- 28.26 \text{ in.}^2$
 Net area **678.24 sq in.**
12. Large rectangle: $A = LW = (60 \text{ ft})(30 \text{ ft}) =$ $1,800 \text{ ft}^2$
 Missing rectangle: $A = LW = (15 \text{ ft})(5 \text{ ft}) =$ $- 75 \text{ ft}^2$
 Rectangle at bottom: $A = LW = (30 \text{ ft})(5 \text{ ft}) =$ $+ 150 \text{ ft}^2$
 Total square footage **$1,875 \text{ sq ft}$**
13. $A = \pi r^2 \approx 3.14(50 \text{ mi})(50 \text{ mi}) \approx 7,850 \text{ sq mi}$
14. $V = LWH = (15 \text{ in.})(15 \text{ in.})(15 \text{ in.}) = 3,375 \text{ cu in.}$
15. Entire cube: $V = LWH = (25 \text{ ft})(15 \text{ ft})(20 \text{ ft}) =$ $7,500 \text{ ft}^3$
 Missing portion: $V = LWH = (10 \text{ ft})(15 \text{ ft})(10 \text{ ft}) =$ $- 1,500 \text{ ft}^3$
 Net volume **$6,000 \text{ cu ft}$**
16. $V = \pi r^2 h \approx 3.14(5 \text{ in.})(5 \text{ in.})(10 \text{ in.}) \approx 785 \text{ cu in.}$
17. $V = LWH = (90 \text{ ft})(40 \text{ ft})(18 \text{ ft}) = 64,800 \text{ cu ft}$ $64,800 \div 250 = 259.20 = 259 \text{ tickets}$
18. $V = \pi r^2 h \approx 3.14(14 \text{ ft})(14 \text{ ft})(15 \text{ ft}) \approx 9,231.60 \text{ cu ft}$
19. $V = LWH = (18 \text{ yd})(18 \text{ yd})(18 \text{ yd}) = 5,832 \text{ cu yd}$

Unit 23.2 Unit costs and converting measurements (U.S. to U.S.)

20. 68-oz: Cost per ounce = $\frac{\text{Cost}}{\text{Number of ounces}} = \frac{\$1.19}{68 \text{ oz}} = \$0.0175 \text{ per oz} = 1.75\text{¢ per oz}$ (This one is cheaper)
 Six-pack: Cost per ounce = $\frac{\text{Cost}}{\text{Number of ounces}} = \frac{\$1.49}{72 \text{ oz}} \approx \$0.0207 \text{ per oz} \approx 2.07\text{¢ per oz}$
21. $P = 2(L + W) = 2(40 \text{ ft} + 30 \text{ ft}) = 2(70 \text{ ft}) = 140 \text{ ft}$ Cost = $140 \times \$4.75 = \665
22. Area of rectangle: $A = LW = (70 \text{ ft})(40 \text{ ft}) =$ $2,800$
 Area of circle: $A = \pi r^2 \approx 3.14(20 \text{ ft})(20 \text{ ft}) \approx$ $+ 1,256$
 Total area $4,056 \times \$6.50 = \$26,364$
23. $A = LW = (74 \text{ ft})(62 \text{ ft}) = 4,588 \text{ sq ft}$ Cost: $(4,588 \times \$0.22) + \$35 = \$1,009.36 + \$35 = \$1,044.36$
24. $1,875 \text{ sq ft} \times \$120 \text{ per sq ft} = \$225,000$

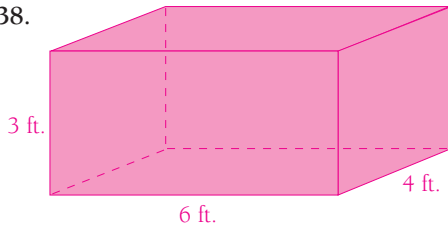
25. Weight of each can, with beans: 12 oz + 1 oz = 13 oz
 Number of cans $\times 24$
 Total weight of cans, filled 312 oz
 Weight of carton $+ 10$ oz
 Total weight of carton, filled 322 oz = $(322 \div 16)$ lb $\approx$ **20.13 pounds**
26. $A = LW = (24 \text{ ft})(15 \text{ ft}) = 360 \text{ sq ft} = (360 \div 9) \text{ sq yd} = 40 \text{ sq yd}$ Cost = $40 \text{ sq yd} \times \$21.50 \text{ per sq yd} =$ **\$860**
27. $A = LW = (2,640 \text{ ft})(100 \text{ ft}) = 264,000 \text{ sq ft} = (264,000 \div 43,560) \text{ acres} \approx 6.06060606 \text{ acres}$
 $6.06060606 \text{ acres} \times \$22,000 \text{ per acre} =$ **\$133,333.33**
28. $65 \text{ ft} \times 150 \text{ times} = 9,750 \text{ ft} = (9,750 \div 5,280) \text{ mi} \approx$ **1.85 mi**
29. $100 \text{ yds} = (100 \times 36) \text{ in.} = 3,600 \text{ in.}$ $3,600 \text{ in.} \div 30 \text{ in. per day} =$ **120 days**

Challenge problems

30. $C = 2\pi r \approx 2(3.14)(15 \text{ in.}) \approx 94.20 \text{ in.}$ (The car travels 94.20 inches for each revolution of the tires.)
 $3,403 \text{ mi} = (3,403 \times 5,280) \text{ ft} = 17,967,840 \text{ ft} = (17,967,840 \div 12) \text{ in.} = 1,497,320 \text{ in.}$
 (The car travels 1,497,320 in.)
 Tire revolutions: $1,497,320 \text{ in.} \div 94.20 \text{ in. per revolution} \approx$ **15,895 revolutions**
31. Diameter of earth: $d = \frac{C}{\pi} \approx \frac{25,000 \text{ mi}}{3.14} \approx 7,961.783439 \text{ mi}$
 Diameter of satellite orbit: $7,961.783439 \text{ mi} + 400 \text{ mi} = 8,361.783439 \text{ mi}$
 Circumference of orbit: $C = \pi d \approx 3.14(8,361.783439 \text{ mi}) \approx$ **26,256 mi**
32. Area of ceiling: $14 \text{ ft} \times 18 \text{ ft} = 252 \text{ sq ft}$
 Gallons required: $252 \text{ sq ft} \div 200 \text{ sq ft per gallon} \approx 1.26 \text{ gal} \approx 2 \text{ gal}$ (Can't buy part of a gallon)
 Area of walls:
 2 walls 14 ft wide: $2(14 \text{ ft} \times 9 \text{ ft}) = 2(126 \text{ sq ft}) = 252 \text{ sq ft}$
 2 walls 18 ft wide: $2(18 \text{ ft} \times 9 \text{ ft}) = 2(162 \text{ sq ft}) = 324 \text{ sq ft}$
 Less windows: $3(3 \text{ ft} \times 4 \text{ ft}) = 3(12 \text{ sq ft}) = 36 \text{ sq ft}$
 Less door: $3 \text{ ft} \times 7 \text{ ft} = 21 \text{ sq ft}$
 Net area 519 sq ft
 Gallons required: $519 \text{ sq ft} \div 200 \text{ sq ft per gallon} \approx 2.60 \text{ gal} \approx 3 \text{ gal}$ (Can't buy part of a gallon)
 Cost: $5 \text{ gal} \times \$32.95 =$ **\$164.75**
33. $27 \text{ in.} = (\frac{27}{12}) \text{ ft} = 2.25 \text{ ft}$
 $V = LWH = (115 \text{ ft})(280 \text{ ft})(2.25 \text{ ft}) = 72,450 \text{ cu ft} = (\frac{72,450}{27}) \text{ cu yd} \approx$ **2,683.33 cu yd**
34.  Total sq ft of land: $A = LW = (2,640 \text{ ft})(2,640 \text{ ft}) = 6,969,600 \text{ sq ft}$
 Sq ft in circular part: $A = \pi r^2 \approx (3.14)(1,320 \text{ ft})(1,320 \text{ ft}) = 5,471,136 \text{ sq ft}$
 Area not farmed **1,498,464 sq ft**
35.  Rate = $\frac{\text{Portion}}{\text{Base}} = \frac{1,498,464 \text{ sq ft}}{6,969,600 \text{ sq ft}} = 0.2150 =$ **21.50%**
36. $7,122 \text{ yd} + 125 \text{ yd (to first hole)} + (17 \times 50 \text{ yd}) + 125 \text{ yd (back to clubhouse)} = 8,222 \text{ yd} = (\frac{8,222}{1,760}) \text{ mi} \approx$ **4.67 mi**

37. $V = LWH = (27 \text{ ft } 6 \text{ in.})(18 \text{ ft})(4 \text{ in.}) \approx (27.5 \text{ ft})(18 \text{ ft})(\frac{1}{3} \text{ ft}) = 165 \text{ cu ft} = (\frac{165}{27}) \text{ cu yd} \approx 6.11111111 \text{ cu yd}$
 $6.11111111 \text{ cu yd} \times \$85 \text{ per cu yd} = \text{\$519.44}$

38.



Top and bottom: $2(6 \text{ ft} \times 4 \text{ ft})$	48 sq ft
Front and back: $2(6 \text{ ft} \times 3 \text{ ft})$	36 sq ft
Two ends: $2(4 \text{ ft} \times 3 \text{ ft})$	<u>+24</u> sq ft
Total	108 sq ft

39. $100 \text{ yds} = (100 \div 1,760) \text{ mi} \approx .05681818 \text{ mi}$
 $10.5 \text{ sec} = (10.5 \div 60) \text{ min} = .175 \text{ min} = (.175 \div 60) \text{ hr} \approx .00291667 \text{ hr}$
 miles per hour means miles $\div$ number of hours, so: $.05681818 \text{ mi} \div .00291667 \text{ hr} \approx \text{19.5 mph}$

40. $A = LW$ *Formula for area of rectangle*
 $452 = L(24)$ *Substitute: $W = 24 \text{ in.}$*
 $\frac{452}{24} = L$ *Divide both sides by 24*
 $18.83 \approx L$

Check answer: $18.83 \text{ in.} \times 24 \text{ in.} \approx 452 \text{ sq in.}$

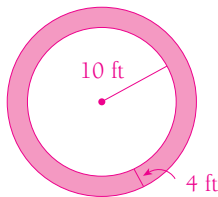
Practice Test

1. $P = 2(L + W) = 2(1,200 \text{ ft} + 600 \text{ ft}) = 2(1,800 \text{ ft}) = \text{3,600 ft}$

2. $d = \frac{c}{\pi} \approx \frac{31.5 \text{ in.}}{3.14} \approx \text{10.03 in.}$

3. Rectangle: $A = LW = (150 \text{ ft})(120 \text{ ft}) = 18,000 \text{ sq ft}$
 Triangle: $A = \frac{1}{2}bh = \frac{1}{2}(80 \text{ ft})(150 \text{ ft}) = \text{+ 6,000 sq ft}$
 Total area **24,000 sq ft**

4.



Entire circle: $A = \pi r^2 \approx 3.14(14 \text{ ft})(14 \text{ ft}) \approx$	615.44 sq ft
Inner circle: $A = \pi r^2 \approx 3.14(10 \text{ ft})(10 \text{ ft}) \approx$	<u>- 314.00</u> sq ft
Net area	301.44 sq ft

5. $V = LWH = (1,000 \text{ ft})(270 \text{ ft})(12 \text{ ft}) = 3,240,000 \text{ cu ft} = (\frac{3,240,000}{27}) \text{ cu yd} = \text{120,000 cu yd}$

6. $V = \pi r^2 h \approx 3.14(12 \text{ ft})(12 \text{ ft})(45 \text{ ft}) \approx \text{20,347.20 cu ft}$

7. Cost per sq ft = $\frac{\text{Cost}}{\text{Number of sq ft}} = \frac{\text{\$242,000}}{2,320 \text{ sq ft}} = \text{\$104.31 per sq ft}$ (Yes, it is within range.)

8. $A = LW = (1,320 \text{ ft})(660 \text{ ft}) = 871,200 \text{ sq ft} = (\frac{871,200}{43,560}) \text{ acres} = \text{20 acres}$

Chapter 24 International Business Exchange Rates and Metrics

Unit 24.1 Monetary exchange rates: Significance in international business

1. **False;** a worldwide currency has never existed.
2. $\text{\$2,300} = (2,300 \times .76724) = \text{1,764.65 euros}$
3. $\text{\$2,300} = (2,300 \times .64350) = \text{1,480.05 pounds}$
4. $\text{\$2,300} = (2,300 \times 77.7661) = \text{178,862.03 yen}$

5. 21,300 Canadian dollars = $\frac{21,300}{1.03914}$ U.S. dollars = **\$20,497.72**
6. 975,000 British pounds = $\frac{975,000}{.64350}$ U.S. dollars = **\$1,515,151.52**
7. 65 Swiss francs = $\frac{65}{.93703}$ U.S. dollars = **\$69.37**
8. \$128,000 = (128,000 $\times$ 1.5247) francs = **195,161.60 francs**
9. 195,161.60 Swiss francs = $\frac{195,161.60}{1.3822}$ U.S. dollars = **\$141,196.35**
10. 195,161.60 Swiss francs = $\frac{195,161.60}{1.6744}$ U.S. dollars = **\$116,556.14**
11. **True**
12. **False**
13. 5,300,000 Canadian dollars = $\frac{5,300,000}{1.0510}$ U.S. dollars = **\$5,042,816.37**
14. 5,500,000 Canadian dollars = $\frac{5,500,000}{1.1587}$ U.S. dollars = **\$4,746,698.89**
15.

Sold for	\$4,746,698.89
Purchased for	<u>-5,042,816.37</u>
Loss	(\$ 296,117.48)

Unit 24.2 Metric system: Significance in international business

16. **False**
17. **200 g**; a raisin weighs about 1 g
18. **2 m**; a meter is a bit more than a yard
19. **650 km**
20. **65ℓ**; a liter is a bit more than a quart

21.

112 km

Abbreviation for prefix (kilo)

Abbreviation for base unit (meter)
22.

25 mg

Abbreviation for prefix (milli)

Abbreviation for base unit (gram)
23.

82 ℓ

There is no prefix

Abbreviation for base unit (liter)

24. **cm.** mm is the abbreviation for millimeter and means $\frac{1}{1,000}$ of a meter; cm is the abbreviation for centimeter and means $\frac{1}{100}$ of a meter.
25. **km.** km is the abbreviation for kilometer and means 1,000 meters; m has no prefix and simply means 1 meter.
26. **kg.** cg is the abbreviation for centigram and means $\frac{1}{100}$ of a gram; kg means 1,000 grams.
27. Start at milli on the line indicator of Illustration 24-3. Move to centi (1 place to the left). Move the decimal point 1 place to the left: 850 mm = 850 mm = **85 cm**
28. Start at hecto on the line indicator. Move to centi (4 places to the right). Move the decimal point 4 places to the right: 12 hg = 12.0000 hg = **120,000 cg**
29. Start at milli on the line indicator. Move to base unit (3 places to the left). Move the decimal point 3 places to the left: 1,300 mℓ = 1,300 mℓ = **1.3ℓ**
30. We will convert from kg to lb (see left side of the Weight section of Ill. 24-4): 24 kg $\approx$ (24 $\times$ 2.2046) lb $\approx$ **52.91 lb**
31. We will convert from m to yd (see left side of the Distance section): 100 m $\approx$ (100 $\times$ 1.09361) yd $\approx$ **109.36 yd**
32. We will convert from ℓ to gal (see left side of the Volume section): 62 ℓ $\approx$ (62 $\times$.26417762) gal $\approx$ **16.38 gal**
33. We will convert from in. to cm (see right side of Distance section): 17.5 in. $\approx$ (17.5 $\times$ 2.54) cm $\approx$ **44.45 cm**

34. We will convert from yd^3 to m^3 (see right side of Volume section): $38 \text{ yd}^3 \approx (38 \times .76456) \text{ m}^3 \approx \mathbf{29.05 \text{ m}^3}$
35. We will convert from oz to g (see right side of Weight section): $14.2 \text{ oz} \approx (14.2 \times 28.3495) \text{ g} \approx \mathbf{402.56 \text{ g}}$
36. Illustration 24-4 gives the choice of converting from in. to (a) cm or (b) m. Converting to meters will result in a value less than 1; it will be much more meaningful to convert to centimeters:

$$8.5 \text{ in.} \approx (8.5 \times 2.54) \text{ cm} \approx \mathbf{21.59 \text{ cm}} \quad 11 \text{ in.} \approx (11 \times 2.54) \text{ cm} \approx \mathbf{27.94 \text{ cm}}$$

37. $60 \text{ oz} \approx (60 \times 28.3495) \text{ g} \approx \mathbf{1,701 \text{ g}}$
38. To compare the temperatures, we must state both using the same scale. Let's convert the Fahrenheit temperature (95°) to a Celsius (C) temperature

$$C = \frac{5}{9}(F - 32) = \frac{5}{9}(95 - 32) = \frac{5}{9}(63) = 35^\circ\text{C}$$

The temperature in Rome (38°C) was higher than that of Chicago (35°C).

39. $C = \frac{5}{9}(F - 32) = \frac{5}{9}(98.6 - 32) = \frac{5}{9}(66.6) = 37^\circ\text{C}$
40. $C = \frac{5}{9}(F - 32) = \frac{5}{9}(-60 - 32) = \frac{5}{9}(-92) \approx \mathbf{-51.1^\circ\text{C}}$

Challenge problems

41. $15 \text{ T} \approx (15 \times .9072) \text{ t} \approx \mathbf{13.608 \text{ t}}$
42. $975 \text{ British pounds} = \left(\frac{975}{.62570}\right) \text{ U.S. dollars} = \mathbf{\$1,558.25}$
43. $13.608 \text{ (t)} \times \$1,558.25 \text{ (per t)} = \mathbf{\$21,204.67}$
44. $83 \text{ cm} = .83 \text{ m} \quad 1.6 \text{ m} + 2.5 \text{ m} + .83 \text{ m} + 4.7 \text{ m} = \mathbf{9.63 \text{ m}}$
45. $483 \text{ km} \approx (483 \times .62137) \text{ mi} \approx 300 \text{ mi} \quad 300 \text{ mi} + 50 \text{ mph} = \mathbf{6 \text{ hr}}$
46. Cost in U.S. dollars for one liter: $1.40 \text{ Canadian dollars} = \left(\frac{1.40}{1.05}\right) \text{ U.S. dollars} \approx \1.33333333
 $1 \text{ liter} \approx (1 \times .26417762) \text{ gal} \approx .26417762 \text{ gal}$
 Price per gallon means price $\div$ gallons: $\frac{\$1.33333333}{.26417762 \text{ gal}} \approx \mathbf{\$5.05 \text{ per gallon}}$
47. Let's determine how many meters per second for each record. Meters per second means the number of meters divided by the number of seconds.

Washington High School

$$\frac{100 \text{ m}}{10.94 \text{ sec.}} \approx 9.14 \text{ m per sec. For each second, the runner traveled 9.14 m.}$$

Lincoln High School

$$100 \text{ yd} \approx (100 \times .9144) \text{ m} \approx 91.44 \text{ m}$$

$$\frac{91.44 \text{ m}}{10.03 \text{ sec.}} \approx 9.12 \text{ m per sec. For each second, the runner traveled 9.12 m.}$$

The Washington High School recordholder ran the fastest.

Practice Test

- $\$38,000 = (38,000 \times 10.2350) \text{ pesos} = \mathbf{388,930 \text{ pesos}}$
- | | |
|--|------------------------------|
| Sold for: 7,500,000 British pounds = $\left(\frac{7,500,000}{.71450}\right) \text{ U.S. dollars} =$ | $\$10,496,850.94$ |
| Purchased for: 6,800,000 British pounds = $\left(\frac{6,800,000}{.65320}\right) \text{ US dollars} =$ | $\underline{-10,410,287.81}$ |
| Profit | $\mathbf{\$ 86,563.13}$ |
- 25 km**
- $1.05 \text{ mg} = \underline{001.05 \text{ mg}} = \mathbf{.00105 \text{ g}}$
- $12.5 \text{ oz} \approx (12.5 \times 28.3495) \text{ g} \approx \mathbf{354 \text{ g}}$
- $F = \frac{9}{5}C + 32 = \frac{9}{5}(30) + 32 = 54 + 32 = \mathbf{86^\circ\text{F}}$

Chapter 25 Statistics: An Introduction

Unit 25.1 The three Ms: Mean, median, and mode

- $\frac{79 + 87 + 94 + 67 + 92 + 94 + 82}{7} = \frac{595}{7} = 85$
- Values, high to low: 94, 94, 92, **87**, 82, 79, 67

$$\text{Midpoint} = \frac{\text{Number of values} + 1}{2} = \frac{7 + 1}{2} = \frac{8}{2} = 4$$
- The value "**94**" occurs the most often (twice), so it is the mode.
- $\frac{\$125,000 + \$115,000 + \$195,000 + \$88,000 + \$150,000 + \$135,000 + \$245,000 + \$110,000 + \$165,000 + \$88,000 + \$665,000 + \$145,000}{12} = \frac{\$2,226,000}{12} = \$185,500$
- Values, high to low: \$665,000, \$245,000, \$195,000, \$165,000, \$150,000, \$145,000, \$135,000, \$125,000, \$115,000, \$110,000, \$88,000, \$88,000

$$\text{Midpoint} = \frac{\text{Number of values} + 1}{2} = \frac{12 + 1}{2} = \frac{13}{2} = 6.5$$

$$(\$145,000 + \$135,000) \div 2 = \$140,000$$
- The value "**\$88,000**" occurs the most often (twice).
- The median.** The mean (\$185,500) is distorted by the unusually large value of \$665,000. The mode (\$88,000) happens to be the lowest value. Neither the mean nor mode represents the average value. The median (\$140,000) best reflects the average selling price.
- $\frac{\$4,700 + \$5,900 + \$6,800 + \$8,700}{4} = \frac{\$26,100}{4} = \$6,525$
- | | |
|--------------|-----------|
| \$4,700 × 8 | \$ 37,600 |
| \$5,900 × 13 | 76,700 |
| \$6,800 × 11 | 74,800 |
| \$8,700 × 5 | 43,500 |
| 37 | \$232,600 |

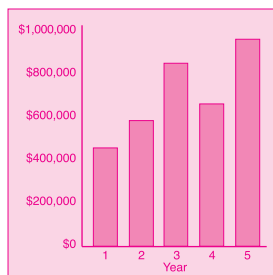
$$\$232,600 \div 37 = \$6,286.49$$
- | Course | Grade | Hours | Grade-point units |
|------------------|-------|-------|---|
| Accounting | B+ | 5 | $3.3 \times 5 = 16.50$ |
| Computer Science | B- | 3 | $2.7 \times 3 = 8.10$ |
| Golf | A | 1 | $4.0 \times 1 = 4.00$ |
| Management | A- | 3 | $3.7 \times 3 = 11.10$ |
| | | 12 | $39.70 \div 12 = 3.31$ (about a B+ average) |

Unit 25.2 Graphs: Presenting data so it is easy to understand

11. Revenues, Rocky Mountain River Expeditions



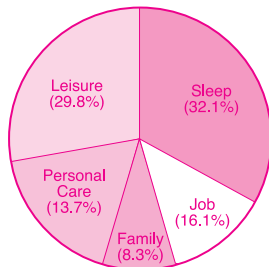
12. Revenues, Rocky Mountain River Expeditions



- Nile.** The end of the horizontal bar for the Nile extends farther to the right than the bars for the other rivers.
- About 3,900 mi.**
- 4,150 mi (Nile) - 3,850 (Mississippi-Missouri) = **about 300 mi**

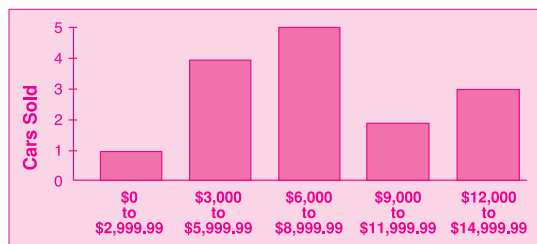
16.	Department	Percent of total	Degrees
	Sleep	$54 \div 168 \approx .321 \approx 32.1\%$	$\times 360^\circ \approx 115.7^\circ$
	Job	$27 \div 168 \approx .161 \approx 16.1\%$	$\times 360^\circ \approx 57.9^\circ$
	Family care	$14 \div 168 \approx .083 \approx 8.3\%$	$\times 360^\circ = 30.0^\circ$
	Personal care	$23 \div 168 \approx .137 \approx 13.7\%$	$\times 360^\circ \approx 49.3^\circ$
	Leisure	$\underline{50 \div 168 \approx .298 \approx 29.8\%}$	$\times 360^\circ \approx \underline{107.1^\circ}$
		168	100.0%
			360.0°

17.



Percent of time spent for various activities

18. **Weekly car sales, by price range**



Value range	Tallies
\$0–\$2,999.99	I
\$3,000–\$5,999.99	IIII
\$6,000–\$8,999.99	IIII
\$9,000–\$11,999.99	II
\$12,000–\$14,999.99	III

19. c. The line on graph c is the flattest; the graphs of a and b have a steeper downward trend.

20. \$4,000 to \$5,999.99 (10 cars) 21. 7 cars 22. 3 cars

Unit 25.3 Measures of dispersion

23. Range = highest value - lowest value = 14 hours - 1 hour = **13 hours**

24. **Step 1** Mean = $\frac{5+7+1+14+8}{5} = \frac{35}{5} = 7$ hours

Step 2 (Subtract Mean)	Step 3 (Square the result)
$5 - 7 = -2$	$(-2)(-2) = 4$
$7 - 7 = 0$	$(0)(0) = 0$
$1 - 7 = -6$	$(-6)(-6) = 36$
$14 - 7 = 7$	$(7)(7) = 49$
$8 - 7 = 1$	$(1)(1) = 1$

Step 4 (add squared deviations): $4 + 0 + 36 + 49 + 1 = 90$

Step 5 (divide by n): $90 \div 5 = 18$

Step 6 (square root): The square root of 18 is 4.24. The standard deviation for the 5 students is **4.24**.

25. We will be treating the 5 students as a sample study and finding the standard deviation for a sample study. Steps 1-4 are identical to those of Problem 24, so let's start with Step 4:

Step 4 (add squared deviations): 90

Step 5 (divide by n - 1): $90 \div 4 = 22.50$

Step 6 (square root): The square root of 22.50 is 4.74. The standard deviation for the entire class, based on your sample study of 5 classmates, is **4.74**.

Challenge problems

26. Your savings account balance at the end of May was \$400. You made a \$225 deposit on June 5 and withdrew \$150 on June 28. Calculate your average (mean) daily balance for June.

$$\begin{array}{r}
 4 \text{ days} \times \$400 \quad \$1,600 \\
 23 \text{ days} \times \$625 \quad 14,375 \\
 \underline{3 \text{ days} \times \$475} \quad + 1,425 \\
 30 \quad \$17,400 \div 30 = \$580
 \end{array}$$

27. Your test scores so far are 84, 93, 87, 94, and 88. What score do you need on your last test to end up with an average (mean) score of 90?

$$\begin{array}{r}
 \text{Total points required to have an average of 90: } 6 \text{ tests} \times 90 \quad 540 \\
 \text{Points so far: } 84 + 93 + 87 + 94 + 88 \quad -446 \\
 \hline
 \text{Points needed on last test} \quad 94
 \end{array}$$

28. Prior cumulative grade-point units: $2.92 \times 42 \text{ hrs}$ 122.64
 Grade-point units for this semester (see Problem 10) + 39.70
 Cumulative grade-point units for all 54 hrs $162.34 \div 54 = 3.01$

Practice Test

1. $\frac{\$120,000 + \$140,000 + \$210,000 + \$178,000 + \$2,400,000 + \$120,000}{6} = \frac{\$3,168,000}{6} = \$528,000$

2. Values, high to low: \$2,400,000, \$210,000, \$178,000, \$140,000, \$120,000, \$120,000

$$\text{Midpoint} = \frac{\text{Number of values} + 1}{2} = \frac{6 + 1}{2} = \frac{7}{2} = 3.5 \quad \uparrow \quad (\$178,000 + \$140,000) \div 2 = \$159,000$$

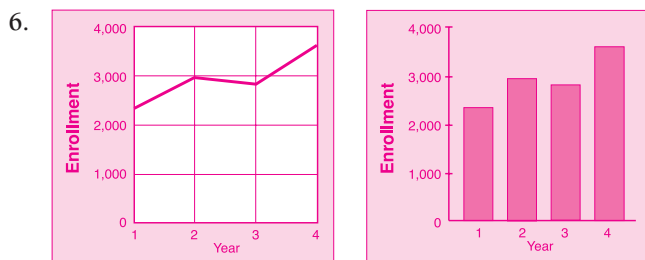
3. **\$120,000** occurs the most often (twice)

4. **The median.** The mean (\$528,000) is distorted by the \$2,400,000 sale. The mode (\$120,000) happens to be the lowest value.

5.

Model	Price	Number sold
Workmaster	\$550	52
Auto-Feed	\$850	18
Deluxe	\$2,300	6

Value	Frequency	Product
\$550	$\times 52$	$= \$28,600$
\$850	$\times 18$	$= 15,300$
\$2,300	$\times \underline{6}$	$= \underline{13,800}$
	76	$\$57,700 \div 76 = \759.21



7.

Model	Number sold
4×7	252
5×8	144
10×12	211
12×15	128

$$\begin{aligned}
 \text{Total number sold: } 252 + 144 + 211 + 128 &= 735 \\
 211 \div 735 &\approx .287; .287 \times 360^\circ \approx 103.3^\circ
 \end{aligned}$$

8. **Step 1** Mean = $\frac{45+38+42+51}{4} = \frac{176}{4} = 44$ yards

Step 2 (Subtract Mean)	Step 3 (Square the result)
$45 - 44 = 1$	$(1)(1) = 1$
$38 - 44 = -6$	$(-6)(-6) = 36$
$42 - 44 = -2$	$(-2)(-2) = 4$
$51 - 44 = 7$	$(7)(7) = 49$

Step 4 (add squared deviations): $1 + 36 + 4 + 49 = 90$

Step 5 (divide by $n - 1$): $90 \div 3 = 30$

Step 6 (square root): The square root of 30 is **5.48**. If you were to throw a football as far as you can 50 times, you could expect to average 5.48 yards more, or 5.48 yards less, than the average distance of 44 yards.