



# **B.E. PUBLISHING**

[bepublishing.com](http://bepublishing.com) | [eReadiness.com](http://eReadiness.com)

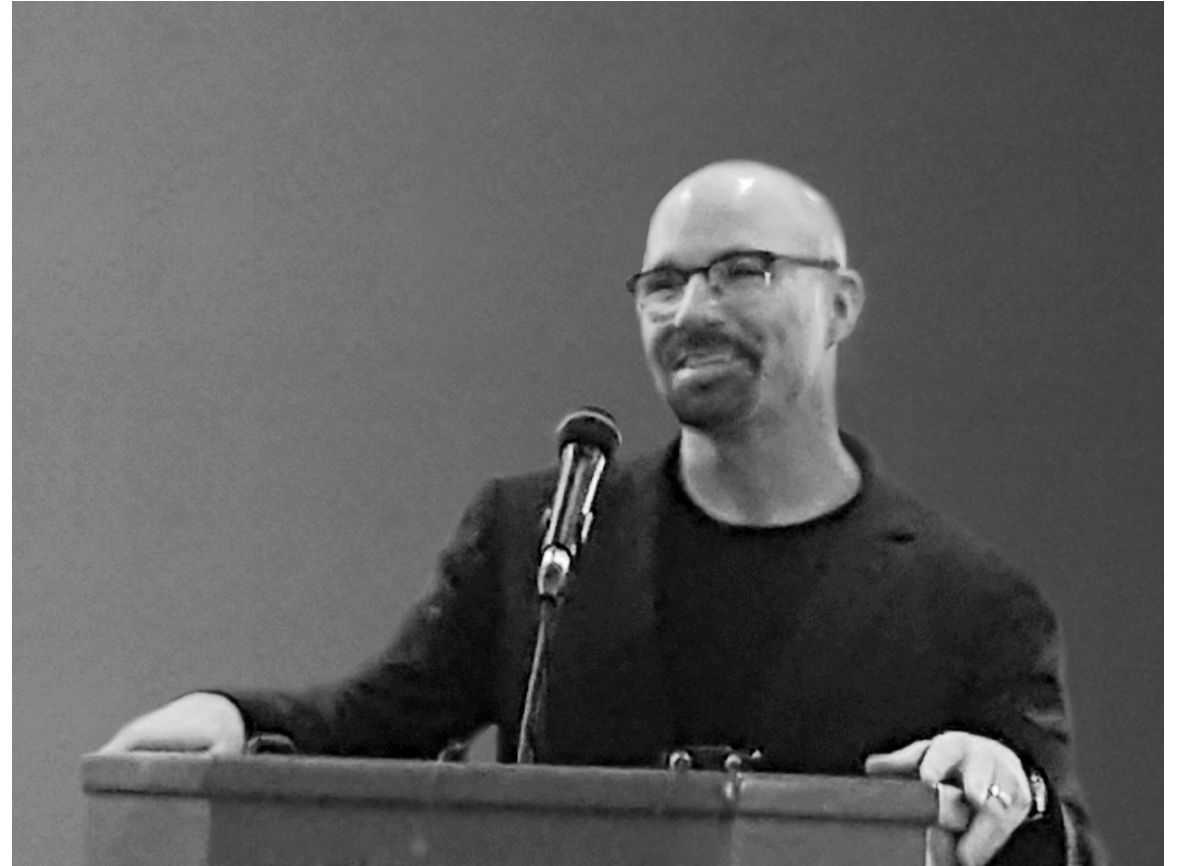
# Michael Gecawich

*President & CEO of B.E. Publishing*

*Former CTE Educator*

401.829.2485

michael@bepublishing.com





# About B.E. Publishing

- 25+ years publishing CTE resources
- Vision guided by former and current teachers and students
- Content developed to teach through a format that makes learning engaging and relevant to students
- Online Instructor and Student Resources delivered through our platform [eReadiness.com](https://eReadiness.com)

# Our textbooks are designed with the teenager in mind.

- Lots of white space for breathing room
- Tons of visual info graphics to reinforce key concepts

Chapter 13

13 • Cash Management Tools

Did You Know?

On average, only 21% of account holders faithfully reconcile their checking account.  
Source: statista.com

Checks

Prior to the use of debit cards, writing a check was the main avenue for paying merchants for goods and services. A check is a written, legal document that orders your bank to pay a sum of money out of your account to a specified person or business. A consumer must open a bank account to write checks. Most financial institutions charge a fee to order checks. Checks are still widely used throughout the United States.

Even though most checks are processed electronically in today's business environment, it is still important to know how to write a check, the steps of which are shown in Figure 13.4. Checks include pre-printed information, such as the account holder's name and address, the name of the financial institution, a bank routing number, and the account holder's account number. The **routing number** is a nine-digit code based on the bank location where the account was opened. It is the first set of numbers printed on the bottom of the check. The account holder's bank account number is the second set of numbers printed on the check.

FIGURE 13.4

Steps to Writing a Check

1 Fill in the date

2 Write the name of the recipient

3 Fill in the numeric amount of the check to the right of the \$ sign

4 Fill in the check amount in written form

5 Indicate what the check was for

6 Sign the check exactly as you did when you set up the account

JOHN DOE  
123 PALACE ST  
ANYWHERE CITY, MI 00022

AMERICAN BANK, INC. 0025

DATE November 3, 20XX

PAY TO THE ORDER OF Jane M. Doe \$ 500.00

Five Hundred Dollars and 00/100 DOLLARS

MEMO Happy Birthday

John Doe

789123456 123789456123 0025

When you sign or endorse the back of a check, you are authorizing the bank to do something with it. Figure 13.5 illustrates three common types of endorsement options.

FIGURE 13.5

Blank Endorsement

Restrictive Endorsement

Special Endorsement

After you write a check, it should be recorded in your check register. A checkbook register is a booklet that is used for the purpose of tracking and balancing your checking account. It usually comes with your checks and conveniently fits in a checkbook cover. Even if you are paying all or most of your bills online, keeping a register is a smart and convenient way of tracking your spending. Record all bills paid online, deposits, ATM withdrawals, debit card payments, and checks written so that you will always know how much cash is actually available. The sample checkbook register in Figure 13.6 illustrates how to record common transactions.

FIGURE 13.6

Number	Date	Transaction	Withdrawal	✓	Deposit	Balance
	1/14	Direct deposit			125¢	16
102	1/22	Cable	82	✓		1195
	1/24	ATM	140			1019
	1/28	Direct deposit			125¢	2295
	1/28	Transfer to reserve account	100			2195
103	1/31	VISA	688			1489
104	2/1	Rent	850			639
	2/13	Debit - Shop-n-Shop	159			465

268

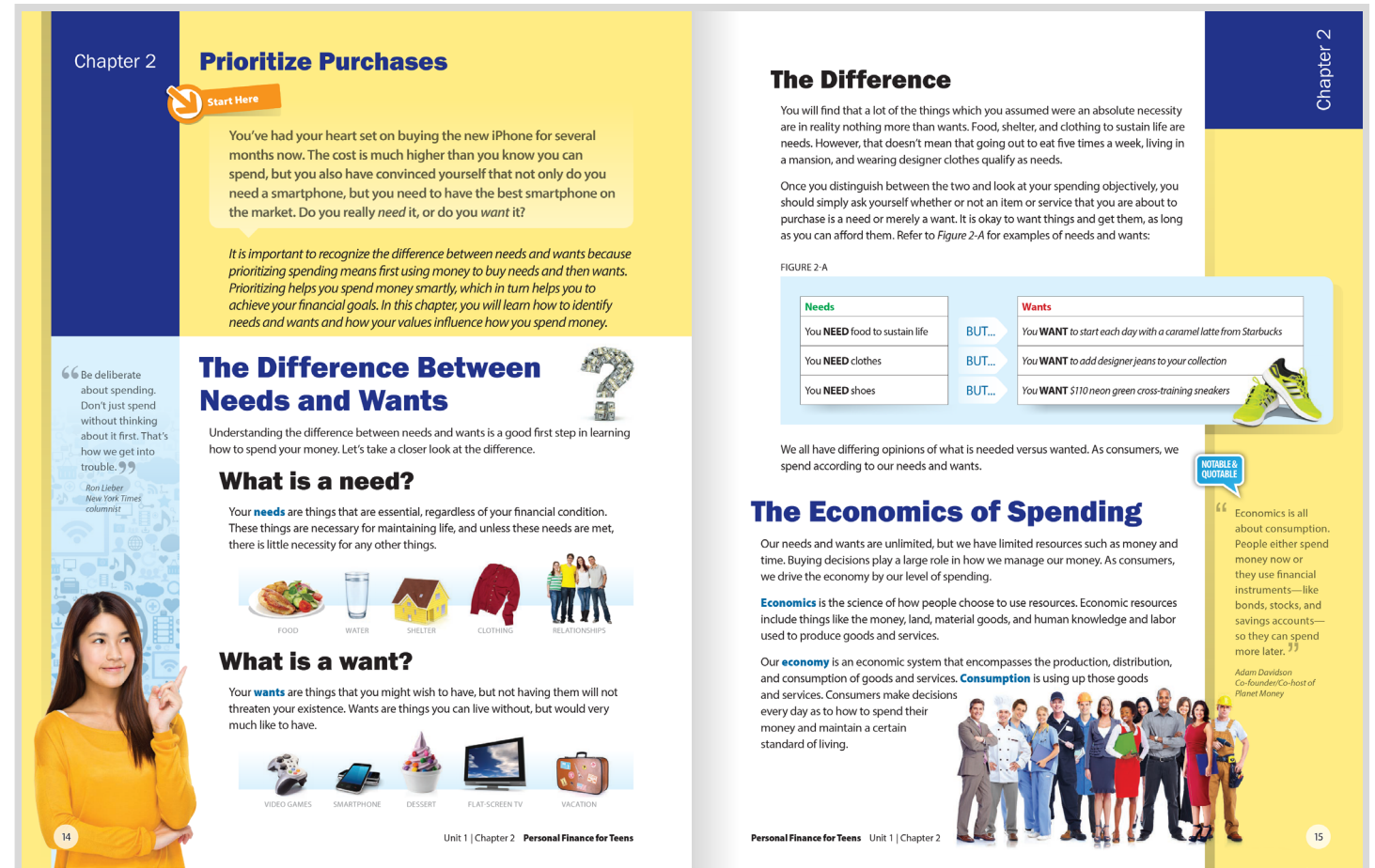
Unit 4 • Chapter 13 Personal Financial Literacy

Personal Financial Literacy Unit 4 • Chapter 13

269

# Our textbooks are designed with the teenager in mind.

- Amazing, eye-catching graphics
- Content is written using teen-based examples and language



# eReadiness.com

B.E. Publishing's eLearning platform for business education, career readiness, and computer applications courses.

- Super-easy with no learning curve, no integration required
- No student login required
- Teacher's pass out materials
- Import into your own LMS (Canvas, Google Classroom, etc.)



# Career Explorations

Student


Instructor

Log Out

Career Explorations prepares students to forge their own path towards career success by introducing them to key concepts in employability skills, education and training, the job application process, and more. Students will explore a range of career options in each of the 16 Career Clusters and develop an understanding of their own interests and abilities on their way to pursuing a career suited to their unique passions.

 **Student eTextbook**

 **Instructor's Guide**


 **Unit 1**

 Chapter 1

 Chapter 2

 Chapter 3

 Chapter 4

 **Unit 2**

 **Unit 3**

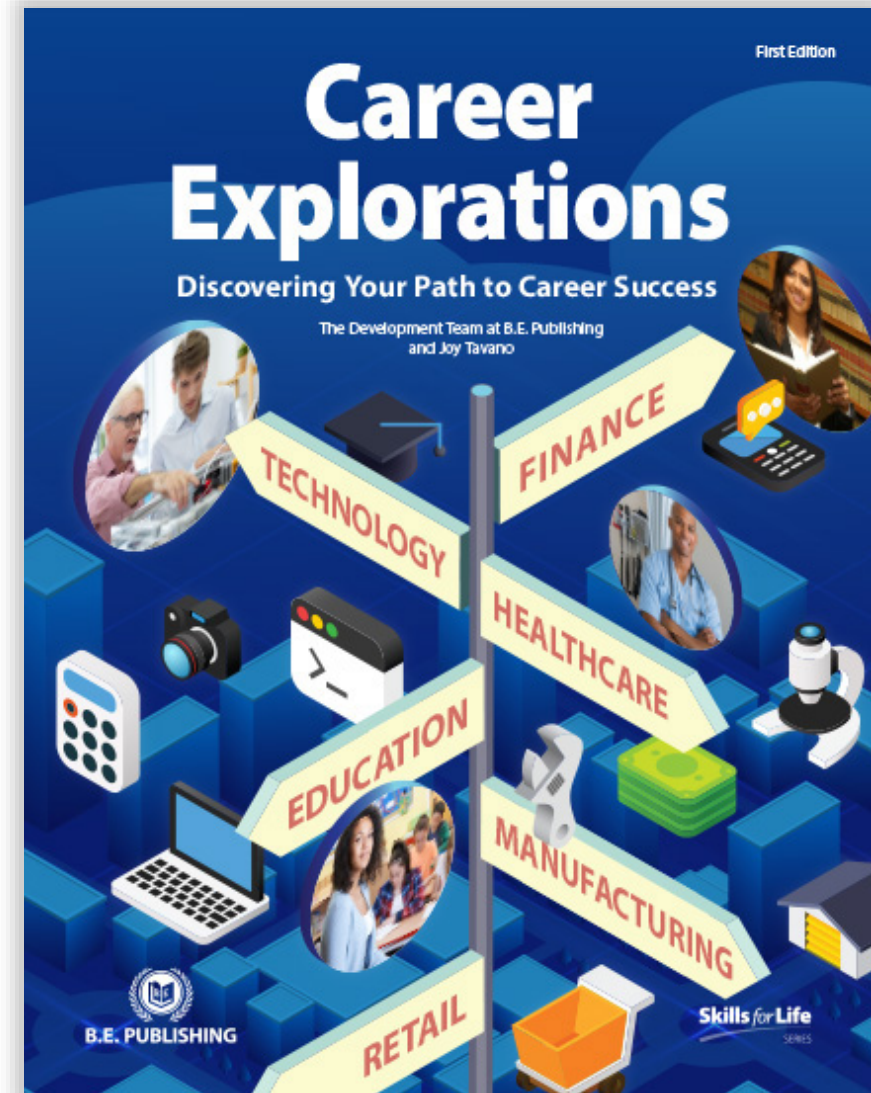


SUBJECT AREA:

Introduction to Career Clusters

# Career Explorations

Discovering Your Path to Career Success



**Career Cluster**

Arts, A/V Technology & Communications

**Average Annual Salary**

Approximately \$55,000

**Classes, Activities, Organizations, etc.**

- Graphic design and visual arts classes
- School newspaper or yearbook
- Photography Club or Multimedia Arts Club
- Internship with art gallery or newspaper
- Adobe Certified Professional certification

Source: [onetonline.org](http://onetonline.org)

**CareerSpotlight**

## Graphic Designer

**About This Career**

Graphic Designers create and produce graphics and other visual designs for use in a variety of settings. Many Graphic Designers work with clients to create logos, packaging, or other designs used to promote a business or product. Graphic Designers often also create advertising materials for a variety of different media, such as online, in print publications, or on billboards.

Some of the tasks and responsibilities of a Graphic Designer include using computer graphics or photo imaging software to produce creative and artistic designs. They often collaborate with clients or other coworkers to determine the best approach for visually communicating the intended message, then make decisions about the size, layout, colors, and design used in producing new images.

**Required Skills**

A person interested in becoming a Graphic Designer should be creative and artistic and able to communicate and express their ideas visually. Graphic Designers must be skilled in using graphics or photo imaging software such as Adobe Photoshop to produce graphics that meet a project's specifications. They should also be skilled in using desktop publishing, video editing, or web design software. In addition, Graphic Designers must be knowledgeable of design principles and techniques and be comfortable communicating and collaborating with others in the workplace.

**Education and Training**

Most Graphic Designer positions require a bachelor's degree in graphic design, visual arts, or a related field. Candidates often also must showcase a portfolio of visual design work and demonstrate mastery of applicable computer applications.

## Chapter Review

### Setting Career Goals

In this chapter, you learned about the importance of setting goals to include in a career plan. Setting goals and utilizing a standardized decision-making process provide direction in your life and will help you achieve success. Pursuing and achieving your career goals requires creating a detailed action plan and being open to modifying your plan as you gain more experiences and learn from your mistakes.

**Instructions**

Demonstrate your knowledge of this chapter by completing the following review activities and computer applications projects. All required worksheets will be provided by your instructor.

**Define Key Terms**

Apply your knowledge of the chapter reading by defining key vocabulary terms.

**Test Your Knowledge**

Test your knowledge of the chapter reading by answering short answer questions.

**Read and Write**

Reflect on what you have learned by writing a short essay about setting SMART goals for your career.

**Career Spotlight**

Explore a career within the Arts, A/V Technology & Communications Career Cluster and write a short essay about what you learn.

**Hands-on Computer Applications Projects****Project 3.1**

Choosing Your Top 3 Careers

**Project 3.2**

Creating an Action Plan

**Project 3.3**

Identifying Your Career Goals





Name	Date
------	------

Project 3.1

Choosing Your Top 3 Careers

Instructions

In this project, you will select the three careers that you are interested in pursuing and feel you might be well-suited for. Using information that you have gathered in previous projects about your personality, interests, and aptitudes, as well as each career’s job outlook, you will compose a letter to your instructor informing them of your choices. Answer the questions in **Part 1: Project Preparation** to prepare the information you will need, then resave this document. Then, follow the instructions provided in **Part 2: Creating Your Document** to use word processing software as you complete the project.

Part 1: Project Preparation

1. Review your completed **Project 2.1**. What three careers did you choose to include in your presentation and what future goals or personal and job-related characteristics led you to choose these careers?
2. Review your completed **Project 2.2**. What careers did your interest inventory and interview with a friend or family member suggest you would be well-suited for? Did you agree with those results? Why or why not?
3. Review your completed **Project 2.3**. What careers did you research the job outlooks for? Describe how your research into job outlook affected your interest level in these careers.

re 3.1

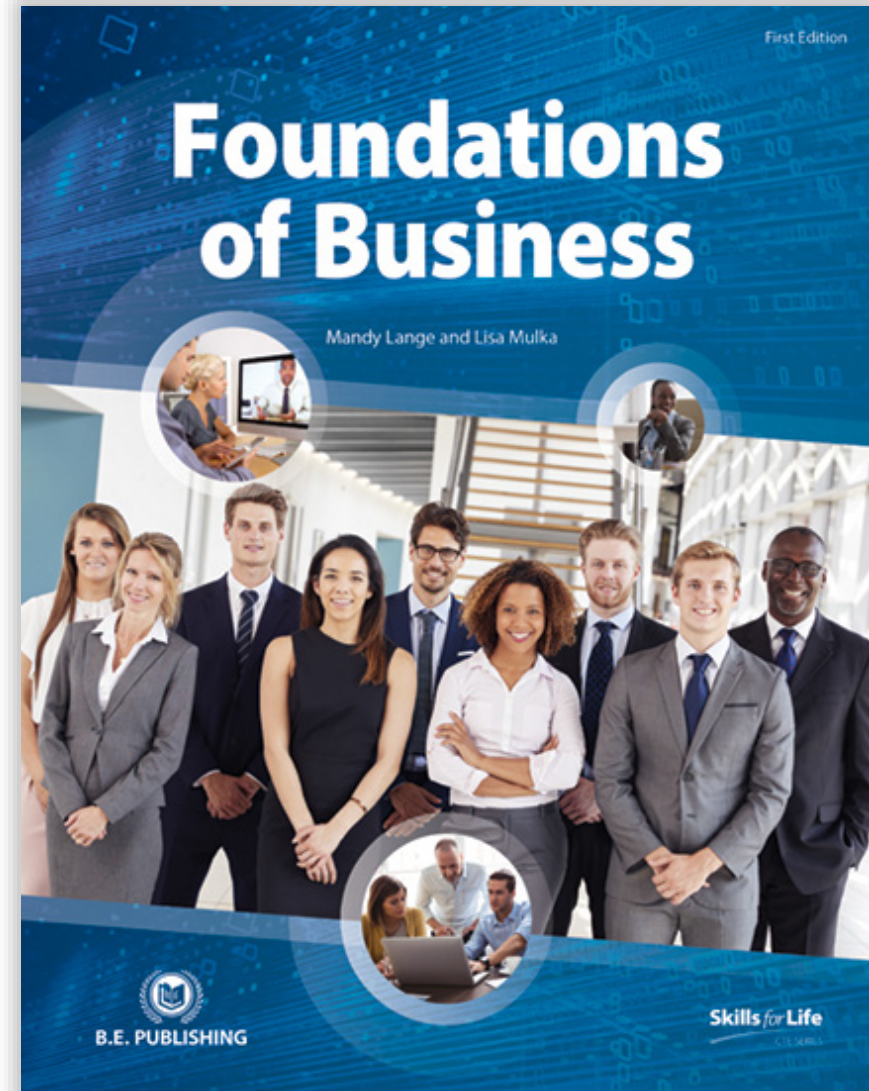
[Your Street Address] ¶  
[Your City, State, and Zip Code] ¶  
[Current Date]¶  
¶  
¶  
¶  
[Your Instructor's Name]  
[Your School Address]  
[School City, State, and Zip Code]¶  
¶  
Dear [Instructor's Name]:¶  
¶  
[The first paragraph of your letter should inform your instructor that you are writing to let them know about your three career choices.]¶  
¶  
[The second paragraph of your letter should describe why you are well-suited to each career.]¶  
¶  
[The third paragraph of your letter should tell your instructor that you plan to research each of the careers further.]¶  
¶  
Sincerely, ¶  
¶  
¶  
¶  
[Your Name]¶

SUBJECT AREA:

Business Principles and Management

# Foundations of Business

Preparing Students for Success in  
the Modern Business World



## Chapter Review

### Defining Private Enterprise

In this chapter, you learned about businesses in the private enterprise system, which have a great deal of freedom and operational control. Businesses follow a channel of distribution, a chain a product follows to get to the consumer. Businesses compete in markets, and their revenue, expenses, and profits can be impacted by many factors.

#### Instructions

Demonstrate your knowledge of this chapter by completing the following review activities.

**Note:** If you do not have access to the eText of this book, Chapter Review worksheets will be provided by your instructor.

#### Define Key Terms

Apply your knowledge of the chapter reading by defining key vocabulary terms.

#### Test Your Knowledge

Test your knowledge of the chapter reading by answering short answer questions.

#### Read and Write

Apply your knowledge of the chapter by writing a two-page essay analyzing factors that affect a business's revenue, expenses, and profits.

#### Listen and Speak

Apply your knowledge of the chapter by selecting, researching, and presenting on industries and types of businesses, including retailers and wholesalers.

#### Create and Design

Use what you have learned in this chapter by creating a poster about the channel of distribution.

#### Student Start-Up

Review the Student Start-Up section from this chapter about creating a company description. Apply what you have learned by crafting your own company description in the Student Start-Up activity.



## Chapter 5

# Defining International Business

The outlook of business extends far beyond the immediate companies you see around you—the global marketplace is an expansive and intricate business world accessible to patrons worldwide. Companies entering international business must familiarize themselves with international laws and the nature of global trade if they hope to compete successfully in the vast global market.

### Objectives

After reading this chapter, you will be able to:

- ☒ Explain the role of business in a global society
- ☒ Describe types of international law and how they impact business
- ☒ Explain the nature of global trade

### Key Terms

absolute advantage  
balance of trade  
competitive advantage  
cross-cultural communication  
currency  
custom duty  
domestic trade  
economic development  
embargo  
emerging economy  
exchange rate  
global market  
global society  
global strategy  
global trade  
globalization  
international custom  
international law  
international money market  
protectionism  
quota  
regulation  
standardize  
tariff  
trade  
trade agreement  
trade deficit  
trade policy  
trade restriction  
trade sanction  
trade surplus  
treaty

Name: \_\_\_\_\_ Date: \_\_\_\_\_



## Chapter 4 Review

### Student Start-Up

#### Christopher's Business Description

In the last chapter, you followed Christopher as he analyzed the economic conditions for his snow removal business. Follow his next step by seeing how he created a business description in Part 1. Then use what you learn to create a business description for your own business in Part 2.

#### Part 1

**1. The company name:** Christopher considers many aspects of a company name. He wants his name to be professional, but he wants it to communicate that he is hardworking, creative, and resourceful. He chooses "Christopher's Snow Services." To make sure no one else has this name, he logs on to the United States Patent and Trademark Office website ([www.uspto.gov](http://www.uspto.gov)) and searches under "Trademarks" using his desired name of "Christopher's Snow Services."

The search yielded no results, indicating that the name "Christopher's Snow Services" is not being used by any other business entity. He then checks with his local Secretary of State office and finds that the name is not taken. Since Christopher selected a business name other than his own name, he files the business name with his state to ensure he is complying with all of the correct laws. At this point, it is safe for Christopher to use "Christopher's Snow Services" for his business name.

**2. A general summary of the business:** Christopher thinks of what he will do in his business and writes: "Christopher's Snow Services will remove ice and snow from customer property."

**3. A declaration of a business form of ownership:** Christopher is the owner of his business, so he writes "Sole proprietorship." He mentions that he is the owner: "The sole proprietor of the business is Christopher Vasquez."

**4. An industry classification for the business:** Christopher needs to obtain an industry classification for his business. Christopher finds the North American Industry Classification System (NAICS) website ([www.naics.com](http://www.naics.com)). Using the search option, he types in "snow removal" and learns that the industry classification for a snow removal business is "Other Support Activities for Road Transportation" and the NAICS code number is "488490."

**5. The location of the business:** Christopher's logical choice was to operate his business from his home. He wants to be sure that operating his business from home is in compliance with his local community zoning laws. Zoning laws are regulations that govern the type of use for a property within a community. Christopher researched zoning laws, and since most of his transactions with customers would take place at the customers' locations, he files a variance. He asks his parents (the legal owners of the property) to fill out a variance application and submit it for approval by the zoning board. With

## Chapter 4 Review | Student Start-Up



**The year established:** 2018 is the year Christopher will form his business.

**The primary function of the business:** Christopher considers his business functions and writes: "Christopher's Snow Services will provide snow and ice removal from customer's homes, driveways, parking lots, and other properties."

**Employees:** At this time, Christopher thinks he will be the only employee.

**Business advisors:** Christopher thinks he will probably ask his parents for advice often. His older brother in college could offer some insight as well. Christopher writes: "Jon and Caroline Vasquez will serve as business advisors to Christopher's Snow Services. Samuel Vasquez will also advise Christopher's Snow Services."

### Putting it together: Christopher's Company Description

#### Company Description

- I. Company Name**  
The legal business name is "Christopher's Snow Services"
- II. Business Summary**  
Christopher's Snow Services removes ice and snow from customer property.
- III. Form of Ownership**  
Christopher's Snow Services is a sole proprietorship. Christopher Vasquez is the sole proprietor and owner.
- IV. Industry Classification**  
According to the North American Industry Classification System (NAICS), the industry classification for a snow removal business is "Other Support Activities for Road Transportation." The NAICS code number is 488490.
- V. Location**  
Christopher's Snow Services will operate from the owner's home residing at 1149 Mystic Pines Ct., Boulder County, CO 80308.
- VI. Year Established**  
2018
- VII. Primary Function**  
Christopher's Snow Services will provide snow and ice removal from customer's homes

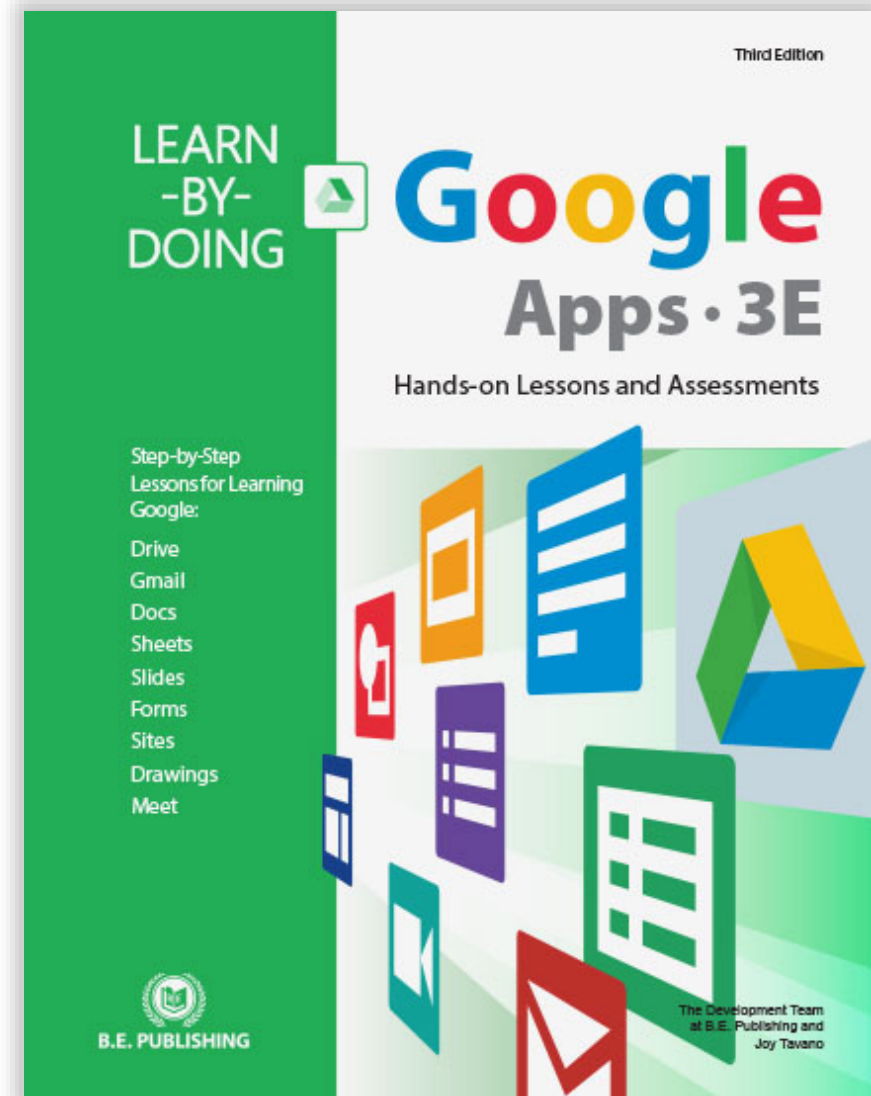


SUBJECT AREA:

Google Basics

# Learn-by-Doing: Google Apps, 3E

Hands-on Lessons and Assessments



# Superhero Bios

Working with Columns and Capitalization

## Overview

Text can be formatted into columns to give your document a format similar to a newspaper or magazine. Columns are often used to guide the reader and direct the flow of text. Information flows from the bottom of the left column to the top of the next column and enhances the layout of the page. Additionally, headers and footers allow you to create uniformity by repeating text and graphics on each page without interfering with the body of the document. Most often, headers contain page numbers, dates, or file names.



*In this lesson, you will type information about several popular superheroes and format the text into columns.*

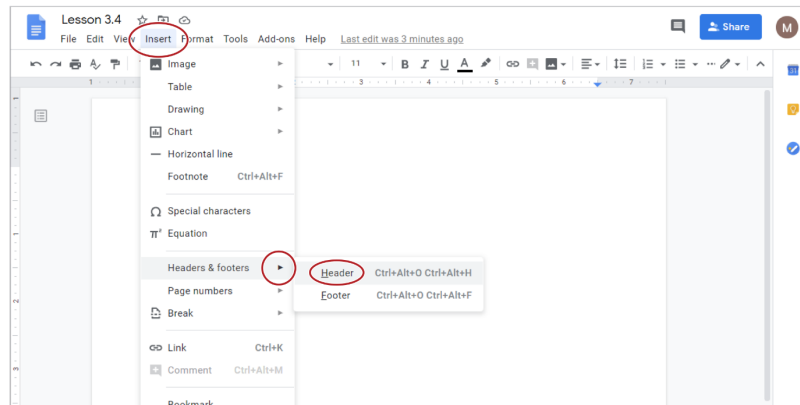
## New Skills

Inserting a Header • Formatting Columns • Changing Capitalization

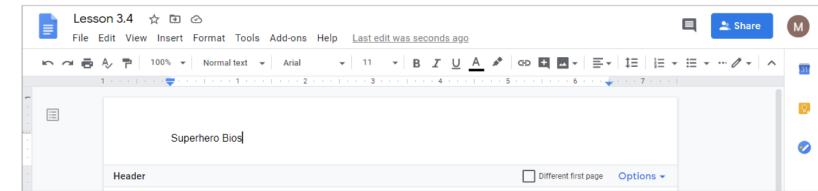
## Instructions

1. In your My Docs folder, create a new document and rename it **Lesson 3.4**.

2. **Insert a Header.** To insert a header so that the text appears on the top of every page in your document, from the **Insert** menu, select **Headers & footers**, then select **Header**.



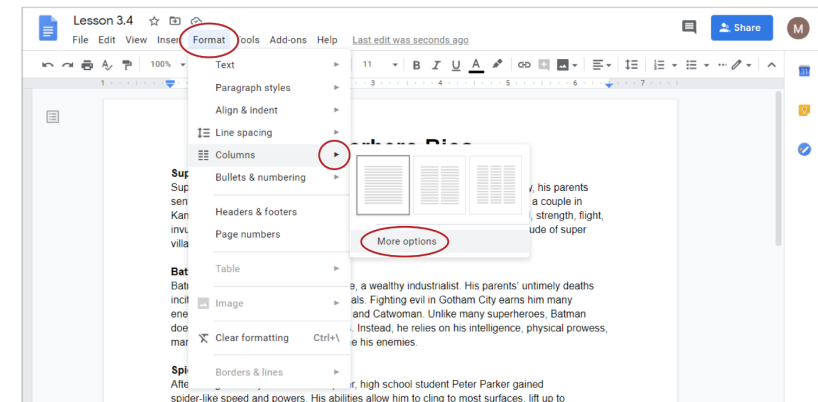
3. In the header, type [Superhero Bios].



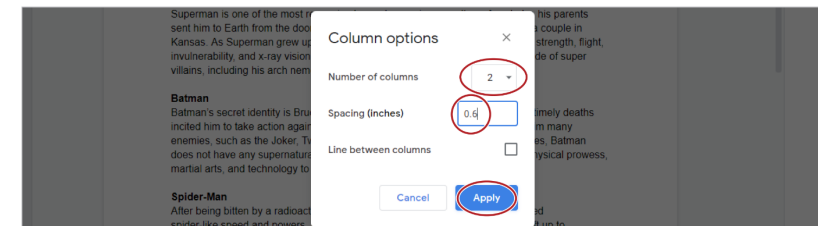
4. Center align, bold, and change the font size of the text to 24.
5. Click on the first line of your document so that you are no longer in the header, then type the text exactly as shown in 3.4 Figure A, Pages 1 and 2.

**Hint:** Be sure to hit the Enter key twice at the end of each paragraph and bold the superhero titles as shown.

6. **Format Columns.** To format your document into columns, from the **Format** menu, select **Columns**, and from the drop-down menu, select **More options**.



7. In the **Column options** dialog box, change the **Number of columns** to **2** and the **Spacing** to **0.6**, then click **Apply**.



# Accessing and Using Instructor Resources

The shared Google Drive link below provides access to **View** all Instructor Resources. In order to edit these files, you must copy them to your own Drive or Google Classroom.

**IMPORTANT NOTE: DO NOT SHARE THIS LINK WITH STUDENTS. IT CONTAINS ANSWER KEYS AND OTHER MATERIAL FOR INSTRUCTOR USE ONLY.**

<https://drive.google.com/drive/folders/1FEq4dwV29l8pMJkHDgVv1ETiYd6sCDv>

## Using the Instructor Resources

This Google Drive contains the following resources:

- Lesson Source Files
- Lesson Answer Keys
- Lesson Grading Rubrics
- Slide Show Teacher Edition
- Unit Performance Task
- Student Resources

The shared Google Drive above allows you **view** all Instructor Resources. It is recommended that you **Make a copy** of all resources provided. If you wish to copy and share them as you see fit, **right-click** the desired file(s) and select **Make a copy**.

## Sharing Files with Your Students

Throughout this text, you will need to share files with students for them to complete lessons. Lesson Source Files are **native Google Apps files** containing the initial text or data to be keyed by students. To save students from using class time to key text, you may decide to provide these files; allow students to copy and paste the text; or provide a link to the files for students to key for extra practice.

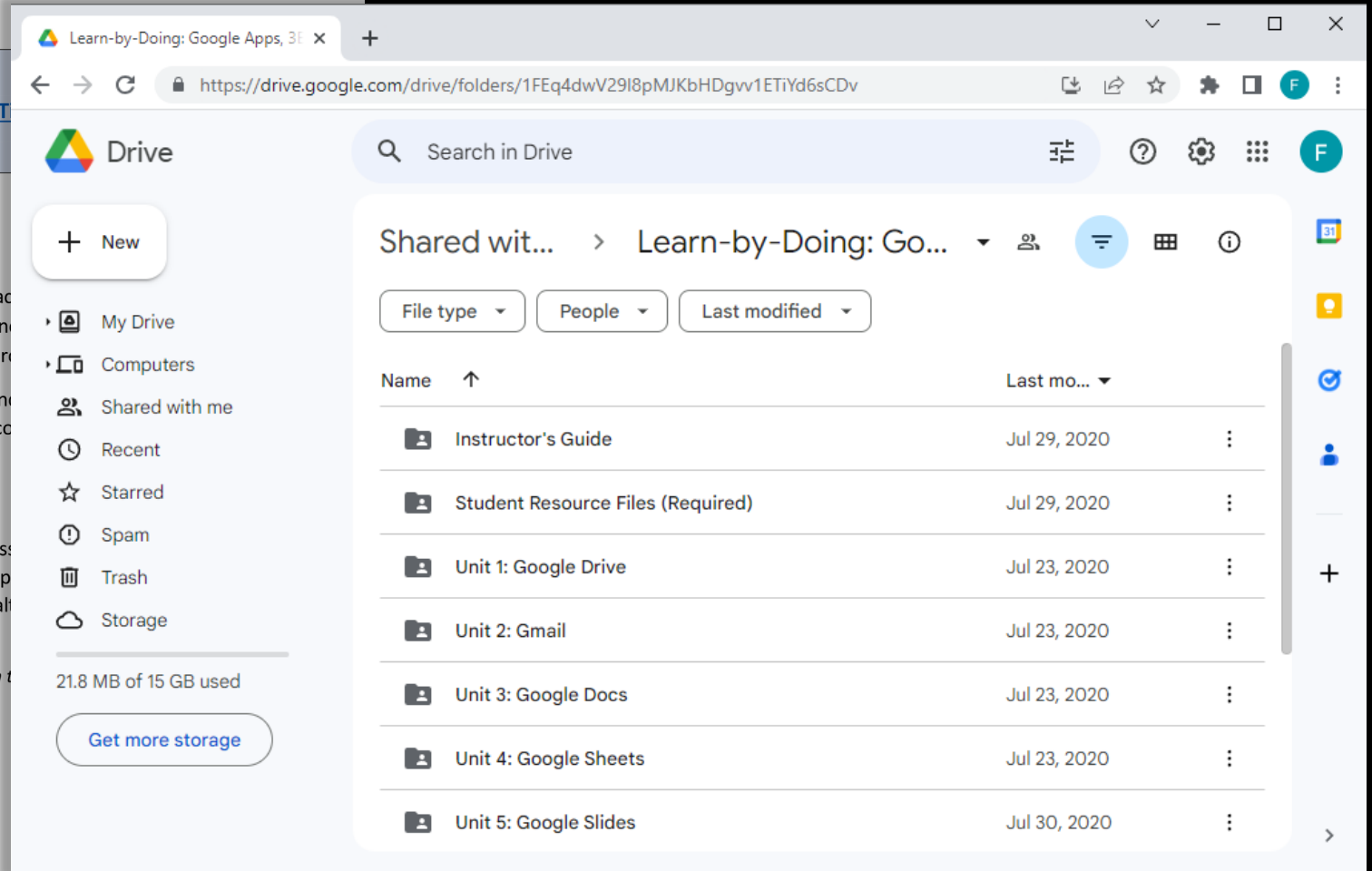
*Note: For more details on which files to share with students, see the Instructor's Guide located in the Instructor Resources folder.*

Use the following steps to **share** files with your students:

1. Locate the file(s) in the shared Google Drive.
2. Right-click the file(s) and select **Share**.
3. Enter your students' email addresses and click **Send**.

Instruct students to do the following to **copy** shared files to their own Drive:

1. Access the shared file via email or via the **Shared with me** section of Google Drive.
2. Right-click the file and select **Make a copy**.
3. Move the copy to the appropriate folder and rename. Students will now have access to edit the file as they complete the lesson.





SUBJECT AREA:

Keyboarding (CTE Grades 7 and 8)

# EduTyping.com

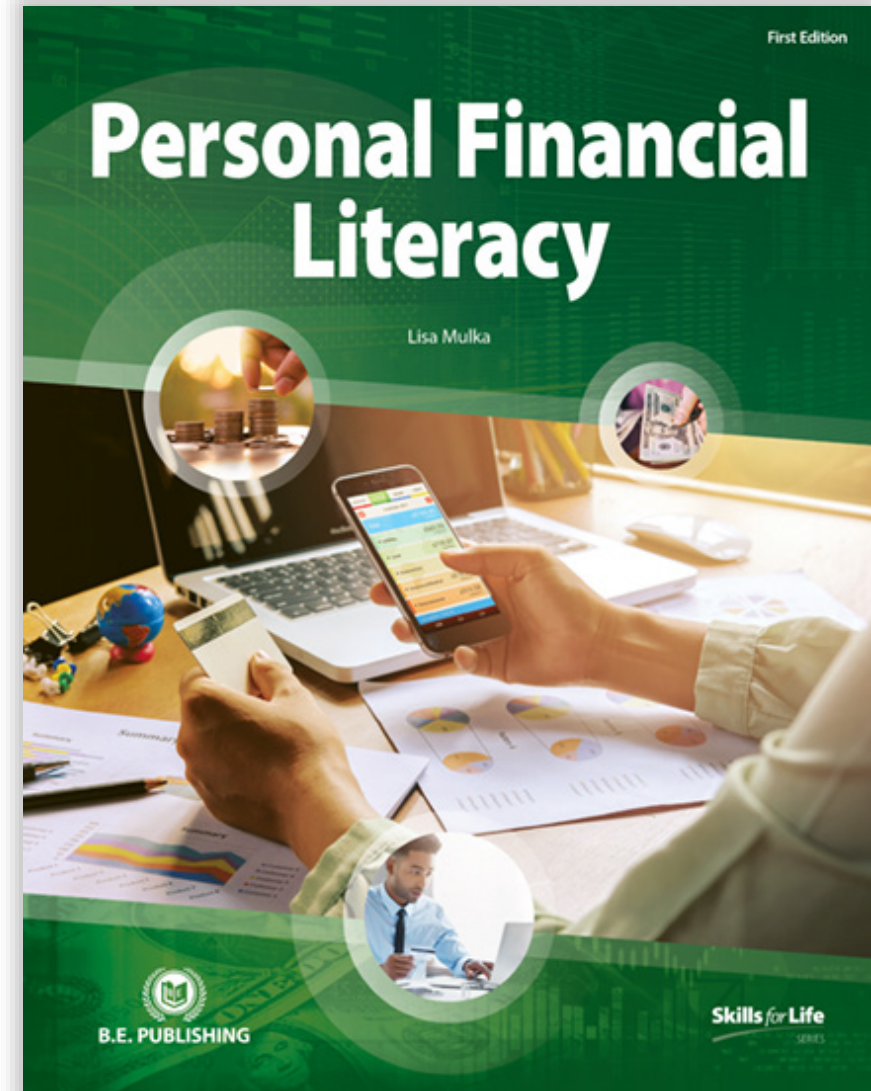
Every Tool You Need to Teach K-12  
Keyboarding Online

SUBJECT AREA:

Personal Finance

# Personal Financial Literacy

Providing the financial building blocks for earning, spending, saving, and investing through each stage of life



The sources and amount of a person's income, as well as the amount and type of his or her spending, affect the types and amounts of taxes paid. For example, an individual who owns a home will pay property tax. Likewise, if a homeowner leases the property and collects rent payment, taxes will be impacted by the income earned through rent.

People's amount of income is one of the most common factors affecting the types and amounts of taxes paid. For example, the United States uses tax brackets that align to income to guide citizens in what percentage of tax they will pay based on their income level. As a person's income grows, placing them into a higher tax bracket, they will pay a higher percentage of taxes on their earnings. An example of tax brackets is shown in Figure 8.1.

FIGURE 8.1

2018 Federal Income Tax Brackets

Tax rate	Single <i>Unmarried individuals</i>	Married, filing jointly <i>Married couples filing taxes together</i>	Married, filing separately <i>Married couples filing taxes separately</i>	Head of household <i>Unmarried individuals with a dependent</i>
10%	\$0 to \$9,525	\$0 to \$19,050	\$0 to \$9,525	\$0 to \$13,600
12%	\$9,526 to \$38,700	\$19,051 to \$77,400	\$9,526 to \$38,700	\$13,601 to \$51,800
22%	\$38,701 to \$82,500	\$77,401 to \$165,000	\$38,701 to \$82,500	\$51,801 to \$82,500
24%	\$82,501 to \$157,500	\$165,001 to \$315,000	\$82,501 to \$157,500	\$82,501 to \$157,500
32%	\$157,501 to \$200,000	\$315,001 to \$400,000	\$157,501 to \$200,000	\$157,501 to \$200,000
32%	\$200,001 to \$500,000	\$400,001 to \$600,000	\$200,001 to \$300,000	\$200,001 to \$500,000
37%	\$500,001 or more	\$600,001 or more	\$300,001 or more	\$500,001 or more

Source: [nerdwallet.com](#)



## Form W-4

It is important to understand basic employment forms and processes because payroll deductions are based on the information you provide to your employer on the Form W-4. A completed Form W-4 is shown in Figure 8.2.

FIGURE 8.2

**Form W-4** **Employee's Withholding Allowance Certificate** OMB No. 1545-0074  
Department of the Treasury Internal Revenue Service

► Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

20XX

1 Your first name and middle initial: **Samuel H** Last name: **Hicks** 2 Your social security number: **123-45-6789**

Home address (number and street or rural route): **62 Brattle Avenue** 3 ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate.  
City or town, state, and ZIP code: **Hockessin, DE 19807** Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.

4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ☐

5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2): **2**

6 Additional amount, if any, you want withheld from each paycheck: **\$ 2**

7 I claim exemption from withholding for 2017, and I certify that I meet both of the following conditions for exemption.  
• Last year I had a right to a refund of all federal income tax withheld because I had **no** tax liability, **and**  
• This year I expect a refund of all federal income tax withheld because I expect to have **no** tax liability.  
If you meet both conditions, write "Exempt" here. **7**

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.): **Samuel H. Hicks** Date: **06/28/XX**

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.) 9 Office code (optional) 10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 102200 Form W-4 (2009)

Although you cannot avoid paying payroll taxes, you can determine the amount of income tax deducted by specifying the number of allowances on your Employee's Withholding Allowance Certificate, or **Form W-4**, when you begin a new job.

The federal government uses the information you provide on Form W-4 to calculate your payroll tax deduction. The key item on the form is line 5, "total number of allowances." This number, or **withholding allowances**, determines how much tax will be withheld from each paycheck. You determine how many withholding allowances you will claim based on characteristics such as whether you are married or single, have children, and hold multiple jobs. Form W-4 provides an area called Personal Allowances Worksheet that helps determine the total number of allowances that apply to you. Each allowance you claim lowers the amount of money withheld.

The **Internal Revenue Service** (IRS) is the US federal government agency that collects taxes and enforces tax law. Completing IRS Form W-4 (Employee's Withholding Allowance Certificate) accurately is important to determine the optimal amount to withhold for personal income tax so that your **tax liability**—the amount of tax you owe—is correct. For example, examine the tax liability example on the following page as it relates to the completion of a W-4.



The IRS is a bureau of the US Department of the Treasury and is responsible for collecting taxes.

# The Anatomy of a Pay Stub

To understand your paycheck, it is important to analyze your pay stub. A **pay stub** is an attachment to your paycheck that shows the amount earned and details the payroll deductions. Analyzing a pay stub is important to your overall financial health because managing the inflow and outflow of cash—known as cash flow—will help you to make smart financial choices. When you analyze your pay stub, you can determine if you have a negative cash flow (a **deficit**) or a positive cash flow (a **surplus**). Armed with this information, you can work to create a successful spending and saving plan. Refer to Chapter 9 Creating a Budget for more about managing income and expenses after analyzing your pay stub.

The first step in analyzing a pay stub is to review payroll deductions. Because of payroll deductions, the amount of your paycheck will be less than your salary. Your pay is determined by the following calculation:

$$\text{Net Pay} = \text{Gross Pay} - \text{Payroll Deductions}$$

**Gross pay** is the amount of money you earn before any payroll deductions. For example, if you earn \$10.00 per hour and work 20 hours during the pay period, your gross pay will be \$200.00. Once taxes and other payroll deductions are subtracted from your pay, the result is your **net pay**, or take-home pay.

When you receive your paycheck, it is important to carefully analyze your pay stub information, especially when starting a new job. If there are any errors, it is your responsibility to report them right away. The following is a checklist of items to look for when analyzing your pay stub:

- ☒ Make sure that the employer and employee information is correct—for example, the employer's name, your name, and your address.
- ☒ Check that the marital status and withholding allowance information you entered on your Form W-4 is correct on your pay stub.
- ☒ Verify the calculation of your gross pay. If you are an hourly employee, make sure the hours that you worked and pay rate are correct. If you are a salaried employee, make sure it is the amount you agreed upon with your employer.
- ☒ Double-check all of your payroll deductions.
- ☒ Your net pay should equal your gross pay minus the total of your payroll deductions.

Pay stubs may look different depending on the employer. For example, payroll deductions may vary from state to state and company to company, but most pay stubs are similar to the sample provided below. Examine *Figure 8.4* and match the numbered items with their corresponding definitions.

FIGURE 8.4

**Remember to always analyze your pay stub carefully.**

Using information on your paycheck, it is important to verify that the calculations of your gross and net pay—as well as payroll deductions—were made correctly.

## 1 Gross Pay

*The amount of money you earn before any payroll deductions*

EMPLOYEE #123 - Jamie Smith S 1		PAY PERIOD 06/02/XX to 06/16/XX		2 PAYROLL DEDUCTIONS		THIS PAY PERIOD	YEAR-TO-DATE
EARNINGS							
Hours	Rate	This Pay Period	Year-To-Date				
50	9.00	450.00	900.00	Federal Income Tax		42.75	85.50
1 GROSS PAY		450.00	900.00	FICA - Medicare		6.08	12.16
				State Income Tax		16.88	33.00
				FICA - Social Security		25.92	51.84
				Health Insurance		0.00	0.00
				401(k)		0.00	0.00
				3 NET PAY		\$358.37	\$717.50

## 2 Payroll Deductions

*The amount taken out of your pay for taxes such as Federal Income Tax, State Income Tax, Social Security tax, and Medicare tax*

## 3 Net Pay

*The amount of money you take home, which is your gross pay minus any payroll deductions*

<b>Federal Income Tax</b>	<i>The amount of federal tax on earnings imposed by the Internal Revenue Service (IRS) based on tax tables</i>
<b>State Income Tax</b>	<i>The amount of tax on earnings at the state level based on percent of income</i>
<b>Social Security Tax</b>	<i>Tax on income paid by both the employee and the employer to fund the Social Security system</i>
<b>Medicare Tax</b>	<i>Tax on income used to pay for the Medicare (health) program provided to individuals over the age of 65</i>
<b>Health Insurance deduction</b>	<i>The employee's obligation toward the cost of the health plan he or she is covered under</i>
<b>401(k) deduction</b>	<i>The employee's contribution to the employer-sponsored 401(k) retirement plan</i>



## Form W-2

At the end of each tax year, you will receive a Form W-2 from your employer. The **Form W-2**, prepared by the employer, reports an employee's annual wages and the amount of taxes withheld from paychecks. The information provided on the W-2 will be used to complete the necessary tax forms. *Figure 8.8* illustrates Form W-2.

FIGURE 8.8

22222		a Employee's social security number 123-45-6789		OMB No. 1545-0008	
b Employer identification number (EIN) 12-345-6789		1 Wages, tips, other compensation 48,500.00		2 Federal income tax withheld 6,835.00	
c Employer's name, address, and ZIP code Canton Marketing Services 18 Centerville Road Hockessin, DE 19807		3 Social security wages 50,000.00		4 Social security tax withheld 3,100.00	
		5 Medicare wages and tips 50,000.00		6 Medicare tax withheld 725.00	
		7 Social security tips		8 Allocated tips	
d Control number		9 Verification code		10 Dependent care benefits	
e Employee's first name and initial Last name Samuel H. Hicks 62 Brattle Avenue Hockessin, DE 19807		11 Nonqualified plans 12a <input type="checkbox"/> 12b <input checked="" type="checkbox"/> 12c <input type="checkbox"/> 12d <input type="checkbox"/>		13 <input type="checkbox"/> 14 <input type="checkbox"/>	
f Employee's address and ZIP code DE 1234		15 State Employer's state ID number 50,000		16 State wages, tips, etc. 2,114	
		17 State income tax		18 Local wages, tips, etc.	
		19 Local income tax		20 Locality name	

**Form W-2 Wage and Tax Statement** 20XX  
Department of the Treasury—Internal Revenue Service  
Copy 1—For State, City, or Local Tax Department

## 1099 Forms

A common type of tax form you may encounter when preparing your returns are 1099 forms. This is a series of forms that catalog income that is earned outside of a job using Form W-2. **Form 1099-INT** is a document given to an individual from his or her financial institution listing any earned interest accrued on accounts. This information will have been reported to the IRS, so you must include the interest on your tax return.

Another form in the 1099 series is **Form 1099-MISC** which is filed for any person who has received income of \$600 or higher outside of a job using Form W-2. Examples of when a 1099-MISC would be appropriate include the following:

- Rent
- Services performed by someone who is not an employee
- Prizes and awards
- Medical and health care payments

## Form 1040 and 1040A

Other IRS forms include Form 1040 and Form 1040A. **Form 1040**, shown in *Figure 8.9*, is a lengthy form for persons with a taxable income greater than \$100,000. Income may extend beyond W-2 earnings, such as through self-employment or being a shareholder in an S-corporation. **Form 1040A** is an income tax form that is shorter than Form 1040 and for persons who earn less than \$100,000 and may have dependents.

FIGURE 8.9

Form 1040		Department of the Treasury—Internal Revenue Service (99)		20XX		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 20XX, or other tax year beginning		Last name Daniel A.		Last name Wilson		Your social security number 123 45 6789		See separate instructions.	
If a joint return, spouse's first name and initial Sarah J.		Last name Wilson		Last name Wilson		Spouse's social security number 987 65 4321		Make sure the SSNs above and on line 6c are correct.	
Home address (number and street). If you have a P.O. box, see instructions. 421 Oak Street Chicago, IL 60616		Apt. no.		City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		Foreign country name		Foreign province/state/country	
Foreign postal code		Foreign province/state/country		Foreign postal code		Foreign province/state/country		Foreign postal code	
Filing Status		1 <input type="checkbox"/> Single		2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income)		3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here.		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.)	
Check only one box.		5 <input type="checkbox"/> Qualifying widow(er) (see instructions)		6 <input type="checkbox"/> If the qualifying person is a child but not your dependent, enter this child's name here.		7 <input type="checkbox"/> If the qualifying person is a child but not your dependent, enter this child's name here.		8 <input type="checkbox"/> If the qualifying person is a child but not your dependent, enter this child's name here.	
Exemptions		6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a.		6b <input type="checkbox"/> Spouse		6c <input type="checkbox"/> Dependents		6d <input type="checkbox"/> If more than four dependents, see instructions and check here.	
(1) First name		Last name		(2) Dependents' social security number		(3) Dependents' relationship to you		(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)	
Kate		Wilson		123 00 0001		Daughter		<input checked="" type="checkbox"/>	
Total number of exemptions claimed		7		8		9		10	
Income		7 Wages, salaries, tips, etc. Attach Form(s) W-2		8a Taxable interest. Attach Schedule B if required		8b Tax-exempt interest. Do not include on line 8a		9a Ordinary dividends. Attach Schedule B if required	
10 Taxable refunds, credits, or offsets of state and local income taxes		11 Alimony received		12 Business income or (loss). Attach Schedule C or C-EZ		13 Capital gain or (loss). Attach Schedule D if required. If not required, check here.		14 Other gains or (losses). Attach Form 4797	
15a IRA distributions		15b Taxable amount		16a Pensions and annuities		16b Taxable amount		17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	
18 Farm income or (loss). Attach Schedule F		19 Unemployment compensation		20a Social security benefits		20b Taxable amount		21 Other income. List type and amount	
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income		23		24		25		26	
Adjusted Gross Income		23 Educator expenses		24 Certain business expenses of reservists, performing artists, and fee-based government officials. Attach Form 2106 or 2106-EZ		25 Health savings account deduction. Attach Form 8889		26 Moving expenses. Attach Form 3903	
27 Deductible part of self-employment tax. Attach Schedule SE		28 Self-employed SEP, SIMPLE, and qualified plans		29 Self-employed health insurance deduction		30 Penalty on early withdrawal of savings		31a Alimony paid b Recipient's SSN	
32 IRA deduction		33 Student loan interest deduction		34 Reserved for future use		35 Domestic production activities deduction. Attach Form 8803		36 Add lines 23 through 35	
37 Subtract line 36 from line 22. This is your adjusted gross income		38		39		40		41	
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.		Cat. No. 11320B		Form 1040 (20XX)					



If taxpayers overpay their taxes throughout the year, they may receive a refund check from the IRS. This is not "free" money, but rather money a taxpayer has already paid to the government through paycheck deductions.



## Form 1040-EZ

The simplest income tax form is the **Form 1040-EZ**. It can be used by anyone who has an income of less than \$100,000 and is not claiming dependents. The filing status must be single or married filing jointly. To complete Form 1040-EZ, you would need to utilize your W-2 and tax tables. Listed on your W-2 is the amount of taxes that were withheld from your pay, as well as your total wages, salaries, and tips. You would enter both of these amounts on the Form 1040EZ. Tax tables are charts provided by the IRS that list amounts of taxes owed based on income. Using your taxable income, which is shown in Line 6 of *Figure 8.10*, you would use a tax table to identify how much tax you owe to complete Line 10 of the form.

As with any tax form, it is important to follow the instructions. Forms may vary from year to year and are available on the IRS website. *Figure 8.10* illustrates preparing a personal income tax form by completing a 1040-EZ with a W-2 form and current tax tables.

If Line 9 is greater than Line 12, you have already paid more than your total tax. That means you overpaid and are due a refund. If Line 12 is greater than Line 9, you underpaid and owe taxes. Always review your tax return carefully and make a copy before mailing or filing online. If you are filing by mail, remember to sign your return.

### Go Figure

When filing your tax returns, you will need to use math to determine what your overall tax liability is. Differentiating between gross, net, and taxable income will ensure you have properly calculated your tax returns. Review Jana's story below and help her determine the difference between her gross and taxable income.

Jana is a single mom and works as a project coordinator at a marketing company. She receives a W-2 from her employer and it lists \$42,950 as her gross income. Her tax filing status is single and she plans on applying the following deductions, exemptions, and tax credits to reduce her tax liability.

<b>Standard deduction</b>	\$6,300
<b>Dependent exemption</b>	\$4,000
<b>Child Tax Credit</b>	\$1,000

### Your Turn

Based on Jana's gross income and the deductions, exemptions, and tax credits she will pursue, what is Jana's taxable income? How much is the difference between her gross and net income?

FIGURE 8.10

**Form 1040-EZ** Department of the Treasury—Internal Revenue Service  
**Income Tax Return for Single and Joint Filers With No Dependents** 20XX  
 OMB No. 1545-0074

**1 Personal Information Section**  
 Your name and title: **Samuel H. Hicks**  
 Last name: **Hicks**  
 Your social security number: **123 45 6789**  
 If a joint return, spouse's first name and initial: **S**  
 Last name: **Hicks**  
 Spouse's social security number: **987 65 4321**  
 Home address (number and street). If you have a P.O. box, see instructions. Apt. no.: **1**  
**62 Brattle Avenue**  
 City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).  
**Hockessin, DE 19804**  
 Foreign country name: **DE** Foreign postal code: **19804**  
 Presidential Election Campaign: Check box if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking this box will not change your tax or refund. ☐ Yes ☒ No

**2 Income Section**  
**Income**  
 1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. **48,500.00**  
 2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040-EZ. **36.00**  
 3 Unemployment compensation and Alaska Permanent Fund dividends (see instructions). **0.00**  
 4 Add lines 1, 2, and 3. This is your **adjusted gross income**. **48,536.00**  
 5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back.  
☐ You ☐ Spouse  
 If no one can claim you (or your spouse if a joint return), enter \$10,400 if single; \$20,800 if married filing jointly. See back for explanation. **10,400.00**  
 6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. **38,136.00**  
 This is your **taxable income**. **38,136.00**  
**3 Payments, Credits, and Tax**  
 7 Federal income tax withheld from Form(s) W-2 and 1099. **6,835.00**  
 8a Earned income credit (EIC) (see instructions) **0.00**  
 8b Nontaxable combat pay election. **0.00**  
 9 Add lines 7 and 8a. These are your **total payments and credits**. **6,835.00**  
 10 Tax. Use the amount on line 6 above to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line. **5,230.00**  
 11 Health care: individual responsibility (see instructions) Full-year coverage ☐ **0.00**  
 12 Add lines 10 and 11. This is your **total tax**. **5,230.00**  
**Refund**  
 13a If line 9 is larger than line 12, subtract line 12 from line 9. This is your **refund**. **1,565.00**  
 If Form 8888 is attached, check here ☐ **13a**  
 b Routing number **000000** c Type: ☐ Checking ☐ Savings  
 d Account number **00000000000000000000**  
**Amount You Owe**  
 14 If line 12 is larger than line 9, subtract line 9 from line 12. This is the **amount you owe**. For details on how to pay, see instructions. **0.00**  
**Third Party Designee**  
 Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ Yes. Complete below. ☒ No  
 Designee's name: **Phoebe** Personal identification number (PIN): **0000**  
 I, **Samuel H. Hicks**, declare that I have examined this return and, to the best of my knowledge and belief, it is true, correct, and accurately reflects all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.  
**Sign Here**  
 Your signature: **Samuel H. Hicks** Date: **2/16/XX** Your occupation: **Marketing Specialist** Daytime phone number: **(555) 555-1212**  
 Spouse's signature: **Samuel H. Hicks** Date: **2/16/XX** Spouse's occupation: **Marketing Specialist** Daytime phone number: **(555) 555-1212**  
**Paid Preparer Use Only**  
 Print/Type preparer's name: **Phoebe** Preparer's signature: **Phoebe** Date: **2/16/XX** Preparer's occupation: **Marketing Specialist** Daytime phone number: **(555) 555-1212**  
 Firm's name: **Phoebe** Firm's address: **Phoebe** Phone no.: **Phoebe** Fax no.: **Phoebe** PTIN: **Phoebe**  
 For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11329W Form 1040-EZ (20XX)

### 1 Personal Information Section

Filer's name, address, and Social Security number

### 2 Income Section

Line 1 comes from W-2, Box #1

Lines 2–3 are additional sources of income, such as interest

Line 4 is adjusted gross income, which is total gross income minus allowable deductions

Line 5 is for deductions

Line 6 is your taxable income

### 3 Payments, Credits, and Tax Section

This section is for determining your tax liability and comparing that with what you have already paid

Line 7 is taxes already withheld and comes from W-2, Box #2

Lines 7–9 result in total payments and credits

Lines 10–12 are for determining your total tax

If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—	
At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly
Your tax is—				Your tax is—				Your tax is—			
32,000				35,000				38,000			
32,000	32,050	4,338	3,871	35,000	35,050	4,788	4,321	38,000	38,050	5,245	4,771
32,050	32,100	4,345	3,879	35,050	35,100	4,795	4,329	38,050	38,100	5,258	4,779
32,100	32,150	4,353	3,886	35,100	35,150	4,803	4,336	38,100	38,150	5,270	4,786
32,150	32,200	4,360	3,894	35,150	35,200	4,810	4,344	38,150	38,200	5,283	4,794
32,200	32,250	4,368	3,901	35,200	35,250	4,818	4,351	38,200	38,250	5,295	4,801
32,250	32,300	4,375	3,909	35,250	35,300	4,825	4,359	38,250	38,300	5,308	4,809
32,300	32,350	4,383	3,916	35,300	35,350	4,833	4,366	38,300	38,350	5,320	4,816
32,350	32,400	4,390	3,924	35,350	35,400	4,840	4,374	38,350	38,400	5,333	4,824
32,400	32,450	4,398	3,931	35,400	35,450	4,848	4,381	38,400	38,450	5,345	4,831
32,450	32,500	4,405	3,939	35,450	35,500	4,855	4,389	38,450	38,500	5,358	4,839
32,500	32,550	4,413	3,946	35,500	35,550	4,863	4,396	38,500	38,550	5,370	4,846

The 1040EZ tax tables assist taxpayers in determining the taxes they owe for their taxable income.

Source: [irs.gov](http://irs.gov)



It is important to reconcile your spending with the bank's records often, at least once per month. With online banking, you can interpret your bank statement online at any time. A **bank reconciliation** is a process that interprets the difference between what the account holder's records show as available cash and what the bank statement shows as a balance. The difference is usually due to outstanding deposits, checks, and any service fees not yet recorded in the account holder's **checkbook register**, which is a booklet form used for the purpose of tracking and balancing a bank account. Consumers reconcile a bank statement with personal records to ensure the accuracy of three items: 1) deposits, 2) withdrawals, and 3) transfer activities.

Review the terms in *Figure 9.4* to understand what is involved in reconciling a checking account.

FIGURE 9.4

<b>Outstanding Checks</b>	Checks written that have not yet cleared the bank.
<b>Outstanding Deposits</b>	Funds deposited that are not yet included in the bank statement balance.
<b>Service Fee</b>	Fees charged by the bank for services provided.
<b>NSF Fee</b>	Fees charged by the bank for a "bounced" check—in other words, there were non-sufficient funds in the account to cover the check.

The goal of reconciliation is to bring the checkbook balance in line with the bank statement balance. The following steps in *Figure 9.5* should be followed to reconcile a checking account, whether you do it online or with a paper statement.

FIGURE 9.5

Checkbook Reconciliation Steps	Bank Statement Balance	Checkbook Balance
<b>Step 1</b> Compare the bank statement balance with the balance in the check register.	\$432.15	\$292.90
<b>Step 2</b> Identify any <b>outstanding checks</b> in the checkbook register and deduct them from the bank statement balance.	- 119.25 - 35.00	
<b>Step 3</b> Add any <b>outstanding deposits</b> to the bank statement balance.	--	
<b>Adjusted bank statement balance</b>	<b>\$ 277.90</b>	
<b>Step 4</b> Deduct any fees ( <b>service fee</b> ) or other charges from your checkbook balance.		- 5.00
<b>Step 5</b> Add any interest or other credits to the checkbook balance and adjust for any errors made. (Note the \$10 <b>error</b> , since a check was recorded as \$15.00 when it was really written for \$25.00.)		-10.00
<b>Step 6</b> Compare the <b>adjusted bank statement balance</b> and the <b>adjusted checkbook balance</b> . If the two equal each other, the account is reconciled. If the two amounts do not equal, then you need to do some investigating.		
<b>Adjusted checkbook balance</b>		<b>\$ 277.90</b>

## Income Statement

An **income statement**, also known as a cash flow statement, illustrates cash inflows and outflows for a specific period. It resembles a budget in that it showcases income and expenses, but it differs in one critical way. A budget documents estimated income and expenses—it is a projection of what you believe you will spend within the categories you define. An income statement, however, is a true portrait of your real income and expenses—it is the overview of what you actually earned and spent within a given time.

Consumers develop and create an income statement to illustrate cash inflows and outflows for many reasons. Some people use income statements to compare their projected costs with their actual spending to better formulate a revised budget. Consumers also create cash flow statements if they are interested in taking out a loan or borrowing money. Financial institutions will want to assess a person's ability to manage money effectively before distributing a loan and an income statement provides a portrait of a consumer's spending and saving propensities. See *Figure 9.6* for an example of a personal income statement.

FIGURE 9.6

Income Statement	
	Current Period 12/1/XX-12/31/XX
<b>REVENUE</b>	
Part-time Job	\$1,500.00
Uber	\$150.00
<b>TOTAL REVENUE</b>	<b>\$1,650.00</b>
<b>EXPENSES</b>	
Rent	\$500.00
Food	\$400.00
Clothes	\$75.00
Gas	\$125.00
Entertainment	\$150.00
<b>TOTAL EXPENSES</b>	<b>\$1,250.00</b>
<b>NET INCOME</b>	<b>\$400.00</b>



An income statement is a portrait of your financial health by listing your cash flow through revenue and expenses.



## Time and Interest

In Chapter 9, you learned about the effects of saving strategies, including paying yourself first. By making saving a habit by paying yourself first, you can use time and interest to grow your money into a secure retirement. Developing good saving habits now will pay off in the future. To understand how savings can work in your favor, it is important to learn the mechanics of how time and interest make your money grow.



You can grow your money by putting your savings into interest-bearing accounts or investments that increase in value over time. Recall from Chapter 5 that the amount of money you save or invest is known as principal. The principal earns money, or increases in value, over time at an annual percentage rate. The amount of money earned on the principal is called interest. For example, putting your money in an employer-sponsored retirement account, such as a 401(k), will help it grow in value because of interest.

When considering how best to maximize interest, there are several factors to keep in mind.

### Save early.

The more time your money has to grow and accumulate interest, the higher your earnings will be.

### Consider the life span of your investment.

The fewer withdrawals you make, the more money you have available to earn interest.

### Know your interest rate.

The annual percentage rate, known as the interest rate, will also impact how much money you will earn. The higher the interest rate, the greater growth you will see.

### Simple versus compound interest.

The final consideration is the type of interest calculation used. There are two primary types of interest: simple interest and compound interest.

## Simple and Compound Interest

**Simple interest** is a method of calculating interest, determined by multiplying the principal (the original deposit or investment) by the annual interest rate, and then multiplying that result by the time, or number of periods, the money will be held to grow.

**Compound interest** is interest earned both on the principal and on the accumulated interest earned over time. Wealth can increase over time with regular investing and frequent compounding because you are earning interest on interest. Simple interest is called “simple” because it ignores the effects of compounding. Most interest earning accounts use compound interest rather than simple interest.

To understand the ways in which time and interest can help your money grow, it is helpful to compare the interest generated by simple and compound interest at various rates. *Figure 11.1* shows a sample comparison between simple and compound interest over a five-year period.

FIGURE 11.1

Assume the following: You have \$10,000 to invest in an account that earns interest at 6% annually for five years. Review the table below to understand how compound interest earns more than simple interest, even though the initial investment is the same.

### Simple Interest

$$i = p \times r \times t$$

**i** interest earned

**p** principal **\$10,000**

**r** annual interest rate **6% or .06**

**t** time or number of periods **5 years**

$$i = \$10,000 \times .06 \times 5$$

The interest earned on \$10,000 is **\$3,000**. By adding the principal to the interest earned, you can see that after 5 years, the \$10,000 is worth **\$13,000**.

### Compound Interest

$$FV = p(1 + r)^n$$

**FV** future value of the principal

**p** principal **\$10,000**

**r** annual interest rate **6% or .06**

**n** number of periods or time **5 years**

$$FV = \$10,000 \times (1 + .06)^5$$

The future value of \$10,000 is **\$13,382**. Since the principal was \$10,000, the amount of interest earned after 5 years is **\$3,382**.

In this example, the effect of compounding earns you an extra **\$382** on your original \$10,000 investment.

Since life circumstances change, the plan to reach your goals needs to remain flexible over time. Being able to see your financial goals in a timeline will help guide you in making smart decisions with regard to spending, saving, and investing.

A **financial timeline** displays a series of SMART goals or events in chronological order to map out personal finances over the course of your life. Recall that SMART goals are specific, measurable, achievable, results-focused, and time-bound.

Figure 12.1 illustrates a typical financial goals timeline demonstrating how short-, intermediate-, and long-term saving and investing strategies can help a person achieve a goal. For example, a short-term saving strategy could support the goal of establishing and maintaining an emergency fund, an intermediate saving and investing strategy could support a goal of accumulating a down payment on a home or vehicle, and a long-term investing strategy could help a person achieve a goal such as a financially secure retirement.



A financial timeline is like a ruler—it shows where you are with your goals and where you want to be in the future. Keeping your short-, intermediate-, and long-term saving and investing goals recorded on a timeline will help you identify your current savings projection before time gets away from you. You can identify and plot out financial goals over time using the timeline method.

The key to financial success is reviewing your progress as your financial timeline progresses and making changes and updates as needed. As you develop a financial timeline, review your savings progress often. When you sit down to plan your spending and pay your bills, be sure to review your savings progress and track the performance of your savings and investments.



### Notable Quotable

“Do not save what is left after spending, but spend what is left after saving.”

Warren Buffett,  
businessman, investor, and  
philanthropist

FIGURE 12.1

Stay focused on the financial goals you set. Make adjustments when necessary, such as cutting back on spending and putting extra money into savings and investments.

#### Goals at Age 18

- Save \$50 per week from my part-time job at the garden center
- Put aside \$400 to fund a road trip with friends to see a concert
- Save \$300 toward the purchase of a car
- Save 90% of my summer pay when I can work more hours to help with college expenses
- Have \$5,000 in the bank to start out on my own after college and to have a secure emergency fund



#### Goals at Age 25

- Enroll in my employer-sponsored retirement plan
- Contribute 10% of income to my retirement plan
- Save \$4,000 to replace my car without getting a loan
- Increase my emergency fund to cover at least 12 months of expenses
- Save enough money to put a 20% down payment on a house by age 30
- Put any extra income from pay raises into my savings



#### Goals at Age 45

- Have the majority of the money for my kids' college expenses saved
- Cut spending and revise my budget to help meet any unforeseen expenses
- Avoid borrowing money and continue to pay for goods and services as I go
- Re-evaluate my retirement plan and increase contributions if necessary
- Build equity in my house and pay off my home loan by age 50



#### Goals at Age 65

- Evaluate my retirement savings, adjust my budget accordingly, and monitor investments
- Have \$300,000 saved to buy a home in a vacation spot without having to borrow money
- Be ready to retire by age 65
- Have enough savings to provide me with a \$105,000 per year income



## Checks



On average, only 21% of account holders faithfully reconcile their checking account.

Source:  
statisticbrain.com

Prior to the use of debit cards, writing a check was the main avenue for paying merchants for goods and services. A check is a written, legal document that orders your bank to pay a sum of money out of your account to a specified person or business. A consumer must open a bank account to write checks. Most financial institutions charge a fee to order checks. Checks are still widely used throughout the United States.

Even though most checks are processed electronically in today's business environment, it is still important to know how to write a check, the steps of which are shown in Figure 13.4. Checks include pre-printed information, such as the account holder's name and address, the name of the financial institution, a bank routing number, and the account holder's account number. The **routing number** is a nine-digit code based on the bank location where the account was opened. It is the first set of numbers printed on the bottom of the check. The account holder's bank account number is the second set of numbers printed on the check.

FIGURE 13.4

### Steps to Writing a Check

- 1 Fill in the date
- 2 Write the name of the recipient
- 3 Fill in the numeric amount of the check to the right of the \$ sign

JOHN DOE  
123 PALACE ST  
ANYWHERE CITY, MI 00022

AMERICAN BANK, INC. 0025

1 DATE November 3, 20XX

PAY TO THE ORDER OF Jane M. Doe

2 \$ 500.00

3 Five Hundred Dollars and 00/100 DOLLARS

4 MEMO Happy Birthday

5 John Doe  
AUTHORIZED SIGNATURE

6

⑆789123456⑆ 123789456123⑈ 0025

- 4 Fill in the check amount in written form
- 5 Indicate what the check was for
- 6 Sign the check exactly as you did when you set up the account

When you sign or endorse the back of a check, you are authorizing the bank to do something with it. Figure 13.5 illustrates three common types of endorsement options.

FIGURE 13.5

Blank Endorsement	Restrictive Endorsement	Special Endorsement
ENDORSE CHECK HERE X <u>John Doe</u> DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE	ENDORSE CHECK HERE X <u>For Deposit Only</u> <u>John Doe</u> DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE	ENDORSE CHECK HERE X <u>Pay to the order of Jane Doe</u> <u>John Doe</u> DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
Just the payee's signature; payable to the person cashing the check	Transfers funds for a particular purpose, such as a deposit into a specific account	Limits the transfer of funds to a particular person

After you write a check, it should be recorded in your check register. A checkbook register is a booklet that is used for the purpose of tracking and balancing your checking account. It usually comes with your checks and conveniently fits in a checkbook cover. Even if you are paying all or most of your bills online, keeping a register is a smart and convenient way of tracking your spending. Record all bills paid online, deposits, ATM withdrawals, debit card payments, and checks written so that you will always know how much cash is actually available. The sample checkbook register in Figure 13.6 illustrates how to record common transactions.

FIGURE 13.6

Number	Date	Transaction	Withdrawal	✓	Depoist	Balance
	1/14	Direct deposit			1258 16	1258 16
102	1/22	Cable	82 95	✓		1175 21
	1/24	ATM	160 00			1015 21
	1/28	Direct deposit			1258 15	2273 36
	1/28	Transfer to reserve account	100 00			2173 36
103	1/31	VISA	688 75			1484 61
104	2/1	Rent	850 00			634 61
	2/13	Debit - Stop-n-Shop	159 50			465 11



Go Figure

Math is a valuable tool in budgeting for your fixed and variable living expenses, such as rent, car payments, bills, and food. Now that you understand more about various ways to fund your postsecondary education, you will also need to consider how the cost of tuition will fit into your overall budget. Read Jerome’s story below to learn how he handles tracking his grant and loans for school.

Jerome is starting college in the fall, and he’s been feeling overwhelmed with how to organize his funding options for the upcoming academic year. He decides to meet with his financial aid counselor before school starts to help him understand how to calculate and manage his monthly loan payments. Together, Jerome and his counselor come up with the following chart.

Grants	Jerome qualified for the Pell Grant.	\$5,800
Loans	Jerome’s FAFSA application indicated that he is eligible for \$45,000 in student loans. He has decided to accept the full amount from the federal government.	\$45,000
Fixed Interest Rate	Jerome’s loan is unsubsidized, so he will be required to pay 4.5% interest on the amount he borrowed while he’s in school.	4.5%
Loan fee	Jerome’s loan fee on his unsubsidized loan is 1.066%.	1.066%
Loan Term	Jerome wants to pay off his loan as soon as possible so he has chosen the shortest loan term.	10 years

Your Turn

Based on Jerome’s planning chart, what would his monthly payment be for a loan term of 10 years? What about a 15- or 30-year loan term? What are some of the advantages and disadvantages of having a longer-term loan versus a shorter-term loan.



As you prepare a postsecondary plan, it is important to consider how over-borrowing will affect your financial future. Taking on too much debt before you have a full-time job can lead to long-term financial consequences.

Chapter Review

Paying for Education and Training

In this chapter, you learned about funding opportunities from the government and private institutions to help pay for postsecondary training. You compared the advantages and disadvantages of loans, grants, scholarships, and other sources of funding. The process of funding your postsecondary education and training all begins with the FAFSA application, which allows you to be eligible for a multitude of funding options. Funding education and training opportunities can have long-term financial impacts on your life, so it is essential you research and understand the complexities of each option before making commitments.

Instructions

Demonstrate your knowledge of this chapter by completing the following review activities.

**Note:** If you do not have access to the eText of this book, Chapter Review worksheets will be provided by your instructor.

Define Key Terms

Apply your knowledge of the chapter reading by defining key vocabulary terms.

Test Your Knowledge

Test your knowledge of the chapter reading by answering short answer questions.

Read and Write

Review Dollar Dilemmas about Brigitte, who is the first in her family to attend college and is unsure of how to pay for her education. Apply what you have learned by writing an essay about strategies she can use to finance her college career.

Listen and Speak

Apply your knowledge of the chapter by developing a postsecondary plan and creating an artifact to summarize your plan in a presentation.

Create and Design

Use what you have learned in this chapter to create a chart calculating potential monthly loan payments based on your eligibility from the FAFSA 4caster.



The terms “bear” and “bull” are used to describe how investors see the ups and downs of the stock market. A bull market is the optimistic view that stock prices will continue to rise and good market conditions are on the horizon. When stocks are down or there is pessimism that prices will continue to fall, we have a bear market.

Source:  
wallstreetsurvivor.com



## Types of Stocks

There are many different types of stocks and people tend to choose the ones that best meet their investment objectives. Below lists some of the more popular stocks available on the market.

### Common stock

**Common stock** is the most basic form of ownership in a corporation. The level of ownership is determined by the number of shares owned. Common stockholders have voting rights, which means they have a proportional authority to vote on matters affecting the company, such as who serves on the Board of Directors.

### Preferred stock

**Preferred stock** is more of a fixed-income stock that pays fixed dividends to its shareholders. Preferred stockholders usually do not have voting rights, but they receive dividends before common stockholders do. If the company goes under, preferred shareholders will be compensated before common shareholders.

### Growth stock

**Growth stock** companies do not normally pay dividends to their shareholders, but rather reinvest earnings back into the company. Growth stocks are shares of stock in a company that has earnings that are expected to exceed the norm.

### Income stock

**Income stocks** are attractive to the more conservative investor, as they are less volatile and pay regular dividends, often increasing steadily.

### Blue Chip stock

**Blue Chip stock** is a descriptor often used for the stock of a well-established company that pays high dividends, such as General Electric, AT&T, and UPS.

Some stocks pay dividends to their shareholders. Dividends are distributions of cash or stock as a way of sharing the company's earnings with its shareholders. Most dividends are paid four times a year on a quarterly basis. For example, imagine you own 1,000 shares of General Electric stock and the company has declared a dividend of \$.88 per share for the coming year. That means that you would receive a quarterly dividend check of \$.22 times the number of shares you own. As shown in *Figure 18.5*, you would receive \$220 each quarter. This is additional income on your investment.

FIGURE 18.5



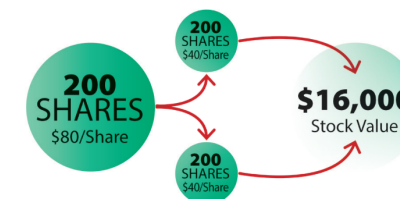
Sometimes companies want to make their stock affordable for more people to buy because companies raise capital by selling shares to investors. For example, to attract more investors, a company can announce a stock split.

A stock split increases the number of shares outstanding without changing the total value of outstanding. In other words, the shares available on the market are divided in number and cost, but the total value of these shares remains the same. *Figure 18.6* illustrates an example of how a stock split works.

FIGURE 18.6

Jack owns 200 shares of ABC Energy Corp stock, which is trading at \$80 per share. His investment is worth \$16,000. When the company announces a two-for-one stock split, Jack will own 400 shares worth \$40 per share. His total investment is still \$16,000.

Jack invested for the long-term, so he is happy about the split and hopes that the price per share will climb back up again, thus increasing his overall investment value.



A two-for-one stock split doubles the number of shares outstanding, but the price per share is half of what it was at the time of the split. Often the split results in renewed investor interest, which the company hopes will have a positive impact on the stock price going forward.



SUBJECT AREA:

Personal Finance

# Personal Finance for Teens

A Foundation for a Lifetime of  
Financial Literacy







Start Here

You have to get your Biology grade up by the end of the quarter. You are getting your license in six months and need half of the insurance money before your parents will let you drive, and your guidance counselor wants you to create a list of potential colleges you would like to attend. How will you accomplish all of this?

The solution to accomplishment is to set goals and formulate a plan to achieve them one step at a time. In this chapter, you will learn about setting goals and how to apply strategies for achieving them.



## What are Goals?

75% of US students set goals for themselves.

16% of teens keep track of their goals using their mobile phone.

Source: Stageoflife.com

**Goals** are something that you strive to achieve over a certain amount of time. They change often, because as you accomplish one goal, you then move on to others. Goal setting guides us as we plan our future and also influences our daily choices. Identifying and achieving goals gives you a sense of accomplishment, because you achieve something that you want to *be*, *do*, or *have* at some time in the future.

## The Importance of Setting Goals

Goals give you direction. They help you develop a plan to get where you want to be in life. If you want to go to college and earn a degree, then you have to plan ahead by getting good grades, taking the required tests, saving money, visiting colleges, and getting your applications submitted on time.

As teens, goal setting will help you with:

### Skills

- Set priorities
- Recognize your skills and abilities
- Time management
- Follow a sequence of action steps
- Develop and follow a plan

### Goal Setting

### Results

- Be inspired in life
- Get a sense of the “big picture” of your life
- Turn dreams into reality
- Stay focused
- Build your self-image



## SMART Goals

Setting clearly defined goals can give you a vision for your future, begin the process of building financial independence, and provide motivation to push you forward. A popular acronym used to describe the goal-setting process is **SMART**.

**SMART goals** are *Specific*, *Measurable*, *Achievable*, *Results-focused*, and *Time-bound*. Figure 1-A illustrates the concept of SMART goals, and provides examples of the “smart” way to state your goals:

FIGURE 1-A

This is the SMART Way to State Your Goals		
<b>Specific</b> <b>Who, what, where, when, and why?</b> There is a greater chance of success when the goal is specific rather than general.	<b>✗ Not Specific</b> I will improve my Biology grade.	<b>✓ Specific</b> I will <b>raise my Biology average</b> by at least five points by the end of the quarter.
<b>Measurable</b> <b>How much and how many?</b> There should be criteria for measuring the progress toward the outcome of the goal.	<b>✗ Not Measurable</b> I will save money from my summer job this year.	<b>✓ Measurable</b> I will save <b>\$2,000</b> by August 15 from my summer job by depositing <b>\$200 per week</b> .
<b>Attainable</b> <b>Dream big, but be real.</b> The goal should be reasonable and reachable.	<b>✗ Not Attainable</b> I will be a millionaire by age 25.	<b>✓ Attainable</b> By age 25, I will <b>begin saving 10% of my income</b> each year.
<b>Results-focused</b> <b>Eye on the prize.</b> The goal should be something that you are focused on achieving.	<b>✗ Not Results-focused</b> I will write a research paper.	<b>✓ Results-focused</b> I will <b>complete my Senior Project research paper</b> by the December 1 deadline.
<b>Time-based</b> <b>A goal should be set within a time frame.</b> Not having a time frame takes away from any sense of urgency.	<b>✗ Not Time-based</b> I will start saving money.	<b>✓ Time-based</b> I will save the \$100 I need for my concert ticket <b>by three weeks from today</b> .







Start Here

You've had your heart set on buying the new iPhone for several months now. The cost is much higher than you know you can spend, but you also have convinced yourself that not only do you need a smartphone, but you need to have the best smartphone on the market. Do you really *need* it, or do you *want* it?

*It is important to recognize the difference between needs and wants because prioritizing spending means first using money to buy needs and then wants. Prioritizing helps you spend money smartly, which in turn helps you to achieve your financial goals. In this chapter, you will learn how to identify needs and wants and how your values influence how you spend money.*

“Be deliberate about spending. Don't just spend without thinking about it first. That's how we get into trouble.”

Ron Lieber  
New York Times  
columnist

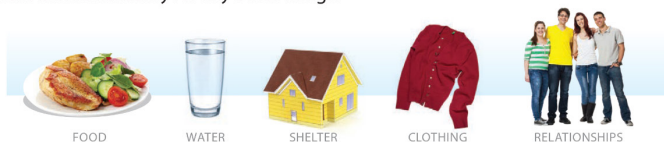
## The Difference Between Needs and Wants



Understanding the difference between needs and wants is a good first step in learning how to spend your money. Let's take a closer look at the difference.

### What is a need?

Your **needs** are things that are essential, regardless of your financial condition. These things are necessary for maintaining life, and unless these needs are met, there is little necessity for any other things.



FOOD

WATER

SHELTER

CLOTHING

RELATIONSHIPS

### What is a want?

Your **wants** are things that you might wish to have, but not having them will not threaten your existence. Wants are things you can live without, but would very much like to have.



VIDEO GAMES

SMARTPHONE

DESSERT

FLAT-SCREEN TV

VACATION

## The Difference

You will find that a lot of the things which you assumed were an absolute necessity are in reality nothing more than wants. Food, shelter, and clothing to sustain life are needs. However, that doesn't mean that going out to eat five times a week, living in a mansion, and wearing designer clothes qualify as needs.

Once you distinguish between the two and look at your spending objectively, you should simply ask yourself whether or not an item or service that you are about to purchase is a need or merely a want. It is okay to want things and get them, as long as you can afford them. Refer to Figure 2-A for examples of needs and wants:

FIGURE 2-A

Needs		Wants
You <b>NEED</b> food to sustain life	BUT...	You <b>WANT</b> to start each day with a caramel latte from Starbucks
You <b>NEED</b> clothes	BUT...	You <b>WANT</b> to add designer jeans to your collection
You <b>NEED</b> shoes	BUT...	You <b>WANT</b> \$110 neon green cross-training sneakers



We all have differing opinions of what is needed versus wanted. As consumers, we spend according to our needs and wants.

NOTABLE & QUOTABLE

## The Economics of Spending

Our needs and wants are unlimited, but we have limited resources such as money and time. Buying decisions play a large role in how we manage our money. As consumers, we drive the economy by our level of spending.

**Economics** is the science of how people choose to use resources. Economic resources include things like the money, land, material goods, and human knowledge and labor used to produce goods and services.

Our **economy** is an economic system that encompasses the production, distribution, and consumption of goods and services. **Consumption** is using up those goods and services. Consumers make decisions every day as to how to spend their money and maintain a certain standard of living.



“Economics is all about consumption. People either spend money now or they use financial instruments—like bonds, stocks, and savings accounts—so they can spend more later.”

Adam Davidson  
Co-founder/Co-host of  
Planet Money



Start Here

Do you have unlimited amounts of money to buy all the things you want? Chances are you probably have to plan and work for the things that you need and want. Creating a financial plan will set the roadmap for how you will save, spend, and invest your money.

*Planning carefully and making sound decisions will help you achieve your financial goals. In this chapter, you will learn about financial planning and how to make informed decisions.*



## The Decision-making Process

Sometimes making a decision is a split-second process, while other decisions take careful consideration. Planning for your future requires many important decisions, such as what to do for a career, whether to go to college and where to go, and how to build a secure retirement fund to live off of when you are no longer working.

Making decisions plays an important role in managing your personal finances, and includes preparing and following a financial plan. With every decision comes a consequence: good decisions can save you money, while poor decisions can be costly. Therefore, your decision to purchase a product, which job to choose, or where to invest your money should be based on careful consideration of alternatives and other choices you can make. Remember that everything has an opportunity cost and in order to make one choice, you have to give up another choice. Understanding the opportunity cost of each decision will help you make the best choices to achieve your goals.

The **decision-making process** is choosing between two or more options or courses of action. Developing good decision-making skills will allow you to make better decisions faster.

Pizza or burger?

What's my next move?

What should I do after high school?

What courses should I take?

iPhone or Android?



Should I or shouldn't I?  
How will you know it's the right decision if you never make it?



### Tech It Out!



### Take a Virtual Tour

One of the biggest decisions you will make while in high school is what to do after graduation. If you plan on going to college, virtual tours are a great way to see a college without having to physically travel there. Most colleges invest a lot of time and money creating websites that will give perspective students a "virtual" experience. There is also lots of information available online about what it is like to build a military career or work as an apprentice in an industry trade (see Chapter 4 for more on apprenticeships).

**Visit a few campuses on the Web! Or check out military careers at [www.goarmy.com](http://www.goarmy.com) or apprenticeships at [www.careeronestop.org](http://www.careeronestop.org).**

## Five Steps to Decision-making

Making a decision is the act of making a choice. If the decision is what to have for lunch, the choice should be simple. If you are choosing classes for next year or what to do after graduation, then your choices will have an impact on your future.

Knowing how to make good decisions is important and can be learned by following the five steps below:



Let's apply the above steps to a real-world example:

- Step 1:** The *problem* is that you need a summer job.
- Step 2:** You *gather information* about two job opportunities—one as an office clerk at \$9 an hour, 40 hours per week; and another as a beach parking lot attendant, at \$10 an hour 35–45 hours per week, including weekends.
- Step 3:** You *evaluate your options*—being an office clerk will provide future business networking opportunities, but pays less; as parking attendant you will make more money, but will have to work weekends.
- Step 4:** You *make the decision* to make more money over the summer.
- Step 5:** *Implement your decision* by taking the job at the beach.

Should you consider the "opportunity cost" of your decisions?

You've got a summer job at the beach. But getting business experience would look better on your resume and possibly offer more networking opportunities for future employment or internships.





## Developing a Strong Resume and Cover Letter

You only have one chance to make a first impression. The first introduction you will likely have with a potential employer is your resume and cover letter.

70% of Fortune 500 hiring professionals surveyed said resumes sent electronically are preferred.

Source: *Forbes.com*

A **resume** is a professionally presented document that introduces you to a prospective employer by highlighting your education and work experience, as well as any clubs, sports, or organizations you have participated in. Awards or accomplishments that may be related to the job you are applying for are also included. Resumes are often presented with a cover letter.

A **cover letter** is a form of communication that introduces your resume to its recipient. In addition, a cover letter should clearly state what you are applying for, what attributes you bring to that job, and it should request an interview.

### Tech It Out!

#### Electronic Resume

Although you will need a nice paper copy of your resume for a face-to-face interview or a job fair, a digital resume is needed for e-mailing your resume or posting it to an online job site. Be sure to send the resume file to yourself first so that you can see how it looks to the employer receiving it. In addition to paper and digital resumes, some job applicants create a website to host an online portfolio detailing items on their resume or use social media sites such as LinkedIn to create a “web” resume. When applying for a job, ensure that all of your social media accounts contain appropriate content since many prospective employers will check out your pages to see that you are who you say you are.



## A Strong Resume

A resume is a professional introduction that is meant to encourage the opportunity for an interview, which could lead to a job offer. It is important to convey how you can meet the needs of this organization by showcasing your abilities and skills. Never put any false information on your resume.

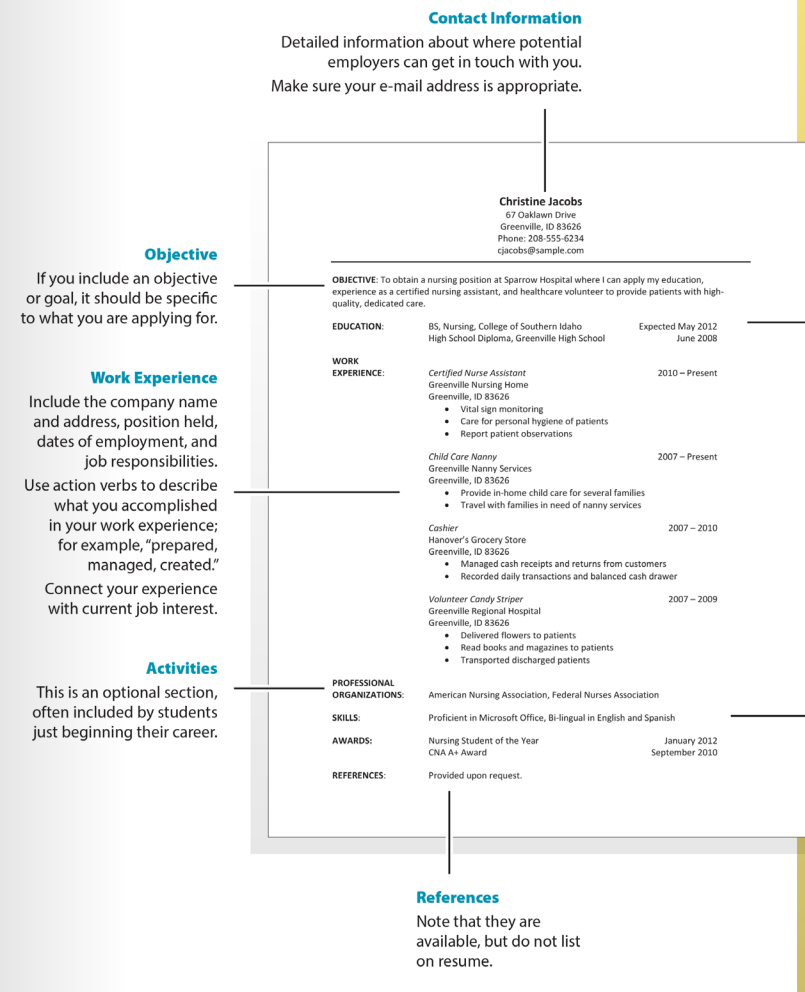
Typical categories of information found on a resume include:

- Name and contact information
- Objective or summary statement
- Education
- Work/volunteer experience
- Extracurricular activities that are relevant to the job
- Special skills
- Awards and accomplishments

## Parts of a Resume

Your resume should be concise. The design should be professional and easy to read. Choose one font and create a hierarchy of importance for the information by using bold or a slightly larger font size. Research resume samples such as the one shown in *Figure 5-C* below:

FIGURE 5-C



Check It Out!

- The average time recruiters spend looking at a resume is five to seven seconds.
- 76% of resumes are discarded for having an unprofessional e-mail address.



Start Here

In Chapter 8, you learned about the importance and benefits of paying yourself first. Start early, make saving a habit, and watch time and interest grow your money into a secure retirement.

*Developing good saving habits now will pay off in the future. In this chapter, you will learn the concept and the mechanics of how time and interest make your money grow.*



NOTABLE &amp; QUOTABLE

“Building wealth is simple. It’s not easy, but it’s simple. Make more than you spend and invest the difference wisely. Add *time* to that equation, and that is how you build wealth.”

Rob Berger  
Attorney & personal  
finance and investment  
blogger



## How Time and Interest Make Your Money Grow

You can grow your money by putting your savings into interest-bearing accounts or investments that increase in value over time. For example, putting your money in an employer-sponsored retirement account, such as a 401(k), will help it grow in value because of interest.

There are two types of interest calculations used. They are:

1. Simple interest
2. Compound interest



**Simple interest** is a quick method of calculating **interest**, determined by multiplying the **principal** (your original deposit or investment) by the annual interest **rate**, and then multiplying that result by the **time**, or number of periods, the money will be held to grow.

**Compound interest** is **interest** earned on the **principal** and on the **accumulated interest** earned over **time**. Essentially, you are earning interest on interest. Simple interest is called “simple” because it ignores the effects of compounding.

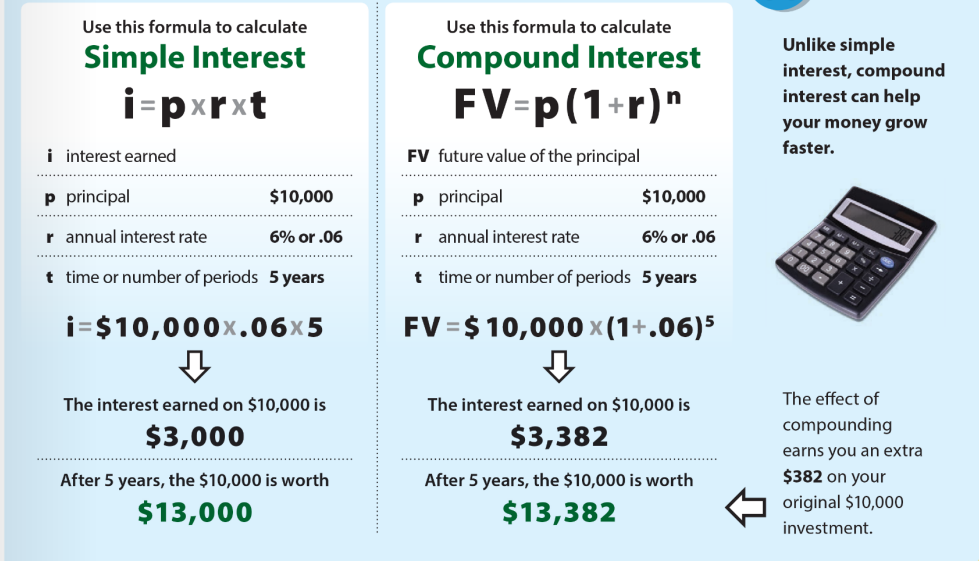
*Most interest earning accounts use compound interest, not simple interest.*

On the following page, you will compare the difference between the earnings on the same investment amount using simple interest and compound interest.

## Simple and Compound Interest Comparison

**Assume the following:** You have \$10,000 to invest in an account that earns interest at 6% annually for five years. Review *Figure 10-A* below to understand how compound interest earns more than simple interest, even though the initial investment, interest rate, and time frame are the same.

FIGURE 10-A



## Compound Interest Year by Year

Let’s break it down and look at the interest growth year by year. Refer to *Figure 10-B* to see how the interest accumulates not only on the principal, but on the interest as well.

FIGURE 10-B

Year	Beginning Balance	Interest Calculation	Interest Earned (6%)	Ending Balance
1	\$10,000	\$10,000 x .06	\$600	\$10,600
2	\$10,600	\$10,600 x .06	\$636	\$11,236
3	\$11,236	\$11,236 x .06	\$674	\$11,910
4	\$11,910	\$11,910 x .06	\$715	\$12,625
5	\$12,625	\$12,625 x .06	\$757	<b>\$13,382</b>

This calculation assumes that interest is compounded once at the end of the year.

**Note:** Interest compounded monthly would earn **even more**, because the compounding happens **12 times** during the year instead of just once.



## How Interest Rates Impact Money Growth

The **interest rate** (the rate of return or growth rate) that you can earn on your money has a substantial impact on what your savings will be worth in the future.

The average interest rate on a savings account is around .29%. Over time, money kept in this type of account will have very little growth.

If you have **\$4,000** in your savings account that pays **.29%** and compounds monthly, at the end of two years you will have **\$4,023**. That's an earnings of only **\$23**. However, the same \$4,000 would grow to **\$4,326** in an account earning **4%** in the same time period, earning **\$326**.

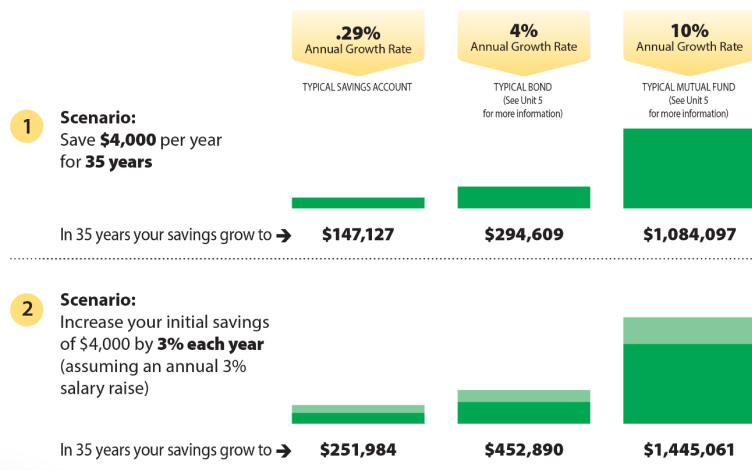
Let's look at the impact of interest on a larger scale. Refer to *Figure 10-C* to calculate a stream of payments into savings over a long period of time at different growth rates.



FIGURE 10-C

### Save at the Highest Interest Rate Available

The following scenarios illustrate how your money grows at three different growth rates. You begin saving \$4,000 per year. You do this over your working life of 35 years. Assume that the investment is made at the end of the year and compounds annually.



Research investment rates, and start early and small. Saving just \$25 per month in a decent investment will give you almost \$5,000 in 10 years.

## Using Technology to Calculate Time Value of Money

There are many technology resources available to help you calculate and see the effect of interest on the growth of your money over time. There are financial software applications, financial calculators, and apps. Free online calculators are also available and are simple to use. Below, you will research several different online calculators available.

### Tech It Out!

Check out these free online calculator resources:

- [calculatorsoup.com](http://calculatorsoup.com)
- [financialcalculator.org](http://financialcalculator.org)
- [bankrate.com](http://bankrate.com)
- [mycalculator.com](http://mycalculator.com)

Online calculators may look different, but they require the same information.

**Choose one of the online calculators, and use the information below to determine the Future Value of an Annuity with growth:**

Suppose you begin saving 10% of an annual salary of \$40,000 in an investment account averaging 8% growth per year. You increase your savings by 3% each year, since your salary will most likely increase. Forty years later, you will have **\$1,476,999!**



SAMPLE INPUT		
Number of Periods (t)	<input type="text" value="40"/>	• The number of years in your savings plan; in this case, 40 years.
Interest		
Rate per Period (R)	<input type="text" value="8"/> %	• Assume an average of 8% growth per year in the right investment.
Compounding per Period (m)	<input type="text" value="1"/>	• Assume that the compounding is annual, or one time per year.
Cash Flow (Annuity)		
Payment Amount (PMT)	\$ <input type="text" value="4000"/>	• Begin by saving 10% of your \$40,000 salary, or \$4,000 per year.
Growth per Payment (G)	<input type="text" value="3"/> %	• Assume that your investment will increase by 3% per year.
Payments per Period (q)	<input type="text" value="1"/>	• Assume that you will put the money in the account all at once.
Payment at Period (T)	<input type="text" value="end (ordinary)"/>	• The savings goes into the investment account at the end of the year.
<b>Answer</b>		
Future Value (FV) of the Annuity Due		
<b>\$ 1,476,999</b>		• This savings plan makes you a millionaire!



Start Here

As a result of new technologies and the Internet, the electronic banking system satisfies the demand of anytime, anywhere service for its banking customers. Although checking accounts are widely used to pay bills and meet purchasing needs, we manage those accounts differently with the use of technology.

*In this chapter, you will learn in more detail about using a checking account, filing your income taxes, and how to safely use online banking features.*



## Using a Checking Account

Checking accounts are an easy way to manage the inflow and outflow of cash. Writing checks is becoming an outdated way to pay your bills, buy groceries, or pay for a new pair of sneakers. Because of online bill paying systems, ATMs, and debit and credit cards, written checks are becoming a lost art. However, checks are essential when you are sending payments through the mail.

## Checking Account Basics

Important items that make up a checking account include the following:

### Deposits

A **deposit** is money placed in an account in a bank or other financial institution using a deposit slip or via direct deposit.

**Direct deposit** describes an electronic transfer of money directly from one payer to an account. Many employees prefer to have their paycheck direct deposited, so that on payday, the money is available—which means no trip to the bank to deposit the check.

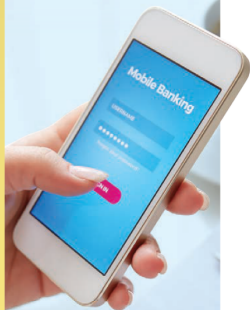
#### Direct Deposit is a Simple Process

All your employer or payer needs is your bank's routing number and your account number.



The average American spends five hours each month doing their banking. Nearly 80% of checking account holders bank online.

Source:  
thefinancialbrand.com



## Withdrawals

Money can be withdrawn electronically or by writing a check. A **check** is a written, legal document that orders your bank to pay a sum of money out of your account to a specified person or business.

If you need to write a check, it is important to fill out the check properly. Follow the steps for writing a check as illustrated in Figure 12-A:

FIGURE 12-A

### Steps to Writing a Check

- 1 Fill in the date
- 2 Write the name of the recipient
- 3 Fill in the numeric amount of the check to the right of the \$ sign



- 4 Fill in the check amount in written form
- 5 Indicate what the check was for
- 6 Sign the check exactly as you did when you set up the account

Other withdrawals include ATM withdrawal, debit card purchase, and transfer of funds to either another account or to pay a bill, otherwise known as **Electronic Funds Transfer (EFT)**.

A **debit card** looks like a credit card, but the money is deducted directly from the customer's checking account when a purchase is made.

Although most checking account holders use electronic alternatives to written checks, such as debit cards, online bill paying, and automatic electronic payments, over **18 billion** checks clear each year through the banking system.



The **Automated Clearing House (ACH)** is a secure payment transfer system connecting all US financial institutions. Payments are held in the ACH until they are cleared to their final destination.





Start Here

Your success with finances depends on the choices you make. You can choose to pay for goods and services with cash, debit, or check or you can make the choice to pay for something on credit, which is like borrowing money that you promise to pay back later. Credit isn't "good" or "bad," but it can be both depending on how you use it. If you decide to take on credit, it's important to consider the lowest interest rates and paying back the money in full and as quickly as possible in order to maintain a strong credit history.

*In this chapter, you will learn about credit, how to use it wisely, and how to maintain a positive credit history.*



### Be Careful How You Borrow

The average US household credit card debt is **\$15,611** and the average student loan debt is **\$32,264**. Remember: debt is spent future income!

Source: usnews.com

## Using Credit

**Credit** is money that a financial institution or business will allow someone to use to obtain goods or services before payment, with the understanding that the money will be paid back in the future.

For example, if you need to pay your car insurance bill but you are short on cash this month, you could make the choice to charge what you owe to a credit card. That **debt**, or money owed, needs to be paid back according to the terms of the credit card.

The credit a person has typically determines how much they will be allowed to borrow, for how long, and at what interest rate. People use the credit they have with financial institutions, businesses, and individuals to obtain loans to buy what they need or want.

## The Cost of Borrowing

It is important to understand how credit works before borrowing to make a major purchase. Whether you are using a credit card or taking out a loan, there is a cost involved for borrowing money. A **loan** is an extension of money from one party to another, agreeing that the money will be paid back with interest. The **interest** is expressed as a percentage rate over a period of time and is considered the cost of borrowing money. The components of a loan are:

### Principal

The amount of money borrowed for the loan

### Interest

The money paid for use of the money borrowed

### Term

The period of time during which a loan is paid

As you learned in Chapter 10, interest is calculated as **simple interest** (calculated only on the original principal amount) or **compound interest** (calculated based on the principal plus accumulated interest). Compound interest is more common in loans because it yields more to the lender of the money.

## Annual Percentage Rate

Federal law requires that lenders provide disclosure to consumers about the interest rates they charge. The **Truth in Lending Act** requires lenders to disclose the **annual percentage rate**, or APR. The **APR** is the interest rate on borrowed funds expressed as a percentage for an entire year. Ideally, you want to obtain credit where the APR is the lowest possible.

The APR does not include the effects of compounding. However, the **effective interest rate** (the amount that determines the finance charge) is compounded daily. In other words, the interest is calculated and added to the balance you owe each day.

Credit card interest is charged from the date of purchase. If you pay the balance in full each month, you do not have to pay the interest. If the balance is not paid in full, the interest going back to the date of the purchase will show up on the following month's bill. The interest charges can really add up!

Figure 13-A illustrates an account summary example on a typical credit card statement. Notice the impact of paying interest on borrowed money:

FIGURE 13-A

The APR is divided by a 12-month billing cycle to obtain the **Monthly Periodic Rate**.

$$12.5\% \div 12 = 1.042\%$$

The **Average Daily Balance** is multiplied by the **Monthly Periodic Rate** to obtain the **Finance Charge**.

$$\$605.00 \times .01042 = \$6.30$$

The **Finance Charge** is added to the **Previous Balance** minus any **Payments**, plus this credit cycle's **New Charges** to obtain the **New Balance**.

Reference Number	Posting Date	Transaction	Debits	Credits & Payments
001238	0608	The Cooked Goose	95.00	
042167	0609	Network Cable - Auto Pay	55.00	
707165	0614	ABC Airlines	251.45	
487120	0621	Ocean Mist Inn	120.00	
99111	0625	Payment - Thank You		40.00

Previous Balance	Payments	New Charges	Finance Charges	New Balance
\$421.75	\$40.00	\$521.95	\$6.30	\$910.00

Average Daily Balance	Monthly Periodic Rate	Annual Percentage Rate (APR)	Finance Charge	Credit Available
\$605.00	1.042%	12.5%	\$6.30	\$4,090.00



When you borrow money, it is very important to understand how the payment is determined and how much you will actually have to pay back.



Loan fees and paying interest means that borrowing money costs money.



## Being a Homeowner

Purchasing a home is probably the biggest financial decision you will make. Like any major purchases, buying a home requires research and careful planning. Here are some important things to consider:



### How does a municipality calculate property taxes?

To meet their municipal budget, let's say a city sets its tax rate at **\$19.41** for every thousand dollars a property is worth.

That means the tax on a property assessed at **\$212,000** is:

**\$212 x \$19.41**  
or **\$4,114.92** per year

Divide that by 12 and you get **\$342.91** per month.



### Know Your Budget

Buying a home often requires getting a loan. Determine how much you can afford to spend each month to own property. Your house payment should not exceed 28% of your monthly income.

The amount you will be paying each month is not just the loan payment; it also includes property taxes and homeowners insurance. These additional expenses can impact the monthly payment substantially.

The cost of **homeowners insurance** is dependent on the replacement value of the house and varies from region to region. Insurance is normally quoted on an annual basis, and is divided by 12 to determine the additional monthly cost.

**Property taxes** are the fees assessed on real estate and collected by a local municipal government. This tax is calculated on a home's **assessed value**, which is the value assigned to a property for tax purposes.

Follow the example in *Figure 14-F* to calculate the total monthly house payment. This payment, often referred to as **PITI**, represents the **Principle** plus the **Interest** plus the property **Taxes** plus the **Insurance**.

FIGURE 14-F

Monthly Cost of a 30-Year Mortgage with a 3.9% Fixed Rate		
Home Purchase Price		\$210,000
Down Payment	–	\$40,000
<b>Amount Needed to Borrow</b>		<b>\$170,000</b>
Loan Payment (Principal + Interest)	+	\$801.84
Property Taxes per Month (\$19.41/Thousand)	+	\$342.91
Property Insurance per Month	+	\$53.14
<b>Total Monthly Payment</b>		<b>\$1,197.89</b>

As a homeowner, you will have to pay for maintaining your own property. Therefore, your monthly budget should also allow for building up a reserve fund for home maintenance and repairs.

## Determine the Type of Property

There are several options available when purchasing real estate. Before house shopping, investigate the types of property that suit your needs. The three most common property types are described in *Figure 14-G*:

FIGURE 14-G

Single Family Home	Condominium	Multi-family Home
		
<i>A one-unit dwelling Can be detached, with open space on all four sides, or semi-attached, sharing a wall with another dwelling</i>	<i>Individual ownership of a dwelling that is part of an association of facilities that serve as a multi-unit property A Homeowners Association fee takes care of exterior and common area maintenance</i>	<i>Dwelling designed to house several families in separate housing units Popular investment property for rental purposes—tenants essentially help pay the mortgage</i>

## Enlist Professional Expertise



Buying and selling property can be a complicated process. Unless you are a real estate expert, it makes sense to enlist the services of a real estate professional and let them handle the details of the sale. The seller of the property pays the real estate commission. The **commission** is a percentage of the sales price, usually 5–6%, and is how an agent is paid.

## Research Financing Options

Purchasing a home often requires borrowing a considerable amount of money. You will need to research different lenders and evaluate their interest rates and loan requirements. A lender will determine how much of a loan you qualify for, but you should know how much you can borrow.

Most lenders will use 28% of your monthly gross income as a guide to determine how much you can afford to pay each month. In addition, they will not want your total debt to exceed 36% of your income. Total debt includes your housing costs (PITI) plus any car payment, school loans, credit card bills, or other debt obligations you have.

Once you know how much you can afford and have decided on a lender, you will need to apply for a mortgage.

### Don't forget the cost of furnishing your new place!

New homeowners purchase more products and services in the first six months after moving than an established resident spends in a two-year period.

Source: Experian.com





## Chapter Review

### Savvy Spender

In this chapter, you learned about making and financing major purchases. This review will help you to reinforce and apply the concepts you learned in this chapter.

#### Part 1 • Vocabulary



### Know Your Terms

Using the information from this chapter, define the following terms:

- |                             |                         |                          |                       |
|-----------------------------|-------------------------|--------------------------|-----------------------|
| 1. Acquisition fee          | 6. Closing costs        | 11. Landlord             | 16. Points            |
| 2. Adjustable rate mortgage | 7. Disposition fee      | 12. Lease                | 17. Pre-qualification |
| 3. Assessed value           | 8. Down payment         | 13. Loan term            | 18. Property taxes    |
| 4. Capitalization cost      | 9. Escrow               | 14. Mileage overage cost | 19. Sales tax         |
| 5. Closing                  | 10. Fixed rate mortgage | 15. Mortgage             | 20. Trade-in value    |

#### Part 2 • Communicating Effectively Through Writing



### What's Your Plan?

#### Read the following:

You are fresh out of college and starting a new job about 100 miles from your hometown. Living at home is not an option, so you found an affordable apartment. You can get by with the pieces of furniture that you were allowed to take from home, but you will have to buy a few things. Your car is on its last leg, so replacing it is going to have to happen within the next six months. Your plan is to be able to buy a house within the next 8–10 years.

*In this activity, you will discuss your plan for making major purchases.*

#### Instructions:

*In 2–4 paragraphs, discuss how you will plan and make these major purchases. Answer the following:*

1. Why is it important to plan and prioritize major purchases?
2. What kind of money-saving strategies could you use?
3. What types of financing options could you use for the big purchases that you need to make?
4. How could you reduce the amount needed to borrow?



#### Part 3 • Problem Solving



### Do the Math

*In this activity, you will calculate several loan options using an online calculator.*

#### Instructions:

1. Visit [www.MyCompanionSite.com](http://www.MyCompanionSite.com).
2. Download and complete the Chapter 14 Make Sense of It! Planning Form.
3. Submit your completed planning form to your instructor if required.

#### Part 4 • Critical Thinking



### Apartment Hunting

*In this activity, you will perform an apartment search by developing criteria and calculating a budget.*

#### Instructions:

1. Visit [www.MyCompanionSite.com](http://www.MyCompanionSite.com).
2. Download and complete the Chapter 14 Check It! Planning Form.
3. Submit your completed planning form to your instructor if required.

#### Part 5 • Creativity and Innovation



### Announcing 0% Financing!

#### Read the following:

One way to understand the marketing techniques that retailers use to get your business is to think like them. A popular promotion to get consumers to spend large amounts of money on big ticket items, such as furniture, is to offer 0% financing for a period of time, such as 90 days. If the



Start Here

You can buy insurance to cover all kinds of things, from your car, your personal property, your home, the cost of healthcare, to the diamond ring your grandmother left you.

*In this chapter, you will learn about the different types of insurance policies available to purchase, the coverage provided by these policies, and how to make smart and cost-effective decisions with regard to purchasing an insurance policy.*



Property and casualty insurance consist primarily of auto, home, and commercial insurance. Total premiums written for this sector is a more than \$500 billion industry.

Source:  
Insurance Information  
Institute

## Types of Insurance Coverage

Transferring risk to an insurance company is a good option when you cannot—or do not wish to—avoid, reduce, or accept the risk of loss. There are many different types of insurance policies to choose from that can cover all aspects of your life.

Property and casualty policies protect against losses to property and against a legal liability resulting from injury or damage to the property of others. You can insure yourself against loss of income, high medical costs, or just about anything else.

Insurance companies can provide peace of mind with regard to protecting what and who is important to you.



## Auto Insurance



**Automobile insurance** covers losses due to an accident involving vehicles. The most common reason to have car insurance is to cover the replacement or repair of an expensive asset. Besides the car itself, there are other things auto insurance will cover, such as damage to another's property or bodily harm to others incurred in an accident. (Auto policies are covered in more detail on page 224.)



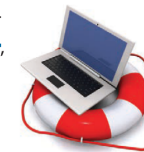
## Homeowners Insurance

**Homeowners insurance** covers losses to property, such as damage from fire, theft, weather, and accidents. It also covers injury to someone else on your property. The terms of your homeowners policy are determined by things such as where you live and the size, structure, and market value of your home.

*If you have a home mortgage, it is mandatory to have homeowners insurance. Since you do not technically own the home until the mortgage is paid off, the bank requires you to insure it.*

**Renters insurance** covers the loss of personal belongings inside the property you are renting due to events such as a fire or burglary. Your policy should cover the replacement costs of your possessions. However, the more items you insure, the higher the premium will be. (Read more about premiums on page 223.)

Homeowners and renters can purchase additional insurance for specific items not covered under a policy. You can add a **floater**, which provides replacement value coverage for easily movable items, such as expensive jewelry or technology equipment.



## Life Insurance

**Life insurance** protects against the loss of income that would result if the insured person dies. The amount of insurance needed should cover a family's existing debt and monthly expenses for a reasonable period of time.

The most common type of life insurance is **term life insurance**, which offers coverage for a specified amount of time, such as 30 years, for a fairly low premium.

Another type of life insurance is **whole life insurance**, which covers the insured for their entire life and not for just a specified term. Whole life insurance also has a savings or investment component, accumulating cash value over time. The insurance company invests the premium on your behalf. However, as an investment, whole life is not your best option. The premiums are higher than a term policy and you may do better investing on your own.



The astronauts of Apollo 11 couldn't get life insurance prior to their launch, so they gave themselves their own "life insurance policy made of autographs" that could be sold by their families if they did not return.

Source: crazyfacts.com





**When shopping for insurance quotes, be prepared with the following:**

- Contact information
- Driver's license number and how long you have held the license
- The year, make, model, and any special features of the car, such as anti-theft options
- Do you lease the car, own free and clear, or still make payments
- Your driving record
- Any accidents or other claims you may have had and who was at fault
- Current insurance, coverage, and policy expiration date

## Shopping for Insurance

Once you are familiar with car insurance language, you can start requesting policy quotes. A **policy quote** is an estimate of the premium you would pay for specific insurance coverage. It is up to you to read the entire policy quote and get clarification on anything you don't understand. To get an accurate quote, gather all of the information requested by the insurance company.

In choosing the right insurance policy, determine the coverage you need, compare policies from different providers, and always be on the look out for ways to reduce cost.

### Determine the Coverage Needed

The appropriate amount of coverage depends on the value of your vehicle, whether you have a loan on the car, and the amount of money you can afford to pay out of pocket. If a claim is above the coverage limits, you will be personally responsible for the amount that exceeds the coverage.



### Compare Different Policies



When looking at different policies, you want to compare price, coverage, and any exclusions. When you shop for different quotes, make sure that you are comparing similar policies. You will want to consider the quality of service you will receive from the insurer and review their reputation.

### Find Ways to Reduce Cost

In addition to shopping for the best price, maintaining a good driving record can mean lower premiums. There are always cost-reducing measures you can take, including:

- ☒ Take a driving class before getting your license
- ☒ Practice safe driving habits and avoid traffic violations
- ☒ Drive a car that is less expensive to repair or replace
- ☒ Purchase your policy online
- ☒ Choose higher deductible amounts
- ☒ Bundle your insurance policies, using the same company for most or all of your insurance needs
- ☒ Autopay your premiums or pay the entire year's premium up front



## Filing a Claim

Accidents happen, no matter how careful we are. When they do happen, you need to file a claim with your insurance company. In case of a car accident, for example, the key is to stay calm and assess the immediate situation. If medical attention is needed, call 911. Contact the local police to help process the incident. To start the insurance process, follow the guidelines outlined in Figure 19-D:



FIGURE 19-D

1	2	3
Gather Information at the Scene	Contact Insurance Company	Save All Documents from the Incident
<i>Note time, location, or any physical injury</i> <i>Photograph or note damage at the accident scene</i> <i>Get witness statements</i> <i>Exchange information with the other party</i>	<i>Call your insurance agent</i> <i>Provide your insurance policy information</i> <i>Share the accident details gathered at the scene</i> <i>Confirm police report</i>	<i>Save any auto repair and medical bills</i> <i>Document any lost wages if applicable</i> <i>Obtain a copy of the police report</i>

Your insurance company's claims adjuster will review the damage and all of the available information to determine fault and then provide a cost estimate for the claim, with instructions on how to proceed. Follow up with your agent.



**Check It Out!**

**Give a truthful account about an accident.** Stick to the facts, never lie about injuries, and do not admit liability. Beyond the police and your agent, do not talk to anyone about the accident. Let the police and insurance investigators sort out the details.

Source: expertbeacon.com

### Tech It Out!

#### Insurance On-the-Go

The major insurance companies offer smartphone apps that enable drivers to capture information about an accident, record the parties involved, photograph the damage, identify the location using the phone's GPS feature, and in some cases, begin the claims process.

**Check out Allstate Mobile, Geico GloveBox, and State Farm Pocket Agent.**



## Let's Recap It

You can employ the same ideas and practices that you just learned about car insurance when shopping for all of your insurance needs. Choosing the right insurance coverage can be achieved by understanding the options available and comparison shopping.



# **B.E. PUBLISHING**

[bepublishing.com](http://bepublishing.com) | [eReadiness.com](http://eReadiness.com)