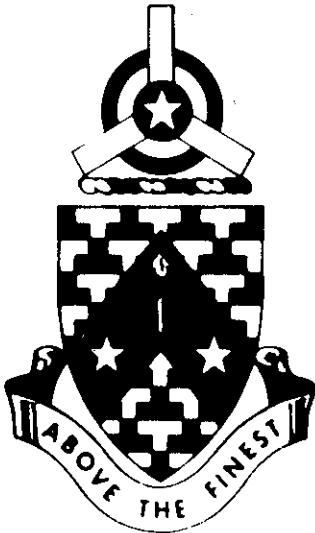


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PROGRAMED TEXT

MANAGEMENT OF PERSONAL FINANCES
PART III
BUDGETS & SAVINGS



APRIL 1968

UNITED STATES ARMY
PRIMARY HELICOPTER SCHOOL
FORT WOLTERS, TEXAS

PROGRAMED TEXT

PROGRAM TEXT**FILE NO.:****PROGRAM TITLE**

Financial Benefits & Management
Part III Budgets & Savings

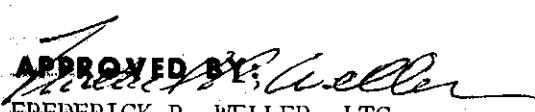
POI SCOPE: Establishment of an officer/warrant officer budget with credit, interest rates and contracts explained.

INSTRUCTOR REFERENCES:

DD PAM 10

PREPARED BY:MAJ Wolfe
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May 1968

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Financial Benefits & Management
Part III Budgets & Savings

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PREFACE

An income forecast is a determination of income an individual will have available to spend each month. This available income (take home pay) is determined by gross pay minus federal income tax and FICA (Social Security Tax). The examples are based on junior officers. Your personal figures may not coincide exactly. The intent is to clarify the principles involved.

An expense forecast is a determination of expenses an individual must pay each month.

A combination of income forecast and expense forecast is a BUDGET.

Start with frame 1 and work each frame in succession. Each frame will usually ask you a question. The correct answer is printed on the top of the next frame. If you were incorrect, turn back and restudy the information before continuing on to the next frame. When you have finished the text, complete the self evaluation exercise. Now begin by studying the performance objectives on page 1.

PERFORMANCE OBJECTIVES

MANAGEMENT OF PERSONAL FINANCES

Upon completion of this programed text and without the aid of notes or references, you will be able to:

1. Construct a budget.
2. Define types of credit.
3. Compute interest rates.
4. Define types of contracts and pitfalls to avoid prior to signing.

FRAME 1

There are three types of expenses we will consider in the expense forecast:

Recurring expenses - Those which occur and recur each month.

Example: rent, food, clothing, entertainment.

Varied expenses - Those expenses which happen or occur at various times.
(Not monthly).

Example: dental bills, Christmas.

Emergency expenses - Expenses incurred in meeting emergency situations.

Example: death in family.

Indicate type of expense beside each example listed below. Use R for recurring, V for varied, E for emergency.

- a. Utilities
- b. Laundry
- c. Summer vacation
- d. Visit to seriously ill parent.
- e. Automobile operation

TURN TO FRAME 2 PAGE 4

ANS: \$90.00.

$$\$1000.00 \times .09 = \$90.00$$

FRAME 7

A. LT Peterson bought a new automobile. The price of the automobile was \$2600.00. He paid \$500.00 down and financed the balance with the finance company recommended by the dealer. He must pay \$105.00 a month for 24 months. What was the cost of the loan?

$$\begin{array}{r} \$420 \\ \underline{-2100} \\ 24 \\ 300 \\ \hline 105 \\ \underline{-104} \\ 1 \\ 420 \\ \hline 210 \\ \hline 2100 \\ \hline 420 \end{array}$$

B. A washing machine is offered for sale at the following terms. Cash price \$200.00 or down payment 25% (\$50.00) and balance payable in 18 monthly installments of \$9.50 each. What would be the cost of the loan if you purchase the washer on monthly installments?

$$\begin{array}{r} \$21 \\ \underline{-21.60} \\ 9.50 \\ 18 \\ 76.40 \\ 9.50 \\ \hline 771.40 \\ 150.00 \\ \hline 21.00 \end{array}$$

TURN TO PAGE 5 FOR FRAME 8

ANS: a. - R
b. - R
c. - V
d. - E
e. - R

FRAME 2

Savings is considered a recurring expense and is a vital part of our budget. It is recommended that between 10 and 13 percent of an individual's take home pay be put in savings monthly.

Warrant Officer James' take home pay is \$470.00. His recommended savings on this amount would be \$47.00 to \$61.00.

LT Small's take home pay for the month of August is \$576.00. According to the sound principles of savings, how much should he save during the month of August. (Select the best answer)

a. 50 to 58 dollars
b. 58 to 65 dollars
c. 58 to 75 dollars
d. 65 to 75 dollars

ANS: Part A. \$420.00.

Price of Auto	\$2600.00
Down Payment	<u>5500.00</u>
Amount Borrowed	<u>\$2100.00</u>

Monthly Payment	\$ 105.00
Number of Installments	<u>24</u>
	<u>\$2520.00</u>

Amount To Repay	\$2520.00
Amount Borrowed	<u>2100.00</u>
Cost of the Loan	<u><u>\$ 420.00</u></u>

Part B. \$21.00

Selling Price	\$ 200.00
Less 25% Down Payment	<u>-50.00</u>
Amount Borrowed	<u>\$ 150.00</u>

Monthly Payment	\$ 9.50
Number of Installments	<u>18</u>
	<u>\$ 171.00</u>

Amount To Repay	\$ 171.00
Amount Borrowed	<u>150.00</u>
Cost of the Loan	<u><u>\$ 21.00</u></u>

ANS: c. 58 to 75 dollars.

FRAME 3

A budget is considered balanced when the income forecast equals the expense forecast.

LT Bart's take home pay is \$493.00. His expenses are \$493.00, therefore his budget is considered balanced.

WO Jones' gross pay is \$565.00 and his expenses total \$565.00. Does WO Jones have a balanced budget?

1. Yes.
 2. No.

Give reason for your answer. - taxes

FRAME 8

A contract is an agreement to do or not to do a certain thing. There are three (3) types of contracts.

- (1) ORAL
- (2) WRITTEN
- (3) IMPLIED

Hardly a day goes by when we don't enter into an oral contract. When we buy a loaf of bread at the bakery we enter into an oral contract, and when we pay for it and take it home the contract is executed.

When you go into a restaurant, order a meal and eat it, that is an example of an implied contract. You have not promised to pay it; perhaps you have not looked at the menu and do not even know the price. Yet a contract to pay was implied because of your action in accepting and eating the meal.

When you buy a house or automobile and affix your signature to the papers, you have entered into an agreement known as a written contract.

Identify each statement below as to which type of contract it would be: (Oral O, Written W or Implied I)

- a. I You call a doctor to make a house call at your home to treat a member of your family and no mention is made as to the charges for the treatment.
- b. O Farmer Jones offers to sell you five dozen eggs for \$2.00 and you agree to his price.
- c. W You buy a color TV and pay for it on an installment plan.
- d. I You watch and make no objections to a painter who is painting your fence even though you didn't ask him to.

ANS: No. Income forecast is determined by gross pay minus federal income tax, and FICA. In this example WO Jones is spending more money than he is making. Remember always work with TAKE HOME PAY.

FRAME 4

Based on the information given below, answer questions 1 thru 3.

Warrant Officer Pyle's gross pay is \$556.00, federal income tax \$53.00, FICA \$25.00, rent \$95.00, utilities \$35.00, food \$88.00, entertainment \$25.00, telephone \$10.00, clothing \$25.00, cleaning \$10.00, household supplies \$10.00, automobile operation \$25.00, automobile payments \$75.00, life insurance \$30.00, savings \$50.00.

1. Construct WO Pyle's budget. Complete diagram below.

556
Income Forecast.

1.

556
- 53

2.

3.

Take home pay.

478

Expense forecast.

1.

95

2.

3.

4.

5.

6.

7.

8.

9.

10.

11.

12.

Total expenses.

478

2. Does WO Pyle have a balanced budget?

a. Yes budget is balanced.
b. No, budget is not balanced.

3. Does WO Pyle's budget as constructed permit him to have an adequate savings program?

a. Yes.
b. No.

What percent is WO Pyle saving 100 %
Round off to nearest whole percent.

ANS: a. Implied.
b. Oral.
c. Written.
d. Implied.

FRAME 9

Once a valid contract is entered into, you may not withdraw because you changed your mind. Therefore before signing contracts you should make certain that five (5) items in the contract are checked.

1. Amount to be paid, including interest and any other charges.
2. Times when payments are to be made.
3. Any promises made by the other party are included in the contract.
4. Make sure description of property is correct.
5. See that the blanks in a printed contract are either filled in or crossed out.

If there are any terms in the contract which you do not understand, ask questions. If you still do not understand obtain legal advice.

After you sign the contract make sure you receive a copy.

WO Dune has just completed signing a contract for a new color television. As he walks out the door, he changes his mind and decides that he doesn't want the set. Can he legally break the contract since he hasn't left the store even if the dealer won't tear up the contract.

a. Yes.
 b. No.

Reason why. he signed the contract

ANS: 1. Income forecast		
Gross pay		<u>\$556.00</u>
Federal Income Tax	<u>\$53.00</u>	
FICA	<u>\$25.00</u>	
Take home pay		<u>\$478.00</u>
Expense forecast		
Recurring		
1. Rent		\$ 95.00
2. Food		\$ 88.00
3. Entertainment		\$ 25.00
4. Utilities		\$ 35.00
5. Telephone		\$ 10.00
6. Clothing		\$ 25.00
7. Laundry and Cleaning		\$ 10.00
8. Household supplies		\$ 10.00
9. Automobile operations		\$ 25.00
10. Life Insurance		\$ 30.00
11. Savings		\$ 50.00
12. Automobile payments		<u>\$ 75.00</u>
		\$478.00

ANS: 2. Yes, budget is balanced.

ANS: 3. Yes, he is saving 10.0% of his take home pay.

FRAME 5

Charge accounts - purchase an item or service which is paid in full at the end of the month, won't incur interest or carrying charges. Example: gasoline credit cards.

Installment sales - purchase an item or service which is payable in installments over a time interval. Example: automobile payments.

Cash Credit - Borrowing cash which must be paid back under terms of the lender. Example: borrow cash for vacation.

The trouble maker to your budget is charge accounts, because it is not a fixed monthly expense.

State the types of credit each of the examples below depicts. Use the following abbreviations. CA - charge account, IS - installment sales, CC - cash credit.

- a. CA Signing for dinner at Officers Club using credit card.
- b. IS Buying furniture, and making monthly payments.
- c. CA Using Sears and Roebuck credit card - pay full bill at end of month.
- d. IS Buying a washer on six monthly payments.
- e. CA American Express credit card.
- f. CC Borrowing cash for dental work.

ANS: no - Once a valid contract is entered into, you may not withdraw because you changed your mind.

FRAME 10

A. A tie company sends you a half-dozen ties which you use, knowing that the manufacturer expects payment for them. Are you under any obligation to pay for them, assuming that you never ordered them in the first place?

a. Yes.
b. No.

Reason for answer.

an unexpired contract, you must return the ties without use to get out of it

B. LT Gear has just completed signing the sales contract for a used automobile. He is walking out the door with just a set of keys from the dealer, what has he forgotten?

copy of the contract

ANS: a. CA
b. IS
c. CA
d. IS
e. CA
f. CC

FRAME 6

To determine the cost of a loan you might say, "Oh that's easy", I'll just find out what rate of interest is charged. Unfortunately, it's not that easy. If all loans were set up exactly the same way, you would have no trouble. But they are not. Just as food items on the grocery shelves come in a variety of sizes, shapes, and weights, the terms of loans are quoted in many different ways, making direct comparison confusing. To help eliminate this confusion, a simple rule of thumb can be used to determine a close estimate of the actual or true rate of interest of a loan. The rule of thumb is: double the percent of interest quoted to you and subtract 1% from the total. This will give you a very close estimate of the actual or true interest.

LT Betts has decided to take his family on a short vacation this year. In order to do so, he needs to borrow \$300.00. His bank will loan him \$300.00 for a credit cost of 8%. What is the estimated actual or true rate of interest LT Betts will pay for his loan?

$$0.890 + 89\% - 1\% = \underline{\underline{15\%}}$$

ANS: A. Yes - The use of the ties constitute the acceptance of the offer. However, if you had not used them you would not be required to either return or pay for them.

B. His contract - always get a copy of any contract you sign.

ANS: 15% Rule of thumb-double the percent quoted, minus 1%.

$$\begin{aligned}8 \text{ plus } 8 &= 16 \\16 - 1 &= 15\%\end{aligned}$$

FRAME 6 Con't

If unable to apply the rule of thumb to a loan to make a comparison, it may be necessary to determine the cost of the loans. (The actual money you must pay for borrowing the loan). The cost may be determined by one of the examples depicted below. Once this cost is determined, a simple comparison with two or more loans will show you the least expensive.

EXAMPLE 1. BANK - Loan \$300.00 at 8% interest charge.
Cost of the loan - $\$300.00 \times .08 = \underline{\underline{\$24.00}}$

EXAMPLE 2. DEPARTMENT STORE - 1% per month on the unpaid balance. Assume balance is \$250.00. Cost of the loan:
 $\$250.00 \times .01 = \underline{\underline{\$2.50*}}$

*NOTE - This is the cost of the loan for one month. You must compute monthly on new month balance.

EXAMPLE 3. FINANCE CO. - New car cost is \$2100.00; Pay \$300.00 down and \$90.00 a month for 24 months.

Amount borrowed = New car cost minus down payment
 $\$2100.00 - \$300.00 = \underline{\underline{\$1800.00}}$

Amount to repay - Monthly payments = amount x number
 $\$90.00 \times 24 = \underline{\underline{\$2160.00}}$

Cost of the loan - $\$2160.00 - \$1800.00 = \underline{\underline{\$360.00.**}}$

**NOTE - This is the cost of the loan. The amount the finance company charges you for borrowing \$1800.00.

WO Smith has decided to buy a new motor boat. The boat dealer offers to sell the boat to WO Smith at 9% interest charge, repayable in twelve monthly installments. The cost of the boat is \$1000.00. What would be the cost of the loan?

RETURN TO PAGE 3 FOR FRAME 7.

demand full disclosure of the terms before executing a loan, credit agreement or contract.

only deal with reputable business establishments.

Never sign a blank contract or check.

there is no such thing as "easy" credit--if necessary, use credit cautiously.

Good debts can ruin your career. Failure to pay just debts is a military offense.

Evaluate your ability to meet your financial obligations before taking on more debts.

Asistance is free--when in doubt, seek legal advice from your Staff Judge Advocate's office.

Suspect "bargains" and the motives of newly acquired "friends."

Understand what you are signing. Beware of "extra" or hidden charges.

Compare prices when buying goods or seeking credit.

Keep away from games of chance--the percentages are against you.

Erase the hope of "getting something for nothing."

Report actual or suspected unscrupulous practices to military police immediately.

MANAGEMENT OF PERSONAL FINANCES
PART III
SELF EVALUATION EXERCISE

The following three (3) questions will be answered from the information listed below.

- a. Rent
- b. Federal Income Tax
- c. Automobile Payments
- d. Food
- e. Household Supplies
- f. Life Insurance
- g. FICA
- h. Savings
- i. Laundry and Cleaning
- j. Telephone
- k. Christmas Gift Buying
- l. Summer Vacation
- m. Gross pay
- n. Utilities
- o. Clothing
- p. Automobile Operations
- q. Entertainment
- r. Dental Bills
- s. Emergency Funds

1. The income forecast is determined by which three (3) factors.

- a. m-b-n
- b. b-h-m
- c. g-m-b
- d. m-g-h

2. Which of the following is an example of recurring expenses?

- a. p-b-1
- b. @-n-d
- c. f-k-j
- d. q-n-g

3. Which of the following is an example of varied expenses?

- a. l-r-k
- b. k-q-s
- c. c-o-h
- d. s-p-r

Answer questions four (4) and five (5) based on the following information.

The following information is extracted from the budget of WO Jones. Warrant Officer Jones has less than two years of service and is married with one child.

480

Gross Pay	\$560.00
Rent	\$ 95.00
Food	\$ 90.00
Utilities	\$ 35.00
Federal Income Tax	\$ 55.00
Savings	\$ 48.00
Clothing	\$ 25.00
FICA	\$ 25.00
Other Expenses	\$187.00

4. Based on the information extracted from WO Jones' budget, does WO Jones have a balanced budget?

a. Yes, budget is balanced.
b. No, budget is not balanced.
c. Cannot be determined from information given.

5. Is WO Jones savings plan an adequate percentage of his income?

a. Is adequate percentage.
b. Is not adequate percentage.
c. Cannot be determined from information given.

Answer question six (6) based on the following information.

The following information is extracted from the budget of LT Bliss. LT Bliss has more than two years of service and is married with one child.

Take Home Pay	\$542.00
Expenses	\$422.00
Savings	\$120.00

6. Based on the extract of LT Bliss's budget, can he afford to buy an automobile whose payments would cost \$95.00 a month and still save an adequate percentage of his income?

a. Can afford to buy automobile.
 b. Cannot afford to buy automobile.
c. Cannot be determined from information given.

7. There are three types of credit available to a buyer. They are

- credit cards, finance contracts, sales contracts.
- charge account, finance contracts, sales contracts.
- charge account, installment sale, cash credit.
- credit cards, installment sale, charge account.

8. Why are charge accounts the biggest trouble maker to a budget? Select the best answer.

- Fixed monthly expense.
- Not fixed monthly expense.
- Charge account is not trouble maker to budget.
- All of the above.

9. To what type of credit is the following statement applicable? If paid in full when billed, no interest or carrying charges.

- Charge accounts.
- Cash credit.
- Finance contracts.

10. Credit increases buying power.

- True.
- False.

11. Credit increases your income.

- True.
- False.

Answer questions (12) and (13) based on the following information.

WO Baker wants to buy a second car. The cost of the used car is \$600.00. He intends to pay \$100.00 down and finance the balance at 9% for one year. He will make monthly payments.

500 base 9% int.

12. What is the cost of the loan, that WO Baker must pay if he buys the above car at the terms quoted?

- \$54.00.
- Can not be determined from information given.
- \$45.00.
- Correct answer is not given.

13. What is the estimated true or actual interest that WO Baker must pay?

- a. 9%.
- b. 15%.
- c. 17%.
- d. 18%.

14. A contract need not be in writing; it may be made by conversation, or may be implied by the actions of the parties.

- a. True.
- b. False.

15. LT Durre agreed to buy a new automobile for \$2500.00. Being in a hurry he signed a blank contract and told the dealer he would pick up his copy the following day. The next day when LT Durre picked up his contract, he found that the car price was now \$2700.00. Is LT Durre liable to pay the \$2700.00.

- a. Yes
- b. No

INTENTIONALLY LEFT BLANK

BUDGETS & SAVINGS
KEY TO SELF EVALUATION EXERCISE

1. c. g-m-b
2. b. a-n-d
3. a. 1-r-k
4. a. Yes, budget is balanced.
5. a. Is adequate percentage.
6. b. Can not afford and still save 10% of take home pay.
7. c.
8. b.
9. a.
10. a.
11. b.
12. c.
13. c.
14. a.
15. a.

TURN TO PAGE 5 FOR GRADE

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