# Personal Financial Planning for Accountants

8th Edition

Distributed by The CPE Store
www.cpestore.com, 1-800-910-2755

# Table of Contents


**Chapter 1 – What You Should Know About Financial Planning ..... 1**
Learning Objectives ..... 1
Introduction ..... 1
The Benefits of Financial Planning ..... 1
How Does Personal Financial Planning Help You? ..... 1
What are the Objectives of Personal Financial Planning? ..... 1
The Key Areas in Personal Financial Planning ..... 2
The Steps in Personal Financial Planning ..... 2
Common Mistakes Consumers Make when Approaching Financial Planning ..... 4
Changing Economic Situations Impact Financial Planning and Decisions ..... 5
Personal Factors to Consider in Financial Planning ..... 7
Keeping Records ..... 7
How Do the Stages of Life Affect Financial Planning? ..... 8
The Individual Aspects of Personal Financial Planning ..... 10
Considerations in Selecting a Personal Financial Planner ..... 11
Assistance in Personal Financial Planning ..... 13
Review Questions ..... 14
Review Answers ..... 15

**Chapter 2 – Time Value Applications ..... 17**
Learning Objectives ..... 17
Introduction ..... 17
Time Value of Money ..... 17
Using Future Value Tables in Decision Making ..... 17
Using Present Value Tables in Decision Making ..... 26
Review Questions ..... 35
Review Answers ..... 36

**Chapter 3 – Personal Financial Statements and Budgeting ..... 37**
Learning Objectives ..... 37
Introduction ..... 37
Developing a Financial Statement ..... 37
How Much Are You Worth? ..... 37
Commitments and Contingencies ..... 41
Personal Cash Flow Statement—Your Net Savings ..... 41
Some Expense Considerations ..... 41
Are You Liquid? ..... 42
Looking at Your Debt Level ..... 43
How Does Your Budget Look? ..... 44
The Advantages of Budgeting ..... 45
Your Savings ..... 50
More on Personal Financial Statements ..... 50
Data Security ..... 51
Conclusion ..... 52
Review Questions ..... 53
Review Answers ..... 54

**Chapter 4 – Career Planning and Financial Success ..... 55**
Learning Objectives ..... 55
Introduction ..... 55
Career Plans ..... 55
A Career-Planning Checklist ..... 55
Occupational Outlook Handbook (OOH) ..... 56
Review Questions ..... 61
Review Answers ..... 62

**Chapter 5 – Planning for College Education ..... 63**
Learning Objectives ..... 63
Introduction ..... 63
College Education Financials ..... 63
Financing a College Education ..... 63
Strategies for Funding College Tuition ..... 64
Other Sources ..... 66
Tax Considerations ..... 67
Determining Need Using Future Value Calculations ..... 68
Sources of Financial Aid ..... 69
Other Avenues for Financing Education ..... 70
What Are Some Private Scholarship Sources? ..... 71
Things to Consider with Federal Student Loans ..... 72
Conclusion ..... 76
Review Questions ..... 77
Review Answers ..... 78

**Chapter 6 – The Return and Risk of Your Investments ..... 79**
Learning Objectives ..... 79
Introduction ..... 79
Investing ..... 79
What is Return? ..... 79
Effective Annual Yield ..... 80
Payback Period and Money Doubling Period ..... 80
Different Risks ..... 81
Ways to Reduce Risk ..... 81
Considerations for Risk ..... 82
Quick Test to Measure Investment Risk ..... 82
The Risk-Return Tradeoff ..... 83
Building an Optimal Portfolio ..... 86
Investment Alternatives and the Risk-Return Tradeoff ..... 86
Review Questions ..... 87
Review Answers ..... 89

**Chapter 7 – Banking and Cash Management ..... 93**
Learning Objectives ..... 93
Introduction ..... 93
Banking ..... 93
Selecting a Bank ..... 93
Getting the Most from Your Bank ..... 94
How to Determine the Savings Account Balance for Interest Calculations ..... 97
Investing in Money Market Funds ..... 98
Investing in Certificates of Deposit ..... 99
How to Buy a Treasury Bill ..... 101
Treasury Inflation-Indexed Bonds ..... 101
U.S. Savings Bonds ..... 101
U.S. Series I Savings Bonds ..... 102
How to Buy Savings Bonds ..... 102
An “All-in-One” Account or Asset Management Account (AMA) ..... 103
Banking Tools You Can Use ..... 103
Electronic Banking ..... 104
Check Endorsements ..... 105
Review Questions ..... 106
Review Answers ..... 107

**Chapter 8 – Managing Debt ..... 109**
Learning Objectives ..... 109
Introduction ..... 109
Credit Cards ..... 109

Evaluating Credit Cards ..... 109
Credit Card Accountability, Responsibility, and Disclosure Act of 2009 ..... 110
Where to Get Credit Counseling ..... 110
Fair Credit Reporting ..... 111
How Much Debt Can You Handle? ..... 113
The Five Cs of Credit ..... 114
FICO Scores ..... 114
Are You Managing Debt Properly? ..... 116
How to Determine Monthly Installment Loan Payments ..... 117
How to Determine the True Cost of Credit ..... 118
Annual Percentage Rate (APR) ..... 118
Paying Off a Loan Early ..... 120
Financing an Automobile ..... 121
Bankruptcy Law ..... 122
Conclusion ..... 124
Review Questions ..... 125
Review Answers ..... 126

**Chapter 9 – How to Reduce the Costs of Living ..... 129**
Learning Objectives ..... 129
Introduction ..... 129
Reducing the Cost of Living ..... 129
What Can You Do to Reduce Costs? ..... 129
How to Save Money on Automobiles, Boats, or Other Major Acquisitions ..... 129
Other Items ..... 134
Marital Status and Personal Finance ..... 135
Review Questions ..... 136
Review Answers ..... 137

**Chapter 10 – Where and How You Choose to Live ..... 139**
Learning Objectives ..... 139
Introduction ..... 139
Home Ownership ..... 139
Buying vs. Renting a Home ..... 139
What Price to Pay ..... 140
Determining the Monthly Mortgage Payment ..... 140
Shopping for an Adjustable Rate Mortgage (ARM) ..... 144
Consider Bi-Weekly Mortgage Payments ..... 146
Getting the Most for Your House ..... 147
Conclusion ..... 148
Review Questions ..... 150
Review Answers ..... 151

**Chapter 11 – Life, Health, Property, and Liability Insurance ..... 153**
Learning Objectives ..... 153
Introduction ..... 153
Insurance ..... 153
Types of Risk ..... 153
Life Insurance ..... 154
Reviewing Medical and Health Insurance Coverage ..... 162
Managed Care Plans ..... 163
Property, Liability, and Casualty Insurance ..... 165
Types of Homeowner Policies ..... 167
Auto Insurance ..... 168
Selecting Agents and Companies ..... 168
Where to Get Insurance Answers ..... 169
Review Questions ..... 170
Review Answers ..... 172

**Chapter 12 – Investments and Planning ..... 177**
Learning Objectives ..... 177
Introduction ..... 177
Getting Started as an Investor ..... 177
Financial Assets and Real Assets ..... 177
Short-Term and Long-Term Investments ..... 178
Fixed-Dollar and Variable-Dollar Investments ..... 178
Sources of Investment Money ..... 178
Some Investment Considerations ..... 178
Key Questions to Ask ..... 178
Aggressive and Defensive Investment Strategy ..... 179
Marketable and Liquid Investments ..... 179
Investment Objectives ..... 179
Different Scenarios ..... 180
The Impact of Economic and Market Factors ..... 180
Mutual Funds, Index Funds, and ETFs ..... 181
The Cost of Investing ..... 181
Inflation ..... 181
Determining the Appropriate Level of Risk ..... 181
Conclusion ..... 183
Review Questions ..... 184
Review Answers ..... 185

**Chapter 13 – Investing in Common Stock ..... 187**
Learning Objectives ..... 187
Introduction ..... 187
Common Stock ..... 187
Advantages and Disadvantages of Owning Common Stock ..... 188
What Types of Stocks Are There? ..... 188
Brokers and Orders ..... 189
Discount Online Brokers ..... 190
Stock Splits and Stock Dividends ..... 190
Determining the Return on Common Stock ..... 193
How Do You Value (or Price) Stock? ..... 195
How to Use Beta to Select a Stock ..... 198
The Advantages of Dollar-Cost Averaging ..... 199
Constant-Ratio Plans ..... 200
Stock Valuation ..... 200
Common Stock Valuation ..... 200
The Importance of Stock Volume Numbers ..... 202
Buying a Stock on Margin (Credit) ..... 202
Initial Public Offerings ..... 203
Shorting a Stock ..... 203
Timing the Market ..... 204
Different Stock Strategies ..... 205
Investment Portfolios ..... 206
Diversified Investing ..... 207
Tax Implications of Stock Market Investments ..... 208
Conclusion ..... 208
Review Questions ..... 209
Review Answers ..... 211

**Chapter 14 – Fixed-Income Securities and Real Assets ..... 215**
Learning Objectives ..... 215
Introduction ..... 215
Bonds ..... 215
Terms and Features of Bonds ..... 215
Types of Bonds ..... 216
Selecting Bonds ..... 217

Determining Interest Rate Risk ..... 218
Reading a Bond Quotation ..... 219
Bond Trading Online ..... 219
Calculating Yield (Effective Rate of Return) on a Bond ..... 220
Preferred Stock ..... 221
Other Fixed Income Securities—Short-Term "Parking Lots" ..... 223
Investing in Tangibles: Real Estate and Other Real Assets ..... 224
Real Estate ..... 224
Investing in Real Estate in an I.D.E.A.L. Situation ..... 224
How to Enhance the Value of Real Estate ..... 225
Indirect Real Estate Investments ..... 228
Should You Use Leverage When Investing in Real Estate? ..... 230
Investing in Precious Metals ..... 231
Review Questions ..... 232
Review Answers ..... 234

**Chapter 15 – Funds and Diversification ..... 237**
Learning Objectives ..... 237
Introduction ..... 237
Mutual Fund Investing ..... 237
Attributes of Mutual Funds ..... 237
Net Asset Value (NAV) Determination ..... 238
Making Money with a Mutual Fund ..... 238
Total Return on the Mutual Fund ..... 238
Mutual Funds and Expenses ..... 239
Kinds of Mutual Funds ..... 239
Different Investment Programs with Mutual Funds ..... 240
Bond Income Funds ..... 241
Guidelines for Investing in Bond Funds ..... 241
Tax-Exempt Municipal Bond Funds ..... 241
Unit Investment Trusts ..... 242
Choosing a Mutual Fund ..... 242
Performance Benchmarking ..... 243
Mutual Fund Peer Group Rankings ..... 243
Risk-Reducing Strategies for Investing in Mutual Funds ..... 244
Dollar-Cost Averaging ..... 244
Investing in Index Funds ..... 246
Exchange Traded Funds ..... 246
Money Market Funds ..... 246
Ratings ..... 247
Diversification Is the Key ..... 247
Beta and Risk and Asset Allocation ..... 248
Robo-Advisors ..... 248
Conclusion ..... 250
Review Questions ..... 251
Review Answers ..... 252

**Chapter 16 – Retirement and Estate Planning ..... 253**
Learning Objectives ..... 253
Introduction ..... 253
Retirement Planning ..... 253
Retirement Checklist ..... 253
Estimating Retirement Needs ..... 254
Online Retirement Planning ..... 254
Pension Plans ..... 255
Company and Individual Retirement Plans ..... 256
Managing for Retirement ..... 258
Traditional Individual Retirement Account (IRA) ..... 258
Roth IRA ..... 259

Putting an IRA to Work ..... 260
Keogh Plans ..... 260
Contribution Limits to Various Retirement Accounts ..... 260
Reverse Mortgages ..... 261
Pension Plans ..... 262
Investing in Target Date Funds for Retirement ..... 263
Annuities ..... 264
Other Options for Risk-Averse Retirees ..... 266
Estate Planning ..... 267
Estate Planning Checklist ..... 268
Taking Stock ..... 268
Wills ..... 271
Elements of a Will ..... 271
Naming a Guardian ..... 271
Naming an Executor ..... 271
Preparing a Will ..... 272
Updating a Will ..... 272
Where to Keep Your Will ..... 272
A Living Will ..... 272
Living Trusts ..... 272
Estate Taxation ..... 273
Estate Planning Team ..... 274
Review Questions ..... 275
Review Answers ..... 276

**Appendix – Valuation Tables ..... 279**

**Glossary ..... 285**

**Index ..... 315**