



**COR167e**  
**Managing Your Personal Finances**

**Tutor-Marked Assignment 01**  
**January 2017 Presentation**

## TUTOR-MARKED ASSIGNMENT 01

This tutor-marked assignment is worth 40% of the final mark for [COR167e Managing Your Personal Finances](#).

The cut-off date for this assignment is [2355hrs on 03 March 2017](#).

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### Additional instructions:

Submit your solution document in the form of a single MS Word file on or before the cut-off date shown above.

You will need to indicate clearly on the front page your name, student ID, course title and assignment number.

The websites will help facilitate your research. However, you will be penalized if you simply cut & paste information from these websites in your assignment.

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### This TMA assesses the following learning outcomes:

- Demonstrate the ability to assess personal financial health using financial statements and ratios
- Describe the use of concept of time value of money to daily transactions
- Illustrate the critical aspects of Wealth Guarding through Tax and Insurance Planning
- Demonstrate Wealth Growing Process through Investment Planning
- Use the key aspects of Wealth Giving through Estate Planning



## WEALTH GROUNDING - FOUNDATIONAL PART

You had lunch with Mabel, a receptionist. Mabel noticed that the term “*emergency fund*” is frequently mentioned in various articles in the local newspapers. Mabel mentioned that her monthly expenses total about \$1,750 per monthly and she has the following:

Saving Account Balance (Mabel)	\$6,000
Fixed Deposit Account (Mabel)	\$3,500

## WEALTH PROTECTION – INSURANCE PLANNING

Mabel shared the following information with you:

Her husband, Boon Teck, is 37 years old and they have a daughter Katherine, 12 years old. Boon Teck wants to provide for the family for the next 10 years until Katherine is 22 years old and has completed her university education. He estimates that the income needed for the family is \$70,000 and Katherine’s university education is \$42,000. He also wants to provide \$180,000 as retirement income for Mabel and he estimates that the family will need a miscellaneous amount of \$25,000 per annum.

Boon Teck has savings of \$35,000 and shares worth \$78,000. His assets also include an existing life insurance policy of \$50,000.

## WEALTH ACCUMULATION – INVESTMENT PLANNING

Boon Teck and Mabel wish to upgrade to a condominium apartment in 2 years’ time. They think that if they can obtain a 25 year loan, they can afford to make maximum monthly payments of \$2,000 per month (cash and CPF amount). Assume that Boon Teck and Mabel have accumulated the necessary 20% down payment and have also found a bank that is willing to offer them a 4% fixed rate 25-year loan.

Boon Teck purchased an antique chair for \$12,000. Today, his chair sold for \$33,752. Boon Teck estimated that he had the antique chair for 12 years

## WEALTH ACCUMULATION – RETIREMENT PLANNING

Boon Teck is planning for his retirement in 30 years’ time. He is deciding whether to invest more in growth investments, conservative investments, or growth and income investments.

**Question 1 (WEALTH GROUNDING - FOUNDATIONAL PART)**

(a) (i) Mabel would like to know more about the “emergency fund”, whether she needs one and how can she set up an emergency fund. (6 marks)

(ii) Does she have an adequate emergency fund? (4 marks)

(iii) Suggest **FOUR (4)** ways for Mabel to obtain emergency funds in a short amount of time if she is caught in an emergency situation. (8 marks)

(b) What would happen to the Mabel’s property if/when a bankruptcy order has been effected on her? (6 marks)

(c) (i) Write “TRUE” or “FALSE” for the following statements with regard to a Personal Balance Sheet or Cash Flow Statement.

\_\_\_\_\_ A person’s investment assets to net worth ratio should logically decrease, as he/she grows older.

\_\_\_\_\_ Cash management helps you to manage your cash on a day-to-day basis; hence, it has no relation with long-term financial goals.

\_\_\_\_\_ Budgeting means that you should try to track every single cent you spend.

\_\_\_\_\_ Liabilities are normally reported at their current fair market value.

\_\_\_\_\_ Marketability refers to the quality and capability of any asset to be sold quickly with little risk of loss and possessing a relatively stable price over time.

\_\_\_\_\_ When budgeting monthly income, you should exclude one-off items such as a 3-month year-end bonus.

\_\_\_\_\_ When a person’s cash-flow statement shows a surplus, this means that funds are ready to be used.

\_\_\_\_\_ No one financial ratio tells the whole story; hence, we need to look at a few ratios to get an overall picture of an individual’s financial health. (8 marks)

(ii) What is the biggest problem in using credit and how can it be alleviated (6 marks)

**Question 2 (WEALTH PROTECTION - TAX PLANNING)**

(a) Name the **FIVE (5)** factors affecting taxability. (5 marks)

(b) (i) **WEALTH ACCUMULATION – INVESTMENT PLANNING**

Consider the following investments:

1. A deposit paying 7.1% compounded annually
2. A deposit paying 7.2% compounded quarterly
3. A deposit paying 6.5% compounded monthly

Which of these investments offers the best return?

(9 marks)

(ii) What is the maximum loan amount that Boon Teck and Mabel can borrow? (6 marks)

(c) (i) What is the difference between “collateralised” and “unsecured” bonds? (6 marks)

(ii) Calculate the average annual rate of return that Boon Teck received for his investment in the antique chair?

(8 marks)

**Question 3 (WEALTH ACCUMULATION – RETIREMENT PLANNING)**

(a) Why is the stability of a marriage an important consideration in retirement planning? (8 marks)

(b) Compared with Boon Teck’s 47 year-old colleague, what advice can you give Boon Teck? (8 marks)

(c) **WEALTH GIVING – ESTATE PLANNING**

Describe the difference between a Fixed Trust and a Discretionary Trust.

(8 marks)

(d) **WEALTH PROTECTION – INSURANCE PLANNING**

What is the additional amount of life insurance that Boon Teck needs?

(6 marks)

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