

# **Personal Financial Planning for Accountants**

---

6<sup>th</sup> Edition

Distributed by The CPE Store  
[www.cpestore.com](http://www.cpestore.com), 1-800-910-2755

# Table of Contents

---

<b>Chapter 1 – What You Should Know About Financial Planning</b> .....	<b>1</b>
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 and 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.....	12
Review Questions .....	14
Review Answers .....	15
<b>Chapter 2 – Time Value Applications</b> .....	<b>17</b>
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
<b>Chapter 3 – Personal Financial Statements and Budgeting</b> .....	<b>37</b>
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
<b>Chapter 4 – Career Planning and Financial Success</b> .....	<b>55</b>
Learning Objectives .....	55
Introduction.....	55
Career Plans.....	55
A Career-Planning Checklist.....	55
Occupational Outlook Handbook (OOH) .....	56
Review Questions .....	61
Review Answers .....	62

Table of Contents

**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 Avenues for Financing Education ..... 66  
    Tax Considerations ..... 67  
    Determining Need Using Future Value Calculations ..... 67  
    Sources of Financial Aid ..... 69  
    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 ..... 85  
    Investment Alternatives and the Risk-Return Tradeoff ..... 85  
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 ..... 98  
    How to Buy a Treasury Bill ..... 101  
    Treasury Inflation-Indexed Bond ..... 101  
    U.S. Savings Bonds ..... 101  
    U.S. Series I Savings Bond ..... 102  
    How To Buy Savings Bonds ..... 102  
    An “All-in-One” Account or Asset Management Account (AMA) ..... 102  
    Banking Tools You Can Use ..... 103  
    Electronic Banking ..... 104  
    Check Endorsements ..... 104  
Review Questions ..... 105  
Review Answers ..... 106

**Chapter 8 – Managing Debt ..... 107**  
Learning Objectives ..... 107  
Introduction ..... 107  
Credit Cards ..... 107  
    Evaluating Credit Cards ..... 107

## Table of Contents

Credit Card Accountability, Responsibility, and Disclosure Act of 2009.....	108
Where to Get Credit Counseling .....	108
Fair Credit Reporting .....	109
How Much Debt Can You Handle? .....	111
The Five Cs of Credit.....	112
FICO Scores .....	112
Are You Managing Debt Properly?.....	114
How to Determine Monthly Installment Loan Payments.....	115
How to Determine the True Cost of Credit.....	116
Annual Percentage Rate (APR) .....	116
Paying Off a Loan Early.....	118
Financing an Automobile .....	119
Bankruptcy Law.....	120
Conclusion .....	122
Review Questions .....	123
Review Answers .....	124
<b>Chapter 9 – How to Reduce the Costs of Living .....</b>	<b>125</b>
Learning Objectives .....	125
Introduction.....	125
Reducing the Cost of Living.....	125
What Can You Do to Reduce Costs? .....	125
How to Save Money on an Automobile, Boat, or Other Major Acquisition .....	125
Other Items .....	130
Marital Status and Personal Finance.....	131
Review Questions .....	132
Review Answers .....	133
<b>Chapter 10 – Where and How You Choose to Live .....</b>	<b>135</b>
Learning Objectives .....	135
Introduction.....	135
Home Ownership .....	135
Buying vs. Renting a Home .....	135
What Price to Pay.....	136
Determining the Monthly Mortgage Payment.....	136
Shopping for an Adjustable Rate Mortgage.....	140
Consider Bi-Weekly Mortgage Payments.....	142
Getting the Most for Your House.....	143
Conclusion .....	143
Review Questions .....	146
Review Answers .....	147
<b>Chapter 11 – Life, Health, Property, and Liability Insurance .....</b>	<b>149</b>
Learning Objectives .....	149
Introduction.....	149
Insurance.....	149
Types of Risk.....	149
Life Insurance.....	150
Reviewing Medical and Health Insurance Coverage.....	158
Managed Care Plans .....	159
Property, Liability, and Casualty Insurance.....	161
Types of Homeowner Policies.....	163
Auto Insurance .....	164
Selecting Agents and Companies .....	164
Where to Get Insurance Answers .....	165
Review Questions .....	166
Review Answers .....	168

## Table of Contents

<b>Chapter 12 – Investments and Planning</b> .....	<b>171</b>
Learning Objectives .....	171
Introduction.....	171
Getting Started as an Investor.....	171
Financial Assets and Real Assets .....	171
Short-Term and Long-Term Investments.....	171
Fixed-Dollar and Variable-Dollar Investments .....	172
Sources of Investment Money.....	172
Some Investment Considerations .....	172
Key Questions to Ask .....	172
Aggressive and Defensive Investment Strategy .....	172
Marketable and Liquid Investments.....	173
Investment Objectives .....	173
Different Scenarios .....	174
The Impact of Economic and Market Factors .....	174
Mutual Funds, Index Funds, and ETFs .....	175
The Cost of Investing.....	175
Inflation .....	175
Determining the Appropriate Level of Risk .....	175
Conclusion .....	177
Review Questions .....	178
Review Answers .....	179
<b>Chapter 13 – Investing in Common Stock</b> .....	<b>181</b>
Learning Objectives .....	181
Introduction.....	181
Common Stock .....	181
Advantages and Disadvantages of Owning Common Stock .....	182
What Types of Stocks Are There? .....	182
Brokers and Orders .....	183
Discount Online Brokers .....	184
Stock Splits and Stock Dividends.....	184
Determining the Return on Common Stock.....	187
How Do You Value (or Price) Stock? .....	189
How to Use Beta to Select a Stock .....	192
The Advantages of Dollar-Cost Averaging .....	193
Constant-Ratio Plans.....	194
Stock Valuation .....	194
Common Stock Valuation .....	194
The Importance of Stock Volume Numbers.....	196
Buying a Stock on Margin (Credit) .....	197
Initial Public Offerings.....	197
Shorting a Stock.....	198
Timing the Market.....	198
Different Stock Strategies .....	200
Investment Portfolios .....	200
Diversified Investing .....	201
Tax Implications of Stock Market Investments.....	202
Conclusion .....	203
Review Questions .....	204
Review Answers .....	206
<b>Chapter 14 – Fixed-Income Securities and Real Assets</b> .....	<b>209</b>
Learning Objectives .....	209
Introduction.....	209
Bonds .....	209
Terms and Features of Bonds.....	209
Types of Bonds .....	210
Selecting Bonds .....	211

## Table of Contents

Determining Interest Rate Risk .....	212
Reading a Bond Quotation.....	213
Bond Trading Online.....	213
Calculating Yield (Effective Rate of Return) on a Bond.....	214
Preferred Stock .....	216
Other Fixed Income Securities – Short-Term “Parking Lots”.....	217
Investing in Tangibles: Real Estate and Other Real Assets.....	218
Real Estate .....	219
Investing in Real Estate in an I.D.E.A.L. Situation .....	219
How to Enhance the Value of Real Estate.....	219
Indirect Real Estate Investments.....	223
Should You Use Leverage When Investing in Real Estate?.....	225
Investing in Precious Metals .....	226
Review Questions .....	227
Review Answers .....	229
<b>Chapter 15 – Funds and Diversification .....</b>	<b>233</b>
Learning Objectives .....	233
Introduction.....	233
Mutual Fund Investing.....	233
Attributes of Mutual Funds.....	233
Net Asset Value (NAV) Determination.....	234
Making Money with a Mutual Fund.....	234
Total Return on the Mutual Fund.....	234
Mutual Funds and Expenses.....	235
Kinds of Mutual Funds .....	235
Different Investment Programs with Mutual Funds .....	236
Bond Income Funds .....	237
Guidelines for Investing in a Bond Fund.....	237
Tax-Exempt Municipal Bond Funds.....	237
Unit Investment Trusts.....	238
Choosing a Mutual Fund.....	238
Performance Benchmarking.....	239
Mutual Fund Peer Group Rankings.....	239
Risk-Reducing Strategies for Investing in Mutual Funds.....	240
Dollar-Cost Averaging.....	240
Investing in Index Funds.....	241
Exchange Traded Funds.....	242
Money Market Funds.....	242
Ratings.....	243
Diversification Is the Key.....	243
Beta and Risk and Asset Allocation.....	243
Robo-Advisors.....	244
Conclusion .....	246
Review Questions .....	247
Review Answers .....	248
<b>Chapter 16 – Retirement and Estate Planning .....</b>	<b>249</b>
Learning Objectives .....	249
Introduction.....	249
Retirement Planning.....	249
Retirement Checklist.....	249
Estimating Retirement Needs .....	250
Online Retirement Planning.....	250
Pension Plans .....	251
Company and Individual Retirement Plans.....	252
Managing for Retirement .....	254
Traditional Individual Retirement Account (IRA).....	254
Roth IRA .....	255

## Table of Contents

Putting the IRA to Work .....	255
Keogh Plans .....	256
Contribution Limits to Various Retirement Accounts .....	256
Reverse Mortgages .....	257
Pension Plans .....	258
Investing in Target Date Funds for Retirement .....	258
Annuities .....	261
Other Options for Risk-Averse Retirees .....	263
Estate Plans.....	265
Estate Planning Checklist .....	265
Taking Stock .....	266
Wills.....	268
Elements of a Will.....	268
Naming a Guardian .....	268
Naming an Executor .....	268
Preparing a Will .....	269
Updating a Will .....	269
Where to Keep Your Will.....	269
A Living Will.....	269
Living Trusts .....	269
Estate Taxation .....	270
Estate Planning Team .....	271
Review Questions .....	272
Review Answers .....	273
<b>Appendix – Valuation Tables .....</b>	<b>275</b>
<b>Glossary.....</b>	<b>281</b>
<b>Index .....</b>	<b>313</b>