

FINA200
Summer 1 2011
Case 1 - due Wednesday, May 18, 2011
Covering Chapters 1 - 4

PLEASE NOTE

- **THIS IS AN INDIVIDUAL ASSIGNMENT.**
 - **YOUR SOLUTION MAY BE SUBMITTED IN ENGLISH OR FRENCH.**
 - **ACCEPTABLE SUBMISSION FORMATS INCLUDE WORD 2007 (.docx) or PDF. EXCEL IS NOT ACCEPTED.**
 - **OUTSIDE RESEARCH WILL LIKELY BE REQUIRED. PLEASE QUOTE ALL SOURCES AND DO NOT COPY AND PASTE!**
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Cheng Chan grew up in Toronto and attended York University. He graduated with a B.A. in June of 2007 and started working for the National Film Board of Canada. At the end of 2009 he was promoted to a position paying \$52,300 a year. The following information pertains to his financial situation in 2010.

The housing market in Toronto is notoriously difficult to break into. Cheng had always been frugal, but decided in January of 2010 to seriously examine his financial situation to see when, if ever, he might have enough free cash flow to start saving toward a down payment on a 1 bedroom condo. As at January 2010, his only savings amounted to the money he contributed to his Registered Pension Plan and \$6,250 in a savings account (upon which he expected to earn interest income of \$750 in 2010).

After tracking his expenses for a couple of months, he was able to identify where most of his money went. He projected the following personal expenses for 2010:

Expense	\$	Expense	\$
Registered pension plan contributions ¹	1,569	Medical expenses	3,000
Employment Insurance contributions	747	Other variable expenses	9,000
Canada Pension Plan contributions	1,990	Student loan payments	3,000
Deduction for non-taxable benefits	3,470	Subway pass	900
Rent (incl. electricity)	12,600	Other fixed expenses	5,000

Note 1: Identical to those of 2009.

His apartment was sparsely furnished. His personal effects, including a computer, were valued on a depreciated basis at about \$10,000. His credit card balance was \$5,000. Unfortunately, it always seemed to stay at that level, month after month.

Cheng's student loan charged a monthly rate of 0.75% and as of January 2010 there were 60 months remaining on the loan. Cheng became eligible to join the Registered Pension Plan in January of 2009. His personal contribution was matched by his employer on a monthly basis and earned an effective annual return of 5% over the year to January 2010.

Question 1 (50 marks)

- a) Determine Cheng's expected 2010 federal tax bill. Identify each item by name. Refer to the 2010 Federal Income Tax and Benefit Guide for Ontario on the CRA website for tax brackets and tax credit information. (40 marks)
- b) Identify 2 tax planning strategies that Cheng should use. Explain why. (10 marks)

Question 2 (50 marks)

- a) Draw up Cheng's projected cash flow statement for 2010, as well as his personal balance sheet as at January 2010. Assume his Ontario personal income tax/contributions = 50% of his federal tax bill. Assume all income taxes are deducted by his employer. (20 marks)
- b) Use the ratios on page 60 of the textbook to analyze his financial situation. Assume Cheng pays \$75 a month in interest charges to carry a balance on his credit card. These charges are already included in variable expenses. (20 marks)

c) Identify 2 strengths and 2 weakness in his financial situation. (10 marks)