

## Teacher Key



# A Tale of Credit Use And Misuse TEACHER'S

In September, Credita is approved for her first credit card! (**YES!**) It is a single issue type card offered by Q T Pi Fashions, her favorite store! After careful evaluation of her finances, Credita decides to set a clothing budget not to exceed \$1200 a year at the Q T Pi Fashions store. This \$1200 just happens to coincide with the \$1200 limit imposed by the store. She also promises herself that she will pay her balance in full every month to avoid the 15% APR and the periodic monthly rate of 1.75%. Her new creditor, Q T Pi Fashions, requires a minimum 10% payment on any unpaid balance.

And so, Credita is off (like a rocket) to Q T Pi Fashions. Her monthly purchase totals resulting from her shopping excursions follow:

September	\$150.00	(BIG sale)
October	\$90.00	
November	\$90.00	
December	\$475.00	(Holiday gifts!)
January	\$250.00	(It's a very cold winter and a Winter Coat Sale!)
February	\$100.00	(Hot Valentine's date – new dress necessity)
March	\$200.00	(New Spring fashions appear!)
April	\$100.00	(Spring Fashion Sale!)
May	\$230.00	(New summer swim suites arrive!)
June	\$220.00	(Summer Clothes Sale!)

In July and August, Credita is too busy enjoying summer to shop Q T Pi Fashions. She is not too busy to realize that her new credit card expenses are seriously threatening her vacation plans. Help Credita regain control of her finances by completing the following credit card balance statement and by answering questions # 1 through 4.

Forward Balance	Month	Purchases	New Balance	.018 (1.75%)	Adjusted Balance	Payment
\$0	Sept.	\$150	\$150.	0	\$150.	\$100.
\$50.	Oct.	\$90	\$140.	2.52	\$142.52	\$100.
\$42.52	Nov.	\$90	\$132.52	2.38	\$134.90	\$100.
\$34.90	Dec.	\$475	\$509.90	9.18	\$519.08	\$100.
\$419.08	Jan.	\$250	\$669.08	12.04	\$681.12	\$100.
\$581.12	Feb.	\$100	\$681.12	12.26	\$693.38	\$100.
\$593.38	Mar.	\$200	\$793.38	14.28	\$807.66	\$100.
\$707.66	Apr.	\$100	\$807.66	14.54	\$822.20	\$100.
\$722.20	May	\$230	\$952.20	17.14	\$969.34	\$100.
\$869.34	June	\$220	\$1089.34	19.61	\$1108.95	\$110.90
\$998.05	July					

1. How much did Credita actually spend over her \$100 a month budget limit? In ten (10) months her expenditures should not have exceeded \$1000.

(\$1,905. – Actually spent  
- \$1,000 – budget)  
*Difference = \$905 excess spending*

2. How much over her \$100 budget limit was she required to pay on her last bill?

(\$10.90)

3. How much interest has Credita paid on her unpaid balance?

(\$103.95)

4. In what month did Credita almost reach her credit limit, and how much more would she have had to spend to exceed the limit?

*(The month is June. If the “new balance” figure of \$1089.34 is used the answer is \$110.66. If the “adjusted balance” figure of 1108.95 is used, the answer is \$91.05)*

5. Knowing that Credita will have to pay an additional 1.75% interest on each month's unpaid balance, calculate how long it will take her to pay off the Q T Pi Fashions bill if she makes no additional purchases and continues to pay at least \$100 per month.

Forward Balance	Month	Purchases	New Balance	.018 (1.75%)	Adjusted Balance	Payment
\$998.05	July	x	\$998.05	17.96	\$1,015.98	<b>\$101.60</b>
\$914.38	Aug.	x	<b>\$914.38</b>	<b>16.46</b>	<b>\$930.84</b>	\$100.
\$830.84	Sept.	x	<b>\$830.84</b>	<b>14.96</b>	<b>\$845.80</b>	\$100.
<b>\$745.80</b>	Oct.		<b>\$745.80</b>	<b>13.42</b>	<b>\$759.22</b>	\$100.
<b>\$659.22</b>	Nov.	x	<b>\$659.22</b>	<b>11.87</b>	<b>\$671.09</b>	\$100.
<b>\$571.09</b>	Dec.	x	<b>\$571.09</b>	<b>10.28</b>	<b>\$581.37</b>	\$100.
<b>\$481.37</b>	Jan.	x	<b>\$481.37</b>	<b>8.66</b>	<b>\$490.03</b>	\$100.
<b>\$390.03</b>	Feb.	x	<b>\$390.03</b>	<b>7.02</b>	<b>\$397.05</b>	\$100.
<b>\$297.05</b>	Mar.	x	<b>\$297.05</b>	<b>5.35</b>	<b>\$302.40</b>	\$100.
<b>\$202.40</b>	Apr.	x	<b>\$202.40</b>	<b>3.64</b>	<b>\$206.04</b>	\$100.
<b>\$106.04</b>	May	x	<b>\$106.04</b>	<b>1.91</b>	<b>\$107.95</b>	\$100.
<b>\$7.95</b>	Jun.	x	<b>\$7.95</b>	<b>0.14</b>	<b>\$8.09</b>	<b>\$8.09</b>

6. How many months did it take Credita to pay off Q T Pi Fashions?

*(12 months)*

7. Calculate the interest for the second balance sheet.

*(\$111.67)*

8. If Credita's spending patterns would have continued past the first July statement, what do you think might have happened?

*(Answers will vary. This could generate a general discussion about using credit wisely.)*