

Finance Charge: Unpaid-Balance Method

Vocab:

Cinterest on the balance

Unpaid-Balance Method - the interest charged is based on the unpaid part of your

bill.

288

Unpaid Bal = Prev - (Payments)

Fin. Charge = 70 · (Unpaid)

New Bal = Unpaid

Bal + Fin. New

Charge + Proch.



EXAMPLE 1

See **Figure 7.2** for the summary portion of Lucille Sherman's charge account statement. She had a previous balance of \$132.40 made a \$40.00 payment and purchased an item for \$79.55 The monthly finance charge is computed a 1.5% of the unpaid balance. Determine the **(a)** unpaid balance, **(b)** finance charge, and **(c)** new balance.

Charge Account Statement						
88 PAYMENT / Thank You 40.00						
Billing Date: 2/16						
Previous	Payments	Unpaid	Finance	New	New	
Balance	& Credits	Balance	Charge	Purchases	Balance	

a)
$$W.B. = 132.40 - 40 = 192.40$$

b) $F.C. = 0.015(92.40) = 1.39$
c) $NB = 92.40 + 1.39 + 79.55 = 173.34$



Complete problems 1 and 2 by finding (a) the unpaid balance, (b) the finance charge, and (c) the new balance. (The periodic rate is 1.5%.) Check your answers in the back of the book.

	Previous Balance	Payments = & Credits		Finance - Charge	H New = Purchases	New Balance
1.	\$600	\$100	a.4500 4	- b. 7· 5へ、		\$577.50
2.	220	150	a.* 70	b."1.0S	95	\$166.05



EXAMPLE 2 Algebra

Roy Nelson's charge account uses the unpaid-balance method to compute the finance charge at a monthly periodic rate of 1.75%. During the month, he charged \$156.89, made a \$200.00 payment, and had a \$9.90 finance charge. Find his (a) unpaid balance, (b) previous balance, and (c) new balance.



Complete the problems. Check your answers in the back of the book.

3. Omar Tariq has a credit card that uses the unpaid-balance method to compute the finance charge. His monthly periodic rate is 2.4%. During this past billing cycle, he charged a total of \$256.28 and made payments totaling \$350.00. If he has a finance charge of \$18.28, find his (a) unpaid balance, (b) previous balance, and (c) new balance.



Finance Charge: Average-Daily-Balance Method

Vocab:

Average-Daily-Balance Method- a 90 of your balance at the end of the day averaged for the month.

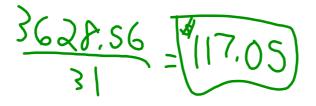


EXAMPLE 1

Sierra Warren has a charge account with a company that computes the finance charge using the average daily balance—new purchases included. She checks to be sure the average daily balance is correct. See **Figure 7.3** on p. 292 for part of her statement.

Reference	Posting Date	Description	Purchases & Advances	Payments & Credits
1-32734	12/10	Housewares	\$25.85	
2-44998	12/20	PAYMENT		\$70.00
Billing Period	Previous Balance	Periodic Rate	Average Daily Balance	Finance Charge
12/1-12/31	\$125.80	2%	\$117.05	\$2.34
Payments & Credits	Purchases & Advances	New Balance	Minimum Payment	Payment Due
\$70.00	\$25.85	\$83.99	\$20.00	1/21

Dates	Payment	Purchases	End-of-Day Balance	Number of Days	Sum of Balances
12/1-12/9			\$125.80 ×	9	\$1,132.20
12/10		\$25.85	181.65 ×	1	151.65
12/11–12/19			181.65 ×	٩	151.65
12/20	\$70.00		8165 ×	Ţ,	29.18
12/21-12/31			81.65 ×		898.15
			TOTAL	31	3628.56





EXAMPLE 2

Sierra Warren (from **Example 1**) checks the finance charge and the new balance. The finance charge is computed at 2% of the average daily balance. What is her new balance?



Find the average daily balance including new purchases. Check your answers in the back of the book.

	Dates	Payment	Purchase	End-of-Day Balance	×	Number of Days	Sum of Balances
1.	9/9–9/15			> \$500	X	7	a,3500
2.	9/16		\$100	4 600	×	1	a.600
3.	9/17-9/21			a,600	×	5	B.3000
4.	9/22	\$150		ä.450	×	b.	c#450
5.	9/23-10/8			a.4450	×	b. 16	27200
6.	TOTAL a.30 B.14,750						
	Sym of Daily Balances ÷ Number of Days = Average Daily Balance						
7.	a 14750)	÷ b. 30		=	2491.6	7



Complete the problems by using the information in Concept Check Problems 1–7 to find the following if the finance charge is computed at 1.5% of the average daily balance. Check your answers in the back of the book.

8. The finance charge.

9. The unpaid balance.

10. The new balance.

$$NB = 350 + 7.38 + 100 = 457.38$$