

Chapter 7 L1 Charge Account Statements

OBJECTIVE: Calculate the new balance on a charge account

What is a credit card or charge account?

Can anyone get a credit card?

Is it just free money?



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A credit card or charge account will send each member a monthly statement which will list all the items you purchased during a **ONE-MONTH period. It will also list any payments that were made and any credits applied to the account. It will also list a finance charge for the use of any money that has not been paid from previous statements. That finance charge is usually referred to as **INTEREST** Is there any way that a person can use a credit card and not pay any interest?**

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Important Formula

$$\text{New Balance} = \text{Previous Balance} + \text{Finance Charge} + \text{New Purchases} - \text{Payments} - \text{Credits}$$

- Payments - Credits
- (Payments + Credits)

Example 1: Your car needs a new battery and 2 new tires. The battery costs \$95, and 2 new tires cost a total of \$248. Since you are short on cash, you charge these items. When your monthly statement comes, it lists new purchases of \$95 for the battery and \$248 for the tires. Your previous balance on your statement was \$0. What is the new balance?

$$\$0 + \$0 + (\$95 + \$248) = \underline{\$343.00} \text{ [NEW BALANCE]}$$

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Example 2 Alice Newman received her credit card account statement. It showed a previous balance of \$87.29, a finance charge of \$1.31, new purchases of \$44.60, \$52.99, \$113.66, and a payment of \$50. What is the new balance on Alice's account?

New Balance = Previous Balance + Finance Charge + New Purchases - (Payments + Credits)

$\$87.29 + 1.31 + 44.60 + 52.99 + 113.66 - 50 = \text{New Balance}$

New Balance = \$249.85

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Example 3: Penelope Barr's charge account statement showed a previous balance of \$825.00, a finance charge of \$23.75, no new purchases, and a payment of \$45.00. What is the new balance?

New Balance = Previous Balance + Finance Charge + New Purchases - (Payments + Credits)

$$\begin{aligned} &= \$825 + \$23.75 + 0 - 45 \\ &= \$803.75 \end{aligned}$$

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Example 4

Franklin Rhodes received his charge account statement. His previous balance was \$86.79. His statement showed a finance charge of \$4.39, new purchases of \$46.80, \$22.16, \$35.95, a credit of \$39.70 for a shirt he returned and a payment of \$45.00. What is the new balance on his account?

New Balance = Previous Balance + Finance Charge + New Purchases - (Payments + Credits)

$$\begin{aligned} \$86.79 + 4.39 + 46.80 + 22.16 + 35.95 - 39.70 - 45 \\ = \$111.39 \end{aligned}$$

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e 7.1

D&L Department Store

Martha Palmer
1234 Main St.
Toledo, OH 43605

(IF ADDRESS IS INCORRECT,
PLEASE CHECK BOX AND
CORRECT ON REVERSE SIDE)

MAIL THIS PORTION WITH PAYMENT TO P.O. BOX 1027

PALMER'S ACCOUNT NUMBER

ACCOUNT NUMBER
NEW BALANCE

101-04076

TOTAL MINIMUM AMOUNT NOW DUE \$43.00
SEND PAYMENT TO REACH US BY 10/30/-

DATE	DEPT. NO.	DESCRIPTION	PURCHASES	CREDITS	PAYMENTS	ITEM NO.
09/07	162	SPORTSWEAR		\$23.42		0-06-18005
09/10	363	SPORTSWEAR	\$108.63			0-07-20015
09/17		PAYMENT—THANK YOU			\$50.00	0-06-47023
09/19	214	JR SPORTSWEAR		8.52		0-07-45005
09/19	53	HOUSEWARES	19.53		\$50.00	0-07-45006
09/27	34	COSMETICS	25.62	CREDIT FOR ITEMS RETURNED	PAYMENT TOWARD LAST MONTH'S BILL	0-07-64004
09/29	1	LINENS-TOWELS	19.25			0-07-70012

LAST DATE
TRANSACTIONS
WERE PROCESSED

Bill Closing
Date

Previous
Balance

Finance
Charge

Total Purchases
This Month

Credits

Payment

New
Balance

9/30

\$332.64

\$5.64

\$173.03

\$31.94

\$50.00

\$429.37

AMOUNT
PALMER OWED
LAST MONTH

Pay new balance in full within 25 days of bill closing date to avoid finance charge next month. Finance charge, if any,
is computed on the average daily balance of \$375.72 by applying monthly periodic rates.

SUBJECT TO A MINIMUM FINANCE CHARGE OF \$.50. NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION.

AMOUNT PALMER
NOW OWES