

The unpaid balance method -
pay a finance charge on the
amount owed on your
previous bill.

EXAMPLE 6 *Finance Charges Using the Unpaid Balance Method*

In October, Ed Laughbaum charged all the supplies for his Halloween party to his Visa card. On November 5, the billing date, Ed had a balance due of \$275. From November 5 through December 4, he did some shopping and charged items totaling \$320, and he also made a payment of \$145.

- Determine the finance charge due on December 5, Ed's next billing date, using the unpaid balance method. Assume that the interest rate charged is 1.3% per month.
- Determine the new account balance on December 5.

25. *Unpaid Balance Method* On the April 5 billing date, Michaelle Chappell had a balance due of \$1097.86 on her credit card. From April 5 through May 4, Michaelle charged an additional \$425.79 and made a payment of \$800.

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- Find the finance charge on May 5, using the unpaid balance method. Assume that the interest rate is 1.8% per month.

$$I = 1097.86 (.018)(1) = 19.76$$

- Find the new balance on May 5.

$$1097.86 + 19.76 + 425.79 - 800 = 743.41$$

26. **Unpaid Balance Method** On September 5, the billing date, Verna Brown had a balance due of \$567.20 on her credit card. The transactions during the following month were

September 8	Payment	\$275.00	-
September 21	Charge: Airline ticket	330.00	+
September 27	Charge: Hotel bill	190.80	+
October 2	Charge: Clothing	84.75	+

- a) Find the finance charge on October 5, using the unpaid balance method. Assume that the interest rate is 1.1% per month.

$$I = 567.20(.011)(1) = 6.24$$

- b) Find the new balance on October 5.

$$567.20 + 6.24 - 275 + 330 + 190.80 + 84.75 = 903.99$$

27. **Unpaid Balance Method** On February 3, the billing date, Carol Ann Bluesky had a balance due of \$124.78 on her credit card. Her bank charges an interest rate of 1.25% per month. She made the following transactions during the month.

February 8	Charge: Art supplies	\$25.64
February 12	Payment	100.00
February 14	Charge: Flowers delivered	67.23
February 25	Charge: Music CD	13.90

- a) Find the finance charge on March 3, using the unpaid balance method.
- b) Find the new balance on March 3.

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28. **Unpaid Balance Method** On April 15, the billing date, Gabrielle Michaelis had a balance due of \$57.88 on her credit card. She is redecorating her apartment and has the following transactions.

April 16	Charge: Paint	\$64.75
April 20	Payment	45.00
May 3	Charge: Curtains	72.85
May 10	Charge: Chair	135.50

- Find the finance charge on May 15, using the **unpaid** balance method. Assume that the interest rate is 1.35% per month.
- Find the new balance on May 15.

EXAMPLE 7 *Finance Charges Using the Average Daily Balance Method*

The balance on Min Zeng's credit card account on July 1, the billing date, was \$375.80. The following transactions occurred during the month of July.

July 5	Payment	\$150.00
July 10	Charge: Toy store	74.35
July 18	Charge: Garage	123.50
July 28	Charge: Restaurant	42.50

- a) Determine the average daily balance for the billing period.

359.18

- b) Determine the finance charge to be paid on August 1, Min's next billing date.

Assume that the interest rate is 1.3% per month. $F = 359.18(.013)(1) = 4.67$

- c) Determine the balance due on August 1.

$$466.15 + 4.67 = 470.82$$

Date	Balance Due	Number Of Days	(balance)x(days)
7/1	375.80	4	$375.8 \times 4 = 1503.20$
7/5	$\begin{array}{r} 375.80 \\ -150 \\ \hline 225.80 \end{array}$	5	$225.80 \times 5 = 1129$
7/10	$\begin{array}{r} 225.80 \\ +74.35 \\ \hline 300.15 \end{array}$	8	$300.15 \times 8 = 2401.20$
7/18	$\begin{array}{r} 300.15 \\ +123.50 \\ \hline 423.65 \end{array}$	10	$423.65 \times 10 = 4236.50$
7/28	$\begin{array}{r} 423.65 \\ +42.50 \\ \hline 466.15 \end{array}$	4	$466.15 \times 4 = 1864.60$
		31	Sum = 11134.50

$$ADB = 359.18$$

Divide the sum by the number of days. This is the average daily balance that the monthly interest is calculated on.

Take the sum of the amount you owed and the finance charge and this is your new balance.

29. **Average Daily Balance Method** The balance on the Razazadas' credit card on May 12, their billing date, was \$378.50. For the period ending June 12, they had the following transactions.

May 13	Charge: Toys	\$129.79
May 15	Payment	50.00
June 1	Charge: Clothing	135.85
June 8	Charge: Housewares	37.63
June 12		

- a) Find the average daily balance for the billing period.
- b) Find the finance charge to be paid on June 12. Assume an interest rate of 1.3% per month. $I = 512(.013)(1) = 6.66$
- c) Find the balance due on June 12. $631.77 + 6.66 = 638.43$

Date	Balance Due	Number Of Days	(balance)x(days)
5/12	378.50	1	378.50 x 1
	+129.79		
5/13	508.29	2	508.29 x 2
	-50		
5/15	458.29	17	458.29 x 17
	+135.85		
6/1	594.14	7	594.14 x 7
	+37.63		
6/8	631.77	4	631.77 x 4
		31	Sum = 15872.67

$$\frac{15872.67}{31} = 512$$

ADB = 512