

Chapter 13 Consumer Purchasing and Protection

**SOFTWARE
ACTIVITY
(OPTIONAL)**

Spreadsheet Application

Comparing Consumer Purchase Alternatives

Objective: Assess and compare the financial implications of purchase options.

Practice Situation

Megan plans to buy a new mountain bike and must evaluate the following purchase options. Cycle Tech Bike Shop is offering the model that Megan likes for \$289. The price includes a 6-month standard warranty. The clerk has recommended that she purchase an extended warranty for \$40. The extended warranty will cover any repairs on her purchase for an additional 6 months. Megan likes the idea of the extended warranty because she knows this will protect her from unexpected repair costs.

Ann's Bike Shop is selling the same model for 10 percent off the tag price of \$330. A 6-month standard warranty is also included in the price at Ann's, but they do not offer an extended warranty plan. Megan estimates that she would spend no more than \$40 on repairs from month 7 through 12 after the purchase.

Megan also needs to purchase a helmet. Ann's Bike Shop has offered to throw in the helmet at no cost if Megan buys the bike from them. The helmet sells for \$32 in both shops.

Use a sales tax rate of 8.5 percent and compare the purchase options. Answer the questions on the next page.

| | Cycle Tech Bike Shop | Ann's Bike Shop |
|-------------------------------|----------------------|-----------------|
| Cost of mountain bike | | |
| Extended warranty price | | |
| Helmet | | |
| Subtotal | | |
| Sales Tax | | |
| Total Purchase | | |
| Repairs during the first year | | |
| Total Cost | | |

Spreadsheet Directions

1. Start your spreadsheet software program and open problem **SA04.xls**.
2. Use the data listed on the previous page to complete the total cost of the purchase from Cycle Tech Bike Shop. Insert formulas to calculate Subtotal, Sales Tax, Total Purchase, and Total Cost. *Note: Format all dollar amounts to Currency, 2 decimals.*
3. Record the costs associated with the purchase of the bike at Ann's Bike Shop. Insert the formula to calculate the cost of the mountain bike less the discount offered. Then, insert the formulas for Subtotal, Sales Tax, Total Purchase, and Total Cost.
4. Perform your calculations and complete the spreadsheet, then save your work to a new file labeled **SA04***.xls**. (Replace *** with your initials.)
5. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

1. What is the Total Cost of the purchase from Cycle Tech Bike Shop? _____
2. If Megan's estimate for repairs from month 7 through month 12 on the bike were correct, what is the Total Cost of the purchase from Ann's Bike Shop? _____

Drawing Conclusions

1. Based on your calculations, which bike shop is offering the best value to Megan on her desired purchase? Explain.

2. What financial risks or benefits can you identify that Megan should consider in her decision? What nonfinancial risks or benefits should Megan consider?

