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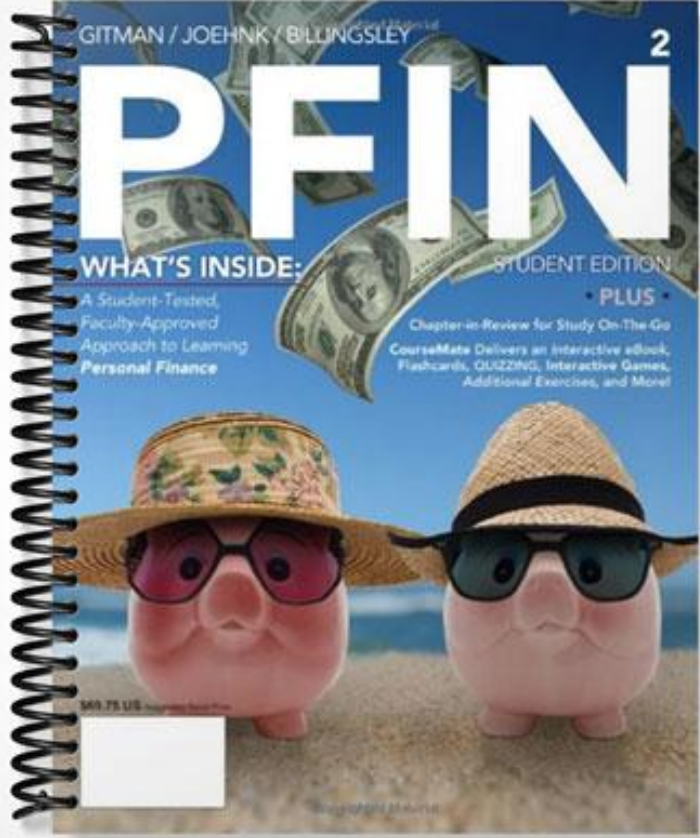
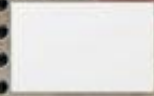
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Chapter 2—Developing Your Financial Statements and Plans

TRUE/FALSE

1. A balance sheet shows your financial condition as of the time the statement is prepared.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO1
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Mapping Out Your Financial Future

2. One could use statements from their various financial institutions to help complete a balance sheet.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

3. The income statement only includes information on your latest paycheck.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

4. The income and expenditures statement provides a measure of financial performance over a period of time.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

5. Financial planning is necessary only if you earn a lot of money.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO1
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Mapping Out Your Financial Future

6. Assets listed on your balance sheet must have monetary value.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

7. A budget is a detailed statement of what income and expenses occurred over a past period.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

8. A budget is a detailed financial forecast.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

9. Financial assets are intangible assets acquired to achieve long-term personal financial goals.

ANS: T PTS: 1 DIF: Medium OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

10. Assets purchased on credit should be included on the asset side of the balance sheet.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

11. Jewelry, furniture and computers are examples of personal property.

ANS: T PTS: 1 DIF: Medium OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

12. A house and land are examples of real property.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

13. Most types of personal property depreciate, or decline in value, shortly after being put into use.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

14. Investment assets include items such as boats or automobiles.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

15. All assets are recorded on the balance sheet at their original cost.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

16. Money I loaned to a friend is a liability on my balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

17. A charge made on your credit card becomes a liability as soon as the charge is incurred.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

18. You are more likely to achieve your goals if a definite goal date is set.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

19. Your auto loan payments would be listed as an expense on the income statement.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

20. Only the current month's payment on your mortgage loans would be listed on the balance sheet as a liability.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

21. Your net worth and your equity in owned assets are the same basic concept.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

22. The balance sheet equation is assets plus liabilities equals net worth.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

23. A budget is an orderly estimate of income and expenditures.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

24. Mary and Tom purchased their home for \$150,000, and it is now worth \$175,000. Its asset value is \$150,000.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

25. The equity in your home is the difference between the loan balance and the purchase price.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

26. The income and expenditures statement is a summary of actual income and expenditures over a specific point of time.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

27. Interest you earned on your savings account would be an entry on the balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

28. If you obtain a loan to purchase a car in June, this loan amount would be included as income for June.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

29. If you listed your gross salary in the income portion of the budget, the expenditures section must include income taxes and social security.

ANS: T PTS: 1 DIF: Medium OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

30. If you use net salary as income on your budget, the expenditures section must include income and social security taxes.

ANS: F PTS: 1 DIF: Medium OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

31. An income statement deficit would increase net worth.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

32. When the income statement indicates a surplus, this may be used to increase net worth by increasing assets or decreasing liabilities.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

33. A cash deficit decreases net worth.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

34. Balance sheets and income statements are most useful if prepared at least annually.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Using Your Personal Financial Statements

35. The savings ratio is useful in the evaluation of the balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Using Your Personal Financial Statements

36. A cash surplus will typically produce a positive savings ratio.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Using Your Personal Financial Statements

37. A family could have a positive savings ratio at the same time its debt service ratio is increasing.

ANS: T PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Using Your Personal Financial Statements

38. The liquidity ratio is an indicator of a family's ability to pay current debts if there is an interruption in income.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Using Your Personal Financial Statements

39. The savings ratio indicates the percentage of after-tax income that is saved.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Using Your Personal Financial Statements

40. The level of the debt service ratio would indicate your ability to meet loan payments out of current income.

ANS: T PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Using Your Personal Financial Statements

41. You have a balanced budget when total income for the year equals or exceeds total expenditures for the year.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

42. You may be under-budgeting for food if you continually have monthly deficits in the food category.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

43. The best way to balance your budget is to increase borrowing.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

44. A solvency ratio shows how much "cushion" you have as a protection against insolvency.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Using Your Personal Financial Statements

45. Budgeting and record keeping are really the same activity.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Using Your Personal Financial Statements

46. The best place to keep a budget is in a safe deposit box.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

47. When preparing a cash budget, estimating expenses using actual expenses from previous years and by tracking current expenses makes the task easier.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

48. A cash budget has value only if you use it, review it regularly, and keep careful records of income and expenses.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

49. Using the future value calculations to estimate the funds needed to meet a goal takes compounding into account.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO6
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Time Value of Money

50. Using time value of money is important when planning for long-term goals.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO6
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Time Value of Money

51. Using time value of money is most important when planning for short-term goals.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO6
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Time Value of Money

52. Net income (after taxes) should be used when developing an income and expense statement.

ANS: F PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

53. In a budget, "fun money" is a budget category used for family members to spend as they like without having to account for how it is spent.

ANS: T PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

MULTIPLE CHOICE

1. The balance sheet describes a family's wealth
- at a certain point in time.
 - as an annual summary.
 - as a time period less than one year.
 - at a future time.
 - none of these

ANS: A PTS: 1 DIF: Easy OBJ: Ch. 2, LO1
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Mapping Out Your Financial Future

2. The three parts of your balance sheet are
- income, liabilities, balance.
 - assets, expenditures, balance.
 - assets, liabilities, balance.
 - assets, liabilities, net worth.
 - income, liabilities, net worth.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

3. A(n) _____ would not be listed as an asset on your balance sheet.
- mortgaged home
 - savings account
 - owned automobile
 - checking account
 - leased automobile

ANS: E PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

4. When Phil lists his house on his balance sheet, he should record the
- actual purchase price.
 - replacement value.
 - insured value.
 - sale price.

e. fair market value.

ANS: E PTS: 1
NAT: Tier 1: Analytic skills
TOP: The Balance Sheet

DIF: Medium OBJ: Ch. 2, LO2
LOC: Bloom's: Comprehension

5. Your ____ is an example of a liquid asset.
- home
 - car
 - checking account
 - charge account
 - life insurance cash value

ANS: C PTS: 1
NAT: Tier 1: Analytic skills
TOP: The Balance Sheet

DIF: Easy OBJ: Ch. 2, LO2
LOC: Bloom's: Knowledge

6. Kathy purchased new furniture for \$10,000. She put \$1,000 down and financed \$9,000. She will pay \$350 per month until the loan is paid off. Which of the following are true?
- The furniture should be recorded as an asset of \$10,000 on Kathy's balance sheet.
 - The \$9,000 is entered as a liability on Kathy's balance sheet.
 - The furniture should be recorded as a \$1,000 expenditure on Kathy's balance sheet.
 - The \$350 payments are expenditures on Kathy's income and expenditure statement.
 - All are correct except c

ANS: E PTS: 1
NAT: Tier 1: Analytic skills
TOP: The Balance Sheet

DIF: Medium OBJ: Ch. 2, LO2
LOC: Bloom's: Application

7. Sam and his wife Ann purchased a home in Lubbock, Texas, in 1980 for \$100,000. Their original home mortgage was for \$90,000. The house has a current market value of \$175,000 and a replacement value of \$200,000. They still owe \$55,000 on their home mortgage. Sam and Sally are now constructing their balance sheet. How should their home be reflected on their current personal balance sheet?
- \$200,000 asset and \$55,000 liability
 - \$200,000 asset and \$90,000 liability
 - \$175,000 asset and \$55,000 liability
 - \$175,000 asset and \$90,000 liability
 - \$100,000 asset and \$55,000 liability

ANS: C PTS: 1
NAT: Tier 1: Analytic skills
TOP: The Balance Sheet

DIF: Medium OBJ: Ch. 2, LO2
LOC: Bloom's: Application

8. ____ is an example of a personal asset.
- Jewelry
 - Recreational equipment
 - Corporate bond
 - Charge account balance
 - Auto insurance premium

ANS: A PTS: 1
NAT: Tier 1: Analytic skills
TOP: The Balance Sheet

DIF: Easy OBJ: Ch. 2, LO2
LOC: Bloom's: Knowledge

9. A budget is a
- purchase plan.
 - line of credit.
 - financial statement.
 - detailed financial forecast.
 - set of personal financial objectives.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

10. The main purpose of a budget is to
- develop goals.
 - develop a financial plan.
 - give feedback to the plan.
 - monitor and control financial outcomes.
 - revise goals.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

11. Budgets are
- restrictive.
 - complicated.
 - forward looking.
 - permanent.
 - unnecessary.

ANS: C PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

12. ____ would not be listed as a liability on your balance sheet.
- Taxes owed
 - Loan balances
 - Bank credit card charges
 - Savings accounts
 - Rent due

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

13. Net worth is measured by
- bank card balances.
 - house mortgage balances.
 - amount owed on an automobile loan.
 - assets minus liabilities.
 - insurance premium.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

14. Balance sheet liabilities should be recorded at their
- original outstanding balance.
 - year-end outstanding balance.
 - average outstanding balance.
 - current outstanding balance.
 - none of these.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

15. On the balance sheet, a mortgage loan is recorded as the
- interest only.
 - sum of interest paid and the outstanding balance.
 - sum of interest due and the outstanding balance.
 - principal portion only.
 - none of these.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

16. Another term sometimes used instead of net worth is
- assets.
 - net debts.
 - long-term liabilities
 - equity.
 - liquid assets.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

17. The balance sheet equation is:
- Total Assets / Total Liabilities = Net Worth.
 - Total Assets \times Total Liabilities = Net Worth.
 - Total Assets – Total Liabilities = Net Worth.
 - Total Assets + Total Liabilities = Net Worth.
 - Total Liabilities – Total Assets = Net Worth.

ANS: C PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

18. Mandy and Jeff have a net worth of \$25,000 and total assets of \$140,000. If their revolving credit and unpaid bills total \$2,200, what are their total liabilities?
- \$115,000
 - \$140,000
 - \$142,200
 - \$165,000
 - \$167,200

ANS: A PTS: 1 DIF: Medium OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: The Balance Sheet

19. Sonny and Cher have a net worth of \$35,000 and total assets of \$200,000. If their revolving credit and unpaid bills total \$2,200, what are their long-term liabilities?
- a. \$115,000
 - b. \$140,000
 - c. \$142,200
 - d. \$162,800
 - e. \$165,000

ANS: D PTS: 1 DIF: Medium OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: The Balance Sheet

20. You are solvent if your
- a. total liabilities exceed total assets.
 - b. total assets exceed total liabilities.
 - c. total assets exceed net worth.
 - d. total liabilities exceed net worth.
 - e. none of these.

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Balance Sheet

21. The income and expenditures statement examines your financial
- a. level.
 - b. performance.
 - c. position.
 - d. assets.
 - e. objectives.

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

22. The income statement is specific to
- a. one point in time.
 - b. a specific period of time.
 - c. last year.
 - d. next year.
 - e. none of these.

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

23. The income statement includes
- a. income, liabilities, net worth.
 - b. income, expenditures, surplus or deficit.
 - c. expenditures, net worth, surplus or deficit.
 - d. net worth, surplus, income or expenditures.
 - e. savings, surplus, income or expenditures.

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge

TOP: The Income and Expenditure Statement

24. On an income statement covering January 1 to June 30, ____ would not be included as income.
- wages and salaries received in that six months
 - interest received on June 30
 - auto sold with payment received May 15
 - inheritance granted in April, to be paid in September
 - income tax refund received April 14

ANS: D PTS: 1 DIF: Medium OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

25. You would not include ____ on an income and expenditures statement.
- the value of your stock portfolio
 - taxes withheld
 - utilities paid
 - mortgage payments
 - charitable payments

ANS: A PTS: 1 DIF: Medium OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

26. I should not record ____ on an income/expense statement covering January 1 to June 30.
- an \$800 refrigerator bought on credit May 30
 - a paid March telephone bill
 - health insurance premiums deducted from monthly pay checks
 - checking account service charges
 - groceries bought and paid for in June

ANS: A PTS: 1 DIF: Medium OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

27. ____ would be an example of a periodic expense.
- Food
 - Vacation
 - Utilities
 - Taxes
 - none of these

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

28. The most common budgeting period is a
- week.
 - month.
 - quarter.
 - semi-annually.
 - bi-weekly.

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension

TOP: Budgets

29. A cash budget should help you to
- achieve your short-term financial goals.
 - implement disciplined spending.
 - eliminate impulse spending.
 - allocate funds to savings and investments.
 - do all of these

ANS: E PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

30. All of the following are stages in preparing a cash budget except
- estimating income
 - estimating expenses
 - calculating depreciation expense
 - finalizing the cash budget

ANS: C PTS: 1 DIF: Medium OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

31. A cash budget helps you:
- Monitor and control your finances.
 - Decide how to allocate your income to reach your financial goals.
 - Achieve your long-term financial goals.
 - All of the above.
 - a and b only.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

32. When a cash surplus exists on your income and expenditure statements, you can
- acquire assets.
 - pay off existing debts.
 - increase your savings.
 - increase your investments.
 - do any of these.

ANS: E PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

33. Russ buys his wife a valuable painting for \$20,000. He purchases it using \$15,000 from his savings and a \$5,000 loan. How does this transaction affect Russ' balance sheet?
- His assets increase
 - His liabilities increase
 - His net worth stays the same
 - a and b
 - a, b and c

ANS: C PTS: 1 DIF: Medium OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Application

TOP: The Balance Sheet

34. If your statement of income and expenditures shows a deficit, you may have
- increased your debts.
 - increased your assets.
 - added to savings.
 - bought additional insurance.
 - paid off some of your debts.

ANS: A PTS: 1 DIF: Medium OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Income and Expenditure Statement

35. If your _____, your net worth on the balance sheet would have increased from one period to the next.
- liabilities increased and assets remained constant
 - liabilities increased and assets decreased
 - assets increased and liabilities remain constant
 - income increased
 - none of these

ANS: C PTS: 1 DIF: Medium OBJ: Ch. 2, LO2
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: The Balance Sheet

36. If your total assets equal \$50,000 and your total liabilities equal \$15,000, your debt ratio is
- 30%.
 - 70%.
 - 143%.
 - 233%.
 - 333%.

ANS: A PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

37. If your total assets equal \$87,000 and your total liabilities equal \$10,000, your solvency ratio is
- 11.5%.
 - 13.0%.
 - 77.0%.
 - 87.0%.
 - 88.5%.

ANS: E PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

38. Using balance sheet information, the _____ ratio indicates your ability to meet current debt payments.
- solvency
 - liquidity
 - cash
 - savings
 - debt service

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension

TOP: Using Your Personal Financial Statements

39. Kim's net worth is \$85,000 and her total assets are \$100,000. What is Kim's solvency ratio?
- 15%
 - 25%
 - 65%
 - 85%
 - 100%

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

40. A savings ratio expresses the
- percentage of gross income saved.
 - ability to cover immediate debt when there is an interruption in income.
 - percentage of after-tax income saved.
 - percentage of tax-deferred income earned annually.
 - none of these.

ANS: C PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Using Your Personal Financial Statements

41. Your total cash income is \$40,000. You pay \$5,000 in taxes and \$30,000 in other expenses. Your savings ratio is
- 7.5%
 - 10.0%
 - 12.5%.
 - 13.3%.
 - 14.3%.

ANS: E PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

42. Your total cash income is \$80,000. You pay \$8,000 in taxes and \$60,000 in other expenses. Your savings ratio is
- 10.0%
 - 14.3%
 - 15.0%.
 - 16.7%.
 - 17.5%.

ANS: D PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

43. Mindy and Lou had liquid assets of \$10,000 and current debts of \$30,000. What is their liquidity ratio?
- 25%
 - 33%
 - 67%
 - 150%
 - 300%

ANS: B PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

44. Jacque's total monthly loan payments are \$1,020 while her gross income is \$3,000 per month. What is her debt service ratio?
- a. 34%
 - b. 43%
 - c. 50%
 - d. 75%
 - e. 82%

ANS: A PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

45. In order to minimize the difficulty associated with meeting monthly loan payments, the debt service ratio should be
- a. above 50%.
 - b. below 50%.
 - c. at 35%.
 - d. below 35%.
 - e. above 20%.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Using Your Personal Financial Statements

46. Mike and Teresa Garza have a monthly gross income of \$5,000, but they pay \$1,000 per month in taxes. They also pay \$2,000 per month in various loan payments. What is their debt service ratio?
- a. 20%
 - b. 30%
 - c. 40%
 - d. 50%
 - e. 60%

ANS: C PTS: 1 DIF: Medium OBJ: Ch. 2, LO4
NAT: Tier 1: Analytic skills LOC: Bloom's: Application
TOP: Using Your Personal Financial Statements

47. When estimating income for the income and expense statement, you should
- a. use gross income.
 - b. include expected pay increases.
 - c. adjust for inflation.
 - d. use net income.
 - e. none of these

ANS: A PTS: 1 DIF: Easy OBJ: Ch. 2, LO3
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: The Income and Expenditure Statement

48. The expenditure categories for your budget should be determined by
- a. the BLS Urban Family Budget categories.
 - b. purchased budget book headings.
 - c. those used in previous years.

- d. current and expected future spending.
- e. itemized tax deductions.

ANS: D PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

49. The need for budget adjustments is indicated when
- a. income is stable.
 - b. account deficits and surpluses balance out.
 - c. account deficits are more than surpluses.
 - d. a new calendar year begins.
 - e. short-term financial goals are achieved.

ANS: C PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

50. The best approach to solving the problem of an annual budget deficit is generally to
- a. liquidate enough savings to make up the deficit.
 - b. sell stock to make up the deficit.
 - c. reduce flexible expenditures.
 - d. reduce fixed expenses.
 - e. get a part time job.

ANS: C PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

51. What can you do if your budget shows an annual budget deficit?
- a. Liquidate enough savings and investments to meet the total budget shortfall for the year.
 - b. Borrow enough to meet the total budget shortfall for the year.
 - c. Cut low-priority expenses from the budget.
 - d. Increase Income.
 - e. All of these.

ANS: E PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Comprehension
TOP: Budgets

52. To determine how effectively the budget is working, you can use
- a. the balance sheet.
 - b. the income statement.
 - c. income and expenditure records.
 - d. year-end financial statements.
 - e. financial goals.

ANS: C PTS: 1 DIF: Easy OBJ: Ch. 2, LO5
NAT: Tier 1: Analytic skills LOC: Bloom's: Knowledge
TOP: Budgets

53. Theresa invested \$5,000 in an account she expects will earn 7% annually. Approximately how many years will it take for the account to double in value?
- a. 8
 - b. 9

- c. 10
- d. 11
- e. 12

ANS: C
 $72/7 = 10$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Time Value of Money

54. Jamil invested \$9,500 in an account he expects will earn 5% annually. Approximately how many years will it take for the account to double in value?
- a. 8.8
 - b. 9.7
 - c. 10.8
 - d. 11.4
 - e. 14.4

ANS: E
 $72/5 = 14.4$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Time Value of Money

55. Phil has \$2,000 and he needs it to grow to \$4,000 in 8 years. Assuming he adds no more money to this fund, what rate of return would he need to earn?
- a. 6%
 - b. 7%
 - c. 8%
 - d. 9%
 - e. 10%

ANS: D
 $72/x = 8, 72 = 8x, 72/8 = x, 9\% = x$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Time Value of Money

56. Michael and Sandy purchased a home for \$100,000 five years ago. If it appreciated 6% annually, what is it worth today?
- a. \$100,000
 - b. \$106,000
 - c. \$130,000
 - d. \$133,823
 - e. \$135,603

ANS: D
 $PV = 100,000, N = 5, i = 6, FV = 133,823$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Time Value of Money

57. Elena purchased a stamp collection for \$5,000 thirty years ago. If it appreciated 8% annually, what is it worth today?
- a. \$ 17,000

- b. \$ 36,400
- c. \$ 50,313
- d. \$123,023
- e. \$150,000

ANS: C

PV = 5,000, N = 30, i = 8, FV = 50,313

PTS: 1 DIF: Easy

OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills

LOC: Bloom's: Application

TOP: Time Value of Money

COMPLETION

NARRBEGIN: FB Instructions

INSTRUCTIONS: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement.

NARREND

1. A balance sheet provides a statement of your financial [*position* | *performance*].

ANS: a

PTS: 1 DIF: Easy

OBJ: Ch. 2, LO1 NAT: Tier 1: Analytic skills

LOC: Bloom's: Knowledge

TOP: Mapping Out Your Financial Future

2. The primary function of financial statements is to provide a picture of your [*actual* | *projected*] financial position.

ANS: a

PTS: 1 DIF: Easy

OBJ: Ch. 2, LO1 NAT: Tier 1: Analytic skills

LOC: Bloom's: Knowledge

TOP: Mapping Out Your Financial Future

3. An asset must have [*market* | *monetary*] value to be included on a balance sheet.

ANS: b

PTS: 1 DIF: Easy

OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills

LOC: Bloom's: Knowledge

TOP: The Balance Sheet

4. A [*savings account* | *retirement account*] would be an example of a liquid asset.

ANS: a

PTS: 1 DIF: Easy

OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills

LOC: Bloom's: Knowledge

TOP: The Balance Sheet

5. A [*house* | *certificate of deposit*] is an example of a tangible asset.

ANS: a

PTS: 1 DIF: Easy

OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills

LOC: Bloom's: Knowledge TOP: The Balance Sheet

6. Investment assets are required to [*earn a return* | *provide a service*].

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Balance Sheet

7. A [*credit card bill* | *credit card balance*] would be an example of a current liability.

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Balance Sheet

8. Another term sometimes used for net worth is [*collateral* | *equity*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Balance Sheet

9. A liability would be listed on a balance sheet as the [*amount originally borrowed* | *amount of the next loan payment to be made*].

ANS: c

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Balance Sheet

10. When your liabilities exceed your assets, you are [*solvent* | *insolvent*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Balance Sheet

11. When your assets exceed your liabilities, you are [*saving* | *solvent*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Balance Sheet

12. If your expenses exceed your income, the bottom line of your income/expense statement will show a [*surplus* | *deficit*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: The Income and Expenditure Statement

13. The total amount of salary you earn before taxes are deducted is called your [*gross* | *net*] pay.

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Income and Expenditure Statement

14. You bought a \$500 stereo on the installment plan and made two payments of \$75 during the year. On your income/expense statement for the year, you will show an expense of [*\$150* | *\$500*].

ANS: a

PTS: 1 DIF: Medium OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows
TOP: The Income and Expenditure Statement

15. [*Medical expenses* | *Rent payments*] would be more difficult to estimate for the coming year.

ANS: a

PTS: 1 DIF: Medium OBJ: Ch. 2, LO5 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: Budgets

16. Your car has a market value of \$4,000 while the balance of the loan against it is now \$2,500. You will list this car as net worth [*\$4,000* | *\$1,500*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: The Balance Sheet

17. Your car has a market value of \$10,000 while the balance of the loan against it is now \$2,500. You will list this car as an asset worth [*\$7,500* | *\$10,000*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: The Balance Sheet

18. A deficit on your income/expense statement will have [*an* | *no*] effect on your balance sheet.

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: The Income and Expenditure Statement

19. If you pay off your debt but make no changes in your assets, your net worth will [*increase* | *decrease*].

ANS: a

PTS: 1 DIF: Medium OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: The Balance Sheet

20. Total assets on your balance sheet are \$6,000 and liabilities are \$2,000. Your solvency ratio would be [*67%* | *33%*].

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO4 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Using Your Personal Financial Statements

21. The liquidity ratio is designed to show the percentage of [*your annual credit obligations* | *next month's credit obligations*] you could cover with your current assets.

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO4 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: Using Your Personal Financial Statements

22. Your gross income was \$32,000; your net income was \$25,000; you saved \$1,000. Your savings ratio was [*3%* | *4%*].

ANS: b

PTS: 1 DIF: Medium OBJ: Ch. 2, LO5 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Budgets

23. The purpose of the debt service ratio is to show the amount of your income needed to pay your [*current liabilities* | *monthly loan payments*].

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO4 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: Using Your Personal Financial Statements

24. Payments made on your loan obligations should [*increase* | *decrease*] your net worth.

ANS: a

PTS: 1 DIF: Medium OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: The Balance Sheet

25. Financial planning and budgeting [*do* | *do not*] mean the same thing.

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO4 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: Using Your Personal Financial Statements

26. If your budget shows a deficit, [*increase income* | *increase expenses*] to regain balance.

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: The Income and Expenditure Statement

27. Another word for take-home pay is [*gross* | *disposable*] income.

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Income and Expenditure Statement

28. It is most important to balance your budget over a [*monthly* | *yearly*] period.

ANS: b

PTS: 1 DIF: Easy OBJ: Ch. 2, LO5 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: Budgets

29. If you liquidate assets or borrow to make your budget balance, this will [*increase* | *decrease*] your net worth.

ANS: b

PTS: 1 DIF: Medium OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: The Balance Sheet

30. The most difficult approach to handle a budget deficit is to [*find a second job* | *borrow money*].

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: The Income and Expenditure Statement

31. A budget will have value only if it is actually used and [*records are kept of actual income/expenses* | *spending never deviates from the budgeted amount*].

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO5 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: Budgets

32. [*Present* | *Future*] value is the value today of an amount to be received in the future.

ANS: a

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Knowledge TOP: Time Value of Money

PROBLEM

1. Jean and Jim have liquid assets of \$3,600 and other assets of \$42,800. Their total liabilities equal \$26,000. What is their net worth? (Show all work.)

ANS:

Total Assets	\$46,400		
Less:	Total Liabilities		<u>26,000</u>
Equal:	Net Worth		\$20,400

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: The Balance Sheet

2. Rosa and Jose have liquid assets of \$5,000 and other assets of \$50,000. Their total liabilities equal \$26,000. What is their net worth? (Show all work.)

ANS:

Total Assets	\$55,000		
Less:	Total Liabilities		<u>26,000</u>
Equal:	Net Worth		\$29,000

PTS: 1 DIF: Easy OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
 LOC: Bloom's: Application TOP: The Balance Sheet

3. The Hart family spends 30 percent of their disposable income on housing, 5 percent on medical expenses, 25 percent on food, 10 percent on clothing, 14 percent on loan repayments, and 8 percent on entertainment. How much of their disposable income is available for savings and investment? (Show all work.)

ANS:

$$100\% - [30 + 5 + 25 + 10 + 14 + 8\%] = 100\% - 92\% = 8\% \text{ for savings}$$

PTS: 1 DIF: Medium OBJ: Ch. 2, LO3 NAT: Tier 1: Analytic skills
 LOC: Bloom's: Application TOP: The Income and Expenditure Statement

4. Construct a balance sheet from the following information. Be sure the format is correct. (Show all work.)

Cash on hand		\$	75
Bank credit card balance			1,200
Utility bill (over due)			100
Auto loan balance			3,500
Mortgage			75,000
Primary residence			105,000
Jewelry			2,000
Stocks			17,500
Coin collection			2,500
2001 Toyota			7,500

ANS:

Assets:		Liabilities:	
Cash on hand	\$ 75	Utilities	\$ 100
Primary residence	105,000	Bank credit cards	1,200
2001 Toyota	7,500	Auto loan	3,500
Jewelry	2,000	Mortgage	<u>75,000</u>
Stocks	17,500		
Coin Collection	<u>2,500</u>		
Total Assets	\$134,575	Total Liabilities	\$79,800
Net Worth	\$ 54,775		

PTS: 1 DIF: Medium OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
 LOC: Bloom's: Application TOP: The Balance Sheet

5. Construct a balance sheet from the following information. Be sure the format is correct. (Show all work.)

Cash on hand	\$ 500
Bank credit card balance	750
Taxes due	500
Utility bills (over due)	120
Auto loan balance	6,000
Mortgage	45,000
Primary residence	60,000
Jewelry	1,200
Stocks	6,000
Coin collection	2,500
2001 Toyota	7,500
Auto payment	250

ANS:

Assets:		Liabilities:	
Cash on hand	\$ 500	Utilities	\$ 120
Primary residence	60,000	Taxes	500
2001 Toyota	7,500	Bank credit cards	750
Jewelry	1,200	Auto loan	6,000
Stocks	6,000	Mortgage	<u>45,000</u>
Coin Collection	<u>2,500</u>		
Total Assets	\$77,700	Total Liabilities	\$52,370
Net Worth	\$25,330		

PTS: 1 DIF: Medium OBJ: Ch. 2, LO2 NAT: Tier 1: Analytic skills
 LOC: Bloom's: Application TOP: The Balance Sheet

6. Inflation this coming year is expected to be 4 percent. If Mr. Gonza earned \$37,000 this year, how much must he earn the following year just to keep up with inflation and maintain the balance between his income and his increasing expenditures? (Show all work.)

ANS:

$$\$37,000 + .04(\$37,000) \qquad \$37,000 + \$1,480 = \$38,480$$

OR $\$37,000 \times 1.04 = \$38,480$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
 LOC: Bloom's: Application TOP: Time Value of Money

7. Inflation this coming year is expected to be 3 percent. If Mr. Gonza earned \$45,000 this year, how much must he earn the following year just to keep up with inflation and maintain the balance between his income and his increasing expenditures? (Show all work.)

ANS:

$$\$45,000 + .03(\$45,000) \qquad \$45,000 + \$1,350 = \$46,350$$

OR $\$45,000 \times 1.03 = \$46,350$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
 LOC: Bloom's: Application TOP: Time Value of Money

8. Jamie wants to have \$1,000,000 for her retirement in 25 years. How much should she save annually if she thinks she can earn 10% on her investments?

ANS:

$$\begin{array}{lcl} \text{FV} & = & 1,000,000 \\ \text{N} & = & 25 \\ \text{I} & = & 10 \\ \text{PMT} & = & 10,168.07 \end{array}$$

PTS: 1 DIF: Medium OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Time Value of Money

9. The Hamptons want to have \$1,750,000 for their retirement in 30 years. How much should they save annually if they think they can earn 8% on their investments?

ANS:

$$\begin{array}{lcl} \text{FV} & = & 1,750,000 \\ \text{N} & = & 30 \\ \text{I} & = & 8 \\ \text{PMT} & = & 15,448 \end{array}$$

PTS: 1 DIF: Easy OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Application TOP: Time Value of Money

10. The Flemings will need \$80,000 annually for 20 years during retirement. How much will they need at retirement if they can earn a 4% rate of return?

ANS:

$$\begin{array}{lcl} \text{PMT} & = & 80,000 \\ \text{N} & = & 20 \\ \text{I} & = & 4 \\ \text{PV} & = & 1,087,226 \end{array}$$

PTS: 1 DIF: Medium OBJ: Ch. 2, LO6 NAT: Tier 1: Analytic skills
LOC: Bloom's: Comprehension TOP: Time Value of Money