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# PFIN

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## Chapter 2—Using Financial Statements and Budgets

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### TRUE/FALSE

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: F                      PTS: 1                      DIF: Challenging                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

8. A budget is a detailed financial forecast.

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: T                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: F                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: F                      PTS: 1                      DIF: Challenging              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

16. The financial planning process is regulated by state governments when done by professionals.

ANS: F                      PTS: 1                      DIF: Challenging              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: F                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

21. 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: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

22. Inability to reach short-term goals will significantly affect your ability to reach long-term goals.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

26. 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: Moderate                      OBJ: LO: 2-2

NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

28. 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: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

30. 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: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

31. 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: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

32. 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: Challenging                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

33. An income statement deficit would increase net worth.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

34. 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: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

35. A cash deficit decreases net worth.

ANS: T                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: F                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: T                      PTS: 1                      DIF: Challenging              OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

40. 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: Moderate              OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: T                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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

ANS: T                   PTS: 1                   DIF: Moderate       OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: T                   PTS: 1                   DIF: Easy            OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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

ANS: F                   PTS: 1                   DIF: Easy            OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Synthesis

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

ANS: T                   PTS: 1                   DIF: Moderate       OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: F                   PTS: 1                   DIF: Easy            OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: F                   PTS: 1                   DIF: Easy            OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

49. Monthly statements and pay stubs can be shredded when year-end statements are received.

ANS: T                   PTS: 1                   DIF: Easy            OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

50. 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: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

51. 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: LO: 2-4  
NAT: BUSPROG: Analytic skills       STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

52. One should quickly make important financial decisions soon after a financial shock, such as death or divorce.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

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

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Analysis

57. 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: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

58. Net worth peaks at about age 65 and then diminishes throughout retirement years.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge

59. Only four categories of spending account for almost 90% of all consumer spending.

ANS: F                      PTS: 1                      DIF: Challenging                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge

60. Net worth is greatest for those in their prime working years, about age 55.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge



61. Net worth achieves is highest level beginning at age 65 and increases throughout retirement years.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge

62. Personal financial software is widely available, much of which is free.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge

63. Most personal financial software is available at a reasonable cost.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge

### 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: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

- d. sale price.
- e. fair market value.

ANS: E                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

5. Your \_\_\_\_ is an example of a liquid asset.
- a. home
  - b. car
  - c. checking account
  - d. charge account
  - e. life insurance cash value

ANS: C                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: 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?
- a. The furniture should be recorded as an asset of \$10,000 on Kathy's balance sheet.
  - b. The \$9,000 is entered as a liability on Kathy's balance sheet.
  - c. The furniture should be recorded as a \$1,000 expenditure on Kathy's balance sheet.
  - d. The \$350 payments are expenditures on Kathy's income and expenditure statement.
  - e. All are correct except c

ANS: E                      PTS: 1                      DIF: Challenging                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Synthesis

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?
- a. \$200,000 asset and \$55,000 liability
  - b. \$200,000 asset and \$90,000 liability
  - c. \$175,000 asset and \$55,000 liability
  - d. \$175,000 asset and \$90,000 liability
  - e. \$100,000 asset and \$55,000 liability

ANS: C                      PTS: 1                      DIF: Challenging                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

8. \_\_\_\_ is an example of an personal asset.
- a. Jewelry
  - b. Recreational equipment
  - c. Corporate bond
  - d. Charge account balance
  - e. Auto insurance premium

ANS: A                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

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

ANS: C                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

13. \_\_\_\_ would not be a long-term financial goal.
- Purchasing a new car
  - Providing adequate life insurance
  - Reducing income taxes
  - Paying your phone bill
  - Planning for retirement

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

14. 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: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

15. 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: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

16. 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 the above.

ANS: D                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

17. 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: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

18. 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: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

19. 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: Challenging    OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

20. 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?
- \$115,000
  - \$140,000
  - \$142,200
  - \$162,800
  - \$165,000

ANS: D                      PTS: 1                      DIF: Challenging    OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

21. You are solvent if your
- total liabilities exceed total assets.
  - total assets exceed total liabilities.
  - total assets exceed net worth.
  - total liabilities exceed net worth.
  - none of these.

ANS: B                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

22. The income and expenditures statement examines your financial
- level.
  - performance.
  - position.
  - assets.
  - objectives.

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

23. The income statement is specific to
- one point in time.
  - a specific period of time.
  - last year.
  - next year.
  - none of these.

ANS: B                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Knowledge

24. The income statement includes
- income, liabilities, net worth.
  - income, expenditures, surplus or deficit.
  - expenditures, net worth, surplus or deficit.
  - net worth, surplus, income or expenditures.
  - savings, surplus, income or expenditures.

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

25. 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: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

26. You are more likely to achieve your goals when
- your income is high.
  - goal dates are inflexible.
  - short- and long-term goals are established separately.
  - goals are reassessed and revised periodically.
  - one person controls all goals in the household.

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

27. 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: Challenging                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

28. 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: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Knowledge

29. \_\_\_\_ would be an example of a periodic expense.
- Food
  - Vacation
  - Utilities
  - Taxes
  - none of these

ANS: B                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

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

ANS: B                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

31. 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: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

32. 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: Easy                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

33. 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 & B only.

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

34. 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 the above.

ANS: E                      PTS: 1                      DIF: Moderate              OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

35. 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: Challenging              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

36. 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: Challenging              OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

37. 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: Challenging              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Application

38. The Wilson family's short-term goals might include
- setting up an emergency fund of three months' income
  - buying a house
  - sending the kids to college
  - planning to retire at age 60
  - all of these

ANS: A                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic skills              STA: DISC: Financial Analysis and Cash Flows



KEY: Bloom's: Application

39. 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: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

40. 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: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

41. 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: Moderate        OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

42. 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: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

43. 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 the above.

ANS: C                      PTS: 1                      DIF: Moderate        OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Knowledge

44. 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: C                      PTS: 1                      DIF: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

45. 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: C                      PTS: 1                      DIF: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

46. 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: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

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

ANS: A                      PTS: 1                      DIF: Challenging    OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

48. In order to minimize the difficulty associated with meeting monthly loan payments, the debt service ratio should be
- above 50%.
  - below 50%.
  - at 35%.
  - below 35%.

e. above 20%.

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

49. 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?
- 20%
  - 30%
  - 40%
  - 50%
  - 60%

ANS: C                      PTS: 1                      DIF: Challenging                      OBJ: LO: 2-4  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

50. When estimating income for the income and expense statement, you should
- use gross income.
  - include expected pay increases.
  - adjust for inflation.
  - use net income.
  - none of these

ANS: A                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

51. The expenditure categories for your budget should be determined by
- the BLS Urban Family Budget categories.
  - purchased budget book headings.
  - those used in previous years.
  - current and expected future spending.
  - itemized tax deductions.

ANS: D                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

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

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Comprehension

53. The best approach to solving the problem of an annual budget deficit is generally to
- liquidate enough savings to make up the deficit.
  - sell stock to make up the deficit.
  - reduce flexible expenditures.

- d. reduce fixed expenses.
- e. get a part time job.

ANS: C                      PTS: 1                      DIF: Challenging    OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

54. 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 the above.

ANS: E                      PTS: 1                      DIF: Moderate        OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

55. 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: Challenging    OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Evaluation

56. Dual-income families often face
- a. reduced employee benefit options.
  - b. increased complexity in their money management systems.
  - c. reduced expenditures as a result of the second job.
  - d. reduced taxes due to tax breaks.
  - e. increased time to spend with the family.

ANS: B                      PTS: 1                      DIF: Moderate        OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

57. Which of the following has been determined to be the best way for dual-income families to handle their money management?
- a. Place all income into a single, joint account.
  - b. Have each spouse contribute equal amounts to a joint account for family expenses.
  - c. Have each spouse contribute an equal proportion of their incomes to a joint account for family expenses.
  - d. Have one spouse make all the financial decisions
  - e. None of the above.

ANS: E                      PTS: 1                      DIF: Challenging    OBJ: LO: 2-5  
NAT: BUSPROG: Analytic skills                      STA: DISC: Financial Analysis and Cash Flows  
KEY: Bloom's: Knowledge

58. Your investment advisor wants you to purchase an annuity that will pay you \$25,000 per year for 10 years. If you require a 7% return, what is the most you should pay for this investment?

- a. \$ 49,179
- b. \$175,590
- c. \$201,000
- d. \$225,682
- e. \$250,000

ANS: B  
PMT = 25,000

PTS: 1                    DIF: Challenging    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

59. 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: Moderate            OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

60. 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: Moderate            OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

61. 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: Challenging    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

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

ANS: D

PV = 100,000, N = 5, i = 6, FV = 133,823

PTS: 1                    DIF: Challenging    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
 STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

63. Elena purchased a stamp collection for \$5,000 thirty years ago. If it appreciated 8% annually, what is it worth today?
- \$ 17,000
  - \$ 36,400
  - \$ 50,313
  - \$123,023
  - \$150,000

ANS: C

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

PTS: 1                    DIF: Challenging    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
 STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

64. Net worth is highest at about what age?
- |       |       |
|-------|-------|
| a. 45 | d. 75 |
| b. 55 | e. 85 |
| c. 65 |       |

ANS: C                    PTS: 1                    DIF: Easy                    OBJ: LO: 2-6  
 NAT: BUSPROG: Analytic skills                    KEY: Bloom's: Knowledge

65. Which of the following is *not* among the four categories accounting for almost three-quarters of consumer spending?
- |                   |                                    |
|-------------------|------------------------------------|
| a. Utilities      | d. Housing                         |
| b. Food           | e. Personal insurance and pensions |
| c. Transportation |                                    |

ANS: A                    PTS: 1                    DIF: Easy                    OBJ: LO: 2-6  
 NAT: BUSPROG: Analytic skills                    KEY: Bloom's: Knowledge

66. Which of the following are *not* among the four categories accounting for three-quarters of consumer spending?
- |              |                |
|--------------|----------------|
| a. Utilities | d. a and b     |
| b. Clothing  | e. a, b, and c |
| c. Food      |                |

ANS: D                    PTS: 1                    DIF: Easy                    OBJ: LO: 2-6  
 NAT: BUSPROG: Analytic skills                    KEY: Bloom's: Knowledge

67. Which of the following is among the four categories accounting for almost three-quarters of consumer spending?
- a. Personal insurance and pensions
  - b. Clothing
  - c. Utilities
  - d. Entertainment
  - e. Medical

ANS: A                      PTS: 1                      DIF: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Analytic skills                      KEY: Bloom's: Knowledge

## COMPLETION

**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.

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

ANS: a

PTS: 1                      DIF: Easy                      OBJ: LO: 2-1                      NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                      KEY: Bloom's: Knowledge

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

ANS: a

PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1                      NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                      KEY: Bloom's: Comprehension

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

ANS: b

PTS: 1                      DIF: Moderate                      OBJ: LO: 2-1                      NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                      KEY: Bloom's: Knowledge

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

ANS: a

PTS: 1                      DIF: Easy                      OBJ: LO: 2-2                      NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                      KEY: Bloom's: Application

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

ANS: a

PTS: 1                      DIF: Easy                      OBJ: LO: 2-2                      NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                      KEY: Bloom's: Application

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

ANS: a

PTS: 1                    DIF: Easy                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

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

ANS: a

PTS: 1                    DIF: Moderate                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Application

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

ANS: b

PTS: 1                    DIF: Easy                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

9. A liability would be listed on a balance sheet as the [*amount originally borrowed* | *amount of the next loan payment to be made* | *none of these*].

ANS: c

PTS: 1                    DIF: Challenging                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

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

ANS: b

PTS: 1                    DIF: Easy                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

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

ANS: b

PTS: 1                    DIF: Moderate                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Comprehension

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: LO: 2-3                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

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: LO: 2-3                    NAT: BUSPROG: Analytic skills



STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Knowledge

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: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Application

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

ANS: a

PTS: 1

DIF: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Application

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 of [*\$4,000* | *\$1,500*].

ANS: b

PTS: 1

DIF: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Application

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 of [*\$7,500* | *\$10,000*].

ANS: b

PTS: 1

DIF: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Application

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

ANS: a

PTS: 1

DIF: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Comprehension

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: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Application

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: Challenging

OBJ: LO: 2-4

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Evaluation

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

ANS: a

PTS: 1                    DIF: Moderate        OBJ: LO: 2-4            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Comprehension

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: Challenging    OBJ: LO: 2-4            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Evaluation

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: Moderate        OBJ: LO: 2-4            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Comprehension

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

ANS: a

PTS: 1                    DIF: Moderate        OBJ: LO: 2-4            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Application

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

ANS: b

PTS: 1                    DIF: Moderate        OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Synthesis

26. The first step in financial planning is to [*define financial goals* | *set up a budget.*]

ANS: a

PTS: 1                    DIF: Easy                OBJ: LO: 2-1            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Knowledge

27. A detailed forecast used to monitor and control expenses is called a [*financial plan* | *income/expenditures statement*].

ANS: a

PTS: 1                    DIF: Moderate        OBJ: LO: 2-1            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Knowledge

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

ANS: a

PTS: 1                    DIF: Moderate            OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Analysis

29. The short-term goals you put into your financial plan [*will* | *will not*] affect the achievement of long-term goals.

ANS: a

PTS: 1                    DIF: Easy                    OBJ: LO: 2-1            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Analysis

30. Putting specific target dates on your goals [*will not* | *will*] increase the likelihood of their being accomplished.

ANS: b

PTS: 1                    DIF: Easy                    OBJ: LO: 2-1            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Comprehension

31. Short-term goals are usually based on a maximum period of [*one year* | *five years*].

ANS: a

PTS: 1                    DIF: Easy                    OBJ: LO: 2-1            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Knowledge

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

ANS: b

PTS: 1                    DIF: Easy                    OBJ: LO: 2-3            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Knowledge

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

ANS: b

PTS: 1                    DIF: Moderate            OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Knowledge

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

ANS: b

PTS: 1                    DIF: Moderate            OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows            KEY: Bloom's: Analysis

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

ANS: a

PTS: 1                    DIF: Moderate        OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Analysis

36. 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: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Comprehension

37. [*Borrowing money from relatives | cutting low-priority expenses*] is the preferable way to deal with budget deficits.

ANS: b

PTS: 1                    DIF: Easy                OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Application

38. Once you define your [*short-term | long-term*] financial goals, you can prepare a cash budget for the upcoming year.

ANS: a

PTS: 1                    DIF: Moderate        OBJ: LO: 2-5            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

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

ANS: a

PTS: 1                    DIF: Easy                OBJ: LO: 2-6            NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Knowledge

40. Net worth is highest for those about [*age 65 | age 85*].

ANS: a

PTS: 1                    DIF: Easy                OBJ: LO: 2-6            NAT: BUSPROG: Analytic skills  
KEY: Bloom's: Knowledge

41. Four categories, accounting for 75% of consumer spending, include [*utilities | clothing*].

ANS: c

PTS: 1                    DIF: Easy                OBJ: LO: 2-6            NAT: BUSPROG: Analytic skills  
KEY: Bloom's: Knowledge

42. Four categories, accounting for 75% of consumer spending, include [*clothing | housing*].

ANS: b

PTS: 1                    DIF: Easy                    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
KEY: Bloom's: Knowledge

43. Four categories, accounting for 75% of consumer spending, include [*entertainment / food*].

ANS: b

PTS: 1                    DIF: Easy                    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
KEY: Bloom's: Knowledge

44. Personal financial software is mostly available for [*free / a fee*].

ANS: a

PTS: 1                    DIF: Easy                    OBJ: LO: 2-6                    NAT: BUSPROG: Analytic skills  
KEY: Bloom's: Knowledge

### 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: Challenging                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

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	\$50,000	
Less: Total Liabilities		<u>26,000</u>
Equal: Net Worth		\$29,000

PTS: 1                    DIF: Challenging                    OBJ: LO: 2-2                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

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:

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

PTS: 1                    DIF: Moderate                    OBJ: LO: 2-3                    NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows                    KEY: Bloom's: Evaluation

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:

Cash on hand	\$	75
Primary residence		105,000
2001 Toyota		7,500
Jewelry		2,000
Stocks		17,500
Coin Collection		<u>2,500</u>
Total Assets		\$134,575
Net Worth	\$	54,775

Liabilities:

Utilities	\$	100
Bank credit cards		1,200
Auto loan		3,500
Mortgage		<u>75,000</u>
Total Liabilities		\$79,800

PTS: 1

DIF: Challenging OBJ: LO: 2-2

NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Evaluation

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:

Cash on hand	\$	500
Primary residence		60,000
2001 Toyota		7,500
Jewelry		1,200
Stocks		6,000
Coin Collection		<u>2,500</u>
Total Assets		\$77,700

Liabilities:

Utilities	\$	120
Taxes		500
Bank credit cards		750
Auto loan		6,000
Mortgage		<u>45,000</u>
Total Liabilities		\$52,370

Net Worth \$25,330

PTS: 1 DIF: Challenging OBJ: LO: 2-2 NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows KEY: Bloom's: Evaluation

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:  
 $\$37,000 + .04(\$37,000)$   
 $\$37,000 + \$1,480 = \$38,480$   
OR  
 $\$37,000 \times 1.04 = \$38,480$

PTS: 1 DIF: Moderate OBJ: LO: 2-6 NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows KEY: Bloom's: Evaluation

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:  
 $\$45,000 + .03(\$45,000)$   
 $\$45,000 + \$1,350 = \$46,350$   
OR  
 $\$45,000 \times 1.03 = \$46,350$

PTS: 1 DIF: Moderate OBJ: LO: 2-6 NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows KEY: Bloom's: Evaluation

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:  
FV = 1,000,000  
N = 25  
I = 10  
PMT = 10,168.07

PTS: 1 DIF: Challenging OBJ: LO: 2-6 NAT: BUSPROG: Analytic skills  
STA: DISC: Financial Analysis and Cash Flows KEY: Bloom's: Evaluation

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:  
FV = 1,750,000  
N = 30  
I = 8  
PMT = 15,448

PTS: 1 DIF: Challenging OBJ: LO: 2-6 NAT: BUSPROG: Analytic skills

STA: DISC: Financial Analysis and Cash Flows

KEY: Bloom's: Evaluation

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:

PMT = 80,000

N = 20

I = 4

PV = 1,087,226

PTS: 1 DIF: Challenging OBJ: LO: 2-6

STA: DISC: Financial Analysis and Cash Flows

NAT: BUSPROG: Analytic skills

KEY: Bloom's: Evaluation