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PFIN

STUDENT EDITION

WHAT'S INSIDE:

A Student-Tested, Faculty-Approved Approach to Learning **Personal Finance**

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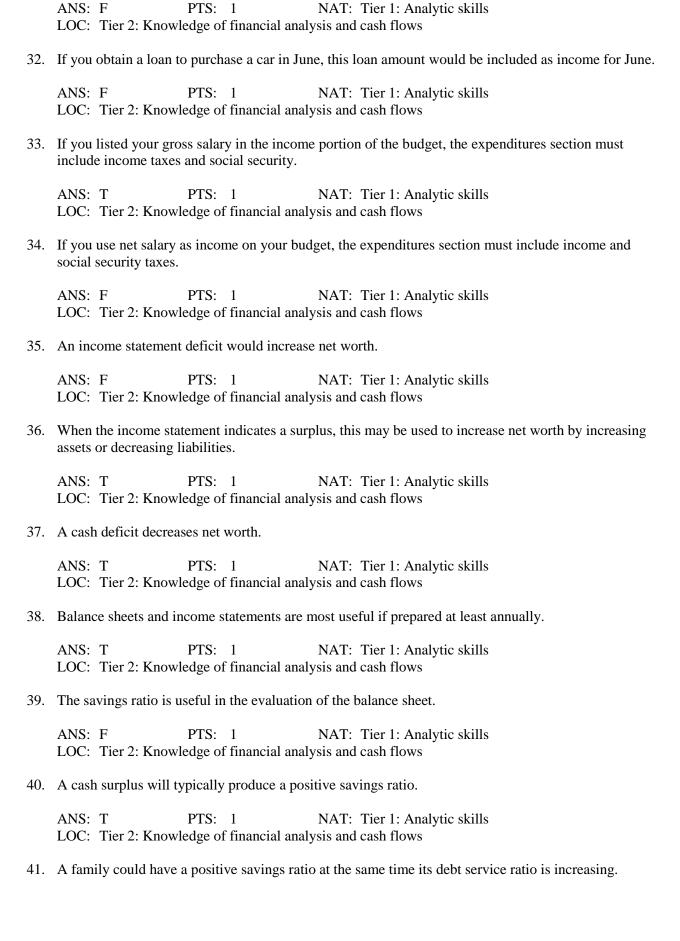
TRUE/FALSE

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

8. A budget is a detailed financial forecast.

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

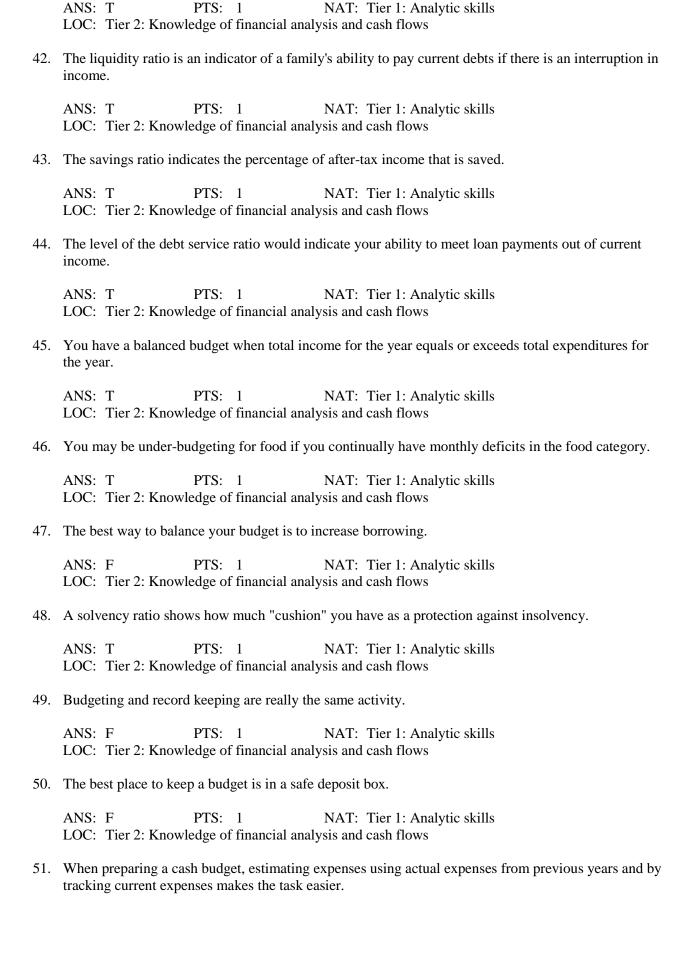   ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

14. For purposes of personal financial planning, assets appear on a balance sheet at fair market value, just as they would under Generally Accepted Accounting Principles (GAAP) on a business balance sheet.

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

27. Budgets should be prepared on an accrual basis.

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

28. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

32. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

33. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

35. An income statement deficit would increase net worth.

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

36. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

37. A cash deficit decreases net worth.

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

42. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

51. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: T   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: F   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

58. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

MULTIPLE CHOICE

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

ANS: A   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

2. The three parts of your balance sheet are
    a. income, liabilities, balance.
    b. assets, expenditures, balance.
    c. assets, liabilities, balance.
    d. assets, liabilities, net worth.
    e. income, liabilities, net worth.

    ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: E   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

4. When Phil lists his house on his balance sheet, he should record the
    a. actual purchase price.
    b. replacement value.
    c. insured value.
    d. sale price.
    e. fair market value.

    ANS: E   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: A   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

9. A budget is a
   a. purchase plan.
   b. line of credit.
   c. financial statement.
   d. detailed financial forecast.
   e. set of personal financial objectives.

   ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

11. Budgets are
   a. restrictive.
   b. complicated.
   c. forward looking.
   d. permanent.
   e. unnecessary.

   ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

12. ____ would not be listed as a liability on your balance sheet.

a. Taxes owed
b. Loan balances
c. Bank credit card charges
d. Savings accounts
e. Rent due

ANS: D　　　　　PTS: 1　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

13. ____ would <u>not</u> be a long-term financial goal.
a. Purchasing a new car
b. Providing adequate life insurance
c. Reducing income taxes
d. Paying your phone bill
e. Planning for retirement

ANS: D　　　　　PTS: 1　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

14. Net worth is measured by
a. bank card balances.
b. house mortgage balances.
c. amount owed on an automobile loan.
d. assets minus liabilities.
e. insurance premium.

ANS: D　　　　　PTS: 1　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

15. Balance sheet liabilities should be recorded at their
a. original outstanding balance.
b. year-end outstanding balance.
c. average outstanding balance.
d. current outstanding balance.
e. none of these.

ANS: D　　　　　PTS: 1　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

16. Professional financial planners are regulated by
a. the federal government.
b. self-regulation.
c. state agencies.
d. local regulators.
e. no one.

ANS: E　　　　　PTS: 1　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

17. On the balance sheet, a mortgage loan is recorded as the
a. interest only.
b. sum of interest paid and the outstanding balance.
c. sum of interest due and the outstanding balance.
d. principal portion only.
e. none of these.

ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

18. Another term sometimes used instead of net worth is
    a. assets.
    b. net debts.
    c. long-term liabilities
    d. equity.
    e. liquid assets.

    ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

19. The balance sheet equation is:
    a. Total Assets / Total Liabilities = Net Worth.
    b. Total Assets × Total Liabilities = Net Worth.
    c. Total Assets − Total Liabilities = Net Worth.
    d. Total Assets + Total Liabilities = Net Worth.
    e. Total Liabilities − Total Assets = Net Worth.

    ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

20. 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?
    a. $115,000
    b. $140,000
    c. $142,200
    d. $165,000
    e. $167,200

    ANS: A   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

21. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

22. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: B   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

24. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

25. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

28. You would not include ____ on an income and expenditures statement.
    a. the value of your stock portfolio
    b. taxes withheld
    c. utilities paid
    d. mortgage payments

e. charitable payments

ANS: A   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: A   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

30. ____ would be an example of a periodic expense.
   a. Food
   b. Vacation
   c. Utilities
   d. Taxes
   e. none of these

ANS: B   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

31. The most common budgeting period is a
   a. week.
   b. month.
   c. quarter.
   d. semi-annually.
   e. bi-weekly.

ANS: B   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: E   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

33. All of the following are stages in preparing a cash budget except
   a. estimating income
   b. estimating expenses
   c. calculating depreciation expense
   d. finalizing the cash budget

ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

34. A cash budget helps you:
   a. Monitor and control your finances.

b. Decide how to allocate your income to reach your financial goals.
c. Achieve your long-term financial goals.
d. All of the above.
e. a and b only.

ANS: D   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: E   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

36. 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?
   a. His assets increase
   b. His liabilities increase
   c. His net worth stays the same
   d. a and b
   e. a, b and c

ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

37. If your statement of income and expenditures shows a deficit, you may have
   a. increased your debts.
   b. increased your assets.
   c. added to savings.
   d. bought additional insurance.
   e. paid off some of your debts.

ANS: A   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

38. If your ____, your net worth on the balance sheet would have increased from one period to the next.
   a. liabilities increased and assets remained constant
   b. liabilities increased and assets decreased
   c. assets increased and liabilities remain constant
   d. income increased
   e. none of these

ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: A　　　　　　　PTS: 1　　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

40. If your total assets equal $50,000 and your total liabilities equal $15,000, your debt ratio is
　　a.　30%.
　　b.　70%.
　　c.　143%.
　　d.　233%.
　　e.　333%.

ANS: A　　　　　　　PTS: 1　　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

41. If your total assets equal $87,000 and your total liabilities equal $10,000, your solvency ratio is
　　a.　11.5%.
　　b.　13.0%.
　　c.　77.0%.
　　d.　87.0%.
　　e.　88.5%.

ANS: E　　　　　　　PTS: 1　　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

42. Using balance sheet information, the _____ ratio indicates your ability to meet current debt payments.
　　a. solvency
　　b. liquidity
　　c. cash
　　d. savings
　　e. debt service

ANS: B　　　　　　　PTS: 1　　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

43. Kim's net worth is $85,000 and her total assets are $100,000. What is Kim's solvency ratio?
　　a.　15%
　　b.　25%
　　c.　65%
　　d.　85%
　　e.　100%

ANS: D　　　　　　　PTS: 1　　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: C　　　　　　　PTS: 1　　　　　　NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

45. Your total cash income is $40,000. You pay $5,000 in taxes and $30,000 in other expenses. Your savings ratio is

a. 7.5%
b. 10.0%
c. 12.5%.
d. 13.3%.
e. 14.3%.

ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

46. Your total cash income is $80,000. You pay $8,000 in taxes and $60,000 in other expenses. Your savings ratio is
a. 10.0%
b. 14.3%
c. 15.0%.
d. 16.7%.
e. 17.5%.

ANS: C   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

47. Mindy and Lou had liquid assets of $10,000 and current debts of $30,000. What is their liquidity ratio?
a. 25%
b. 33%
c. 67%
d. 150%
e. 300%

ANS: B   PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

48. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

49. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

50. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

51. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

52. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

53. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

54. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

55. 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   NAT: Tier 1: Analytic skills

56. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

57. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

58. 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 these.

    ANS: E   PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

62. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

63. 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
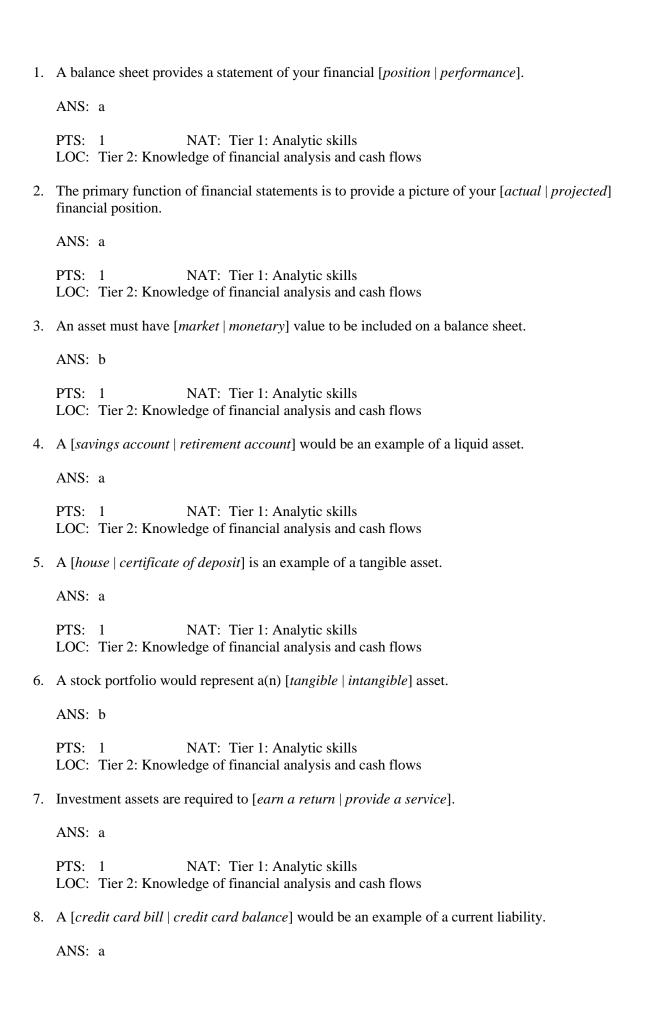   e. $150,000

ANS: C

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

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: a

   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: b

   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: a

   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: a

   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

6. A stock portfolio would represent a(n) [*tangible | intangible*] asset.

   ANS: b

   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: a

   PTS: 1   NAT: Tier 1: Analytic skills
   LOC: Tier 2: Knowledge of financial analysis and cash flows

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

   ANS: a

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

10. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

15. 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   NAT: Tier 1: Analytic skills

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

    ANS: a

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

17. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

18. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: a

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: a

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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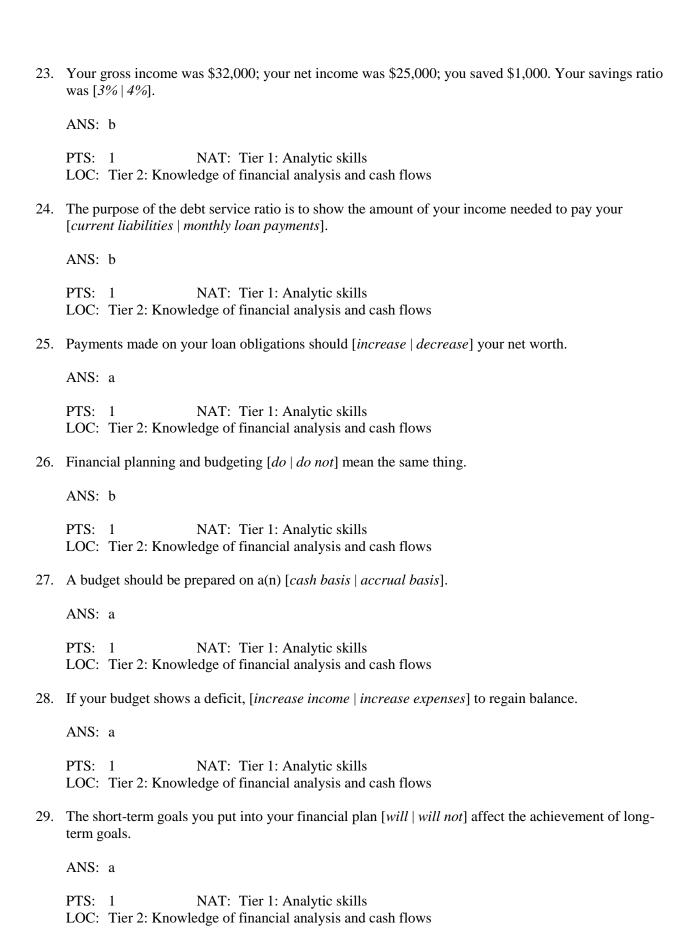
    ANS: a

    PTS: 1   NAT: Tier 1: Analytic skills
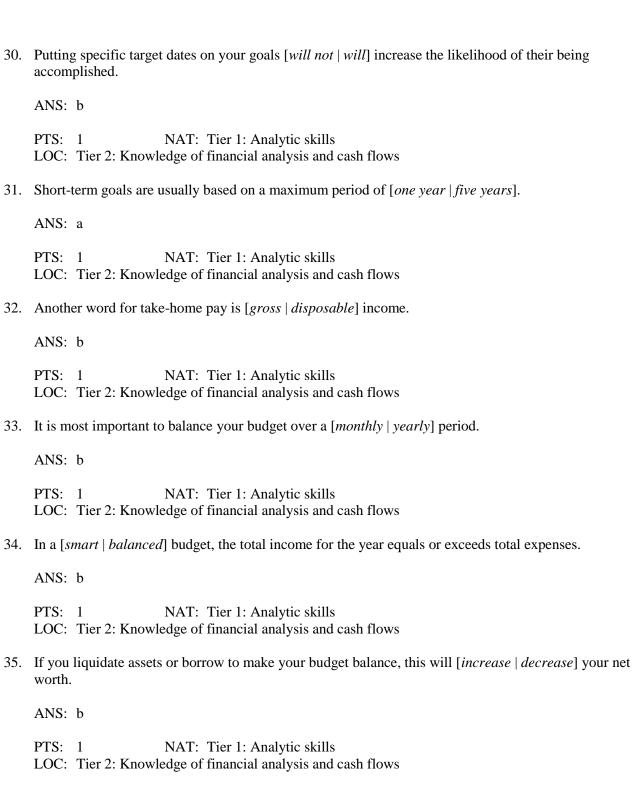   LOC: Tier 2: Knowledge of financial analysis and cash flows

22. 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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

23. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

24. 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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

27. A budget should be prepared on a(n) [*cash basis | accrual basis*].

ANS: a

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: b

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: a

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: b

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: b

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

34. In a [*smart* | *balanced*] budget, the total income for the year equals or exceeds total expenses.

    ANS: b

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: b

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

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

    ANS: a

    PTS: 1   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows

37. 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

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

ANS: a

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

ANS: a

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	26,000
	Equal:	Net Worth	$20,400

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	26,000
	Equal:	Net Worth	$29,000

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

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

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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	45,000

Coin Collection	_2,500_		
Total Assets	$77,700	Total Liabilities	$52,370
Net Worth	$25,330		

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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 × 1.04 = $38.480

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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 × 1.03 = $46,350

PTS: 1   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills
LOC: Tier 2: Knowledge of financial analysis and cash flows

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   NAT: Tier 1: Analytic skills

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   NAT: Tier 1: Analytic skills
    LOC: Tier 2: Knowledge of financial analysis and cash flows