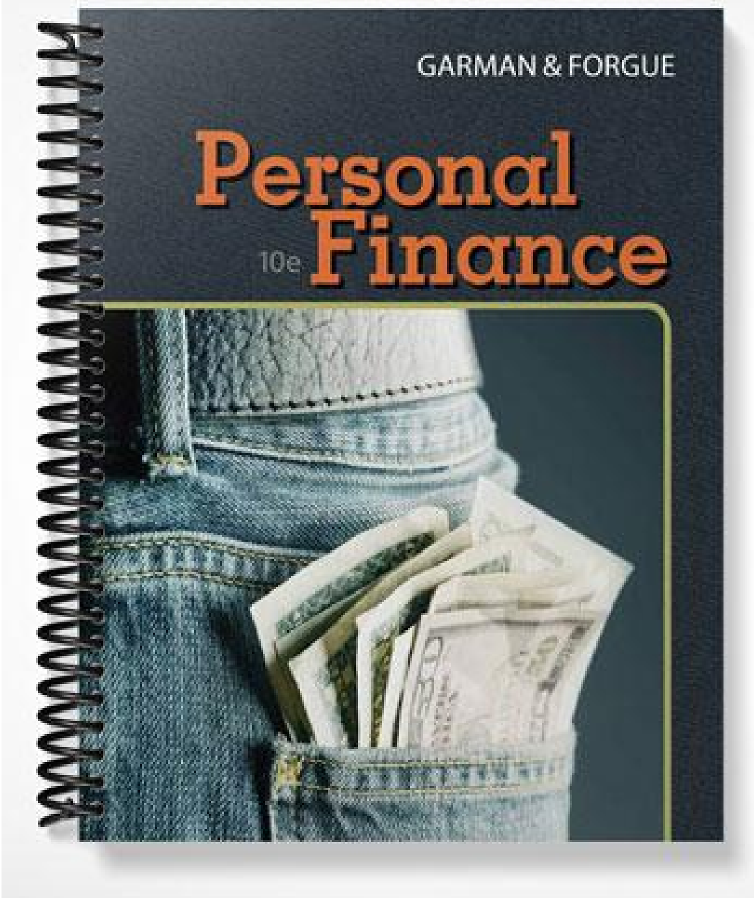
TEST BANK



Chapter 3--Financial Statements, Tools, and Budgets

Student: ____

1. The major benefit of financial planning is to spend wisely.

   True False

2. Financial planning begins by acquiring a good job that provides a person with enough extra income to manage.

   True False

3. Financial planning is the process of developing and implementing short-run plans to achieve financial objectives.

   True False

4. Financial planning is a single, customized plan regarding a person's financial affairs.

   True False

5. Financial planning is only for the rich.

   True False

6. Values have little impact on financial goals.

   True False

7. It is not necessary that your values be consistent with your financial and lifestyle goals.

   True False

8. Values are fundamental beliefs regarding what consumer goods are worth.

   True False

9. The concept of "pay myself first," saving and investing before you pay other expenses, is a characteristic of successful financial managers.

   True False

10. Financial planning begins by examining one's values.

    True False

11. Specific financial goals drive the creation of budgets.

    True False

12. The major purpose of budgeting is to reach your financial goals.

    True False

13. The major purpose of budgeting is to make sure bills get paid.

    True False

14. Your goal in financial planning is to manage your income and wealth in such as way that your goals are met in a suitable manner.

    True False

15. Paying off debts is an example of a financial goal even though it does not involve a direct purchase.

    True False

16. Specific goals should be measurable, attainable, relevant, and time-related.

    True False

17. Among the intermediate-term goals for capital accumulation is having a fund for emergencies.

    True False

18. Specific goals should be measurable, attainable, relevant, and time related.

    True False

19. Reducing the number of bank and credit accounts that each partner brings into the marriage can save money on account fees.

    True False

20. A balance sheet describes an individual's financial progress over a period of time, generally a year.

    True False

21. A cash-flow statement summarizes transactions that have taken place over a specific period of time.

    True False

22. Monetary assets include cash and near-cash items that can be readily converted to cash.

    True False

23. Tangible assets are assets whose primary purpose is to provide maintenance of a lifestyle.

    True False

24. In general, tangible assets do not depreciate in value over time.

    True False

25. Successful financial planning requires identifying the one best investment asset for an individual, then putting all of the individual's surplus into that asset.

    True False

26. Both IRAs and non-residential real estate property are investment assets.

    True False

27. The balance sheet serves as an assessment of assets and liabilities at fair market value as of a specified date.

    True False

28. For most people, the only way to increase net worth is to spend less than their income; people must save and invest.

    True False

29. The degree of detail included in a balance sheet depends on the person(s) for whom it is prepared.

    True False

30. A balance sheet shows flows of income in and expenses out of your finances for a given period of time.

    True False

31. Short-term liabilities are obligations to be paid off within one year.

    True False

32. *Short-term liabilities* is a term used for debt obligations to be paid off within one year.

    True False

33. The liability section of a balance sheet would include money owed to a doctor or a lawyer but would not include money owed to a friend.

    True False

34. A person who has a negative net worth is technically insolvent.

    True False

35. A cash-flow statement for a previous year would show whether you were able to live within your income.

    True False

36. A cash-flow statement shows flows of income in and expenses out of your finances for a given period of time.

    True False

37. A cash-flow statement shows the value of your assets and liabilities as of a specific date.

    True False

38. Keeping track of all income and expenses is very important to achieving your financial objectives.

    True False

39. Savings set aside can be categorized as both fixed and variable expenses.

    True False

40. It is usually easy to reduce a fixed expense.

True False

41. The surplus section on an individual's cash-flow statement is similar to net profit for a business.

True False

42. Most people keep track of their finances on a cash basis rather than on an accrual basis.

True False

43. A surplus demonstrates that you are managing your financial resources successfully and do not have to use savings or borrow to make financial ends meet.

True False

44. Financial ratios are numerical calculations designed to make assessments of financial conditions more complex.

True False

45. Liquidity is the speed and ease with which an asset can be converted to cash.

True False

46. Many experts recommend that people should have assets equal to one year's expenses in emergency cash reserves.

True False

47. The basic liquidity ratio reveals how many months it would take to convert all assets into cash.

True False

48. You can use the basic liquidity ratio to determine the number of months that you could continue to meet your expenses using only your monetary assets should all income cease.

True False

49. A family with two income earners will always need a greater amount of cash reserves than a family with one earner.

True False

50. By analyzing financial statements, a person can assess his or her financial condition and progress.

True False

51. Households dependent on the income from a self-employed person may need a larger emergency cash reserve than others.

True False

52. The asset-to-debt ratio compares total assets with total liabilities and is a broad measure of a household's financial liquidity.

True False

53. A person is insolvent when he or she doesn't have enough current income to pay all of his or her current bills.

    True False

54. A low asset-to-debt ratio is a positive indicator of financial well-being.

    True False

55. The debt service-to-income ratio provides a view of total debt burden of an individual or family by comparing the dollars spent on gross annual debt repayments with gross annual income.

    True False

56. A debt service-to-income ratio of 0.36 or less is considered manageable for most families.

    True False

57. A debt service-to-income ratio of 0.36 or less indicates that disposable income is adequate to make debt repayments.

    True False

58. The debt-payments-to-disposable-income ratio is gross income divided by monthly nonmortgage debt repayments.

    True False

59. Disposable personal income is the amount of take-home pay remaining after all deductions are withheld for taxes, insurance, union dues, and other.

    True False

60. The investment assets-to-total assets ratio compares the value of your investment assets with your total assets.

    True False

61. Good recordkeeping is a prerequisite for effective financial planning.

    True False

62. Original deeds and mortgage papers should be stored in one's home file.

    True False

63. Safe-deposit boxes take two keys to open, and the financial institution where the box is located keeps one of these keys.

    True False

64. Budgeting is narrower in scope than overall financial planning as it is primarily concerned with projecting future income and expenditures over a period of time.

    True False

65. Budgeting gives one control over his or her finances.

    True False

66. Once budget estimates are determined; one should not make any changes in the budget for at least one year.

    True False

67. When budgeting, it is useful to use actual income and expenditure information for two or three months to refine budget estimates in the future.

    True False

68. Budget estimates are the projected dollar amounts in a budget that one plans to receive or spend during the period covered by the budget.

    True False

69. To make realistic estimates of income and expenses, reliable financial information is critical. The more accurate the estimates, the more effective the budget.

    True False

70. Discretionary income is the money left over once the necessities of living are covered.

    True False

71. Discretionary income is the money people use to pay for the necessities of life.

    True False

72. Reconciling budget estimates includes reconciling conflicting needs and wants.

    True False

73. The best method to control overspending is to regularly monitor unexpended balances in each budget classification.

    True False

74. A budget variance is the difference between one's actual expenditure with budgeted amount for a specific category.

    True False

75. A net surplus in your monthly budget can not be carried forward to the next month.

    True False

76. When a college student saves all summer so that he or she has money available to live on during the school year; he or she is using a revolving savings fund.

    True False

77. After the budgeting period has ended, you need to add up the actual income received and expenditures made during that period.

    True False

78. Using credit cards to "balance" your budget is a proper budgeting tool.

    True False

79. A budget variance is the difference between the amount budgeted and the actual amount spent or received.

True False

80. When budgeting, recordkeeping is the process of recording the sources and amount of dollars earned and spent.

True False

81. The use of automated teller machines is recommended as a valid method of controlling expenditures.

True False

82. Financial plans should include objectives and goals in which of the following areas?

A. Spending
B. Risk management
C. Capital accumulation
D. All of these

83. The three broad areas of financial plans include financial plans for

A. spending.
B. risk management.
C. capital accumulation.
D. All of these.

84. The basis for financial planning is (are)

A. a budget.
B. personal values.
C. a balance sheet.
D. goals.

85. Values are

A. attitudes.
B. needs.
C. beliefs.
D. wants.

86. Which of the following is the *best* example of a well-stated financial goal?

A. Buy a $3,000 computer in 18 months
B. Purchase a three-bedroom home in five years
C. Buy a $2,000 stereo
D. Pay off your credit cards as soon as possible

87. Which of the following goals is *most* clearly stated?

A. Save enough for a down payment on a house in five years
B. Save $1,000 in one year for a vacation to San Diego
C. Pay off all credit card balances
D. Pay cash for a car

88. The first step in the budgeting process is

A. organizing.
B. setting financial goals.
C. decision making.
D. evaluating.

89. Hillary and Justin Palmer have a long-term goal of saving $6,000 for a down payment on a new vehicle they would like to buy in three years. Which of the following is a short-term goal that is most consistent with this long-term goal?

A. Buy a new car every two years
B. Save $2,000 this year
C. Save $3,000 this year
D. Accumulate $1,500 for a trip to Florida this year

90. Financial goals

A. should be explicitly stated.
B. should be consistent with your values.
C. all of these.
D. none of these.

91. A successful financial plan includes

A. specified values that underlie the plan.
B. explicitly stated financial goals.
C. logical and consistent financial strategies.
D. all of these.

92. The primary purpose of setting long-term financial goals is to help

A. measure financial success or failure.
B. provide direction for overall financial planning.
C. acquire great wealth.
D. achieve a comfortable retirement.

93. Financial goals should state

A. the "what" of the goal.
B. the "how much" of the goal.
C. the "when" of the goal.
D. all of these.

94. To set the stage for financial success, one must

A. save money.
B. start budgeting.
C. identify financial values and goals.
D. cut up all credit cards.

95. The two *most* useful financial statements are ____ and ____.

A. federal tax returns; income and expense statements
B. cash-flow statements; balance sheets
C. balance sheets; wills
D. wills; federal tax returns

96. A balance sheet includes ____, ____, and ____.

A. income; expenses; net worth
B. assets; expenses; liabilities
C. income; liabilities; net worth
D. assets; liabilities; net worth

97. Which of the following provides information about a person's financial condition at a specific point in time?

A. Balance sheet
B. Federal tax return
C. Income and expense statement
D. All of these

98. A cash-flow statement is also known as a(n) ____ statement.

A. income and expense
B. net worth
C. taxable income
D. asset-and-liability

99. Rita and Jose Hernandez want to assess their financial progress over the next few years. They have decided to take a reading of their status every New Year's Day. Which financial statement would they prepare each year?

A. Will
B. Cash-flow statement
C. Balance sheet
D. Federal income tax return

100. Assets on the balance sheet are valued at their

A. fair market value.
B. original purchase price.
C. replacement cost.
D. sentimental value.

101. Which of the following types of assets is primarily used for emergencies, maintenance of living expenses, savings, and payment of bills?

A. Monetary
B. Tangible
C. Investment
D. Capital

102. Which of the following types of assets is primarily used for the maintenance of a lifestyle?

A. Monetary
B. Tangible
C. Investment
D. Capital

103. Which of the following is classified as a tangible asset?

A. Motorcycle
B. Cash
C. Real estate investment
D. Pension plan

104. Which of the following would be included in the category of assets known as monetary assets?

A. Money market accounts
B. Stocks
C. Bonds
D. Real estate

105. Which of the following is classified as an investment asset?

A. Certificates of deposit
B. Money market accounts
C. Primary residence
D. Stocks

106. Vincent and Paula Farelli have decided to pay off their $875 MasterCard debt by taking $875 out of their money market savings account. This transaction will

A. increase their net worth on their balance sheet.
B. not change their net worth on their balance sheet.
C. decrease the surplus on their income and expense statement.
D. not change the surplus on their income and expense statement.

107. Which of the following would be classified as a short-term liability?

A. Next month's rent
B. Credit card debt
C. Education loans
D. A car loan

108. Which of the following would be classified as a long-term liability?

A. Credit card debt
B. Bank card debt
C. Education loan balance
D. All of these

109. The formula for calculating net worth is

A. income minus expenses.
B. assets minus liabilities.
C. income minus liabilities.
D. assets minus expenses.

110. To construct a balance sheet, you need to compile dollar values for your assets and liabilities. Good sources from which to begin are

A. checkbook or savings account records.
B. receipts of various payments.
C. investments.
D. all of these.

111. Jason and Larissa would like to accumulate three times their monthly expenses in monetary assets. They currently have $2,800 in their money market account, and their monthly expenses are $4,500. How much more do they need in their money market account to reach their goal?

A. $13,500
B. $3,900
C. $10,700
D. $1,700

112. Cindy Estrada is applying for a loan and the bank has asked her for some financial information. Use the following data to calculate Cindy's net worth.

Checking account balance	$1,300
American Express credit card balance	$650
Money market account	$2,200
House	$255,000
Mortgage loan balance	$140,000
Automobile	$20,000
Cash on hand	$575
Auto loan balance	$8,700

A. $121,025
B. $129,725
C. $130,375
D. $131,025

113. Maria Gomez would like to learn more about her financial situation. Help her calculate her current net worth.

Annual salary	$42,000
U.S. savings bond	$1,500
Money market fund	$4,000
Checking account balance	$760
MasterCard balance	$2,800
Value of automobile	$15,000
Outstanding auto loan	$6,750

A. $3,460
B. $10,210
C. $11,710
D. $53,710

114. A surplus on your cash-flow statement indicates that you are

A. using savings to pay current expenses.
B. managing your financial resources successfully.
C. borrowing money to pay current expenses.
D. both using savings to pay current expenses and borrowing money to pay current expenses.

115. Mack and Amy are making regular contributions of $200 a month from their salaries to a money market savings account. These transactions will

A. increase their net worth on their balance sheet.
B. decrease the surplus on their cash-flow statement.
C. not change either their net worth or the surplus.
D. both increase their net worth on their balance sheet and decrease the surplus on their income and expense statement.

116. Which of the following is a characteristic of a cash-flow statement?

A. It covers a period of time, usually one month or one year.
B. It shows if you were able to live within your income for the period covered.
C. The statement includes three sections: income, expenses, and surplus (or deficit).
D. All of these.

117. Child support received, Social Security benefits, and public assistance are all examples of

A. expenses.
B. assets.
C. income.
D. both assets and income.

118. Rent and insurance payments are examples of

A. short-term liabilities.
B. variable expenses.
C. fixed expenses.
D. long-term liabilities.

119. Canceled checks provide a source of information for the value of

A. assets.
B. liabilities.
C. income.
D. expenditures.

120. Food, clothing, and entertainment are examples of

A. short-term liabilities.
B. variable expenses.
C. fixed expenses.
D. long-term liabilities.

121. A net surplus at the end of the month could be

A. used to pay down credit card debt.
B. invested in a retirement account.
C. carried forward to the next month.
D. all of these.

122. Paul is a college student who has the following financial information. He would like your help in figuring his surplus for last year.

Income from summer job	$5,000
Support from parents	$3,500
Scholarship	$1,200
Savings account balance	$1,250
Variable expenses	$3,500
Fixed expenses	$4,000
Current liabilities	$800

What is Paul's surplus?

A. $2,650
B. $2,200
C. $1,250
D. $1,000

123. The formula for calculating surplus (loss) is

A. total income minus total expenses.
B. assets minus liabilities.
C. total income minus liabilities.
D. assets minus total expenses.

124. Julie and Alex have compiled their financial records and would like to know if they are living within their level of income. What is their surplus?

Salaries	$48,000
Interest income	$1,200
Food expenses	$10,500
Rent	$14,400
Clothing costs	$3,600
Auto expenses	$4,200
Recreation	$4,800
Miscellaneous expenses	$3,400

A. $7,100
B. $8,300
C. $9500
D. $12,500

125. Wendy Wilson, a successful graduate of State University, is currently employed in a position paying $37,500 a year. Wendy's annual living expenses are only $33,000 so she has accumulated $4,600 in monetary assets and $27,000 in investment assets since her graduation. Use the basic liquidity ratio to figure how long Wendy could pay expenses if she were to lose her job.

A. Less than three weeks
B. About two months
C. Approximately seven months
D. Approximately eleventh months

126. Tom and Kelly McDonald have total assets valued at $346,000 and total debt of $168,000. What is Tom and Kelly's asset-to-debt ratio?

A. 2.06
B. 1.00
C. 0.51
D. 0.49

127. Tran Phueong has monetary assets valued at $17,500 and monthly expenses of $1,450. Using the basic liquidity ratio, how long could Tran live on his monetary assets if he were to lose his job?

A. Over 12 months
B. About 3 months
C. About 1 month
D. Less than 1 month

128. Janice Leno has the following assets and debts listed on her balance sheet:

Liquid Assets	$3,687
Tangible assets	$61,241
Investment assets	$34,289
Short-term liabilities	$4,631
Long-term liabilities	$24,134

Janice's asset-to-debt ratio is

A. 3.45
B. 2.54
C. 3.96
D. 0.29

129. Robert and Jessica Stein have a gross income of $53,000 a year and annual expenses of $51,500 including taxes. Their annual debt payments total $15,000. According to the recommended standards for the debt service-to-income ratio, the Steins' ratio of

A. 36 percent and is too high for easily manageable debt repayment.
B. 36 percent implies they have the ability to easily make their debt repayments.
C. 28 percent is much too high for easily manageable debt repayment.
D. 28 percent implies they have the ability to make their debt repayments.

130. Eric Jones develops computer software for a major company. Eric's salary and bonuses total $82,000, but he pays $29,233 in income and Social Security taxes. If Eric's annual debt repayments are $33,620, what is his debt service-to-income ratio?

A. 41 percent
B. 64 percent
C. 36 percent
D. 77 percent

131. A debt-payments-to-disposable-income ratio of ____ percent or more is considered to be problematic.

A. 10
B. 15
C. 16
D. 36

132. Disposable income is income

A. before taxes.
B. after all employer withholding including taxes.
C. after all employer withholding except taxes.
D. minus fixed expenditures.

133. Stephen Scott's monthly pay stub indicates that his monthly gross income is $3,800. However, $800 is withheld for income and Social Security taxes, $200 is withheld for his health and disability insurance, and another $200 is contributed to his pension plan. How much is Stephen's disposable income?

A. $2,600
B. $2,800
C. $3,000
D. $3,800

134. A debt-payments-to-disposable-income ratio with monthly nonmortgage debt repayments of $470 and a disposable income of $3,615 would be ____ percent.

A. 13
B. 20
C. 8
D. 87

135. The Ronselli family has total assets of $460,000 and total liabilities of $186,000. Included in their total assets are monetary assets of $47,000 and investment assets of $253,000. What is the Ronsellis' investment assets-to-total assets ratio?

A. 26 percent
B. 55 percent
C. 65 percent
D. 92 percent

136. The advantages of having organized financial records include

A. helping you save money as well as make money.
B. helping you take advantage of all available tax deductions.
C. enabling you to review the results of financial transactions.
D. all of these.

137. Which of the following is (are) characteristic of a safe-deposit box?

A. Customer keeps all keys
B. Takes two keys to open
C. Come without an annual fee
D. They are not secure

138. Discretionary income is used to pay for things like

A. utilities.
B. vacations.
C. housing.
D. food.

139. Matthew is concerned about his ability to save money regularly and has prepared a budget. Which of the following budget classifications would be *most* appropriate for Matthew's budget?

A. Savings withheld from income and deposited directly to savings
B. Savings as a fixed expenditure
C. Savings as a variable expenditure
D. Saving whatever may be left over

140. There should be enough money in a revolving savings fund to

A. pay all short-term debt.
B. avoid running out of money.
C. pay all fixed expenditures.
D. pay for all long-term goals.

141. The purpose of a revolving savings fund is to

A. save for long-term goals.
B. accumulate funds for large, irregular expenses.
C. meet occasional deficits.
D. bothaccumulate funds for large, irregular expenses and meet occasional deficits.

142. Jerry and Gloria Collins expect the following cash surpluses or deficits the first three months of the year. The rest of the year they expect cash surpluses.

January	$100 surplus
February	$200 deficit
March	$150 deficit

Their revolving savings fund should be at least

A. $100.
B. $200.
C. $250.
D. $350.

143. The Thomas family projects a budget deficit of $250 in January and $450 in February with surpluses the rest of the year. Their revolving savings fund should be at least

A. $700.
B. $450.
C. $350.
D. $250.

144. A checking account can help control a budget when

A. checks received are all put into the checking account without receiving a portion in cash.
B. expenditures are paid in cash.
C. checks received are cashed rather than being put into the checking account.
D. expenditures are charged on a credit card and then paid three months later with a single check.

145. Using a budget design that keeps a declining balance helps one

A. control credit purchases.
B. code expenses.
C. monitor unexpended balances.
D. use subordinate budgets.

146. The strictest method of controlling budgets is

A. justifying exceptions.
B. monitoring unexpended balances.
C. using subordinate budgets.
D. using the envelope system.

147. The process of recording the sources and amounts of dollars earned and spent is called

A. record keeping.
B. budgeting.
C. financial planning.
D. goal setting.

148. If you have money left over at the end of each month, you could save on taxes by

A. paying off credit card balances.
B. putting it in your employer-sponsored retirement plan.
C. investing in a mutual fund.
D. paying down a mortgage or other loan.

149. When estimated expenses exceed estimated income, the choices available are to

A. cut back expenses.
B. earn more income.
C. create a combination of more income and fewer expenses.
D. all of these.

150. A budgeting device on which annual estimated income and expenses are recorded for each month in an effort to look at surplus or deficit situations is called a

A. cash-flow calendar.
B. revolving savings fund.
C. cash budget.
D. budget control statement.

151. ***Figure 3-1***

Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

The following information is taken from their latest financial statements:

Monetary assets	$4,060
Tangible assets	$35,800
Investment assets	$15,005
Short-term liabilities	$3,690
Long-term liabilities	$27,350
Annual gross income	$48,000
Annual take-home income	$35,000
Annual expenses (including taxes and debt repayment)	$46,800
Annual debt repayment	$8,700

Refer to Figure 3-1. Calculate Maria and John's current net worth.

A. $26,325
B. $25,025
C. $23,825
D. $16,325

152. ***Figure 3-1***

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Refer to Figure 3-1. Calculate Maria and John's surplus (loss) for the year.

A. $2,503
B. $1,200
C. ($1,200)
D. ($11,800)

153. ***Figure 3-1***

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Refer to Figure 3-1. According to the basic liquidity ratio, how long could Maria and John continue to meet their expenses after a total loss of income?

A. Less than 1 month
B. Slightly more than 1 month
C. Nearly 5 months
D. Over 12 months

154. ***Figure 3-1***

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Refer to Figure 3-1. What is Maria and John's asset-to-debt ratio?

A. 0.57
B. 35.0
C. 2.56
D. 1.77

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Short-term liabilities	$3,690
Long-term liabilities	$27,350
Annual gross income	$48,000
Annual take-home income	$35,000
Annual expenses (including taxes and debt repayment)	$46,800
Annual debt repayment	$8,700

Refer to Figure 3-1. Calculate and evaluate Maria and John's debt service-to-income ratio.

A. 18 percent¾adequate income to repay debt
B. 18 percent¾in the danger zone
C. 25 percent¾adequate income to repay debt
D. 25 percent¾in the danger zone

156.***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

The following information is taken from their latest financial statements:

Monetary assets	$4,060
Tangible assets	$35,800
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Short-term liabilities	$3,690
Long-term liabilities	$27,350
Annual gross income	$48,000
Annual take-home income	$35,000
Annual expenses (including taxes and debt repayment)	$46,800
Annual debt repayment	$8,700

Refer to Figure 3-1. Calculate Maria and John's investment assets-to-total assets ratio.

A. 35 percent
B. 50 percent
C. 63 percent
D. 27 percent

Chapter 3--Financial Statements, Tools, and Budgets Key

1. The major benefit of financial planning is to spend wisely.

   FALSE

2. Financial planning begins by acquiring a good job that provides a person with enough extra income to manage.

   FALSE

3. Financial planning is the process of developing and implementing short-run plans to achieve financial objectives.

   FALSE

4. Financial planning is a single, customized plan regarding a person's financial affairs.

   FALSE

5. Financial planning is only for the rich.

   FALSE

6. Values have little impact on financial goals.

   FALSE

7. It is not necessary that your values be consistent with your financial and lifestyle goals.

   FALSE

8. Values are fundamental beliefs regarding what consumer goods are worth.

   FALSE

9. The concept of "pay myself first," saving and investing before you pay other expenses, is a characteristic of successful financial managers.

   TRUE

10. Financial planning begins by examining one's values.

    TRUE

11. Specific financial goals drive the creation of budgets.

    TRUE

12. The major purpose of budgeting is to reach your financial goals.

    TRUE

13. The major purpose of budgeting is to make sure bills get paid.

FALSE

14. Your goal in financial planning is to manage your income and wealth in such as way that your goals are met in a suitable manner.

TRUE

15. Paying off debts is an example of a financial goal even though it does not involve a direct purchase.

TRUE

16. Specific goals should be measurable, attainable, relevant, and time-related.

TRUE

17. Among the intermediate-term goals for capital accumulation is having a fund for emergencies.

TRUE

18. Specific goals should be measurable, attainable, relevant, and time related.

TRUE

19. Reducing the number of bank and credit accounts that each partner brings into the marriage can save money on account fees.

TRUE

20. A balance sheet describes an individual's financial progress over a period of time, generally a year.

FALSE

21. A cash-flow statement summarizes transactions that have taken place over a specific period of time.

TRUE

22. Monetary assets include cash and near-cash items that can be readily converted to cash.

TRUE

23. Tangible assets are assets whose primary purpose is to provide maintenance of a lifestyle.

TRUE

24. In general, tangible assets do not depreciate in value over time.

FALSE

25. Successful financial planning requires identifying the one best investment asset for an individual, then putting all of the individual's surplus into that asset.

FALSE

26. Both IRAs and non-residential real estate property are investment assets.

TRUE

27. The balance sheet serves as an assessment of assets and liabilities at fair market value as of a specified date.

<u>TRUE</u>

28. For most people, the only way to increase net worth is to spend less than their income; people must save and invest.

<u>TRUE</u>

29. The degree of detail included in a balance sheet depends on the person(s) for whom it is prepared.

<u>TRUE</u>

30. A balance sheet shows flows of income in and expenses out of your finances for a given period of time.

<u>FALSE</u>

31. Short-term liabilities are obligations to be paid off within one year.

<u>TRUE</u>

32. *Short-term liabilities* is a term used for debt obligations to be paid off within one year.

<u>TRUE</u>

33. The liability section of a balance sheet would include money owed to a doctor or a lawyer but would not include money owed to a friend.

<u>FALSE</u>

34. A person who has a negative net worth is technically insolvent.

<u>TRUE</u>

35. A cash-flow statement for a previous year would show whether you were able to live within your income.

<u>TRUE</u>

36. A cash-flow statement shows flows of income in and expenses out of your finances for a given period of time.

<u>TRUE</u>

37. A cash-flow statement shows the value of your assets and liabilities as of a specific date.

<u>FALSE</u>

38. Keeping track of all income and expenses is very important to achieving your financial objectives.

<u>TRUE</u>

39. Savings set aside can be categorized as both fixed and variable expenses.

<u>TRUE</u>

40. It is usually easy to reduce a fixed expense.

FALSE

41. The surplus section on an individual's cash-flow statement is similar to net profit for a business.

TRUE

42. Most people keep track of their finances on a cash basis rather than on an accrual basis.

TRUE

43. A surplus demonstrates that you are managing your financial resources successfully and do not have to use savings or borrow to make financial ends meet.

TRUE

44. Financial ratios are numerical calculations designed to make assessments of financial conditions more complex.

FALSE

45. Liquidity is the speed and ease with which an asset can be converted to cash.

TRUE

46. Many experts recommend that people should have assets equal to one year's expenses in emergency cash reserves.

FALSE

47. The basic liquidity ratio reveals how many months it would take to convert all assets into cash.

FALSE

48. You can use the basic liquidity ratio to determine the number of months that you could continue to meet your expenses using only your monetary assets should all income cease.

TRUE

49. A family with two income earners will always need a greater amount of cash reserves than a family with one earner.

FALSE

50. By analyzing financial statements, a person can assess his or her financial condition and progress.

TRUE

51. Households dependent on the income from a self-employed person may need a larger emergency cash reserve than others.

TRUE

52. The asset-to-debt ratio compares total assets with total liabilities and is a broad measure of a household's financial liquidity.

TRUE

53. A person is insolvent when he or she doesn't have enough current income to pay all of his or her current bills.

FALSE

54. A low asset-to-debt ratio is a positive indicator of financial well-being.

FALSE

55. The debt service-to-income ratio provides a view of total debt burden of an individual or family by comparing the dollars spent on gross annual debt repayments with gross annual income.

TRUE

56. A debt service-to-income ratio of 0.36 or less is considered manageable for most families.

TRUE

57. A debt service-to-income ratio of 0.36 or less indicates that disposable income is adequate to make debt repayments.

FALSE

58. The debt-payments-to-disposable-income ratio is gross income divided by monthly nonmortgage debt repayments.

FALSE

59. Disposable personal income is the amount of take-home pay remaining after all deductions are withheld for taxes, insurance, union dues, and other.

TRUE

60. The investment assets-to-total assets ratio compares the value of your investment assets with your total assets.

TRUE

61. Good recordkeeping is a prerequisite for effective financial planning.

TRUE

62. Original deeds and mortgage papers should be stored in one's home file.

FALSE

63. Safe-deposit boxes take two keys to open, and the financial institution where the box is located keeps one of these keys.

TRUE

64. Budgeting is narrower in scope than overall financial planning as it is primarily concerned with projecting future income and expenditures over a period of time.

TRUE

65. Budgeting gives one control over his or her finances.

TRUE

66. Once budget estimates are determined; one should not make any changes in the budget for at least one year.

FALSE

67. When budgeting, it is useful to use actual income and expenditure information for two or three months to refine budget estimates in the future.

TRUE

68. Budget estimates are the projected dollar amounts in a budget that one plans to receive or spend during the period covered by the budget.

TRUE

69. To make realistic estimates of income and expenses, reliable financial information is critical. The more accurate the estimates, the more effective the budget.

TRUE

70. Discretionary income is the money left over once the necessities of living are covered.

TRUE

71. Discretionary income is the money people use to pay for the necessities of life.

FALSE

72. Reconciling budget estimates includes reconciling conflicting needs and wants.

TRUE

73. The best method to control overspending is to regularly monitor unexpended balances in each budget classification.

TRUE

74. A budget variance is the difference between one's actual expenditure with budgeted amount for a specific category.

TRUE

75. A net surplus in your monthly budget can not be carried forward to the next month.

FALSE

76. When a college student saves all summer so that he or she has money available to live on during the school year; he or she is using a revolving savings fund.

TRUE

77. After the budgeting period has ended, you need to add up the actual income received and expenditures made during that period.

TRUE

78. Using credit cards to "balance" your budget is a proper budgeting tool.

FALSE

79. A budget variance is the difference between the amount budgeted and the actual amount spent or received.

TRUE

80. When budgeting, recordkeeping is the process of recording the sources and amount of dollars earned and spent.

TRUE

81. The use of automated teller machines is recommended as a valid method of controlling expenditures.

FALSE

82. Financial plans should include objectives and goals in which of the following areas?

A. Spending
B. Risk management
C. Capital accumulation
D. All of these

83. The three broad areas of financial plans include financial plans for

A. spending.
B. risk management.
C. capital accumulation.
D. All of these.

84. The basis for financial planning is (are)

A. a budget.
B. personal values.
C. a balance sheet.
D. goals.

85. Values are

A. attitudes.
B. needs.
C. beliefs.
D. wants.

86. Which of the following is the *best* example of a well-stated financial goal?

A. Buy a $3,000 computer in 18 months
B. Purchase a three-bedroom home in five years
C. Buy a $2,000 stereo
D. Pay off your credit cards as soon as possible

87. Which of the following goals is *most* clearly stated?

A. Save enough for a down payment on a house in five years
B. Save $1,000 in one year for a vacation to San Diego
C. Pay off all credit card balances
D. Pay cash for a car

88. The first step in the budgeting process is

A. organizing.
B. setting financial goals.
C. decision making.
D. evaluating.

89. Hillary and Justin Palmer have a long-term goal of saving $6,000 for a down payment on a new vehicle they would like to buy in three years. Which of the following is a short-term goal that is most consistent with this long-term goal?

A. Buy a new car every two years
B. Save $2,000 this year
C. Save $3,000 this year
D. Accumulate $1,500 for a trip to Florida this year

90. Financial goals

A. should be explicitly stated.
B. should be consistent with your values.
C. all of these.
D. none of these.

91. A successful financial plan includes

A. specified values that underlie the plan.
B. explicitly stated financial goals.
C. logical and consistent financial strategies.
D. all of these.

92. The primary purpose of setting long-term financial goals is to help

A. measure financial success or failure.
B. provide direction for overall financial planning.
C. acquire great wealth.
D. achieve a comfortable retirement.

93. Financial goals should state

A. the "what" of the goal.
B. the "how much" of the goal.
C. the "when" of the goal.
D. all of these.

94. To set the stage for financial success, one must

A. save money.
B. start budgeting.
C. identify financial values and goals.
D. cut up all credit cards.

95. The two *most* useful financial statements are ____ and ____.

A. federal tax returns; income and expense statements
B. cash-flow statements; balance sheets
C. balance sheets; wills
D. wills; federal tax returns

96. A balance sheet includes ____, ____, and ____.

A. income; expenses; net worth
B. assets; expenses; liabilities
C. income; liabilities; net worth
D. assets; liabilities; net worth

97. Which of the following provides information about a person's financial condition at a specific point in time?

A. Balance sheet
B. Federal tax return
C. Income and expense statement
D. All of these

98. A cash-flow statement is also known as a(n) ____ statement.

A. income and expense
B. net worth
C. taxable income
D. asset-and-liability

99. Rita and Jose Hernandez want to assess their financial progress over the next few years. They have decided to take a reading of their status every New Year's Day. Which financial statement would they prepare each year?

A. Will
B. Cash-flow statement
C. Balance sheet
D. Federal income tax return

100. Assets on the balance sheet are valued at their

A. fair market value.
B. original purchase price.
C. replacement cost.
D. sentimental value.

101. Which of the following types of assets is primarily used for emergencies, maintenance of living expenses, savings, and payment of bills?

A. Monetary
B. Tangible
C. Investment
D. Capital

102. Which of the following types of assets is primarily used for the maintenance of a lifestyle?

A. Monetary
B. Tangible
C. Investment
D. Capital

103. Which of the following is classified as a tangible asset?

A. Motorcycle
B. Cash
C. Real estate investment
D. Pension plan

104. Which of the following would be included in the category of assets known as monetary assets?

A. Money market accounts
B. Stocks
C. Bonds
D. Real estate

105. Which of the following is classified as an investment asset?

A. Certificates of deposit
B. Money market accounts
C. Primary residence
D. Stocks

106. Vincent and Paula Farelli have decided to pay off their $875 MasterCard debt by taking $875 out of their money market savings account. This transaction will

A. increase their net worth on their balance sheet.
B. not change their net worth on their balance sheet.
C. decrease the surplus on their income and expense statement.
D. not change the surplus on their income and expense statement.

107. Which of the following would be classified as a short-term liability?

A. Next month's rent
B. Credit card debt
C. Education loans
D. A car loan

108. Which of the following would be classified as a long-term liability?

A. Credit card debt
B. Bank card debt
C. Education loan balance
D. All of these

109. The formula for calculating net worth is

A. income minus expenses.
B. assets minus liabilities.
C. income minus liabilities.
D. assets minus expenses.

110. To construct a balance sheet, you need to compile dollar values for your assets and liabilities. Good sources from which to begin are

A. checkbook or savings account records.
B. receipts of various payments.
C. investments.
D. all of these.

111. Jason and Larissa would like to accumulate three times their monthly expenses in monetary assets. They currently have $2,800 in their money market account, and their monthly expenses are $4,500. How much more do they need in their money market account to reach their goal?

A. $13,500
B. $3,900
C. $10,700
D. $1,700

112. Cindy Estrada is applying for a loan and the bank has asked her for some financial information. Use the following data to calculate Cindy's net worth.

Checking account balance	$1,300
American Express credit card balance	$650
Money market account	$2,200
House	$255,000
Mortgage loan balance	$140,000
Automobile	$20,000
Cash on hand	$575
Auto loan balance	$8,700

A. $121,025
B. $129,725
C. $130,375
D. $131,025

113. Maria Gomez would like to learn more about her financial situation. Help her calculate her current net worth.

Annual salary	$42,000
U.S. savings bond	$1,500
Money market fund	$4,000
Checking account balance	$760
MasterCard balance	$2,800
Value of automobile	$15,000
Outstanding auto loan	$6,750

A. $3,460
B. $10,210
C. $11,710
D. $53,710

114. A surplus on your cash-flow statement indicates that you are

A. using savings to pay current expenses.
B. managing your financial resources successfully.
C. borrowing money to pay current expenses.
D. both using savings to pay current expenses and borrowing money to pay current expenses.

115. Mack and Amy are making regular contributions of $200 a month from their salaries to a money market savings account. These transactions will

A. increase their net worth on their balance sheet.
B. decrease the surplus on their cash-flow statement.
C. not change either their net worth or the surplus.
D. both increase their net worth on their balance sheet and decrease the surplus on their income and expense statement.

116. Which of the following is a characteristic of a cash-flow statement?

A. It covers a period of time, usually one month or one year.
B. It shows if you were able to live within your income for the period covered.
C. The statement includes three sections: income, expenses, and surplus (or deficit).
D. All of these.

117. Child support received, Social Security benefits, and public assistance are all examples of

A. expenses.
B. assets.
C. income.
D. both assets and income.

118. Rent and insurance payments are examples of

A. short-term liabilities.
B. variable expenses.
C. fixed expenses.
D. long-term liabilities.

119. Canceled checks provide a source of information for the value of

A. assets.
B. liabilities.
C. income.
D. expenditures.

120. Food, clothing, and entertainment are examples of

A. short-term liabilities.
B. variable expenses.
C. fixed expenses.
D. long-term liabilities.

121. A net surplus at the end of the month could be

A. used to pay down credit card debt.
B. invested in a retirement account.
C. carried forward to the next month.
D. all of these.

122. Paul is a college student who has the following financial information. He would like your help in figuring his surplus for last year.

Income from summer job	$5,000
Support from parents	$3,500
Scholarship	$1,200
Savings account balance	$1,250
Variable expenses	$3,500
Fixed expenses	$4,000
Current liabilities	$800

What is Paul's surplus?

A. $2,650
B. $2,200
C. $1,250
D. $1,000

123. The formula for calculating surplus (loss) is

A. total income minus total expenses.
B. assets minus liabilities.
C. total income minus liabilities.
D. assets minus total expenses.

124. Julie and Alex have compiled their financial records and would like to know if they are living within their level of income. What is their surplus?

Salaries	$48,000
Interest income	$1,200
Food expenses	$10,500
Rent	$14,400
Clothing costs	$3,600
Auto expenses	$4,200
Recreation	$4,800
Miscellaneous expenses	$3,400

A. $7,100
B. $8,300
C. $9500
D. $12,500

125. Wendy Wilson, a successful graduate of State University, is currently employed in a position paying $37,500 a year. Wendy's annual living expenses are only $33,000 so she has accumulated $4,600 in monetary assets and $27,000 in investment assets since her graduation. Use the basic liquidity ratio to figure how long Wendy could pay expenses if she were to lose her job.

A. Less than three weeks
B. About two months
C. Approximately seven months
D. Approximately eleventh months

126. Tom and Kelly McDonald have total assets valued at $346,000 and total debt of $168,000. What is Tom and Kelly's asset-to-debt ratio?

A. 2.06
B. 1.00
C. 0.51
D. 0.49

127. Tran Phueong has monetary assets valued at $17,500 and monthly expenses of $1,450. Using the basic liquidity ratio, how long could Tran live on his monetary assets if he were to lose his job?

A. Over 12 months
B. About 3 months
C. About 1 month
D. Less than 1 month

128. Janice Leno has the following assets and debts listed on her balance sheet:

Liquid Assets	$3,687
Tangible assets	$61,241
Investment assets	$34,289
Short-term liabilities	$4,631
Long-term liabilities	$24,134

Janice's asset-to-debt ratio is

A. 3.45
B. 2.54
C. 3.96
D. 0.29

129. Robert and Jessica Stein have a gross income of $53,000 a year and annual expenses of $51,500 including taxes. Their annual debt payments total $15,000. According to the recommended standards for the debt service-to-income ratio, the Steins' ratio of

A. 36 percent and is too high for easily manageable debt repayment.
B. 36 percent implies they have the ability to easily make their debt repayments.
C. 28 percent is much too high for easily manageable debt repayment.
D. 28 percent implies they have the ability to make their debt repayments.

130. Eric Jones develops computer software for a major company. Eric's salary and bonuses total $82,000, but he pays $29,233 in income and Social Security taxes. If Eric's annual debt repayments are $33,620, what is his debt service-to-income ratio?

A. 41 percent
B. 64 percent
C. 36 percent
D. 77 percent

131. A debt-payments-to-disposable-income ratio of ____ percent or more is considered to be problematic.

A. 10
B. 15
C. 16
D. 36

132. Disposable income is income

A. before taxes.
B. after all employer withholding including taxes.
C. after all employer withholding except taxes.
D. minus fixed expenditures.

133. Stephen Scott's monthly pay stub indicates that his monthly gross income is $3,800. However, $800 is withheld for income and Social Security taxes, $200 is withheld for his health and disability insurance, and another $200 is contributed to his pension plan. How much is Stephen's disposable income?

A. $2,600
B. $2,800
C. $3,000
D. $3,800

134. A debt-payments-to-disposable-income ratio with monthly nonmortgage debt repayments of $470 and a disposable income of $3,615 would be ____ percent.

A. 13
B. 20
C. 8
D. 87

135. The Ronselli family has total assets of $460,000 and total liabilities of $186,000. Included in their total assets are monetary assets of $47,000 and investment assets of $253,000. What is the Ronsellis' investment assets-to-total assets ratio?

A. 26 percent
B. 55 percent
C. 65 percent
D. 92 percent

136. The advantages of having organized financial records include

A. helping you save money as well as make money.
B. helping you take advantage of all available tax deductions.
C. enabling you to review the results of financial transactions.
D. all of these.

137. Which of the following is (are) characteristic of a safe-deposit box?

A. Customer keeps all keys
B. Takes two keys to open
C. Come without an annual fee
D. They are not secure

138. Discretionary income is used to pay for things like

A. utilities.
B. vacations.
C. housing.
D. food.

139. Matthew is concerned about his ability to save money regularly and has prepared a budget. Which of the following budget classifications would be *most* appropriate for Matthew's budget?

A. Savings withheld from income and deposited directly to savings
B. Savings as a fixed expenditure
C. Savings as a variable expenditure
D. Saving whatever may be left over

140. There should be enough money in a revolving savings fund to

A. pay all short-term debt.
B. avoid running out of money.
C. pay all fixed expenditures.
D. pay for all long-term goals.

141. The purpose of a revolving savings fund is to

A. save for long-term goals.
B. accumulate funds for large, irregular expenses.
C. meet occasional deficits.
D. bothaccumulate funds for large, irregular expenses and meet occasional deficits.

142. Jerry and Gloria Collins expect the following cash surpluses or deficits the first three months of the year. The rest of the year they expect cash surpluses.

January	$100 surplus
February	$200 deficit
March	$150 deficit

Their revolving savings fund should be at least

A. $100.
B. $200.
C. $250.
D. $350.

143. The Thomas family projects a budget deficit of $250 in January and $450 in February with surpluses the rest of the year. Their revolving savings fund should be at least

A. $700.
B. $450.
C. $350.
D. $250.

144. A checking account can help control a budget when

A. checks received are all put into the checking account without receiving a portion in cash.
B. expenditures are paid in cash.
C. checks received are cashed rather than being put into the checking account.
D. expenditures are charged on a credit card and then paid three months later with a single check.

145. Using a budget design that keeps a declining balance helps one

A. control credit purchases.
B. code expenses.
C. monitor unexpended balances.
D. use subordinate budgets.

146. The strictest method of controlling budgets is

A. justifying exceptions.
B. monitoring unexpended balances.
C. using subordinate budgets.
D. using the envelope system.

147. The process of recording the sources and amounts of dollars earned and spent is called

A. record keeping.
B. budgeting.
C. financial planning.
D. goal setting.

148. If you have money left over at the end of each month, you could save on taxes by

A. paying off credit card balances.
B. putting it in your employer-sponsored retirement plan.
C. investing in a mutual fund.
D. paying down a mortgage or other loan.

149. When estimated expenses exceed estimated income, the choices available are to

A. cut back expenses.
B. earn more income.
C. create a combination of more income and fewer expenses.
D. all of these.

150. A budgeting device on which annual estimated income and expenses are recorded for each month in an effort to look at surplus or deficit situations is called a

A. cash-flow calendar.
B. revolving savings fund.
C. cash budget.
D. budget control statement.

151. ***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

The following information is taken from their latest financial statements:

Monetary assets	$4,060
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Investment assets	$15,005
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Annual gross income	$48,000
Annual take-home income	$35,000
Annual expenses (including taxes and debt repayment)	$46,800
Annual debt repayment	$8,700

Refer to Figure 3-1. Calculate Maria and John's current net worth.

A. $26,325
B. $25,025
C. $23,825
D. $16,325

152. ***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

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Annual debt repayment	$8,700

Refer to Figure 3-1. Calculate Maria and John's surplus (loss) for the year.

A. $2,503
B. $1,200
C. ($1,200)
D. ($11,800)

153. ***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

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Annual debt repayment	$8,700

Refer to Figure 3-1. According to the basic liquidity ratio, how long could Maria and John continue to meet their expenses after a total loss of income?

A. Less than 1 month
B. Slightly more than 1 month
C. Nearly 5 months
D. Over 12 months

154. ***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

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Tangible assets	$35,800
Investment assets	$15,005
Short-term liabilities	$3,690
Long-term liabilities	$27,350
Annual gross income	$48,000
Annual take-home income	$35,000
Annual expenses (including taxes and debt repayment)	$46,800
Annual debt repayment	$8,700

Refer to Figure 3-1. What is Maria and John's asset-to-debt ratio?

A. 0.57
B. 35.0
C. 2.56
D. 1.77

155. ***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

The following information is taken from their latest financial statements:

Monetary assets	$4,060
Tangible assets	$35,800
Investment assets	$15,005
Short-term liabilities	$3,690
Long-term liabilities	$27,350
Annual gross income	$48,000
Annual take-home income	$35,000
Annual expenses (including taxes and debt repayment)	$46,800
Annual debt repayment	$8,700

Refer to Figure 3-1. Calculate and evaluate Maria and John's debt service-to-income ratio.

A. 18 percent¾adequate income to repay debt
B. 18 percent¾in the danger zone
C. 25 percent¾adequate income to repay debt
D. 25 percent¾in the danger zone

156. ***Figure 3-1***
Maria and John Sanchez have just completed their third annual set of financial statements. They met in a personal finance class while in college and still remember their instructor's advice regarding the importance of knowing their financial condition and progress. Even before they got married, they decided that each year on February 2 (Groundhog Day) they would update their cash-flow statement and their balance sheet.

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Refer to Figure 3-1. Calculate Maria and John's investment assets-to-total assets ratio.

A. 35 percent
B. 50 percent
C. 63 percent
D. 27 percent