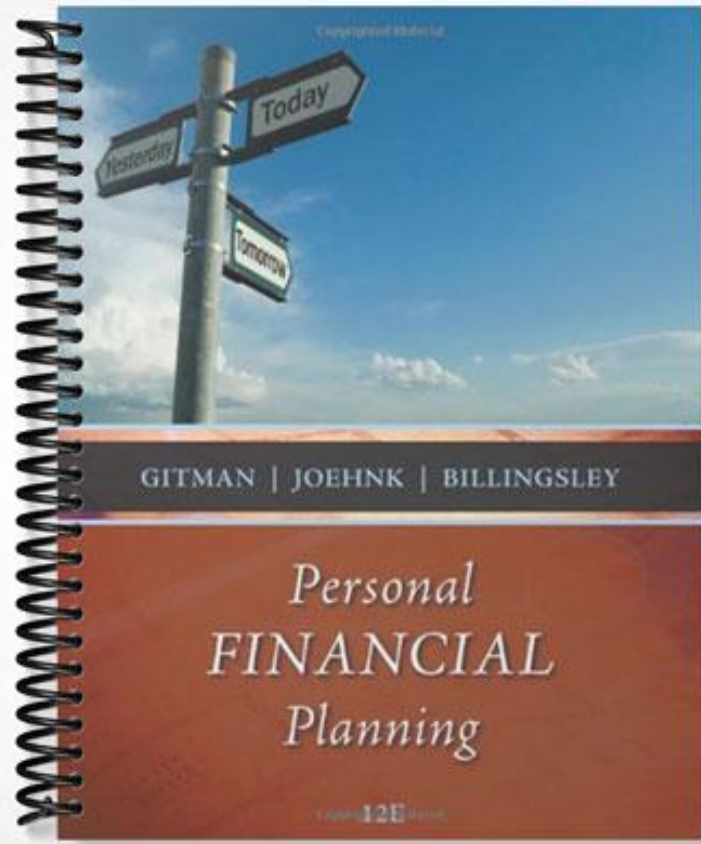


TEST BANK



GITMAN | JOEHNK | BILLINGSLEY

Personal
FINANCIAL
Planning

12E

Chapter 2--Your Financial Statements and Plans

Student: _____

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

8. A budget is a detailed financial forecast.

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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.

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

27. Budgets should be prepared on an accrual basis.

True False

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

True False

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

True False

30. The income and expenditures statement is a summary of actual income and expenditures over a specific point of time.
True False
31. Interest you earned on your savings account would be an entry on the balance sheet.
True False
32. If you obtain a loan to purchase a car in June, this loan amount would be included as income for June.
True False
33. If you listed your gross salary in the income portion of the budget, the expenditures section must include income taxes and social security.
True False
34. If you use net salary as income on your budget, the expenditures section must include income and social security taxes.
True False
35. An income statement deficit would increase net worth.
True False
36. When the income statement indicates a surplus, this may be used to increase net worth by increasing assets or decreasing liabilities.
True False
37. A cash deficit decreases net worth.
True False
38. Balance sheets and income statements are most useful if prepared at least annually.
True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

55. Financial planning experts recommend married couples use a money management system that includes at least 2 checking accounts.

True False

56. With cafeteria plans, employees can select the employee benefits that best meet their needs.

True False

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

True False

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

True False

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

True False

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

True False

61. 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.

True False

62. The balance sheet describes a family's wealth

A. at a certain point in time.

B. as an annual summary.

C. as a time period less than one year.

D. at a future time.

E. none of these

63. 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.

64. 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

65. 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.

66. Your ____ is an example of a liquid asset.

- A. home
- B. car
- C. checking account
- D. charge account
- E. life insurance cash value

67. 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

68. 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

69. ____ is an example of an personal asset.

- A. Jewelry
- B. Recreational equipment
- C. Corporate bond
- D. Charge account balance
- E. Auto insurance premium

70. A budget is a

- A. purchase plan.
- B. line of credit.
- C. financial statement.
- D. detailed financial forecast.
- E. set of personal financial objectives.

71. 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.

72. Budgets are

- A. restrictive.
- B. complicated.
- C. are forward looking.
- D. permanent.
- E. unnecessary.

73. _____ 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

74. _____ would not 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

75. 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.

76. 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.

77. Professional financial planners are regulated by

- A. the federal government.
- B. self-regulation.
- C. state agencies.
- D. local regulators.
- E. no one.

78. 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 the above.

79. Another term sometimes used instead of net worth is

- A. assets.
- B. net debts.
- C. long-term liabilities
- D. equity.
- E. liquid assets.

80. 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.

81. 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

82. 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

83. 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.

84. The income and expenditures statement examines your financial

- A. level.
- B. performance.
- C. position.
- D. assets.
- E. objectives.

85. 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.

86. 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.

87. 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

88. 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.

89. 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

90. 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

91. _____ would be an example of a periodic expense.

- A. Food
- B. Vacation
- C. Utilities
- D. Taxes
- E. none of these

92. The most common budgeting period is a

- A. week.
- B. month.
- C. quarter.
- D. semi-annually.
- E. bi-weekly.

93. 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

94. 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

95. 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 & B only.

96. 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 the above.

97. 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

98. 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.

99. 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

100. 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

101. 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%.

102. 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%.

103. 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

104. 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%

105. 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 the above.

106. 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%.

107. 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%.

108. 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%

109. 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%

110. 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%.
111. 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%
112. 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
113. 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.
114. Inflation affects
- A. long-term financial goals.
 - B. short-term goals.
 - C. budget expenditures.
 - D. asset values.
 - E. all of these

115. 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.

116. 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.

117. What can you do if your budget shows an annual budget deficit?

- A. Liquidate enough savings and investments to meet the total budget shortfall for the year.
- B. Borrow enough to meet the total budget shortfall for the year.
- C. Cut low-priority expenses from the budget.
- D. Increase Income.
- E. All of the above.

118. 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.

119. 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.

120. Which of the following has been determined to be the best way for dual-income families to handle their money management?

- A. Place all income into a single, joint account.
- B. Have each spouse contribute equal amounts to a joint account for family expenses.
- C. Have each spouse contribute an equal proportion of their incomes to a joint account for family expenses.
- D. Have one spouse make all the financial decisions
- E. None of the above.

121. Cafeteria benefit plans

- A. are paid for by employers.
- B. are paid for by employees.
- C. provide employees a choice regarding the benefits they receive.
- D. allow employees to reward productive employees.
- E. are less beneficial to two-career families than to others.

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

- A. \$ 49,179
- B. \$175,590
- C. \$201,000
- D. \$225,682
- E. \$250,000

123. 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

124. 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

125. 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%

126. 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

127. 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

128. **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.

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

129. **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.

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

130. **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.

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

131. **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.

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

132. **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.

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

133. **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.

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

134. **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.

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

135. **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.

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

136. **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.

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

137. **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.

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

138. **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.

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

139. **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.

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

140. **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.

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

141. **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.

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

142. **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.

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*].

143. **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.

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

144. **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.

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*].

145. **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.

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*].

146. **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.

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

147. **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.

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

148. **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.

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

149. **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.

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

150. **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.

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

151. **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.

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

152. **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.

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

153. **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.

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

154. **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.

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

155. **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.

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

156. **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.

A budget should be prepared on a [*cash basis* | *accrual basis*].

157. **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.

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

158. **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.

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

159. **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.

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

160. **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.

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

161. **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.

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

162. **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.

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

163. **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.

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

164. **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.

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

165. **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.

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

166. **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.

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*].

167. **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.

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

168. **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.

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

169. **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.

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

170. 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.)

171. 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.)

172. 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.)

173. 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

174. 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

175. 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.)

176. 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.)

177. 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?

178. 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?

179. 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?

Chapter 2--Your Financial Statements and Plans **Key**

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

TRUE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

8. A budget is a detailed financial forecast.

TRUE

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

TRUE

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

TRUE

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

TRUE

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

TRUE

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

TRUE

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.

FALSE

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

FALSE

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

FALSE

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

FALSE

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

FALSE

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

TRUE

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

TRUE

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

TRUE

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

FALSE

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

TRUE

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

TRUE

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

FALSE

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

TRUE

27. Budgets should be prepared on an accrual basis.

FALSE

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

FALSE

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

FALSE

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

TRUE

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

FALSE

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

FALSE

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

TRUE

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

FALSE

35. An income statement deficit would increase net worth.

FALSE

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

TRUE

37. A cash deficit decreases net worth.

TRUE

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

TRUE

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

FALSE

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

TRUE

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

TRUE

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

TRUE

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

TRUE

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

TRUE

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

TRUE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

FALSE

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

TRUE

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

TRUE

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

TRUE

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

FALSE

55. Financial planning experts recommend married couples use a money management system that includes at least 2 checking accounts.

FALSE

56. With cafeteria plans, employees can select the employee benefits that best meet their needs.

TRUE

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

TRUE

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

TRUE

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

FALSE

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

FALSE

61. 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.

TRUE

62. The balance sheet describes a family's wealth

A. at a certain point in time.

B. as an annual summary.

C. as a time period less than one year.

D. at a future time.

E. none of these

63. 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.

64. 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

65. 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.**

66. Your _____ is an example of a liquid asset.

- A. home
- B. car
- C. checking account**
- D. charge account
- E. life insurance cash value

67. 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**

68. 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

69. _____ is an example of an personal asset.

- A. Jewelry**
- B. Recreational equipment
- C. Corporate bond
- D. Charge account balance
- E. Auto insurance premium

70. A budget is a
- A. purchase plan.
 - B. line of credit.
 - C. financial statement.
 - D.** detailed financial forecast.
 - E. set of personal financial objectives.

71. 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.

72. Budgets are
- A. restrictive.
 - B. complicated.
 - C.** are forward looking.
 - D. permanent.
 - E. unnecessary.

73. _____ 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

74. _____ would not 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

75. 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.

76. 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.

77. Professional financial planners are regulated by
- A. the federal government.
 - B. self-regulation.
 - C. state agencies.
 - D. local regulators.
 - E.** no one.

78. 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 the above.

79. Another term sometimes used instead of net worth is
- A. assets.
 - B. net debts.
 - C. long-term liabilities
 - D.** equity.
 - E. liquid assets.

80. 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.

81. 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

82. 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

83. 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.

84. The income and expenditures statement examines your financial

- A. level.
- B.** performance.
- C. position.
- D. assets.
- E. objectives.

85. 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.

86. 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.

87. 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

88. 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.

89. 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

90. 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

91. _____ would be an example of a periodic expense.

- A. Food
- B.** Vacation
- C. Utilities
- D. Taxes
- E. none of these

92. The most common budgeting period is a

- A. week.
- B.** month.
- C. quarter.
- D. semi-annually.
- E. bi-weekly.

93. 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

94. 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

95. 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 & B only.

96. 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 the above.

97. 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

98. 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.

99. 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

100. 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

101. 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%.

102. 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%.

103. 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

104. 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%

105. 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 the above.

106. 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%.

107. 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%.

108. 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%

109. 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%

110. 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%.

111. 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%

112. 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

113. 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.

114. Inflation affects

- A. long-term financial goals.
- B. short-term goals.
- C. budget expenditures.
- D. asset values.
- E.** all of these

115. 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.

116. 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.

117. What can you do if your budget shows an annual budget deficit?

- A. Liquidate enough savings and investments to meet the total budget shortfall for the year.
- B. Borrow enough to meet the total budget shortfall for the year.
- C. Cut low-priority expenses from the budget.
- D. Increase Income.
- E.** All of the above.

118. 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.

119. 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.

120. Which of the following has been determined to be the best way for dual-income families to handle their money management?

- A. Place all income into a single, joint account.
- B. Have each spouse contribute equal amounts to a joint account for family expenses.
- C. Have each spouse contribute an equal proportion of their incomes to a joint account for family expenses.
- D. Have one spouse make all the financial decisions
- E.** None of the above.

121. Cafeteria benefit plans

- A. are paid for by employers.
- B. are paid for by employees.
- C.** provide employees a choice regarding the benefits they receive.
- D. allow employees to reward productive employees.
- E. are less beneficial to two-career families than to others.

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

- A. \$ 49,179
- B.** \$175,590
- C. \$201,000
- D. \$225,682
- E. \$250,000

123. 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

124. 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

125. 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%

126. 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

127. 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

128. **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.

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

a

129. **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.

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

a

130. **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.

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

b

131. **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.

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

a

132. **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.

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

a

133. **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.

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

b

134. **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.

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

a

135. **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.

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

a

136. **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.

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

b

137. **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.

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

c

138. **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.

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

b

139. **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.

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

b

140. **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.

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

b

141. **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.

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

a

142. **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.

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*].

a

143. **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.

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

a

144. **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.

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*].

b

145. **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.

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*].

b

146. **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.

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

a

147. **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.

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

a

148. **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.

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

a

149. **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.

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

a

150. **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.

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

b

151. **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.

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

b

152. **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.

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

a

153. **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.

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

b

154. **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.

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

a

155. **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.

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

a

156. **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.

A budget should be prepared on a [*cash basis* | *accrual basis*].

a

157. **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.

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

a

158. **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.

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

a

159. **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.

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

b

160. **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.

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

a

161. **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.

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

b

162. **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.

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

b

163. **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.

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

b

164. **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.

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

b

165. **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.

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

a

166. **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.

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*].

a

167. **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.

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

b

168. **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.

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

a

169. **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.

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

a

170. 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.)

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

171. 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.)

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

172. 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.)

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

173. 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

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

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

174. 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

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

175. 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.)

$$\begin{aligned} & \$37,000 + .04(\$37,000) \\ & \$37,000 + \$1,480 = \$38,480 \\ & \text{OR} \\ & \$37,000 \times 1.04 = \$38,480 \end{aligned}$$

176. 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.)

$$\begin{aligned} & \$45,000 + .03(\$45,000) \\ & \$45,000 + \$1,350 = \$46,350 \\ & \text{OR} \\ & \$45,000 \times 1.03 = \$46,350 \end{aligned}$$

177. 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?

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

178. 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?

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

179. 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?

PMT =
80,000
N = 20
I = 4
PV = 1,087,226