

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following are examples of flexible expenses? 1) _____
- A) car payments, donations, clothing. B) furniture, food, CPP contributions.
C) clothing, telephone, food. D) food, dental, heat.

Answer: C

Explanation: A)
B)
C)
D)

- 2) The main purpose of an effective method of spending control is to encourage people to 2) _____
- A) keep records of all expenses. B) save more than they originally planned.
C) stick to their spending estimates. D) use cash for all purchases.

Answer: C

Explanation: A)
B)
C)
D)

- 3) A net worth statement shows 3) _____
- A) the difference between income and expenses over a specific time period.
B) all available resources, including both income and wealth.
C) the difference between assets and liabilities at a specific date.
D) the amount of income available.

Answer: C

Explanation: A)
B)
C)
D)

- 4) Financial goals differ from personal goals because they tend to 4) _____
- A) be more specific. B) be of short duration.
C) be more qualitative. D) be of longer term.

Answer: A

Explanation: A)
B)
C)
D)

- 5) Which of the following will be included in a net worth statement? 5) _____
- A) mortgage debt. B) car payments.
C) income taxes. D) employment income.

Answer: A

Explanation: A)
B)
C)
D)

6) Pam and Walter are very compatible when it comes to money management. They are both working full-time. They have similar goals and spending habits. They trust one another to spend appropriately. They discuss major purchases together. Even though Pam earns \$20 000 more than Walter they both view the household earnings as belonging to both of them. What type of financial organization would be best for them?

6) _____

- A) proportionate contributions.
- C) equal split.

- B) pooled funds.
- D) dividing the bills.

Answer: B

Explanation: A)
B)
C)
D)

7) Which statement about financial planners is correct?

7) _____

- A) financial planners do not charge for advice about credit problems.
- B) since they have to meet strict educational standards to be licensed, you should ask if a planner has a license.
- C) most financial planners work with the wealthy to advise them on investments and tax planning.
- D) you should ask how they are compensated to determine if there is a conflict of interests.

Answer: D

Explanation: A)
B)
C)
D)

8) Calculate the net worth using the following financial data:

8) _____

Chequing account	\$1 500	Canada Savings Bonds	\$4 000
Annual income	\$40 000	Food expenses	\$10 000
House	\$120 000	Mortgage debt	\$25 000
Car	\$10 000	Car loan	\$3 000
Line of credit	\$1 500	RRSP	\$28 000

- A) \$165 000
- B) \$174 000
- C) \$124 000
- D) \$134 000

Answer: D

Explanation: A)
B)
C)
D)

9) The most effective time to save for retirement is

9) _____

- A) during retirement.
- B) to mid-thirties.
- C) fifties to retirement.
- D) mid-thirties to fifties.

Answer: B

Explanation: A)
B)
C)
D)

10) Which of the following statements about personal finance is true? 10) _____

- A) few people have financial plans.
- B) few books are available to help people learn the intricacies of financial planning.
- C) even those with little knowledge of personal finance can easily understand the financial industry.
- D) creating a financial plan requires no discipline or commitment.

Answer: A

Explanation: A)
B)
C)
D)

11) A budget is 11) _____

- A) assets minus liabilities.
- B) cash inflow minus cash outflow.
- C) for using financial resources for the future.
- D) a record of what was spent last year.

Answer: C

Explanation: A)
B)
C)
D)

12) Mary borrowed money to buy a house and used savings for the down payment. What effect would this have on her net worth? 12) _____

- A) it would cause her net worth to decrease.
- B) it would cause her net worth to increase.
- C) her net worth would not be affected.
- D) her net worth would be the same, but her assets are less and her liabilities greater.

Answer: C

Explanation: A)
B)
C)
D)

13) Income 13) _____

- A) is not required for financial planning.
- B) is a flow of resources over a period of time.
- C) is an asset.
- D) is included in a net worth statement.

Answer: B

Explanation: A)
B)
C)
D)

14) Jim and Fiona are engaged to be married. They earn approximately the same salary. Jim tends to spend his extra money quickly while Fiona likes to accumulate funds to purchase big ticket items. They fear that their different spending habits will add stress to their marriage. They both have similar views on their fixed expenses and necessities. They realize that their spending patterns will likely change over the next few years when they purchase a house. What would be the best way for them to organize their finances?

14) _____

- A) equal split.
- C) pooled funds.

- B) dividing the bills.
- D) proportionate contributions.

Answer: A

Explanation: A)
B)
C)
D)

15) Kathy is preparing a budget for the new school year. Kathy is currently at which step of the financial planning process?

15) _____

- A) assess resources
- B) identify goals and set priorities
- C) develop implementation and control strategies
- D) balance future cash flows

Answer: D

Explanation: A)
B)
C)
D)

16) What information can be gathered from the short-term debt to liquid asset ratio?

16) _____

- A) how long liquid assets will last.
- B) if one can handle any more short-term debt.
- C) how much of the short-term debt can be paid off using liquid assets.
- D) length of time it will take to pay off short-term debts.

Answer: C

Explanation: A)
B)
C)
D)

17) Sean received a \$1 000 gift that he used to pay off his credit card debt. What effect would this have on his net worth statement?

17) _____

- A) increase his assets and decrease his liabilities.
- B) decrease his liabilities and increase his net worth.
- C) increase his assets and net worth.
- D) increase his liabilities and net worth.

Answer: B

Explanation: A)
B)
C)
D)

18) Which of the following statements can be classified as predominately a controlling function in financial management? 18) _____

- A) the preparation of a budget.
- B) the preparation of a net worth statement.
- C) the assessment of future resources.
- D) the partitioning of funds.

Answer: D

Explanation: A)
B)
C)
D)

19) "Real rate of return" refers to 19) _____

- A) the effective annual yield.
- B) the compound interest rate.
- C) the percentage change in net worth less the inflation rate.
- D) the quoted interest rate.

Answer: C

Explanation: A)
B)
C)
D)

20) Which of the following makes the best distinction between a net worth statement and an expenditure record? 20) _____

- A) An expenditure record includes a plan for controlling costs. A net worth statement does not.
- B) Net worth includes income while an expenditure record does not.
- C) A net worth is a plan for the future. An expenditure record is history.
- D) An expenditure record is a flow concept. A net worth statement is a stock concept.

Answer: D

Explanation: A)
B)
C)
D)

21) Kim received a gift of \$1 000. What effect would this have on her net worth statement? 21) _____

- A) increase her assets and net worth.
- B) increase her assets and no change on her net worth.
- C) no change on her assets and increase her net worth.
- D) increase her assets; decrease her liabilities and no change on her net worth.

Answer: A

Explanation: A)
B)
C)
D)

22) Peter used \$1 500 of his savings to pay off his line of credit debt. What effect would this have on his net worth statement? 22) _____

- A) decrease his assets and liabilities.
- B) decrease his assets and increase his liabilities.
- C) decrease his assets and increase his net worth.
- D) decrease his liabilities and increase his net worth.

Answer: A

Explanation: A)
B)
C)
D)

23) Calculate the net worth using the following financial data: 23) _____

Bank Account \$1 100
House \$210 000
Mortgage \$180 000
Monthly mortgage payment \$1 100
CSBs \$5 000
Credit card debt \$650
Monthly income \$5 500
Personal belongings \$15 000

- A) \$50 450 B) \$54 850 C) \$49 350 D) \$55 950

Answer: A

Explanation: A)
B)
C)
D)

24) Bill purchased a new computer for \$3 500. He used \$1 750 from his savings and his father gave him 24) _____

\$1 750 to pay for the computer. How did this purchase affect his net worth?

- A) His net worth increased; his assets have increased and his liabilities remained the same.
- B) His net worth increased; his assets have increased and his liabilities have decreased.
- C) His net worth remained the same; his assets have increased and his liabilities have decreased.
- D) His net worth remained the same; his assets and his liabilities remained the same.

Answer: A

Explanation: A)
B)
C)
D)

25) Which statement is correct?

25) _____

- A) a net worth statement includes a forecast of disbursements.
- B) net worth can be used as a measure of economic progress.
- C) wealth is a measure of the flow of financial resources over time.
- D) income is included in a net worth statement.

Answer: B

Explanation: A)
B)
C)
D)

26) Fixed expenses are those that

26) _____

- A) can be altered when needed.
- B) cannot be changed in the short run.
- C) are legal obligations, such as debt payments.
- D) are for the necessities of life, such as food, clothing, and shelter.

Answer: B

Explanation: A)
B)
C)
D)

27) Financial planning is useful

27) _____

- A) anytime.
- B) only if one is close to retirement.
- C) only if one has a family.
- D) only if one has money.

Answer: A

Explanation: A)
B)
C)
D)

28) The technical meaning of a "budget" is

28) _____

- A) a plan for future spending.
- B) a projection of future income flows.
- C) a record of past spending and a plan for future reductions.
- D) an inventory of wealth.

Answer: A

Explanation: A)
B)
C)
D)

29) In what life-cycle stage is one most likely to be able to add to savings?

29) _____

- A) mid-thirties to fifties.
- B) during retirement.
- C) to mid-thirties.
- D) fifties to retirement.

Answer: D

Explanation: A)
B)
C)
D)

- 30) Graham has a take-home pay of \$2 500 a month, liquid assets of \$1 500 and short-term debts of \$750. This gives him a short-term debt to liquid assets ratio of 0.5:1. Is this a good or bad ratio? Why or why not? 30) _____
- A) Bad; he has too many liquid assets in comparison to his debts.
 - B) Good; he has enough liquid assets for an emergency fund.
 - C) Bad; he does not have enough liquid assets to cover his debts.
 - D) Good; he has enough liquid assets to cover his debts.
- Answer: D
- Explanation: A)
B)
C)
D)
- 31) Which of the following would be of no interest to a financial planner? 31) _____
- A) one's past income.
 - B) the needs and number of dependents.
 - C) any means of increasing investment income.
 - D) any means of reducing income tax.
- Answer: A
- Explanation: A)
B)
C)
D)
- 32) Flexible expenses are those that 32) _____
- A) are legal obligations, such as debt payments.
 - B) cannot be changed in the short run.
 - C) are for the necessities of life, such as food, clothing, and shelter.
 - D) can be altered if needed.
- Answer: D
- Explanation: A)
B)
C)
D)
- 33) Once a month, Calvin compares his expenditures with his projected expenditures. This would fall under which stage of the financial planning process? 33) _____
- A) set goals and priorities.
 - B) balance future cash flows.
 - C) develop implementation and control strategies.
 - D) assess resources.
 - E) evaluate progress.
- Answer: C
- Explanation: A)
B)
C)
D)
E)

- 34) Which of the following is an implementation and control mechanism for a financial plan? 34) _____
- A) setting up separate accounts for savings, fixed and flexible expenses.
 - B) calculating net worth ratios.
 - C) stating goals to be achieved.
 - D) preparing a budget.

Answer: A

Explanation: A)
B)
C)
D)

- 35) Tony's and Tracey's financial life is a mess. They are constantly scrambling to pay their bills. They often resort to borrowing from their house savings account or using a credit card cash advance. Last year they ended up with less money in the house savings account than what they started the year with. They have no emergency fund. As a financial planner, what would be your first step in helping them? 35) _____
- A) find out about their goals and priorities.
 - B) prepare a budget.
 - C) set up an automatic transfer of funds to the house savings account.
 - D) set up an emergency fund.

Answer: A

Explanation: A)
B)
C)
D)

- 36) Which of the following is the most important part of the financial management process? 36) _____
- A) devising a method of matching spending to the plan.
 - B) identifying goals and setting priorities.
 - C) evaluating progress towards goals.
 - D) forecasting future resources and spending.

Answer: B

Explanation: A)
B)
C)
D)

- 37) Which of the following is essential if a financial plan is to be successful? 37) _____
- A) a budget
 - B) a good income
 - C) no unexpected expenses
 - D) a commitment

Answer: D

Explanation: A)
B)
C)
D)

- 38) The technical meaning of "income" is 38) _____
- A) an inventory of wealth.
 - B) a projection of future resource flows.
 - C) an analysis of past cash flows and net worth.
 - D) a record of past spending and a plan for future reductions.

Answer: B

Explanation: A)
B)
C)
D)

- 39) Kathy has projected that she will spend \$5 000 on food in the next year. The \$5 000 would be found on her 39) _____
- A) actual cash flow statement.
 - B) net worth statement.
 - C) past expenditures statement.
 - D) budget.

Answer: B

Explanation: A)
B)
C)
D)

- 40) One of George's financial planning goals is to contribute \$4 000 every year to his RRSP. He has arranged through his bank for \$330 to be automatically deposited in his RRSP account every month. What financial planning step does this fall under? 40) _____
- A) balance future cash flows.
 - B) develop implementation and control strategies.
 - C) assess resources.
 - D) identify goals and set priorities.

Answer: B

Explanation: A)
B)
C)
D)

- 41) Assets are 41) _____
- A) all items that one owns that have income producing potential.
 - B) items listed in networth statements and are valued at the purchase price.
 - C) only items that still need to be paid of.
 - D) items that have been paid for.

Answer: A

Explanation: A)
B)
C)
D)

42) Where would the value of a term deposit be listed?

42) _____

- A) budget.
- B) estimated annual income statement.
- C) net worth statement and income statement.
- D) net worth statement.

Answer: D

Explanation: A)
B)
C)
D)

43) A net worth statement can be used

43) _____

- A) to determine the amount of income that can be saved over a year.
- B) to implement a financial plan.
- C) to quantify goals.
- D) to help obtain a loan.

Answer: D

Explanation: A)
B)
C)
D)

44) Women may face higher economic risks than men because

44) _____

- A) they earn salaries that are less than many men.
- B) they have less time to learn about financial matters than men do.
- C) they are faced with greater financial stress.
- D) they have often acquired more financial resources than men have.

Answer: A

Explanation: A)
B)
C)
D)

45) Financial planning helps to accomplish economic goals such as

45) _____

- A) maximizing income taxes.
- B) improving family relations.
- C) getting a high paying job.
- D) balancing cash flows.

Answer: D

Explanation: A)
B)
C)
D)

46) Mitch and Sandy are in their early 20's and have been married two years. They have been doing an analysis of their net worth. Their total short-term debt is \$22 600 and their long-term debt is \$10 000. Do you think they should be concerned with their short-term to long-term debt ratio? Why or why not? 46) _____

- A) They should be concerned because they have too much long-term debt for their stage of the life-cycle.
- B) They should not be concerned because their short-term debts are higher than their long-term debts and therefore their debts should be paid off quickly.
- C) They should not be concerned because the ratio of their short-term to long-term liabilities is not very high.
- D) They should be concerned because their short-term debts are likely for day to day living expenses and not for investments that will appreciate in value.

Answer: C

Explanation: A)
B)
C)
D)

47) Implementing and controlling of one's financial plan requires which of the following? 47) _____

- A) a financial planner.
- B) pooling funds.
- C) record keeping.
- D) computer software.

Answer: C

Explanation: A)
B)
C)
D)

48) Which of the following are examples of fixed expenses? 48) _____

- A) rent, taxes, car insurance.
- B) rent, food, heat.
- C) clothing, food, cable.
- D) life insurance premium, telephone, dental.

Answer: A

Explanation: A)
B)
C)
D)

49) The technical meaning of "wealth" is 49) _____

- A) a projection of future resource flows.
- B) an analysis of past cash flows and net worth.
- C) a record of past spending and a plan for future reductions.
- D) an inventory of assets and liabilities.

Answer: D

Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

50) Discuss the difference between income and wealth.

50) _____

Answer: Wealth is a measure of economic progress. It measures the stock of assets and the amount of liabilities at a specific point in time. As a result, it is considered a stock. Income is not an asset, but a flow of resources over a period of time, so it is considered a flow.

Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

51) The use of credit cards is incompatible with effective spending controls.

51) _____

Answer: True ☒ False

Explanation:

52) Accounting for personal allowances is a prudent action to facilitate family harmony.

52) _____

Answer: ☒ True False

Explanation:

53) In two-income families, the second income should always be saved.

53) _____

Answer: True ☒ False

Explanation:

54) A budget is for short-term projections.

54) _____

Answer: True ☒ False

Explanation:

55) Liquid assets should be used for emergency funds.

55) _____

Answer: ☒ True False

Explanation:

56) Stocks are liquid assets.

56) _____

Answer: True ☒ False

Explanation:

57) Financial planning fails when people have too little income.

57) _____

Answer: True ☒ False

Explanation:

58) Financial planners are paid solely through commission.

58) _____

Answer: True ☒ False

Explanation:

59) Budgets must be adhered to at all times.

59) _____

Answer: True ☒ False

Explanation:

60) In two-income households, it is essential to have separate accounts.

60) _____

Answer: True ☒ False

Explanation:

- 61) Budgets are more necessary at some times in our lives than at others. 61) _____
Answer: ☒ True ☐ False
Explanation:
- 62) A budget and a financial plan are the same. 62) _____
Answer: ☐ True ☒ False
Explanation:
- 63) Without a written budget, it is impossible to save significant amounts of money. 63) _____
Answer: ☐ True ☒ False
Explanation:
- 64) In order to save successfully, it is necessary to have a high income. 64) _____
Answer: ☐ True ☒ False
Explanation:
- 65) Keeping financial records can be a method of spending control. 65) _____
Answer: ☒ True ☐ False
Explanation:
- 66) Financial security is beyond the grasp of most people. 66) _____
Answer: ☐ True ☒ False
Explanation:
- 67) A net worth statement can be used to calculate annual income. 67) _____
Answer: ☐ True ☒ False
Explanation:
- 68) The real rate of return takes into account the tax rate. 68) _____
Answer: ☐ True ☒ False
Explanation:
- 69) In a budget, projected income and expenses are equal. 69) _____
Answer: ☒ True ☐ False
Explanation:
- 70) Financial planners are all members of the Canadian Association of Financial Planners. 70) _____
Answer: ☐ True ☒ False
Explanation:
- 71) A budget is part of a financial plan. 71) _____
Answer: ☒ True ☐ False
Explanation:
- 72) Fixed expenses are listed on a net worth statement. 72) _____
Answer: ☐ True ☒ False
Explanation:

73) Two-income families have declined as a result of recent recessions.

73) _____

Answer: True ☒ False

Explanation:

74) Some people may not have a financial plan because the financial industry often looks intimidating.

74) _____

Answer: ☒ True ☐ False

Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

75) Outline the basic economic goals of financial planning.

- Answer:
1. Balance cash flow, ensure income is adequate to cover expenditures.
 2. Accumulating funds for special goals.
 3. Adjusting lifetime earnings to expenses and saving for retirement.
 4. Meeting the needs of dependents in case of death or disability.
 5. Minimizing income taxes.
 6. Maximizing investment returns.

76) Why are net worth statements an important part of financial planning? What information can be derived from net worth statements?

Answer: Net worth statements are used to determine the current financial position of an individual or family and to compare it to the previous financial position. The individual or family can determine if economic progress is being made and if financial goals are being met. They will then be able to make appropriate changes to remedy the situation.

The following information can be derived from net worth statements:

- 1) Total liquid assets - assets available for emergency needs, current living expenses and debt repayments
- 2) Compare total liquid assets to total assets - appropriate?
- 3) Are there enough liquid assets to pay off the short-term debt?
- 4) Asset mix (diversification of assets) - compare to desired asset mix
- 5) How much family or individual worth.
- 6) How much of one's income is used up by debt repayments.

77) List the various kinds of financial advisors.

- Answer:
1. Investment Counsellors.
 2. Credit Counsellors.
 3. Officers and Sales Representatives of Financial Institutions.
 4. Financial Planners.

78) Explain why financial planning needs to have a lifetime perspective.

Answer: A lifetime perspective is necessary in order to balance their income and expenditures over their lifetime because in some stages they will not have enough income and in other stages, they will have more than they need. For most people, their expenditures will exceed their income in the getting started stage of life. They will have usually borrowed against their future income with the expectation that their income will increase enough to pay off these debts. In the years before retirement, their income will likely exceed their expenditures. This gives them the opportunity to save their excess income for retirement needs when income from employment is nil. The stage of life cycle and the needs of dependents will determine which financial products are required at a specific time of an individual's life.

79) What words of advice would you give a young couple who have large debt commitments and cannot seem to save very much for an emergency plan?

Answer: Financially, things will get better. Income should increase and expenses will decrease as you move through the life cycle stages. An emergency plan is important because without one, you may need to borrow more money. Make a financial plan to help you have better control over your financial resources and expenditures. The plan should be developed together to give both individuals ownership and, hence, commitment to the plan. A budget will be an important part of this. Evaluate your flexible expenses to see which ones you can reduce. Commit to saving a set amount each month for your emergency plan. Make sure that your control techniques match your personalities. Avoid any more debt until you have the current debt under control.

80) Describe two of the four methods given to guide two-income families in organizing their finances.

Answer: 1. Pooled funds - All income combined and expenses paid from the pool.
2. Equal split - Each partner puts the same amount towards the common pool to pay for joint expenses.
3. Proportionate contributions - Each partner contributes according to the proportion of the total household income that they individually earn.
4. Dividing the bills - Each person agrees to handle certain expenses.

81) The rule of thumb for an emergency is to have three months worth of wages in liquid assets. Explain why it might be acceptable for some families to have less than this and why other families might require more.

Answer: Families that are in the investing life cycle stage likely have an income that is greater than their expenditures. It might be better for them to base their financial plan on their expenditures rather than their income. These families likely have enough financial assets that they could rely on a line of credit instead of tying up financial assets in low return investments.

Families that have two income earners can likely have a smaller emergency plan because if they lose one income they will still have some income coming in.

Families that are in the getting started stage might require a higher level of liquid assets for an emergency plan. They are likely having a difficult time stretching their income to meet their needs and financial emergencies can cripple them. Their income will be lower.

82) Identify the five steps in the Financial Planning Process.

Answer: 1. Identify goals and set priorities.
2. Assess resources.
3. Balance future cash flows.
4. Develop implementation and control strategies.
5. Evaluate progress.

83) What are the four basic life-cycle stages and what are the differences between them?

Answer: 1. Getting started - Priorities are career advancement and starting a modest investment portfolio as well as purchasing a home and starting a family. To mid-thirties.
2. Building up assets - Paying down debts and increasing savings and investments and starting to save for retirement.
3. Investing - Most obligations are diminished and income is at the peak with the outlook to retirement and investing for the golden years.
4. Retirement - Focusing on managing financial assets and generating income from the assets, not growth.

84) Name three of the four general characteristics required to control financial planning.

- Answer:
1. All those handling the money share a commitment to the plan.
 2. The control system is compatible with an individual's personality and habits.
 3. Controlling a plan requires that someone know where the money is going.
 4. The funds for major groups of expenditures are segregated in some way to prevent overspending.

85) Outline the pros and cons of two the methods of organizing finances in two-income households.

- Answer:
1. High amount of communication required, but everything is out in the open including goals and values.
 2. Works best if they make about the same amount of money. Also they require separate bank accounts which can be expensive.
 3. Appears fair but can lead to some resentment of the other if one person is always considered the weaker or less contributing partner.
 4. If the person paying the bill does not generate the bill, the couple can become doubting of one another and at the same time can lead to secretiveness and a lack of sharing of information and values and goals.

Answer Key

Testname: C1

- 1) C
- 2) C
- 3) C
- 4) A
- 5) A
- 6) B
- 7) D
- 8) D
- 9) B
- 10) A
- 11) C
- 12) C
- 13) B
- 14) A
- 15) D
- 16) C
- 17) B
- 18) D
- 19) C
- 20) D
- 21) A
- 22) A
- 23) A
- 24) A
- 25) B
- 26) B
- 27) A
- 28) A
- 29) D
- 30) D
- 31) A
- 32) D
- 33) C
- 34) A
- 35) A
- 36) B
- 37) D
- 38) B
- 39) B
- 40) B
- 41) A
- 42) D
- 43) D
- 44) A
- 45) D
- 46) C
- 47) C
- 48) A
- 49) D

Answer Key

Testname: C1

- 50) Wealth is a measure of economic progress. It measures the stock of assets and the amount of liabilities at a specific point in time. As a result, it is considered a stock. Income is not an asset, but a flow of resources over a period of time, so it is considered a flow.
- 51) FALSE
- 52) TRUE
- 53) FALSE
- 54) FALSE
- 55) TRUE
- 56) FALSE
- 57) FALSE
- 58) FALSE
- 59) FALSE
- 60) FALSE
- 61) TRUE
- 62) FALSE
- 63) FALSE
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- 68) FALSE
- 69) TRUE
- 70) FALSE
- 71) TRUE
- 72) FALSE
- 73) FALSE
- 74) TRUE
- 75) 1. Balance cash flow, ensure income is adequate to cover expenditures.
2. Accumulating funds for special goals.
3. Adjusting lifetime earnings to expenses and saving for retirement.
4. Meeting the needs of dependents in case of death or disability.
5. Minimizing income taxes.
6. Maximizing investment returns.
- 76) Net worth statements are used to determine the current financial position of an individual or family and to compare it to the previous financial position. The individual or family can determine if economic progress is being made and if financial goals are being met. They will then be able to make appropriate changes to remedy the situation. The following information can be derived from net worth statements:
- 1) Total liquid assets - assets available for emergency needs, current living expenses and debt repayments
- 2) Compare total liquid assets to total assets - appropriate?
- 3) Are there enough liquid assets to pay off the short-term debt?
- 4) Asset mix (diversification of assets) - compare to desired asset mix
- 5) How much family or individual worth.
- 6) How much of one's income is used up by debt repayments.
- 77) 1. Investment Counsellors.
2. Credit Counsellors.
3. Officers and Sales Representatives of Financial Institutions.
4. Financial Planners.

- 78) A lifetime perspective is necessary in order to balance their income and expenditures over their lifetime because in some stages they will not have enough income and in other stages, they will have more than they need. For most people, their expenditures will exceed their income in the getting started stage of life. They will have usually borrowed against their future income with the expectation that their income will increase enough to pay off these debts. In the years before retirement, their income will likely exceed their expenditures. This gives them the opportunity to save their excess income for retirement needs when income from employment is nil. The stage of life cycle and the needs of dependents will determine which financial products are required at a specific time of an individual's life.
- 79) Financially, things will get better. Income should increase and expenses will decrease as you move through the life cycle stages. An emergency plan is important because without one, you may need to borrow more money. Make a financial plan to help you have better control over your financial resources and expenditures. The plan should be developed together to give both individuals ownership and, hence, commitment to the plan. A budget will be an important part of this. Evaluate your flexible expenses to see which ones you can reduce. Commit to saving a set amount each month for your emergency plan. Make sure that your control techniques match your personalities. Avoid any more debt until you have the current debt under control.
- 80) 1. Pooled funds - All income combined and expenses paid from the pool.
2. Equal split - Each partner puts the same amount towards the common pool to pay for joint expenses.
3. Proportionate contributions - Each partner contributes according to the proportion of the total household income that they individually earn.
4. Dividing the bills - Each person agrees to handle certain expenses.
- 81) Families that are in the investing life cycle stage likely have an income that is greater than their expenditures. It might be better for them to base their financial plan on their expenditures rather than their income. These families likely have enough financial assets that they could rely on a line of credit instead of tying up financial assets in low return investments.

Families that have two income earners can likely have a smaller emergency plan because if they lose one income they will still have some income coming in.

Families that are in the getting started stage might require a higher level of liquid assets for an emergency plan. They are likely having a difficult time stretching their income to meet their needs and financial emergencies can cripple them. Their income will be lower.

- 82) 1. Identify goals and set priorities.
2. Assess resources.
3. Balance future cash flows.
4. Develop implementation and control strategies.
5. Evaluate progress.
- 83) 1. Getting started - Priorities are career advancement and starting a modest investment portfolio as well as purchasing a home and starting a family. To mid-thirties.
2. Building up assets - Paying down debts and increasing savings and investments and starting to save for retirement.
3. Investing - Most obligations are diminished and income is at the peak with the outlook to retirement and investing for the golden years.
4. Retirement - Focusing on managing financial assets and generating income from the assets, not growth.
- 84) 1. All those handling the money share a commitment to the plan.
2. The control system is compatible with an individual's personality and habits.
3. Controlling a plan requires that someone know where the money is going.
4. The funds for major groups of expenditures are segregated in some way to prevent overspending.

Answer Key

Testname: C1

- 85) 1. High amount of communication required, but everything is out in the open including goals and values.
2. Works best if they make about the same amount of money. Also they require separate bank accounts which can be expensive.
3. Appears fair but can lead to some resentment of the other if one person is always considered the weaker or less contributing partner.
4. If the person paying the bill does not generate the bill, the couple can become doubting of one another and at the same time can lead to secretiveness and a lack of sharing of information and values and goals.