

## Chapter 02

### Money Management Skills

#### True / False Questions

1. Money management refers to day-to-day financial activities necessary to manage personal economic resources while working toward long-term financial security.

True   False

2. Money management refers to annual financial activities necessary to manage personal economic resources.

True   False

3. The focus of an organized system of financial records is to reduce credit card usage.

True   False

4. A budget is a record of how a person or family has spent their money.

True   False

5. Programs are available to help low-income older or disabled people who have difficulty budgeting.

True   False

6. In an organized system, credit card records belong in a safe deposit box.

True False

7. In an organized system, birth and marriage certificates belong in a safe deposit box.

True False

8. In an organized system, a will belongs in a home file.

True False

9. Financial records that may need to be referred to on a regular basis should be kept in a safe deposit box.

True False

10. In an organized system, account summaries showing the performance results of investments belong in a computer or online.

True False

11. Records related to tax returns should be saved for 10 years.

True False

12. Wills and Social Security data should be kept for up to 10 years.

True False

13. The two primary personal financial statements include the personal balance sheet and a credit card payoff statement.

True False

14. The current financial position of an individual or family is a common starting point for financial planning.

True False

15. Net worth is the amount owed to others.

True False

16. Current liabilities are the debts you must pay within a short time, usually less than a year.

True False

17. Most people liquidate their assets to calculate their net worth.

True False

18. A cash flow statement uses this equation:  $\text{Assets} - \text{Liabilities} = \text{Net worth}$ .

True False

19. A cash flow statement uses this equation:  $\text{Total cash received during the time period} - \text{Cash outflows during the time period} = \text{Cash surplus (deficit)}$ .

True False

20. When completing a cash flow statement, deductions are subtracted from salary to determine take-home pay.

True False

21. When completing a cash flow statement, take-home pay less deductions equals salary.

True False

22. Financial advisers suggest that an emergency fund should cover one to two months of living expenses.

True False

23. When creating a budget, it is important to save the amount you have left at the end of the month.

True False

24. One method to spend more money is to use a direct deposit system from payroll.

True False

25. One method to save more money is to write a check each payday and deposit it in a savings account not readily available for regular spending.

True False

## Multiple Choice Questions

26. Money management refers to

- A. Preparing personal financial statements.
- B. Day-to-day financial activities.
- C. Trade-offs that occur with financial decisions.
- D. Storing financial records for easy access.
- E. Spending money on current living expenses.

27. Which of the following is NOT a component of money management?

- A. Storing personal financial records to document business transactions and legal matters.
- B. Creating personal financial statements to measure and assess financial position and progress.
- C. Creating a budget.
- D. None of these are components of money management.
- E. Storing personal financial records, creating personal financial statements, and creating a budget are all components of money management.

28. A home file should be used for storing

- A. All financial documents and records.
- B. Financial records for current needs.
- C. Documents that require maximum security.
- D. Obsolete financial documents.
- E. Records that are difficult to replace.

29. Which of the following financial documents would most likely be stored in a safe deposit box?

- A. W-2 forms
- B. Personal financial statements
- C. Warranties
- D. Marriage certificates
- E. Checking account statements

30. Which of the following is most correct?

- A. A warranty belongs in a safe deposit box.
- B. A birth certificate should be kept in a personal computer system.
- C. Tax records belong in a home file.
- D. A plan for effective budgeting belongs in your safe deposit box.
- E. Adoption papers belong in a home file.

31. Which of the following is most correct?

- A. Rare coins and stamps belong in a safe deposit box.
- B. A birth certificate should be kept in a personal computer system.
- C. W-2s for tax records belong in a safe deposit box.
- D. A plan for effective budgeting belongs in your safe deposit box.
- E. Adoption papers belong in a home file.

32. A broker statement is an example of a(n) \_\_\_\_\_ record.

- A. investment
- B. insurance
- C. estate planning
- D. tax
- E. consumer purchase

33. The number of personal financial records a household has to organize may seem overwhelming.  
How long should you keep copies of your tax returns?

- A. Until you receive your refund
- B. Until the end of the current year
- C. Three years
- D. Seven years
- E. Permanently

34. The number of personal financial records a household has to organize may seem overwhelming.  
How long should you keep documents relating to the purchase of real estate?

- A. Until the mortgage is paid off
- B. Until you move out of the house
- C. Three years
- D. Seven years
- E. Indefinitely

35. How long should you keep documents relating to investments?

- A. No need to since the broker probably has a copy.
- B. As long as you own them.
- C. Seven years.
- D. Ten years.
- E. Permanently.

36. How long should you keep your most current will?

- A. No need to keep it since your lawyer probably has a photocopy.
- B. One year.
- C. Three years.
- D. Seven years.
- E. Permanently.

37. The main purposes of personal financial statements are to

- A. Report your current financial position.
- B. Measure your progress toward financial goals.
- C. Maintain information about your financial activities.
- D. Provide data for preparing tax forms or applying for credit.
- E. These are all correct.



38. Which of the following are considered to be the primary personal financial statements?

- A. Budget and credit card statements
- B. Personal balance sheet and cash flow statement
- C. Checkbook and budget
- D. Tax returns
- E. Bank statement and savings passbook

39. A personal balance sheet presents

- A. Amounts budgeted for spending.
- B. Income and expenses for a period of time.
- C. Earnings on savings and investments.
- D. Items owned and amounts owed.
- E. Family financial goals.

40. The current financial position of an individual or family is best presented with the use of a

- A. Budget.
- B. Cash flow statement.
- C. Balance sheet.
- D. Bank statement.
- E. Time value of money report.

41. Another name for a statement of financial position is a

- A. Balance sheet.
- B. Bank statement.
- C. Budget.
- D. Cash flow statement.
- E. Time value of money report.

42. The statement that includes liquid assets, real estate, personal possessions, and investment assets is known as a

- A. Personal balance sheet.
- B. Bank statement.
- C. Budget.
- D. Cash flow statement.
- E. Time value of money report.

43. Items with monetary value are referred to as

- A. Liabilities.
- B. Variable expenses.
- C. Net worth.
- D. Income.
- E. Assets.

44. Which of the following is NOT a liquid asset?

- A. Savings/money market accounts
- B. Cash value of life insurance
- C. Checking account balance
- D. Coins in a jar at home
- E. Retirement investments

45. When creating a personal balance sheet, which of the following is a real estate asset?

- A. Cash value of life insurance
- B. Vacation property
- C. Possessions in your home
- D. Investments for a dream home
- E. Mutual funds

46. When creating a personal balance sheet, which of the following is considered to be a personal possession asset?

- A. A five-year-old television set
- B. A home
- C. Cash in a checking account
- D. Retirement investments
- E. Vacation property

47. When creating a personal balance sheet, which of the following is an investment asset?

- A. Cash value of life insurance
- B. Checking account
- C. Possessions in your home
- D. Retirement account
- E. Vacation property

48. When creating a personal balance sheet, which of the following is a current liability?

- A. Checking account
- B. Net worth
- C. Student loan
- D. Money your sister owes you in two years
- E. Charge account balance

49. The amount you would have if everything of value would be sold and all debts would be paid in full is called your

- A. Net assets.
- B. Net worth.
- C. Total liabilities.
- D. Total income.
- E. Budgeted expenses.

50. The equation to calculate net worth is

- A. Assets - Cash outflows = Net worth.
- B. Cash inflows - Liabilities = Net worth.
- C. Cash inflows - Cash outflows = Net worth.
- D. Assets - Liabilities = Net worth.
- E. Cash inflows + Liabilities = Net worth.

51. The inability to pay debts when they are due is called

- A. Liabilities.
- B. Insolvency.
- C. Net worth.
- D. Cash flow.
- E. Liquid assets.

52. Which of the following situations describes a person who could be insolvent?

- A. Assets \$56,000; annual expenses \$60,000
- B. Assets \$78,000; net worth \$22,000
- C. Liabilities \$45,000; net worth \$6,000
- D. Assets \$40,000; liabilities \$45,000
- E. Annual cash inflows \$45,000; liabilities \$50,000

53. All of the following are ways that households can increase their net worth *except*

- A. Increase their savings.
- B. Reduce spending.
- C. Increase value of investments.
- D. Reduce amounts owed.
- E. Increase their debt ratio.

54. Which of the following will increase the net worth of a household?

- A. Decrease saving by \$50 per month
- B. Increase the amount borrowed for major purchases
- C. Decrease spending by \$5 per day
- D. Invest in possessions whose values do not increase
- E. Keep an extra \$100 in a checking account instead of a savings account

55. Which of the following is a cash inflow?

- A. Mail rent check
- B. Buy groceries
- C. Make a loan payment
- D. Receive a paycheck
- E. Pay medical expenses

56. Which of the following appears on a cash flow statement?

- A. Assets
- B. Payments for variable expenses
- C. Net worth
- D. Liabilities
- E. Investments

57. Which of the following appears on a cash flow statement?

- A. Home value
- B. Loan payment
- C. Net worth
- D. Balance of mortgage
- E. Cash value of life insurance

58. Financial experts recommend a monthly savings ratio of at least \_\_\_\_ of gross income.

- A. 0%
- B. 5-10%
- C. 20%
- D. 25-35%
- E. 50%

59. Financial experts recommend a debt/payments ratio of less than \_\_\_\_ of take-home pay.

- A. 0%
- B. 5-10%
- C. 20%
- D. 25-35%
- E. 50%

60. A current ratio of 2 means

- A. 2% from each paycheck is available for savings.
- B. The minimum payment for a credit card is 2% of the balance.
- C. 2 months of living expenses are available in case of emergency.
- D. Net worth equals 2 times the amount of debt.
- E. \$2 of liquid assets are available for every \$1 in current liabilities.

61. A debt ratio of 0.5 indicates

- A. The balance on the mortgage = 50% of the value of the home.
- B. For every dollar of net worth, debt equals \$0.50.
- C. For every dollar of debt, net worth equals \$0.50.
- D. For every dollar of take-home pay, monthly credit payments equal \$0.50.
- E. For every dollar of assets, monthly credit payments equal \$0.50.



62. Which of the following ratios shows the relationship between debt and net worth?

- A. Debt ratio
- B. Current ratio
- C. Household ratio
- D. Debt payments ratio
- E. Savings ratio

63. Which of the following ratios indicates that liquid assets are available to pay current liabilities for a household?

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

64. Which of the following ratios indicates the number of months in which living expenses can be paid if an emergency arises?

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

65. Which of the following ratios indicates the amount of a person's earnings that goes for payments for credit cards, auto loans, and other debt (except mortgage)?

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

66. Which of the following ratios shows the relationship between gross income and money saved?

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

67. All of the following are sources of income *except*

- A. Interest
- B. Commission
- C. Dividends
- D. Salary
- E. Social Security taxes

68. Which of the following is a deduction to determine take-home pay?

- A. Interest
- B. Commissions
- C. Dividends
- D. Salary
- E. Social Security taxes

69. Disposable income equals

- A. Gross income.
- B. Take-home pay.
- C. The amount being saved each month.
- D. Money left over after paying for housing, food, and other necessities.
- E. Social Security taxes.

70. Discretionary income equals

- A. Gross income.
- B. Take-home pay.
- C. The amount being saved each month.
- D. Money left over after paying for housing, food, and other necessities.
- E. Social Security taxes.

71. The money left over after paying for housing, food, and other necessities is called

- A. Monthly savings.
- B. Discretionary income.
- C. Disposable income.
- D. Gross income.
- E. Take-home pay.

72. Another name for take-home pay is

- A. Monthly savings.
- B. Discretionary income.
- C. Disposable income.
- D. Gross income.
- E. Deductions.

73. An example of a variable expense is a(n)

- A. Mortgage payment.
- B. Installment loan payment.
- C. Monthly bus pass.
- D. Allocation for life insurance.
- E. Electric bill.

74. All of the following are fixed expenses *except* a(n)

- A. Mortgage payment.
- B. Installment loan payment.
- C. Monthly bus pass.
- D. Allocation for life insurance.
- E. Electric bill.

75. An example of a fixed expense is

- A. Medical expenses.
- B. Gifts.
- C. Utilities.
- D. A mortgage.
- E. Recreation.

76. Which of the following is NOT a main purpose of a budget?

- A. Help to live within your income
- B. Spend your money without care
- C. Reach financial goals
- D. Prepare for financial emergencies
- E. Develop wise financial management habits

77. When creating a budget, which of the following statements is true?

- A. Include in income the bonuses and gifts you expect to receive.
- B. It is easier to create a budget if your earnings vary.
- C. Common financial problems can be maximized through budgeting.
- D. Numbers in the budget are estimates.
- E. It is better to overestimate your income for next year.

78. When creating a budget, it is important to

- A. Save the amount you have left at the end of the month.
- B. Set aside savings after your variable expenses are paid.
- C. Save an amount no more than 3% of your annual income in an emergency fund.
- D. Spend the amount of money you have budgeted in each category.
- E. "Pay yourself first" by setting aside savings before other expenses are budgeted.

79. The difference between the amount budgeted and the actual amount received or spent is called the

- A. Variance.
- B. Cash outflow.
- C. Income.
- D. Cash inflow.
- E. Variable expense.

80. A budget deficit would result when a person's or family's

- A. Actual expenses are less than planned expenses.
- B. Assets exceed liabilities.
- C. Actual expenses equal planned expenses.
- D. Actual expenses are greater than planned expenses.
- E. Net worth decreases.

81. After the budget is created, it is important to

- A. File the budget in a safe deposit box.
- B. Compare it to the previous budget.
- C. Track spending and identify variances.
- D. Pay attention only to expenses that are more than 10 percent of your salary.
- E. None of these are true since budgets are just estimates.

82. Which of the following categories would be most difficult to cut from a household budget?

- A. Vacations
- B. Lawn services
- C. Cable
- D. Charitable donations
- E. Auto insurance

83. A budget system that involves envelopes, folders, or containers to hold money or slips of paper is called a

- A. Mental budget.
- B. Physical budget.
- C. Written budget.
- D. Computerized budget.
- E. Allocated budget.

84. A budget system that can be kept on notebook paper or budgeting paper is called a

- A. Mental budget.
- B. Physical budget.
- C. Written budget.
- D. Computerized budget.
- E. Allocated budget.

85. The document that would be most useful to track spending patterns for the past few months is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. All of these.
- E. None of these.



86. The document that would be most useful to track planned spending patterns for the next month is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. All of these.
- E. None of these.

87. The document that would be most useful to track the current value of investment accounts is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. All of these.
- E. None of these.

88. A family with \$50,000 in assets and \$30,000 of liabilities would have a net worth of

- A. \$10,000.
- B. \$20,000.
- C. \$30,000.
- D. \$50,000.
- E. \$80,000.

89. Patrick Guitman has a net worth of \$165,000 and liabilities of \$176,000. What are his total assets?

- A. \$11,000
- B. \$-165,000
- C. \$176,000
- D. \$187,000
- E. \$341,000

90. Given the following information, calculate the net worth:

Assets = \$7,000

Cash inflows = \$6,500

Cash outflows = \$4,000

Liabilities = \$3,000

- A. \$500
- B. \$1,000
- C. \$2,500
- D. \$3,000
- E. \$4,000

91. Given the following information, calculate the debt ratio percentage:

Liabilities = \$24,500

Liquid assets = \$4,900

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$72,500

Current liabilities = \$1,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$-2,040

A. -33.79

B. -3.06

C. 2.40

D. 34.78

E. -21.71

92. Given the following information, calculate the current ratio:

Liabilities = \$-24,500

Liquid assets = \$-4,900

Monthly credit payments = \$-800

Monthly savings = \$-760

Net worth = \$-72,500

Current liabilities = \$-1,600

Take-home pay = \$-2,300

Gross income = \$-3,500

Monthly expenses = \$-2,040

A. -33.79

B. -3.06

C. -2.40

D. -34.78

E. -21.71

93. Given the following information, calculate the liquidity ratio:

Liabilities = \$-24,500

Liquid assets = \$-4,900

Monthly credit payments = \$-800

Monthly savings = \$-760

Net worth = \$-72,500

Current liabilities = \$-1,600

Take-home pay = \$-2,300

Gross income = \$-3,500

Monthly expenses = \$-2,040

A. -33.79

B. 3.06.

C. 2.40

D. -34.78

E. -21.71

94. Given the following information, calculate the debt payments ratio:

Liabilities = \$24,500

Liquid assets = \$4,900

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$72,500

Current liabilities = \$1,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,040

A. 33.79%

B. 3.06%

C. 2.40%

D. 34.78%

E. 21.71%

95. Given the following information, calculate the savings ratio:

Liabilities = \$24,500

Liquid assets = \$4,900

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$72,500

Current liabilities = \$1,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,040

A. 33.79%

B. 3.06%

C. 2.40%

D. 34.78%

E. 21.71%

96. Rebecca Gladlyn budgeted \$375 for a new wardrobe in June. She actually spent \$408. What is her budget variance?

A. \$408 deficit

B. \$33 deficit

C. \$783 deficit

D. \$33 surplus

E. \$375 surplus

97. Rebecca Gladlyn budgeted \$1,250 for housing and utilities in July. She actually spent \$1,162. What is her budget variance?

- A. \$1,162 deficit
- B. \$88 deficit
- C. \$44 deficit
- D. \$88 surplus
- E. \$1,162 surplus

### Essay Questions

98. What is a personal balance sheet?



99. Given the following information, calculate net worth:

Liquid assets	\$10,000
Real estate	\$138,000
Personal property	\$7,000
Investments	\$74,000
Current liabilities	\$500
Long-term liabilities	\$97,000

100. Given the following information, calculate total assets:

Automobile	\$12,000
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000
Market value of TV	\$500
Mortgage	\$150,000

101. Given the following information, calculate total liabilities:

Automobile	\$12,000
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000
Market value of TV	\$500
Mortgage	\$150,000

102. Given the following information, calculate net worth:

Automobile	\$12,000
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000
Market value of TV	\$500
Mortgage	\$150,000

103. Given the following information from June 30, 2012, create a personal balance sheet for Jacob and Jennifer Johnson in good form:

Automobile	\$12,000 (original cost \$17,000)
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000 (original cost \$160,000)
Market value of TV	\$500
Mortgage	\$150,000

104. On a personal balance sheet, assets can be identified as belonging to one of four categories. List each category and provide one example of each.

105. What is an example of an asset? At what value is it listed on the personal balance sheet?

106. Identify what a cash flow statement is and discuss what it is used for.

107. Given the following information from June 30, 2012, calculate cash inflows, cash outflows, and cash surplus or deficit for Tim Carter:

Salary (gross)	\$5,500
Deductions	1,700
Interest earned	75
Rent	1,000
Parking	250
Food and dining out	395
Clothing	150
Insurance (home, auto)	200
Cell phone	100

108. Why can a spending diary be helpful?

109. Discuss how a budget is created and used.

110. How can personal financial statements and a budget allow you to achieve your financial goals?

111. What are two methods that can make saving easier?



## Chapter 02 Money Management Skills Answer Key

### True / False Questions

1. Money management refers to day-to-day financial activities necessary to manage personal  
(p. 45) economic resources while working toward long-term financial security.

TRUE

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

2. Money management refers to annual financial activities necessary to manage personal  
(p. 45) economic resources.

FALSE

Money management refers to day-to-day financial activities.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

3. The focus of an organized system of financial records is to reduce credit card usage.

(p. 47)

**FALSE**

The focus of an organized system of financial records is to handle daily business activities, plan and measure financial progress, complete required tax reports, make effective investment decisions, and determine available resources for current and future spending.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

4. A budget is a record of how a person or family has spent their money.

(p. 46)

**FALSE**

A budget is a spending plan that shows how a person or family intends to spend their money in the future.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

5. Programs are available to help low-income older or disabled people who have difficulty

(p. 46) budgeting.

**TRUE**

In the "Did You Know" box, the AARP Money Management Program is described.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

6. In an organized system, credit card records belong in a safe deposit box.

*(p. 47)*

**FALSE**

See Exhibit 2-1: Credit card records belong in a home file.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

7. In an organized system, birth and marriage certificates belong in a safe deposit box.

*(p. 47)*

**TRUE**

See Exhibit 2-1: These records belong in a safe deposit box or a fireproof home safe.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

8. In an organized system, a will belongs in a home file.

*(p. 47)*

**TRUE**

See Exhibit 2-1: A will is a part of estate planning and retirement records, which belong in a home file.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

9. Financial records that may need to be referred to on a regular basis should be kept in a safe  
(p. 48) deposit box.

**FALSE**

These should be kept in a home file to allow quick access to needed documents and information.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

10. In an organized system, account summaries showing the performance results of investments  
(p. 47) belong in a computer or online.

**TRUE**

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

11. Records related to tax returns should be saved for 10 years.  
(p. 47)

**FALSE**

These should be saved for seven years.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

12. Wills and Social Security data should be kept for up to 10 years.

*(p. 47)*

**FALSE**

These should be kept permanently.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

13. The two primary personal financial statements include the personal balance sheet and a credit card payoff statement.

*(p. 49)*

**FALSE**

The statements include the personal balance sheet and the cash flow statement.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

14. The current financial position of an individual or family is a common starting point for financial planning.

*(p. 49)*

**TRUE**

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

15. Net worth is the amount owed to others.

(p. 49)

**FALSE**

Liabilities are amounts owed to others. Net worth is calculated as the difference between total assets and total liabilities.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

16. Current liabilities are the debts you must pay within a short time, usually less than a year.

(p. 51)

**TRUE**

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

17. Most people liquidate their assets to calculate their net worth.

(p. 51)

**FALSE**

Very few people, if any, liquidate all assets. Net worth is calculated as the difference between total assets and total liabilities.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

18. A cash flow statement uses this equation: Assets - Liabilities = Net worth.

(p. 51)

FALSE

This equation is for a personal balance sheet.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

19. A cash flow statement uses this equation: Total cash received during the time period - Cash outflows during the time period = Cash surplus (deficit).

(p. 53)

TRUE

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

20. When completing a cash flow statement, deductions are subtracted from salary to determine take-home pay.

(p. 53)

TRUE

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

21. When completing a cash flow statement, take-home pay less deductions equals salary.

(p. 53)

**FALSE**

Take-home pay is calculated as salary (or gross income) minus deductions. Therefore, take-home pay plus deductions equals salary.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

22. Financial advisers suggest that an emergency fund should cover one to two months of living expenses.

(p. 56)

**FALSE**

An emergency fund should cover three to six months of living expenses.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

23. When creating a budget, it is important to save the amount you have left at the end of the month.

(p. 56)

**FALSE**

Often nothing is left for savings with this frequent budgeting mistake. Since saving is vital for long-term financial security, it is important to "pay yourself first."

*Blooms: Remember*

*Difficulty: 2 Medium*



*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

24. One method to spend more money is to use a direct deposit system from payroll.

*(p. 63)*

**FALSE**

Direct deposit is one method to make saving easier.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*

25. One method to save more money is to write a check each payday and deposit it in a savings

*(p. 63)* account not readily available for regular spending.

**TRUE**

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*

## Multiple Choice Questions

26. Money management refers to

(p. 45)

- A. Preparing personal financial statements.
- B.** Day-to-day financial activities.
- C. Trade-offs that occur with financial decisions.
- D. Storing financial records for easy access.
- E. Spending money on current living expenses.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

27. Which of the following is NOT a component of money management?

(p. 46)

- A. Storing personal financial records to document business transactions and legal matters.
- B. Creating personal financial statements to measure and assess financial position and progress.
- C. Creating a budget.
- D. None of these are components of money management.
- E.** Storing personal financial records, creating personal financial statements, and creating a budget are all components of money management.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

28. A home file should be used for storing

(p. 47)

- A. All financial documents and records.
- B.** Financial records for current needs.
- C. Documents that require maximum security.
- D. Obsolete financial documents.
- E. Records that are difficult to replace.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

29. Which of the following financial documents would most likely be stored in a safe deposit box?

(p. 47)

- A. W-2 forms
- B. Personal financial statements
- C. Warranties
- D.** Marriage certificates
- E. Checking account statements

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

30. Which of the following is most correct?

(p. 47)

- A. A warranty belongs in a safe deposit box.
- B. A birth certificate should be kept in a personal computer system.
- C. Tax records belong in a home file.
- D. A plan for effective budgeting belongs in your safe deposit box.
- E. Adoption papers belong in a home file.

Home file: Warranty (consumer purchase and automobile records), tax records.

Safe deposit box: Birth certificate, adoption papers.

Personal computer system: A plan for effective budgeting.

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

31. Which of the following is most correct?

(p. 47)

- A. Rare coins and stamps belong in a safe deposit box.
- B. A birth certificate should be kept in a personal computer system.
- C. W-2s for tax records belong in a safe deposit box.
- D. A plan for effective budgeting belongs in your safe deposit box.
- E. Adoption papers belong in a home file.

Home file: W-2s for tax records.

Safe deposit box: Rare coins and stamps, birth certificate, adoption papers computer.

Online system: A plan for effective budgeting.

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

32. A broker statement is an example of a(n) \_\_\_\_\_ record.

*(p. 47)*

- A. investment
- B. insurance
- C. estate planning
- D. tax
- E. consumer purchase

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

33. The number of personal financial records a household has to organize may seem

*(p. 47)* overwhelming. How long should you keep copies of your tax returns?

- A. Until you receive your refund
- B. Until the end of the current year
- C. Three years
- D. Seven years
- E. Permanently

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

34. The number of personal financial records a household has to organize may seem  
(p. 47) overwhelming. How long should you keep documents relating to the purchase of real estate?

- A. Until the mortgage is paid off
- B. Until you move out of the house
- C. Three years
- D. Seven years
- E. Indefinitely

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

35. How long should you keep documents relating to investments?  
(p. 47)

- A. No need to since the broker probably has a copy.
- B. As long as you own them.
- C. Seven years.
- D. Ten years.
- E. Permanently.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

36. How long should you keep your most current will?

(p. 47)

- A. No need to keep it since your lawyer probably has a photocopy.
- B. One year.
- C. Three years.
- D. Seven years.
- E. Permanently.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the main components of wise money management.*

*Topic: A Successful Money Management Plan*

37. The main purposes of personal financial statements are to

(p. 49)

- A. Report your current financial position.
- B. Measure your progress toward financial goals.
- C. Maintain information about your financial activities.
- D. Provide data for preparing tax forms or applying for credit.
- E. These are all correct.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

38. Which of the following are considered to be the primary personal financial statements?

(p. 49)

- A. Budget and credit card statements
- B.** Personal balance sheet and cash flow statement
- C. Checkbook and budget
- D. Tax returns
- E. Bank statement and savings passbook

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

39. A personal balance sheet presents

(p. 49)

- A. Amounts budgeted for spending.
- B. Income and expenses for a period of time.
- C. Earnings on savings and investments.
- D.** Items owned and amounts owed.
- E. Family financial goals.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*



40. The current financial position of an individual or family is best presented with the use of a  
(p. 49)

- A. Budget.
- B. Cash flow statement.
- C. Balance sheet.
- D. Bank statement.
- E. Time value of money report.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

41. Another name for a statement of financial position is a  
(p. 49)

- A. Balance sheet.
- B. Bank statement.
- C. Budget.
- D. Cash flow statement.
- E. Time value of money report.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

42. The statement that includes liquid assets, real estate, personal possessions, and investment  
(p. 49) assets is known as a

- A. Personal balance sheet.
- B. Bank statement.
- C. Budget.
- D. Cash flow statement.
- E. Time value of money report.

*Blooms: Remember*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

43. Items with monetary value are referred to as  
(p. 51)

- A. Liabilities.
- B. Variable expenses.
- C. Net worth.
- D. Income.
- E. Assets.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

44. Which of the following is NOT a liquid asset?

(p. 50-

51)

- A. Savings/money market accounts
- B. Cash value of life insurance
- C. Checking account balance
- D. Coins in a jar at home
- E. Retirement investments

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

45. When creating a personal balance sheet, which of the following is a real estate asset?

(p. 50-

51)

- A. Cash value of life insurance
- B. Vacation property
- C. Possessions in your home
- D. Investments for a dream home
- E. Mutual funds

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

46. When creating a personal balance sheet, which of the following is considered to be a personal possession asset?  
(p. 49-51)

- A. A five-year-old television set
- B. A home
- C. Cash in a checking account
- D. Retirement investments
- E. Vacation property

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

47. When creating a personal balance sheet, which of the following is an investment asset?  
(p. 49-51)

- A. Cash value of life insurance
- B. Checking account
- C. Possessions in your home
- D. Retirement account
- E. Vacation property

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

48. When creating a personal balance sheet, which of the following is a current liability?

(p. 49-51)

- A. Checking account
- B. Net worth
- C. Student loan
- D. Money your sister owes you in two years
- E. Charge account balance

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

49. The amount you would have if everything of value would be sold and all debts would be paid in full is called your

(p. 49)

- A. Net assets.
- B. Net worth.
- C. Total liabilities.
- D. Total income.
- E. Budgeted expenses.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

50. The equation to calculate net worth is

(p. 49)

- A. Assets - Cash outflows = Net worth.
- B. Cash inflows - Liabilities = Net worth.
- C. Cash inflows - Cash outflows = Net worth.
- D.** Assets - Liabilities = Net worth.
- E. Cash inflows + Liabilities = Net worth.

*Blooms: Remember*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

51. The inability to pay debts when they are due is called

(p. 51)

- A. Liabilities.
- B.** Insolvency.
- C. Net worth.
- D. Cash flow.
- E. Liquid assets.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

52. Which of the following situations describes a person who could be insolvent?

(p. 51)

- A. Assets \$56,000; annual expenses \$60,000
- B. Assets \$78,000; net worth \$22,000
- C. Liabilities \$45,000; net worth \$6,000
- D. Assets \$40,000; liabilities \$45,000
- E. Annual cash inflows \$45,000; liabilities \$50,000

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

53. All of the following are ways that households can increase their net worth *except*

(p. 52)

- A. Increase their savings.
- B. Reduce spending.
- C. Increase value of investments.
- D. Reduce amounts owed.
- E. Increase their debt ratio.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

54. Which of the following will increase the net worth of a household?

(p. 52)

- A. Decrease saving by \$50 per month
- B. Increase the amount borrowed for major purchases
- C. Decrease spending by \$5 per day
- D. Invest in possessions whose values do not increase
- E. Keep an extra \$100 in a checking account instead of a savings account

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

55. Which of the following is a cash inflow?

(p. 50-

52)

- A. Mail rent check
- B. Buy groceries
- C. Make a loan payment
- D. Receive a paycheck
- E. Pay medical expenses

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*



56. Which of the following appears on a cash flow statement?

(p. 53)

- A. Assets
- B. Payments for variable expenses**
- C. Net worth
- D. Liabilities
- E. Investments

The other choices would appear on a balance sheet.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

57. Which of the following appears on a cash flow statement?

(p. 53)

- A. Home value
- B. Loan payment**
- C. Net worth
- D. Balance of mortgage
- E. Cash value of life insurance

Loan payments are a part of fixed expenses on the cash flow statement. The other choices would appear on the personal balance sheet.

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

58. Financial experts recommend a monthly savings ratio of at least \_\_\_\_ of gross income.

(p. 52)

- A. 0%
- B.** 5-10%
- C. 20%
- D. 25-35%
- E. 50%

*Blooms: Remember*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

59. Financial experts recommend a debt/payments ratio of less than \_\_\_\_ of take-home pay.

(p. 52)

- A. 0%
- B. 5-10%
- C.** 20%
- D. 25-35%
- E. 50%

*Blooms: Remember*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

60. A current ratio of 2 means

(p. 52)

- A. 2% from each paycheck is available for savings.
- B. The minimum payment for a credit card is 2% of the balance.
- C. 2 months of living expenses are available in case of emergency.
- D. Net worth equals 2 times the amount of debt.
- E. \$2 of liquid assets are available for every \$1 in current liabilities.

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

61. A debt ratio of 0.5 indicates

(p. 52)

- A. The balance on the mortgage = 50% of the value of the home.
- B. For every dollar of net worth, debt equals \$0.50.
- C. For every dollar of debt, net worth equals \$0.50.
- D. For every dollar of take-home pay, monthly credit payments equal \$0.50.
- E. For every dollar of assets, monthly credit payments equal \$0.50.

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

62. Which of the following ratios shows the relationship between debt and net worth?

(p. 52)

- A. Debt ratio
- B. Current ratio
- C. Household ratio
- D. Debt payments ratio
- E. Savings ratio

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

63. Which of the following ratios indicates that liquid assets are available to pay current liabilities

(p. 52) for a household?

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

64. Which of the following ratios indicates the number of months in which living expenses can be paid if an emergency arises?  
(p. 52)

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

65. Which of the following ratios indicates the amount of a person's earnings that goes for payments for credit cards, auto loans, and other debt (except mortgage)?  
(p. 52)

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

66. Which of the following ratios shows the relationship between gross income and money saved?

(p. 52)

- A. Debt ratio
- B. Current ratio
- C. Liquidity ratio
- D. Debt payments ratio
- E. Savings ratio

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

67. All of the following are sources of income *except*

(p. 52-

53)

- A. Interest
- B. Commission
- C. Dividends
- D. Salary
- E. Social Security taxes

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

68. Which of the following is a deduction to determine take-home pay?

(p. 53)

- A. Interest
- B. Commissions
- C. Dividends
- D. Salary
- E. Social Security taxes

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

69. Disposable income equals

(p. 53)

- A. Gross income.
- B. Take-home pay.
- C. The amount being saved each month.
- D. Money left over after paying for housing, food, and other necessities.
- E. Social Security taxes.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

70. Discretionary income equals

(p. 53)

- A. Gross income.
- B. Take-home pay.
- C. The amount being saved each month.
- D.** Money left over after paying for housing, food, and other necessities.
- E. Social Security taxes.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

71. The money left over after paying for housing, food, and other necessities is called

(p. 53)

- A. Monthly savings.
- B.** Discretionary income.
- C. Disposable income.
- D. Gross income.
- E. Take-home pay.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*



72. Another name for take-home pay is

(p. 53)

- A. Monthly savings.
- B. Discretionary income.
- C. Disposable income.
- D. Gross income.
- E. Deductions.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

73. An example of a variable expense is a(n)

(p. 54)

- A. Mortgage payment.
- B. Installment loan payment.
- C. Monthly bus pass.
- D. Allocation for life insurance.
- E. Electric bill.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

74. All of the following are fixed expenses *except* a(n)

(p. 53)

- A. Mortgage payment.
- B. Installment loan payment.
- C. Monthly bus pass.
- D. Allocation for life insurance.
- E. Electric bill.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

75. An example of a fixed expense is

(p. 53)

- A. Medical expenses.
- B. Gifts.
- C. Utilities.
- D. A mortgage.
- E. Recreation.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

76. Which of the following is NOT a main purpose of a budget?

(p. 55)

- A. Help to live within your income
- B. Spend your money without care**
- C. Reach financial goals
- D. Prepare for financial emergencies
- E. Develop wise financial management habits

A correct goal for B is to spend your money wisely.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

77. When creating a budget, which of the following statements is true?

(p. 55-

56)

- A. Include in income the bonuses and gifts you expect to receive.
- B. It is easier to create a budget if your earnings vary.
- C. Common financial problems can be maximized through budgeting.
- D. Numbers in the budget are estimates.**
- E. It is better to overestimate your income for next year.

When creating a budget, you should include bonuses and gifts when they are actually received.

Variable earnings make it more difficult to budget income. Common financial problems can be minimized through budgeting. It is better to estimate your income on the low side.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

78. When creating a budget, it is important to

(p. 56)

- A. Save the amount you have left at the end of the month.
- B. Set aside savings after your variable expenses are paid.
- C. Save an amount no more than 3% of your annual income in an emergency fund.
- D. Spend the amount of money you have budgeted in each category.
- E. "Pay yourself first" by setting aside savings before other expenses are budgeted.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

79. The difference between the amount budgeted and the actual amount received or spent is

(p. 59) called the

- A. Variance.
- B. Cash outflow.
- C. Income.
- D. Cash inflow.
- E. Variable expense.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

80. A budget deficit would result when a person's or family's

(p. 59)

- A. Actual expenses are less than planned expenses.
- B. Assets exceed liabilities.
- C. Actual expenses equal planned expenses.
- D. Actual expenses are greater than planned expenses.
- E. Net worth decreases.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

81. After the budget is created, it is important to

(p. 59)

- A. File the budget in a safe deposit box.
- B. Compare it to the previous budget.
- C. Track spending and identify variances.
- D. Pay attention only to expenses that are more than 10 percent of your salary.
- E. None of these are true since budgets are just estimates.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

82. Which of the following categories would be most difficult to cut from a household budget?

(p. 59)

- A. Vacations
- B. Lawn services
- C. Cable
- D. Charitable donations
- E. Auto insurance

Many admit that auto insurance is a necessary expense; the others are discretionary.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

83. A budget system that involves envelopes, folders, or containers to hold money or slips of paper (p. 60) is called a

- A. Mental budget.
- B. Physical budget.
- C. Written budget.
- D. Computerized budget.
- E. Allocated budget.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

84. A budget system that can be kept on notebook paper or budgeting paper is called a  
(p. 60)

- A. Mental budget.
- B. Physical budget.
- C. Written budget.
- D. Computerized budget.
- E. Allocated budget.

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

85. The document that would be most useful to track spending patterns for the past few months is  
(p. 61- the  
63)

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. All of these.
- E. None of these.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*

86. The document that would be most useful to track planned spending patterns for the next  
(p. 61) month is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. All of these.
- E. None of these.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*

87. The document that would be most useful to track the current value of investment accounts is  
(p. 61) the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. All of these.
- E. None of these.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*



88. A family with \$50,000 in assets and \$30,000 of liabilities would have a net worth of

(p. 51)

- A. \$10,000.
- B.** \$20,000.
- C. \$30,000.
- D. \$50,000.
- E. \$80,000.

Assets - Liabilities = \$50,000 - 30,000 = \$20,000.

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

89. Patrick Guitman has a net worth of \$165,000 and liabilities of \$176,000. What are his total  
(p. 51) assets?

- A. \$11,000
- B. \$-165,000
- C. \$176,000
- D. \$187,000
- E.** \$341,000

Assets - Liabilities = Net worth; therefore, Net worth + Liabilities = Assets = 165,000 + 176,000  
= 341,000.

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

90. Given the following information, calculate the net worth:

(p. 51)

Assets = \$7,000

Cash inflows = \$6,500

Cash outflows = \$4,000

Liabilities = \$3,000

- A. \$500
- B. \$1,000
- C. \$2,500
- D. \$3,000
- E. \$4,000

Assets - Liabilities = Net worth;  $\$7,000 - \$3,000 = \$4,000$ .

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

91. Given the following information, calculate the debt ratio percentage:

(p. 52)

Liabilities = \$24,500

Liquid assets = \$4,900

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$72,500

Current liabilities = \$1,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$-2,040

A. -33.79

B. -3.06

C. 2.40

D. 34.78

E. -21.71

Liabilities/Net worth =  $24,500/72,500 = .3379 = 33.79\%$ .

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

92. Given the following information, calculate the current ratio:

(p. 52)

Liabilities = \$-24,500

Liquid assets = \$-4,900

Monthly credit payments = \$-800

Monthly savings = \$-760

Net worth = \$-72,500

Current liabilities = \$-1,600

Take-home pay = \$-2,300

Gross income = \$-3,500

Monthly expenses = \$-2,040

A. -33.79

**B.** -3.06

C. -2.40

D. -34.78

E. -21.71

Liquid assets/Current liabilities =  $4,900/1,600 = 3.06$ .

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

93. Given the following information, calculate the liquidity ratio:

(p. 52)

Liabilities = \$-24,500

Liquid assets = \$-4,900

Monthly credit payments = \$-800

Monthly savings = \$-760

Net worth = \$-72,500

Current liabilities = \$-1,600

Take-home pay = \$-2,300

Gross income = \$-3,500

Monthly expenses = \$-2,040

A. -33.79

B. 3.06.

C. 2.40

D. -34.78

E. -21.71

Liquid assets/Monthly expenses =  $4,900/2,040 = 2.40$ .

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

94. Given the following information, calculate the debt payments ratio:

(p. 52)

Liabilities = \$24,500

Liquid assets = \$4,900

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$72,500

Current liabilities = \$1,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,040

A. 33.79%

B. 3.06%

C. 2.40%

D. 34.78%

E. 21.71%

Monthly credit payments/Take-home pay =  $800/2,300 = .3478 = 34.78\%$ .

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

95. Given the following information, calculate the savings ratio:

(p. 52)

Liabilities = \$24,500

Liquid assets = \$4,900

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$72,500

Current liabilities = \$1,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,040

A. 33.79%

B. 3.06%

C. 2.40%

D. 34.78%

E. 21.71%

Monthly savings/Gross income =  $\$760/\$3,500 = .217 = 21.71\%$ .

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

96. Rebecca Gladlyn budgeted \$375 for a new wardrobe in June. She actually spent \$408. What is  
(p. 57) her budget variance?

- A. \$408 deficit
- B.** \$33 deficit
- C. \$783 deficit
- D. \$33 surplus
- E. \$375 surplus

\$375 budgeted less \$408 spent = \$33 deficit.

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

97. Rebecca Gladlyn budgeted \$1,250 for housing and utilities in July. She actually spent \$1,162.  
(p. 57) What is her budget variance?

- A. \$1,162 deficit
- B. \$88 deficit
- C. \$44 deficit
- D.** \$88 surplus
- E. \$1,162 surplus

\$1,250 budgeted less \$1,162 spent = \$88 surplus.

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*



## Essay Questions

98. What is a personal balance sheet?

*(p. 49)*

A personal balance sheet identifies the assets (items of value) and the liabilities (amounts owed) and calculates the net worth for an individual or a household. It provides information about a household's current financial position and uses market (current) values.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

99. Given the following information, calculate net worth:

(p. 49)

Liquid assets	\$10,000
Real estate	\$138,000
Personal property	\$7,000
Investments	\$74,000
Current liabilities	\$500
Long-term liabilities	\$97,000

\$131,500

Feedback: Assets - Liabilities = Net worth;  $(\$10,000 + 138,000 + 7,000 + 74,000) - (500 + 97,000) = 229,000 - 97,500 = \$131,500$ .

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

100. Given the following information, calculate total assets:

(p. 51)

Automobile	\$12,000
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000
Market value of TV	\$500
Mortgage	\$150,000

\$196,100

Feedback: Total assets = Automobile + Cash + Cash value of life insurance + Mutual funds +  
Home + Market value of TV =

$\$12,000 + 1,100 + 2,000 + 5,500 + 175,000 + 500 = \$196,100.$

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

101. Given the following information, calculate total liabilities:

(p. 57)

Automobile	\$12,000
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000
Market value of TV	\$500
Mortgage	\$150,000

\$161,250

Feedback: Total liabilities = Auto loan + Credit card balance + Mortgage = \$10,000 + 1,250 + 150,000 = \$161,250.

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

102. Given the following information, calculate net worth:

(p. 57)

Automobile	\$12,000
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000
Market value of TV	\$500
Mortgage	\$150,000

\$34,850

Feedback: Assets - Liabilities = Net worth.

(Automobile + Cash + Cash value of life insurance + Mutual fund + Home + Market value of TV) less (Auto loan + Credit card balance + Mortgage).

$(\$12,000 + 1,100 + 2,000 + 5,500 + 175,000 + 500) - (10,000 + 1,250 + 150,000) = 196,100 - 161,250 = \$34,850.$

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

103. Given the following information from June 30, 2012, create a personal balance sheet for Jacob and Jennifer Johnson in good form:
- (p. 49-51)

Automobile	\$12,000 (original cost \$17,000)
Auto loan	\$10,000
Cash	\$1,100
Cash value of life insurance	\$2,000
Mutual funds	\$5,500
Credit card balance	\$1,250
Home	\$175,000 (original cost \$160,000)
Market value of TV	\$500
Mortgage	\$150,000

Jacob and Jennifer Johnson  
Personal Balance Sheet as of June 30, 2012

Assets		
Liquid Assets:		
Cash	1,100	
Cash value of life insurance	<u>2,000</u>	
Total liquid assets		3,100
Real Estate:		
Current market value of home		175,000
Personal Possessions:		
Market value of automobile	12,000	
Market value of TV	<u>500</u>	
Total household assets		12,500
Investment Assets:		
Mutual fund	<u>5,500</u>	
Total Assets:		196,100
Liabilities		
Current Liabilities:		
Credit card balance		1,250
Long-Term Liabilities		
Auto loan	10,000	
Mortgage	<u>150,000</u>	
Total long-term liabilities		<u>160,000</u>
Total Liabilities		<u>161,250</u>
Net Worth (assets – liabilities)		34,850

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

104. On a personal balance sheet, assets can be identified as belonging to one of four categories.

(p. 49- List each category and provide one example of each.

51)

**Liquid:**

**Cash**

**Checking & savings accounts**

**Cash value of life insurance**

**Real estate:**

**Home**

**Condominium**

**Vacation property**

**Land**

**Personal possessions:**

**Automobile**

**Personal belongings**

**Television**

**Investments:**

**Funds set aside for:**

**Financing children's education**

**Purchasing a vacation home**

**Planning for retirement**

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*



105. What is an example of an asset? At what value is it listed on the personal balance sheet?

(p. 50-

51)

Assets are listed at current, or market, value. Examples are listed below.

**Liquid:**

- Cash
- Checking & savings accounts
- Cash value of life insurance

**Real estate:**

- Home
- Condominium
- Vacation property
- Land

**Personal possessions:**

- Automobile
- Personal belongings
- Television

**Investments:**

- Funds set aside for:
  - Financing children's education
  - Purchasing a vacation home
- Planning for retirement

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

106. Identify what a cash flow statement is and discuss what it is used for.

(p. 52-

55)

A cash flow statement is a summary of cash receipts and payments for a given period, such as a month or a year. It shows the calculation of a cash surplus or deficit (cash inflows less cash outflows). Since it provides data on income and spending patterns, it is helpful when preparing a budget. A cash flow statement provides the foundation for preparing and implementing a spending, saving, and investment plan.

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

107. Given the following information from June 30, 2012, calculate cash inflows, cash outflows, and cash surplus or deficit for Tim Carter:  
(p. 52-55)

Salary (gross)	\$5,500
Deductions	1,700
Interest earned	75
Rent	1,000
Parking	250
Food and dining out	395
Clothing	150
Insurance (home, auto)	200
Cell phone	100

Cash inflows = Salary - Deductions + Interest earned =  $\$5,500 - 1,700 + 75 = \$3,875$

(Note: The book example shows deductions being reduced from gross salary to determine net salary in calculating cash inflows.)

Cash outflows = Rent + Parking + Food and dining out + Clothing + Insurance + Cell phone =  $\$1,000 + 250 + 395 + 150 + 200 + 100 = \$2,095$ .

Cash surplus = Cash inflows less cash outflows =  $\$3,875 - 2,095 = \$1,780$ .

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.*

*Topic: Personal Financial Statements*

108. Why can a spending diary be helpful?  
(p. 58)

A spending diary is used to track how money is being spent. It is useful for creating a budget.

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Develop and implement a personal budget.*

109. Discuss how a budget is created and used.

*(p. 55-59)*

A budget, or spending plan, begins with setting financial goals. Next, estimates are made for income, emergency fund and savings, fixed expenses, and variable expenses. After the spending plan is established, income and expenses are tracked and budget variances are calculated. Finally, spending and savings patterns are reviewed. This last step is used to determine any revisions to goals or the budget.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Develop and implement a personal budget.*

*Topic: A Plan for Effective Budgeting*

110. How can personal financial statements and a budget allow you to achieve your financial goals?

*(p. 60)*

The personal balance sheet reports the current financial position, where you are now. The cash flow statement tells what has been received and spent over the past month. The budget plans spending and saving to achieve financial goals.

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*

111. What are two methods that can make saving easier?

(p. 63)

Three methods are identified in Chapter 2. These are (1) writing a check each payday and depositing it in a savings account not readily available for regular spending, (2) using a direct deposit system to have an amount automatically deducted from your salary and deposited into savings, and (3) saving coins or spending less on certain items.

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.*

*Topic: Money Management and Achieving Financial Goals*