

TRUE/FALSE

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

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

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

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

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

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

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

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

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8. A budget is a detailed financial forecast.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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27. Budgets should be prepared on an accrual basis.

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

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

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

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

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

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

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

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35. An income statement deficit would increase net worth.

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

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37. A cash deficit decreases net worth.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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61. In a budget, "fun money" is a budget category used for family members to spend as they like without having to account for how it is spent.

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MULTIPLE CHOICE

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

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2. The three parts of your balance sheet are
- income, liabilities, balance.
 - assets, expenditures, balance.
 - assets, liabilities, balance.
 - assets, liabilities, net worth.
 - income, liabilities, net worth.

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3. A(n) ____ would not be listed as an asset on your balance sheet.
- mortgaged home
 - savings account
 - owned automobile
 - checking account
 - leased automobile

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

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5. Your ____ is an example of a liquid asset.
- home
 - car
 - checking account
 - charge account
 - life insurance cash value

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6. Kathy purchased new furniture for \$10,000. She put \$1,000 down and financed \$9,000. She will pay \$350 per month until the loan is paid off. Which of the following are true?
- a. The furniture should be recorded as an asset of \$10,000 on Kathy's balance sheet.
 - b. The \$9,000 is entered as a liability on Kathy's balance sheet.
 - c. The furniture should be recorded as a \$1,000 expenditure on Kathy's balance sheet.
 - d. The \$350 payments are expenditures on Kathy's income and expenditure statement.
 - e. All are correct except c

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7. Sam and his wife Ann purchased a home in Lubbock, Texas in 1980 for \$100,000. Their original home mortgage was for \$90,000. The house has a current market value of \$175,000 and a replacement value of \$200,000. They still owe \$55,000 on their home mortgage. Sam and Sally are now constructing their balance sheet. How should their home be reflected on their current personal balance sheet?
- a. \$200,000 asset and \$55,000 liability
 - b. \$200,000 asset and \$90,000 liability
 - c. \$175,000 asset and \$55,000 liability
 - d. \$175,000 asset and \$90,000 liability
 - e. \$100,000 asset and \$55,000 liability

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

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

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

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11. Budgets are
- restrictive.
 - complicated.
 - are forward looking.
 - permanent.
 - unnecessary.

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12. ____ would not be listed as a liability on your balance sheet.
- Taxes owed
 - Loan balances
 - Bank credit card charges
 - Savings accounts
 - Rent due

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13. ____ would not be a long-term financial goal.
- Purchasing a new car
 - Providing adequate life insurance
 - Reducing income taxes
 - Paying your phone bill
 - Planning for retirement

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14. Net worth is measured by
- bank card balances.
 - house mortgage balances.
 - amount owed on an automobile loan.
 - assets minus liabilities.
 - insurance premium.

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

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16. Professional financial planners are regulated by
- the federal government.
 - self-regulation.
 - state agencies.
 - local regulators.

e. no one.

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17. On the balance sheet, a mortgage loan is recorded as the
- interest only.
 - sum of interest paid and the outstanding balance.
 - sum of interest due and the outstanding balance.
 - principal portion only.
 - none of the above.

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18. Another term sometimes used instead of net worth is
- assets.
 - net debts.
 - long-term liabilities
 - equity.
 - liquid assets.

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19. The balance sheet equation is:
- Total Assets / Total Liabilities = Net Worth.
 - Total Assets $\times$ Total Liabilities = Net Worth.
 - Total Assets - Total Liabilities = Net Worth.
 - Total Assets + Total Liabilities = Net Worth.
 - Total Liabilities - Total Assets = Net Worth.

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20. Mandy and Jeff have a net worth of \$25,000 and total assets of \$140,000. If their revolving credit and unpaid bills total \$2,200, what are their total liabilities?
- \$115,000
 - \$140,000
 - \$142,200
 - \$165,000
 - \$167,200

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21. Sonny and Cher have a net worth of \$35,000 and total assets of \$200,000. If their revolving credit and unpaid bills total \$2,200, what are their long-term liabilities?
- \$115,000
 - \$140,000
 - \$142,200
 - \$162,800
 - \$165,000

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22. You are solvent if your
- total liabilities exceed total assets.
 - total assets exceed total liabilities.
 - total assets exceed net worth.
 - total liabilities exceed net worth.
 - none of these.

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23. The income and expenditures statement examines your financial
- level.
 - performance.
 - position.
 - assets.
 - objectives.

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24. The income statement is specific to
- one point in time.
 - a specific period of time.
 - last year.
 - next year.
 - none of these.

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25. The income statement includes
- income, liabilities, net worth.
 - income, expenditures, surplus or deficit.
 - expenditures, net worth, surplus or deficit.
 - net worth, surplus, income or expenditures.
 - savings, surplus, income or expenditures.

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

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27. You are more likely to achieve your goals when
- your income is high.
 - goal dates are inflexible.
 - short- and long-term goals are established separately.

- d. goals are reassessed and revised periodically.
- e. one person controls all goals in the household.

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

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

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

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

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

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

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34. A cash budget helps you:
- a. Monitor and control your finances.
 - b. Decide how to allocate your income to reach your financial goals.
 - c. Achieve your long-term financial goals.
 - d. All of the above.
 - e. A & B only.

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

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36. Russ buys his wife a valuable painting for \$20,000. He purchases it using \$15,000 from his savings and a \$5,000 loan. How does this transaction affect Russ' balance sheet?
- a. His assets increase
 - b. His liabilities increase
 - c. His net worth stays the same
 - d. a and b
 - e. a, b and c

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

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38. If your ____, your net worth on the balance sheet would have increased from one period to the next.
- a. liabilities increased and assets remained constant
 - b. liabilities increased and assets decreased
 - c. assets increased and liabilities remain constant
 - d. income increased

e. none of these

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

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

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

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

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

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44. A savings ratio expresses the

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

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45. Your total cash income is \$40,000. You pay \$5,000 in taxes and \$30,000 in other expenses. Your savings ratio is
- a. 7.5%
 - b. 10.0%
 - c. 12.5%.
 - d. 13.3%.
 - e. 14.3%.

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

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

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48. Jacque's total monthly loan payments are \$1,020 while her gross income is \$3,000 per month. What is her debt service ratio?
- a. 34%
 - b. 43%
 - c. 50%
 - d. 75%
 - e. 82%

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49. In order to minimize the difficulty associated with meeting monthly loan payments, the debt service ratio should be
- a. above 50%.

- b. below 50%.
- c. at 35%.
- d. below 35%.
- e. above 20%.

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50. Mike and Teresa Garza have a monthly gross income of \$5,000, but they pay \$1,000 per month in taxes. They also pay \$2,000 per month in various loan payments. What is their debt service ratio?
- a. 20%
 - b. 30%
 - c. 40%
 - d. 50%
 - e. 60%

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51. When estimating income for the income and expense statement, you should
- a. use gross income.
 - b. include expected pay increases.
 - c. adjust for inflation.
 - d. use net income.
 - e. none of these

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52. The expenditure categories for your budget should be determined by
- a. the BLS Urban Family Budget categories.
 - b. purchased budget book headings.
 - c. those used in previous years.
 - d. current and expected future spending.
 - e. itemized tax deductions.

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

53. Inflation affects
- a. long-term financial goals.
 - b. short-term goals.
 - c. budget expenditures.
 - d. asset values.
 - e. all of these

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

54. The need for budget adjustments is indicated when
- a. income is stable.
 - b. account deficits and surpluses balance out.
 - c. account deficits are more than surpluses.
 - d. a new calendar year begins.
 - e. short-term financial goals are achieved.

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

55. The best approach to solving the problem of an annual budget deficit is generally to
- liquidate enough savings to make up the deficit.
 - sell stock to make up the deficit.
 - reduce flexible expenditures.
 - reduce fixed expenses.
 - get a part time job.

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

56. What can you do if your budget shows an annual budget deficit?
- Liquidate enough savings and investments to meet the total budget shortfall for the year.
 - Borrow enough to meet the total budget shortfall for the year.
 - Cut low-priority expenses from the budget.
 - Increase Income.
 - All of the above.

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

57. To determine how effectively the budget is working, you can use
- the balance sheet.
 - the income statement.
 - income and expenditure records.
 - year-end financial statements.
 - financial goals.

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

58. Dual-income families often face
- reduced employee benefit options.
 - increased complexity in their money management systems.
 - reduced expenditures as a result of the second job.
 - reduced taxes due to tax breaks.
 - increased time to spend with the family.

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

59. Which of the following has been determined to be the best way for dual-income families to handle their money management?
- Place all income into a single, joint account.
 - Have each spouse contribute equal amounts to a joint account for family expenses.
 - Have each spouse contribute an equal proportion of their incomes to a joint account for family expenses.
 - Have one spouse make all the financial decisions
 - None of the above.

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

60. Cafeteria benefit plans
- are paid for by employers.
 - are paid for by employees.
 - provide employees a choice regarding the benefits they receive.
 - allow employees to reward productive employees.
 - are less beneficial to two-career families than to others.

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

61. Your investment advisor wants you to purchase an annuity that will pay you \$25,000 per year for 10 years. If you require a 7% return, what is the most you should pay for this investment?
- \$ 49,179
 - \$175,590
 - \$201,000
 - \$225,682
 - \$250,000

ANS: B
PMT = 25,000

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

62. Theresa invested \$5,000 in an account she expects will earn 7% annually. Approximately how many years will it take for the account to double in value?
- 8
 - 9
 - 10
 - 11
 - 12

ANS: C
 $72/7 = 10$

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

63. Jamil invested \$9,500 in an account he expects will earn 5% annually. Approximately how many years will it take for the account to double in value?
- 8.8
 - 9.7
 - 10.8
 - 11.4
 - 14.4

ANS: E
 $72/5 = 14.4$

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

64. Phil has \$2,000 and he needs it to grow to \$4,000 in 8 years. Assuming he adds no more money to this fund, what rate of return would he need to earn?
- 6%

- b. 7%
- c. 8%
- d. 9%
- e. 10%

ANS: D

$$72/x = 8, 72 = 8x, 72/8 = x, 9\% = x$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

65. Michael and Sandy purchased a home for \$100,000 five years ago. If it appreciated 6% annually, what is it worth today?
- a. \$100,000
 - b. \$106,000
 - c. \$130,000
 - d. \$133,823
 - e. \$135,603

ANS: D

$$PV = 100,000, N = 5, i = 6, FV = 133,823$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

66. Elena purchased a stamp collection for \$5,000 thirty years ago. If it appreciated 8% annually, what is it worth today?
- a. \$ 17,000
 - b. \$ 36,400
 - c. \$ 50,313
 - d. \$123,023
 - e. \$150,000

ANS: C

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

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

COMPLETION

INSTRUCTIONS: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement.

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

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

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

ANS: b

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

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

ANS: a

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

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

ANS: a

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

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

ANS: b

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

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

ANS: a

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

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

ANS: a

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

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

ANS: b

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

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

ANS: c

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

15. You bought a \$500 stereo on the installment plan and made two payments of \$75 during the year. On your income/expense statement for the year, you will show an expense of [*\$150* | *\$500*].

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

17. Your car has a market value of \$4,000 while the balance of the loan against it is now \$2,500. You will list this car as net worth [*\$4,000* | *\$1,500*].

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

18. Your car has a market value of \$10,000 while the balance of the loan against it is now \$2,500. You will list this car as an asset worth [*\$7,500* | *\$10,000*].

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

39. A budget will have value only if it is actually used and [*records are kept of actual income/expenses | spending never deviates from the budgeted amount*].

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

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

ANS: a

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

PROBLEM

1. Jean and Jim have liquid assets of \$3,600 and other assets of \$42,800. Their total liabilities equal \$26,000. What is their net worth? (Show all work.)

ANS:

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

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

2. Rosa and Jose have liquid assets of \$5,000 and other assets of \$50,000. Their total liabilities equal \$26,000. What is their net worth? (Show all work.)

ANS:

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

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

3. The Hart family spends 30 percent of their disposable income on housing, 5 percent on medical expenses, 25 percent on food, 10 percent on clothing, 14 percent on loan repayments, and 8 percent on entertainment. How much of their disposable income is available for savings and investment? (Show all work.)

ANS:
 $100\% - [30 + 5 + 25 + 10 + 14 + 8\%] = 100\% - 92\% = 8\%$ for savings

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

4. Construct a balance sheet from the following information. Be sure the format is correct. (Show all work.)

Cash on hand	\$ 75
Bank credit card balance	1,200
Utility bill (over due)	100
Auto loan balance	3,500
Mortgage	75,000
Primary residence	105,000
Jewelry	2,000
Stocks	17,500
Coin collection	2,500
2001 Toyota	7,500

ANS:

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

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

5. Construct a balance sheet from the following information. Be sure the format is correct. (Show all work.)

Cash on hand	\$ 500
Bank credit card balance	750
Taxes due	500
Utility bills (over due)	120
Auto loan balance	6,000
Mortgage	45,000
Primary residence	60,000

Jewelry	1,200
Stocks	6,000
Coin collection	2,500
2001 Toyota	7,500
Auto payment	250

ANS:

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

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

6. Inflation this coming year is expected to be 4 percent. If Mr. Gonza earned \$37,000 this year, how much must he earn the following year just to keep up with inflation and maintain the balance between his income and his increasing expenditures? (Show all work.)

ANS:

$$\$37,000 + .04(\$37,000)$$

$$\$37,000 + \$1,480 = \$38,480$$

OR

$$\$37,000 \times 1.04 = \$38,480$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

7. Inflation this coming year is expected to be 3 percent. If Mr. Gonza earned \$45,000 this year, how much must he earn the following year just to keep up with inflation and maintain the balance between his income and his increasing expenditures? (Show all work.)

ANS:

$$\$45,000 + .03(\$45,000)$$

$$\$45,000 + \$1,350 = \$46,350$$

OR

$$\$45,000 \times 1.03 = \$46,350$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

8. Jamie wants to have \$1,000,000 for her retirement in 25 years. How much should she save annually if she thinks she can earn 10% on her investments?

ANS:

$$FV = 1,000,000$$

$$N = 25$$

$$I = 10$$

$$\text{PMT} = 10,168.07$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

9. The Hamptons want to have \$1,750,000 for their retirement in 30 years. How much should they save annually if they think they can earn 8% on their investments?

ANS:

$$\text{FV} = 1,750,000$$

$$\text{N} = 30$$

$$\text{I} = 8$$

$$\text{PMT} = 15,448$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows

10. The Flemings will need \$80,000 annually for 20 years during retirement. How much will they need at retirement if they can earn a 4% rate of return?

ANS:

$$\text{PMT} = 80,000$$

$$\text{N} = 20$$

$$\text{I} = 4$$

$$\text{PV} = 1,087,226$$

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Knowledge of financial analysis and cash flows