

Money Management Skills

True / False Questions

1. Money management refers to day-to-day financial activities necessary to manage current 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. An organized system of financial records provides a basis for reducing 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 people around the world improve their money management skills or financial literacy.

True False

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

True False

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

True False

8. In an organized system of financial records, medical information belongs in a home file.

True False

9. Financial documents that you may need quick access to should be kept in a safe deposit box.

True False

10.

In an organized system of financial records, investment records belong in a home file, home computer, or online.

True False

11.

Copies of tax returns and supporting data should be saved for 10 years.

True False

12. Birth certificates, wills, and Social Security data should be kept for up to 7 years.

True False

13.

The two personal financial statements that you create yourself are 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.

Liquid assets can be easily converted to cash and include money in checking accounts and personal possessions.

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: $\text{Total cash received during the time period} - \text{Cash outflows during the time period} = \text{Cash surplus (or deficit)}$.

True False

20.

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

True False

21.

When completing a cash flow statement, take-home pay less deductions equals gross 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 deduct an amount automatically from your salary in a direct deposit system.

True False

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

True False

26.
Annual investment account statements should be shredded.

True False

27.
A mortgage is an amount borrowed to buy a tv or other personal possession.

True False

28.

If a household has \$195,000 of assets and \$75,000 of liabilities, then their net worth would be \$125,000.

True False

29.

A balance sheet reports what an individual or family owns and owes.

True False

30.

A high debt ratio is best.

True False

Multiple Choice Questions

31. 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.

32. Which of the following is a component of money management?

- A. Storing and maintaining personal financial records and documents.
- B. Creating a balance sheet.
- C. Creating and implementing a plan for spending and saving.
- D. Creating a cash flow statement.
- E. All of the above are components of money management.

33. A home file should be used to keep

- 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.

34. Which of the following financial documents would most likely be stored in a safe deposit box or fireproof home safe?

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

35. Which of the following is most correct?

- A. A current budget belongs in your safe deposit box.
- B. A warranty belongs in a safe deposit box.
- C. Adoption papers belong in a home file.
- D. A death certificate should be kept in a home file.
- E. Tax records belong in a home file.
- F. A current budget belongs in your safe deposit box.
- G. Adoption papers belong in a home file.

36. Which of the following is most correct?

- A. Rare coins and stamps belong in a safe deposit box.
- B. A marriage certificate should be kept in a home file.
- C. W-2s for tax records belong in a safe deposit box.
- D. A current budget belongs in your safe deposit box.
- E. Adoption papers belong in a home file.

37. Brokerage statements are an example of a(n) _____ record.
- A. investment
 - B. insurance
 - C. estate planning
 - D. tax
 - E. consumer purchase
38. 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
39. The number of personal financial records a household has to organize may seem overwhelming. How long should you keep documents relating to the purchase and sale 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

40. 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 these items.
- C. Seven years.
- D. Ten years.
- E. Permanently.

41. 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.

42. 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.
All of the above are correct

43.

Which of the following are two personal financial statements that you create yourself?

- 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 a balance sheet

44.

A personal balance sheet reports

- 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.

45. 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.

46. 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.

47. 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.

48. Items with monetary value are referred to as

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

49.

Which of the following is a liquid asset?

- A. Savings/money market accounts
- B. Cash value of life insurance
- C. Checking account balance
- D.
Money market accounts
- E.
All of the above are liquid assets

50. 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 financing children's education
- E.
Retirement accounts

51. 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 accounts
- E. Vacation property

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

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

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

- A. Checking account
- B. Mortgage
- C. Educational loan
- D. Auto loan
- E. Medical bill

54.

The amount you would have left if all assets were sold and all debts were paid in full is called your

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

55. The equation to calculate net worth is

- A. $\text{Assets} - \text{Cash outflows} = \text{Net worth}.$
- B. $\text{Cash inflows} - \text{Liabilities} = \text{Net worth}.$
- C. $\text{Cash inflows} - \text{Cash outflows} = \text{Net worth}.$
- D. $\text{Assets} - \text{Liabilities} = \text{Net worth}.$
- E. $\text{Cash inflows} + \text{Liabilities} = \text{Net worth}.$

56.

The inability to pay debts when they are due because liabilities far exceed the value of assets is called

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

57. 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 \$55,000
- E. Annual cash inflows \$45,000; liabilities \$50,000

58. 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.

59. 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. Increase spending by \$5 per day

60. Which of the following is a cash inflow?

- A.
Payment for rent
- B.
Purchase of groceries
- C.
Payment for loan
- D.
Income from employment
- E.
Payment for medical expenses

61. Which of the following appears as a cash outflow on a cash flow statement?

- A. Liquid assets
- B. Variable expenses
- C. Net worth
- D. Personal possessions
- E. Real estate assets

62. Which of the following appears as a cash outflow on a cash flow statement?

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

63. Financial experts recommend monthly savings of ____ of gross income.

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

64. 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%

65. 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 in liquid assets are available for every \$1 of current liabilities.

66. 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.

67. 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

68. 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

69. 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

70. 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

71. 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

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

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

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

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

74. Disposable income equals

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

75. 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.

76. 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.

77. Take-home pay is also called

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

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

- A. Mortgage or rent payment.
- B. Installment loan payment.
- C. Monthly train ticket for commuting to work.
- D. Monthly allocation for life insurance.
- E. Electric bill.

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

- A.
Mortgage or rent payment.
- B. Installment loan payment.
- C.
Monthly train ticket for commuting to work.
- D.
Monthly allocation for life insurance.
- E.
Utilities.

80. An example of a fixed expense is

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

81. 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

82. 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 by season.
- 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.

83. 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.

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

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

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

- A.
Actual spending is less than planned spending.
- B. Assets exceed liabilities.
- C.
Actual spending equals planned spending.
- D.
Actual spending exceeds planned spending.
- E. Net worth decreases.

86.

After having established a spending plan, it is important to

- A. File the budget in a safe deposit box.
- B. Compare it to the previous budget.
- C.
Keep track of your actual income and expenses.
- 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.

87. When household budgets must be cut, which of the following categories would be most difficult to cut?

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

88. 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. Digital budget.
- E. Allocated budget.

89. A budget system that can be kept on notebook paper or accounting paper is called a

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

90. The document that would tell you what you received and spent over the past month is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. Bank statement.
- E. Credit card statement.

91.

The document that would be most useful to plan spending and saving to achieve financial goals is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D.
Bank statement.
- E.
Credit card statement.

92.

The document that would report your current financial position is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D.
Bank statement.
- E.
Credit card statement.

93. A family with \$100,000 in assets and \$60,000 of liabilities would have a net worth of

- A. \$20,000.
- B. \$40,000.
- C. \$60,000.
- D. \$100,000.
- E. \$160,000.

94. Patrick Guitman has a net worth of \$145,000 and liabilities of \$155,000. What are his total assets?

- A. \$10,000
- B. \$145,000
- C. \$155,000
- D. \$200,000
- E. \$300,000

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

Assets = \$8,000

Cash inflows = \$6,000

Cash outflows = \$4,500

Liabilities = \$4,000

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

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

Liabilities = \$25,000

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000 Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

- A. 33.33 percent
- B. 30.00 percent
- C. 3.00 percent
- D. 3.20 percent
- E. 8.20 percent

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

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000

Current liabilities = \$2,000

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

- A. 2.44
- B. 2.50
- C. 6.25
- D. 0.16
- E. 0.41

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

Liabilities = \$25,000
Liquid assets = \$5,000
Monthly credit payments = \$800
Monthly savings = \$760
Net worth = \$75,000
Current liabilities = \$2,600
Take-home pay = \$2,300
Gross income = \$3,500
Monthly expenses = \$2,050

- A. 0.16
- B. 0.41
- C. 2.44
- D. 2.50
- E. 6.25

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

Liabilities = \$25,000
Liquid assets = \$5,000
Monthly credit payments = \$800
Monthly savings = \$760
Net worth = \$75,000
Current liabilities = \$2,000
Take-home pay = \$2,300
Gross income = \$3,500
Monthly expenses = \$2,050

- A. 33.79%
- B. 3.06%
- C. 2.40%
- D. 34.78%
- E. 21.71%

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

Liabilities = \$25,000

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000

Current liabilities = \$2,000

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

- A. 33.79%
- B. 3.06%
- C. 2.40%
- D. 34.78%
- E. 21.71%

101. Rebecca Wilson budgeted \$395 for a new wardrobe in June. She actually spent \$425. What is her budget variance?

- A. \$25 deficit
- B. \$30 deficit
- C. \$425 deficit
- D. \$25 surplus
- E. \$30 surplus

102. Rebecca Wilson budgeted \$1,200 for housing and utilities in July. She actually spent \$1,160. What is her budget variance?

- A. \$1,160 deficit
- B. \$40 deficit
- C. \$60 deficit
- D. \$40 surplus
- E. \$1,160 surplus

Chapter 02 Money Management Skills **Answer** Answer Key

True / False Questions

1.
(p. 45) Money management refers to day-to-day financial activities necessary to manage current personal 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: Financial Planning

Topic: Personal Finance

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: Financial Planning

Topic: Personal Finance

3.

(p. 47) An organized system of financial records provides a basis for reducing credit card usage.

FALSE

An organized system of financial records provides a basis 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

Topic: Financial Planning

Topic: Personal Finance

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: Financial Planning

Topic: Personal Finance

5.
(p. 46) Programs are available to help low-income people around the world improve their money management skills or financial literacy.

TRUE

The "Did You Know" box lists 3 such programs.

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

6.
(p. 47) In an organized system of financial records, credit card records belong in a safe deposit box.

FALSE

See Exhibit 2-1: Credit card records belong in a home file, home computer, or online.

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

7.

(p. 47) In an organized system of financial records, birth and marriage certificates belong in a safe deposit box.

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: Financial Planning

Topic: Personal Finance

8.

(p. 47) In an organized system of financial records, medical information belongs in a home file.

TRUE

See Exhibit 2-1: Medical information is a part of insurance records, which belong in a home file, home computer, or online.

Blooms: Remember

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

9.
(p. 46) Financial documents that you may need quick access to should be kept in a safe deposit box.

FALSE

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

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

10.
(p. 47) In an organized system of financial records, investment records belong in a home file, home computer, or online.

TRUE

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

11.

(p. 46) Copies of tax returns and supporting data should be saved for 10 years.

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.

Topic: Financial Planning

Topic: Personal Finance

12. Birth certificates, wills, and Social Security data should be kept for up to 7 years.

(p. 46)

FALSE

These should be kept permanently.

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

13.

(p. 48) The two personal financial statements that you create yourself are the personal balance sheet and a credit card payoff statement.

FALSE

The two 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 Finance

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

(p. 48)

TRUE

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Personal Finance

15. Net worth is the amount owed to others.

(p. 48)

FALSE

Liabilities are amounts owed to others. Net worth is your wealth and is calculated as total assets minus total liabilities.

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Personal Finance

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

(p. 50)

TRUE

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Personal Finance

- 17.

(p. 49-50) Liquid assets can be easily converted to cash and include money in checking accounts and personal possessions.

FALSE

Liquid assets are cash, money in checking and savings accounts, and items of value that can be easily converted to cash. Personal possessions are not liquid assets.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

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

(p. 50)

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 Finance

19.

(p. 53) A cash flow statement uses this equation: Total cash received during the time period - Cash outflows during the time period = Cash surplus (or deficit).

TRUE

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Personal Finance

20.

(p. 52-53) When completing a cash flow statement, deductions are subtracted from gross salary to determine take-home pay.

TRUE

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Personal Finance

21.

(p. 53) When completing a cash flow statement, take-home pay less deductions equals gross salary.

FALSE

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

Blooms: Understand

Difficulty: 2 Medium

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

22. Financial advisers suggest that an emergency fund should cover one to two months of living expenses.
(p. 55)

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: Financial Planning

Topic: Personal Finance

23. When creating a budget, it is important to save the amount you have left at the end of the month.
(p. 55)

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 always "pay yourself first."

Blooms: Remember

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

24.

(p. 62) One method to spend more money is to deduct an amount automatically from your salary in a direct deposit system.

FALSE

Automatically deducting an amount from your salary and depositing it in savings 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: Personal Finance

25.

(p. 62) One method to save more money is to write a check each payday and deposit it in a separate savings account.

TRUE

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Personal Finance

26.

(p. 47) Annual investment account statements should be shredded.

FALSE

Quarterly investment statements should be shredded while annual statements should be kept.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

27.

(p. 50) A mortgage is an amount borrowed to buy a tv or other personal possession.

FALSE

A mortgage is an amount borrowed to buy a house or other real estate.

Blooms: Remember

Difficulty: 2 Medium

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

Topic: Personal Finance

28.

(p. 50) If a household has \$195,000 of assets and \$75,000 of liabilities, then their net worth would be \$125,000.

FALSE

assets – liabilities = net worth; thus, $195,000 - 75,000 = 120,000$

Blooms: Apply

Difficulty: 1 Easy

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

Topic: Personal Finance

29.

(p. 50) A balance sheet reports what an individual or family owns and owes.

TRUE

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Personal Finance

30.

(p. 51) A high debt ratio is best.

FALSE

A low debt ratio is best, liabilities/net worth.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

Multiple Choice Questions

31. Money management refers to

(p. 46)

- 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: Financial Planning

Topic: Personal Finance

32.

(p. 45) Which of the following is a component of money management?

- A. Storing and maintaining personal financial records and documents.
- B. Creating a balance sheet.
- C. Creating and implementing a plan for spending and saving.
- D. Creating a cash flow statement.
- E. All of the above are components of money management.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

33.

(p. 46) A home file should be used to keep

- 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: Financial Planning

Topic: Personal Finance

34.

(p. 47) Which of the following financial documents would most likely be stored in a safe deposit box or fireproof home safe?

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

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

35. Which of the following is most correct?

(p. 47)

- A. A current budget belongs in your safe deposit box.
- B. A warranty belongs in a safe deposit box.
- C. Adoption papers belong in a home file.
- D. A death certificate should be kept in a home file.
- E. Tax records belong in a home file.
- F. A current budget belongs in your safe deposit box.
- G. Adoption papers belong in a home file.

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

Safe deposit box: Death certificate, adoption papers.

Blooms: Apply

Difficulty: 3 Hard

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

Topic: Financial Planning

Topic: Personal Finance

36. Which of the following is most correct?

(p. 47)

- A. Rare coins and stamps belong in a safe deposit box.
- B. A marriage certificate should be kept in a home file.
- C. W-2s for tax records belong in a safe deposit box.
- D. A current budget belongs in your safe deposit box.
- E. Adoption papers belong in a home file.

Home file: W-2s for tax records, current budget.

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

Blooms: Apply

Difficulty: 3 Hard

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

Topic: Financial Planning

Topic: Personal Finance

37. Brokerage statements are 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: Financial Planning

Topic: Personal Finance

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

(p. 46) 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: Financial Planning

Topic: Personal Finance

39. The number of personal financial records a household has to organize may seem
(p. 46) overwhelming. How long should you keep documents relating to the purchase and sale 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

Topic: Financial Planning

Topic: Personal Finance

40. How long should you keep documents relating to investments?
(p. 46)

- A. No need to since the broker probably has a copy.
- B.
As long as you these items.
- 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: Financial Planning

Topic: Personal Finance

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

(p. 46)

- 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: Financial Planning

Topic: Personal Finance

42. The main purposes of personal financial statements are to

(p. 48)

- 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. All of the above are correct

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Personal Finance

43.

(p. 48) Which of the following are two personal financial statements that you create yourself?

- 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 a balance sheet

Blooms: Remember

Difficulty: 1 Easy

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

Topic: Personal Finance

44.

(p. 48) A personal balance sheet reports

- 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 Finance

45. The current financial position of an individual or family is best presented with the use of a
(p. 48)

- 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 Finance

46. Another name for a statement of financial position is a
(p. 48)

- 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 Finance

47. 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

48. 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

49.

(p. 49) Which of the following is a liquid asset?

- A. Savings/money market accounts
- B. Cash value of life insurance
- C. Checking account balance
- D. Money market accounts
- E. All of the above are liquid assets

Blooms: Understand

Difficulty: 3 Hard

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

Topic: Personal Finance

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

(p. 49-50)

- A. Cash value of life insurance
- B.** Vacation property
- C. Possessions in your home
- D. Investments for financing children's education
- E. Retirement accounts

Blooms: Understand

Difficulty: 3 Hard

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

Topic: Personal Finance

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

(p. 49-50)

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

Blooms: Understand

Difficulty: 3 Hard

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

Topic: Personal Finance

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

(p. 49-50)

- A. Cash value of life insurance
- B. Checking account
- C. Personal 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 Finance

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

(p. 50)

- A. Checking account
- B. Mortgage
- C. Educational loan
- D. Auto loan
- E. Medical bill

Blooms: Understand

Difficulty: 3 Hard

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

Topic: Personal Finance

54.

(p. 50) The amount you would have left if all assets were sold and all debts were paid in full is called your

- 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 Finance

55. The equation to calculate net worth is

(p. 50)

- 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 Finance

56.

(p. 51) The inability to pay debts when they are due because liabilities far exceed the value of assets is called

- 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 Finance

57. 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 \$55,000
- E. Annual cash inflows \$45,000; liabilities \$50,000

Insolvency occurs when liabilities, \$55,000, far exceed assets, \$40,000.

Blooms: Apply

Difficulty: 3 Hard

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

Topic: Personal Finance

58. All of the following are ways that households can increase their net worth *except*
(p. 51)

- 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 Finance

59. Which of the following will increase the net worth of a household?
(p. 51)

- 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. Increase spending by \$5 per day

Blooms: Understand

Difficulty: 3 Hard

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

Topic: Personal Finance

60. Which of the following is a cash inflow?

(p. 51-52)

- A. Payment for rent
- B. Purchase of groceries
- C. Payment for loan
- D. Income from employment
- E. Payment for medical expenses

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

61. Which of the following appears as a cash outflow on a cash flow statement?

(p. 52)

- A. Liquid assets
- B. Variable expenses
- C. Net worth
- D. Personal possessions
- E. Real estate assets

Cash outflows include fixed expenses and variable expenses.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

62. Which of the following appears as a cash outflow on a cash flow statement?

(p. 52)

- 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 Finance

63. Financial experts recommend monthly savings of ____ of gross income.

(p. 51)

- 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 Finance

64. Financial experts recommend a debt/payments ratio of less than ____ of take-home pay.

(p. 51)

- 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 Finance

65. A current ratio of 2 means

(p. 51)

- 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 in liquid assets are available for every \$1 of current liabilities.

Blooms: Understand

Difficulty: 3 Hard

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

Topic: Personal Finance

66. A debt ratio of 0.5 indicates

(p. 51)

- 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 Finance

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

(p. 51)

- 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 Finance

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

(p. 51) 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 Finance

69. Which of the following ratios indicates the number of months in which living expenses can be paid if an emergency arises?
(p. 51)

- 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 Finance

70. 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. 51)

- 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 Finance

71. Which of the following ratios shows the relationship between gross income and money saved?
(p. 51)

- 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 Finance

72. All of the following are sources of income *except*
(p. 52-53)

- A.
Interest earned on savings
- 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 Finance

Topic: Taxes

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

(p. 52-53)

- A. Interest earned on savings
- 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 Finance

Topic: Taxes

74. Disposable income equals

(p. 53)

- A. Gross income.
- B. Disposable income.**
- 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 Finance

Topic: Taxes

75. 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 Finance

Topic: Taxes

76. 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 Finance

77.

(p. 53) Take-home pay is also called

- A. Monthly savings.
- B. Discretionary income.
- C. Net pay.
- 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 Finance

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

(p. 53)

- A. Mortgage or rent payment.
- B. Installment loan payment.
- C. Monthly train ticket for commuting to work.
- D. Monthly 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 Finance

79. All of the following are fixed expenses *except* a(n)
(p. 53)

- A. Mortgage or rent payment.
- B. Installment loan payment.
- C. Monthly train ticket for commuting to work.
- D. Monthly allocation for life insurance.
- E. Utilities.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

80. An example of a fixed expense is
(p. 53)

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

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Personal Finance

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

(p. 54)

- 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 main purpose of a budget is to spend your money wisely.

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

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

(p. 54-

55)

- A. Include in income the bonuses and gifts you expect to receive.
- B. It is easier to create a budget if your earnings vary by season.
- 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 or irregular 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 to help avoid overspending.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

83. When creating a budget, it is important to

(p. 55)

- 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: Financial Planning

Topic: Personal Finance

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

(p. 57) called the

- A. Budget 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: Financial Planning

Topic: Personal Finance

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

(p. 57)

- A. Actual spending is less than planned spending.
- B. Assets exceed liabilities.
- C. Actual spending equals planned spending.
- D. Actual spending exceeds planned spending.
- E. Net worth decreases.

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

86.

(p. 57) After having established a spending plan, it is important to

- A. File the budget in a safe deposit box.
- B. Compare it to the previous budget.
- C. Keep track of your actual income and expenses.
- 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: Financial Planning

Topic: Personal Finance

87. When household budgets must be cut, which of the following categories would be most
(p. 59) difficult to cut?

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

When household budgets must be cut, spending is most frequently reduced for vacations, dining out, cleaning and lawn services, cable/internet service, and charitable donations.

Blooms: Understand

Difficulty: 1 Easy

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

Topic: Financial Planning

Topic: Personal Finance

88. A budget system that involves envelopes, folders, or containers to hold money or slips of paper
(p. 59) is called a

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

Blooms: Remember

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

89. A budget system that can be kept on notebook paper or accounting paper is called a
(p. 59)

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

Blooms: Remember

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

90.
(p. 60) The document that would tell you what you received and spent over the past month is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D.
Bank statement.
- E.
Credit card statement.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

91.

(p. 60) The document that would be most useful to plan spending and saving to achieve financial goals is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. Bank statement.
- E. Credit card statement.

Blooms: Understand

Difficulty: 2 Medium

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

Topic: Personal Finance

92.

(p. 60) The document that would report your current financial position is the

- A. Balance sheet.
- B. Cash flow statement.
- C. Budget.
- D. Bank statement.
- E. Credit card statement.

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: Personal Finance

93. A family with \$100,000 in assets and \$60,000 of liabilities would have a net worth of
(p. 51)

- A. \$20,000.
- B.** \$40,000.
- C. \$60,000.
- D. \$100,000.
- E. \$160,000.

Assets - Liabilities = \$100,000 - 60,000 = \$40,000.

Blooms: Apply

Difficulty: 1 Easy

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

Topic: Personal Finance

94. Patrick Guitman has a net worth of \$145,000 and liabilities of \$155,000. What are his total
(p. 51) assets?

- A. \$10,000
- B. \$145,000
- C. \$155,000
- D. \$200,000
- E.** \$300,000

Assets - Liabilities = Net worth; therefore, Net worth + Liabilities = Assets = 145,000 + 155,000
= 300,000.

Blooms: Apply

Difficulty: 2 Medium

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

Topic: Personal Finance

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

(p. 50)

Assets = \$8,000

Cash inflows = \$6,000

Cash outflows = \$4,500

Liabilities = \$4,000

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

Assets - Liabilities = Net worth; $\$8,000 - 4,000 = 4,000$.

Blooms: Apply

Difficulty: 1 Easy

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

Topic: Personal Finance

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

(p. 51)

Liabilities = \$25,000

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000 Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

- A. 33.33 percent
- B. 30.00 percent
- C. 3.00 percent
- D. 3.20 percent
- E. 8.20 percent

Liabilities/Net worth = $25,000/75,000 = .3333 = 33.33\%$.

Blooms: Apply

Difficulty: 3 Hard

Gradable: automatic

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

Topic: Personal Finance

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

(p. 51)

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000

Current liabilities = \$2,000

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

A. 2.44

B. 2.50

C. 6.25

D. 0.16

E. 0.41

Liquid assets/Current liabilities = $5,000/2,000 = 2.50$.

Blooms: Apply

Difficulty: 3 Hard

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

Topic: Personal Finance

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

(p. 51)

Liabilities = \$25,000

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000

Current liabilities = \$2,600

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

A. 0.16

B. 0.41

C. 2.44

D. 2.50

E. 6.25

Liquid assets/Monthly expenses = $5,000/2,050 = 2.44$.

Blooms: Apply

Difficulty: 3 Hard

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

Topic: Personal Finance

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

(p. 51)

Liabilities = \$25,000

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000

Current liabilities = \$2,000

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

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 Finance

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

(p. 51)

Liabilities = \$25,000

Liquid assets = \$5,000

Monthly credit payments = \$800

Monthly savings = \$760

Net worth = \$75,000

Current liabilities = \$2,000

Take-home pay = \$2,300

Gross income = \$3,500

Monthly expenses = \$2,050

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 Finance

101. Rebecca Wilson budgeted \$395 for a new wardrobe in June. She actually spent \$425. What is her budget variance?
(p. 57)

- A. \$25 deficit
- B. \$30 deficit**
- C. \$425 deficit
- D. \$25 surplus
- E. \$30 surplus

\$395 budgeted less \$425 spent = \$30 deficit.

Blooms: Apply

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance

102. Rebecca Wilson budgeted \$1,200 for housing and utilities in July. She actually spent \$1,160.
(p. 57) What is her budget variance?

- A. \$1,160 deficit
- B. \$40 deficit
- C. \$60 deficit
- D. \$40 surplus**
- E. \$1,160 surplus

\$1,200 budgeted less \$1,160 spent = \$40 surplus.

Blooms: Apply

Difficulty: 2 Medium

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

Topic: Financial Planning

Topic: Personal Finance