

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

## Chapter 2—Using Financial Statements and Budgets

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

- a. True
- b. False

ANSWER: True

2. A budget is a financial report that forecasts your current income as a percentage of your past earnings.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

8. A budget is a detailed financial forecast.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

13. Real property refers to immovable property, land and anything fixed to it, which have a relatively long life and high cost.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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28. The income and expenditures statement is a summary of actual income and expenditures over a specific period of time.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

33. An income statement deficit would increase net worth.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

35. A cash deficit decreases net worth.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

56. 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.

- a. True
- b. False

ANSWER: True

57. Net worth peaks at about age 65 and then diminishes throughout retirement years.

- a. True
- b. False

ANSWER: True

58. Only four categories of spending account for almost 90% of all consumer spending.

- a. True
- b. False

ANSWER: False

59. Net worth is greatest for those in their prime working years, about age 55.

- a. True
- b. False

ANSWER: False

60. Net worth achieves its highest level beginning at age 65 and increases throughout retirement years.

- a. True
- b. False

ANSWER: False

61. The balance sheet describes a family's financial position:

- a. at a certain point in time.
- b. as an annual summary.
- c. as at a time period less than one year.
- d. at a future time.
- e. none of these

ANSWER: a

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62. The three parts of your balance sheet are your:

- a. income, liabilities, and net worth.
- b. assets, expenditures, and net worth.
- c. assets, liabilities, and expenses.
- d. assets, liabilities, and net worth.
- e. income, liabilities, and assets.

ANSWER: d

63. A(n) \_\_\_\_\_ would not be listed as an asset on your balance sheet.

- a. mortgaged home
- b. savings account
- c. owned automobile
- d. checking account
- e. leased automobile

ANSWER: e

64. When Phil lists his house on his balance sheet, he should record the:

- a. actual purchase price.
- b. replacement value.
- c. insured value.
- d. deferred price.
- e. fair market value.

ANSWER: e

65. Your \_\_\_\_\_ is an example of a liquid asset.

- a. home
- b. car
- c. checking account
- d. charge account
- e. life insurance cash value

ANSWER: c

66. 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 is true of the value of furniture Kathy would record on her personal balance sheet?

- 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

ANSWER: e

67. 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

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\$55,000 on their home mortgage. Sam and Ann 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

ANSWER: c

68. \_\_\_\_\_ is an example of a personal asset.

- a. Jewelry
- b. Mutual fund
- c. Corporate bond
- d. Charge account balance
- e. Premium on auto insurance

ANSWER: a

69. A budget is a:

- a. plan that calculates the interest on loan.
- b. schedule of personal investments.
- c. list of prepaid expenses.
- d. detailed financial forecast.
- e. set of personal financial objectives.

ANSWER: d

70. The main purpose of a budget is to:

- a. develop financial goals.
- b. calculate discounted cash flow.
- c. give feedback to the plan.
- d. monitor and control financial outcomes.
- e. revise depreciation schedule.

ANSWER: d

71. Budgets are:

- a. restrictive.
- b. complicated.
- c. forward looking.
- d. permanent.
- e. unnecessary.

ANSWER: c

72. \_\_\_\_\_ would not be listed as a liability on your balance sheet.

- a. Taxes owed
- b. Loan balances

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- c. Bank credit card charges
- d. Savings accounts
- e. Rent due

ANSWER: d

73. \_\_\_\_\_ would not be a long-term financial goal.

- a. Purchasing a new car
- b. Providing adequate life insurance
- c. Reducing income taxes
- d. Paying your phone bill
- e. Planning for retirement

ANSWER: d

74. Net worth is:

- a. the sum of liquid assets and current liabilities.
- b. the sum of gross income and payroll taxes.
- c. the sum of net income and deductions for payroll taxes.
- d. the difference between total assets and total liabilities.
- e. the difference between income and expenses.

ANSWER: d

75. Balance sheet liabilities should be recorded at their:

- a. original outstanding balance.
- b. year-end outstanding balance.
- c. average outstanding balance.
- d. current outstanding balance.
- e. none of these.

ANSWER: d

76. On a balance sheet, a mortgage loan is recorded as the:

- a. interest only.
- b. sum of interest paid and the outstanding balance.
- c. sum of interest due and the outstanding balance.
- d. principal portion only.
- e. none of the above.

ANSWER: d

77. Another term sometimes used instead of net worth is:

- a. assets.
- b. net debts.
- c. long-term liabilities
- d. equity.
- e. liquid assets.

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ANSWER: d

78. The balance sheet equation is:

- a. Total Assets – Total Current Liabilities = Net Worth.
- b. Total Assets + Total Long-term Liabilities = Net Worth.
- c. Total Assets – Total Liabilities = Net Worth.
- d. Total Assets + Total Liabilities = Net Worth.
- e. Total Liabilities – Total Current Assets = Net Worth.

ANSWER: c

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

- a. \$115,000
- b. \$140,000
- c. \$142,200
- d. \$165,000
- e. \$167,200

ANSWER: a

80. Sonny and Cher have a net worth of \$35,000 and total assets of \$200,000. If their revolving credit and unpaid bills total \$2,200, what are their long-term liabilities?

- a. \$115,000
- b. \$140,000
- c. \$142,200
- d. \$162,800
- e. \$165,000

ANSWER: d

81. You are solvent if your:

- a. total liabilities exceed total assets.
- b. total assets exceed total liabilities.
- c. total assets exceed net worth.
- d. total liabilities exceed net worth.
- e. none of these.

ANSWER: b

82. The income and expenditures statement examines your financial:

- a. level.
- b. performance.
- c. position.
- d. assets.
- e. objectives.

ANSWER: b

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83. The income statement:

- a. shows financial position at a specific point in time.
- b. shows financial performance for a specific time.
- c. shows financial position for a specific time.
- d. shows financial performance at a specific point of time.
- e. none of these.

ANSWER: b

84. The income statement includes:

- a. income, liabilities, and net worth.
- b. income, expenditure, and cash surplus or deficit.
- c. expenditures, net worth, and cash surplus or deficit.
- d. net worth, surplus, and income or expenditures.
- e. savings, surplus, and income or expenditures.

ANSWER: b

85. On an income statement for the period from January 1 to June 30, \_\_\_\_\_ would not be included as an income.

- a. wages and salaries received in that six months
- b. interest received on June 30
- c. auto sold with payment received on May 15
- d. inheritance granted in April, to be paid in September
- e. income tax refund received on April 14

ANSWER: d

86. You are more likely to achieve your financial goals when:

- a. your current income is low.
- b. financial goal dates are inflexible.
- c. short- and long-term goals are combined.
- d. financial plans are reassessed and revised periodically.
- e. one person controls all goals in the household.

ANSWER: d

87. 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

ANSWER: a

88. I should not record \_\_\_\_\_ on an income and expense statement for the period from January 1 to June 30.

- a. an \$800 refrigerator bought on credit on May 30
- b. a paid March telephone bill

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- c. health insurance premiums deducted from monthly pay checks
- d. checking account service charges
- e. groceries bought and paid for in June

ANSWER: a

89. \_\_\_\_\_ would be an example of a periodic expense.

- a. Food
- b. Vacation
- c. Utilities
- d. Taxes
- e. none of these

ANSWER: b

90. The most common budgeting period is a:

- a. week.
- b. month.
- c. quarter.
- d. semi-annually.
- e. bi-weekly.

ANSWER: b

91. A cash budget should help you:

- a. achieve your long-term financial goals.
- b. implement disciplined spending.
- c. eliminate impulse spending.
- d. allocate funds to savings and investments.
- e. do all of these

ANSWER: e

92. 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.

ANSWER: c

93. 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

ANSWER: d

94. When a cash surplus exists on your income and expenditure statements, you can:

- a. acquire assets.

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- b. pay off existing debts.
- c. increase your savings.
- d. increase your investments.
- e. do any of the above.

ANSWER: e

95. 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 only
- e. a, b and c

ANSWER: e

96. 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. taken a cash loan on your insurance.
- e. sold some securities.

ANSWER: a

97. 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 or decreased
- d. income decreased
- e. none of these

ANSWER: c

98. 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

ANSWER: a

99. If your liquid assets equal \$50,000 and your current debts equal \$15,000; your liquidity ratio is:

- a. 30%.
- b. 70%.
- c. 143%.

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d. 233%.

e. 333%.

ANSWER: a

100. 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%.

ANSWER: e

101. Using the information on a personal balance sheet, the \_\_\_\_\_ ratio indicates your ability to meet current debt payments.

a. solvency

b. liquidity

c. cash

d. savings

e. debt service

ANSWER: b

102. 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%

ANSWER: d

103. 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.

ANSWER: c

104. Assume that your total income for the current year is \$35,000. Total expenses including the taxes of \$5,000 is \$30,000. Your savings ratio is:

a. 7.5%

b. 10.0%

c. 12.5%.

d. 13.3%.

e. 16.7%.

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ANSWER: e

105. Assume that your total income is \$72,000. Total expenses including the taxes of \$10,000 is \$60,000. Your savings ratio is:

- a. 10.0%.
- b. 14.3%.
- c. 15.0%.
- d. 19.4.
- e. 17.5%.

ANSWER: d

106. 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%

ANSWER: b

107. 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%

ANSWER: a

108. 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 60%.
- d. below 35%.
- e. above 20%.

ANSWER: d

109. 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%

ANSWER: c

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110. 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 less capitalized interest.
- e. none of the above.

ANSWER: a

111. The expenditure categories for your budget should be determined by:

- a. the BLS Urban Family Budget categories.
- b. purchased budget book headings.
- c. the affordability to meet the expenses.
- d. current and expected future spending.
- e. itemized tax deductions.

ANSWER: d

112. 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.

ANSWER: c

113. The best approach to solving the problem of an annual budget deficit is generally to:

- a. liquidate more assets than the budget shortfall for the year.
- b. borrow funds on credit.
- c. reduce flexible expenditures.
- d. reduce fixed expenses.
- e. reduce high priority expenses from the budget.

ANSWER: c

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

- a. Liquidate enough savings and investments to meet the total budget shortfall for the year.
- b. Borrow enough to meet the total budget shortfall for the year.
- c. Cut low-priority expenses from the budget.
- d. Increase Income.
- e. All of the above.

ANSWER: e

115. To determine how effectively the budget is working, you can use:

- a. the balance sheet.
- b. the bank statement.

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- c. income and expenditure records.
- d. the financial statements at the beginning of the period.
- e. financial goals.

ANSWER: c

116. Dual-income families often face:

- a. reduced employee benefit options.
- b. increased complexity in their money management systems.
- c. reduced expenditures as a result of the second job.
- d. reduced taxes due to tax breaks.
- e. reduced financial goals.

ANSWER: b

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

- a. \$49,179
- b. \$175,590
- c. \$201,000
- d. \$225,682
- e. \$250,000

ANSWER: b

118. Theresa invested \$5,000 in an account she expects to earn 7% annually. Approximately how many years will it take for the account to double in value? (Round number of years to nearest whole number.)

- a. 8
- b. 9
- c. 10
- d. 11
- e. 12

ANSWER: c

119. Jamil invested \$9,500 in an account he expects will earn 5% annually. Approximately how many years will it take for the account to double in value?

- a. 8.8
- b. 9.7
- c. 10.8
- d. 11.4
- e. 14.4

ANSWER: e

120. 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? Approximate the rate of interest to the nearest whole number.

- a. 6%
- b. 7%

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

ANSWER: d

121. 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

ANSWER: d

122. 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

ANSWER: c

123. Net worth is highest at about what age?

- a. 45
- b. 55
- c. 65
- d. 75
- e. 85

ANSWER: c

124. Which of the following is *not* among the four categories accounting for almost three-quarters of consumer spending?

- a. Utilities
- b. Food
- c. Transportation
- d. Housing
- e. Personal insurance and pensions

ANSWER: a

125. Which of the following are *not* among the four categories accounting for three-quarters of consumer spending?

- a. Utilities
- b. Clothing
- c. Food
- d. a and b

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e. a, b, and c

ANSWER: d

126. Which of the following is among the four categories accounting for almost three-quarters of consumer spending?

- a. Personal insurance and pensions
- b. Clothing
- c. Utilities
- d. Entertainment
- e. Medical

ANSWER: a

**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.

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

ANSWER: a

128. The primary function of preparing financial statements at the end of the current period is to provide a picture of your [*actual* | *projected*] financial position.

ANSWER: a

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

ANSWER: b

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

ANSWER: a

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

ANSWER: a

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

ANSWER: a

133. A(n) [*auto loan* | *credit card balance*] would be an example of a current liability.

ANSWER: b

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

ANSWER: b

135. A liability would be listed on a balance sheet as the [*amount originally borrowed* | *amount of the next loan payment to be made* | *none of these*].

ANSWER: c

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

ANSWER: b

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

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ANSWER: b

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

ANSWER: b

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

ANSWER: a

140. 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*].

ANSWER: a

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

ANSWER: a

142. Your car has a market value of \$4,000 while the balance of the loan against it is now \$2,500. Your ownership interest in this car is [*\$4,000* | *\$1,500*].

ANSWER: b

143. Your car has a market value of \$10,000 while the balance of the loan against it is now \$2,500. Your ownership interest in this car is [*\$7,500* | *\$10,000*].

ANSWER: a

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

ANSWER: a

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

ANSWER: a

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

ANSWER: a

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

ANSWER: a

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

ANSWER: b

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

ANSWER: b

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

ANSWER: b

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

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ANSWER: b

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

ANSWER: a

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

ANSWER: a

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

ANSWER: a

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

ANSWER: a

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

ANSWER: b

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

ANSWER: a

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

ANSWER: b

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

ANSWER: b

160. 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*].

ANSWER: a

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

ANSWER: b

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

ANSWER: a

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

ANSWER: a

164. The process of finding the present value is termed as [*discounting* | *compounding*].

ANSWER: a

165. 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.)

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

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166. 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.)

ANSWER: Total Assets	\$55,000	
Less: Total Liabilities		<u>26,000</u>
Equal: Net Worth		\$29,000

167. 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.)

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

168. 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 (overdue)	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

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

169. 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 (overdue)	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

ANSWER: Assets:		Liabilities:	
Cash on hand	\$ 500	Utility bills (Overdue)	\$ 120
Primary residence	60,000	Taxes due	500
2001 Toyota	7,500	Bank credit cards balance	750

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

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Jewelry	1,200	Auto loan balance	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		

170. Inflation is expected to be 4 percent in the coming year. 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.)

ANSWER: To keep up with an inflation of 4% in the coming year, Mr. Gonza must earn  $\$37,000 + (0.04 \times (\$37,000))$   
 $= \$37,000 + \$1,480 = \$38,480$   
 Alternatively, this can also be calculated as  
 $\$37,000 \times 1.04 = \$38,480$

171. Inflation is expected to be 3 percent in the coming year. 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.)

ANSWER: To keep up with an inflation of 3% in the coming year, Mr. Gonza must earn  $\$45,000 + (0.03 \times (\$45,000))$   
 $= \$45,000 + \$1,350 = \$46,350$   
 Alternatively, this can also be calculated as  
 $\$45,000 \times 1.03 = \$46,350$

172. 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?

ANSWER:  $FV = 1,000,000$

N	=	25
I	=	10
PMT	=	10,168.07

173. 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?

ANSWER:  $FV = 1,750,000$

N	=	30
I	=	8
PMT	=	15,448.01

174. 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?

ANSWER:  $PMT = 80,000$

N	=	20
I	=	4
PV	=	1,087,226