Test Bank for Personal Finance CDN 4th Madura

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Personal Finance, Canadian Ed., 4e **(Madura)**
Part 1 Tools for Financial Planning - Planning with Personal Financial Statements

True/False

1) Salary or wages are the main source of income for most working people.
Answer: TRUE
Diff: 1 Type: TF
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

2) Cash outflows represent your liabilities, such as the pay-off value on your car or home.
Answer: FALSE
Diff: 3 Type: TF
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Applied

3) A negative cash flow means net worth will decrease.
Answer: TRUE
Diff: 3 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Applied

4) Individuals who switch from a low-demand industry to a high-demand industry may earn higher incomes.
Answer: TRUE
Diff: 1 Type: TF
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Recall

5) During the final stage in the life cycle, retirement, people generally experience higher incomes.
Answer: FALSE
Diff: 1 Type: TF
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Recall

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6) People who have very high incomes are much better savers than those with moderate incomes.
Answer: FALSE
Diff: 2 Type: TF
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Recall

7) A personal cash flow statement is usually the starting point for an individual's or family's budget.
Answer: TRUE
Diff: 2 Type: TF
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

8) One advantage of budgeting several months in advance is that you will be warned of potential deficiencies and can determine how to cover them.
Answer: TRUE
Diff: 1 Type: TF
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

9) One of the problems in making a monthly budget is that some expenses fluctuate quite a bit from month to month.
Answer: TRUE
Diff: 1 Type: TF
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

10) Getting financial help from family and friends should be your first options in case of emergencies.
Answer: FALSE
Diff: 2 Type: TF
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

11) In order to have a successful budget experience, you must use both the envelope and the pay yourself first methods.
Answer: FALSE
Diff: 1 Type: TF
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

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12) Stocks are considered a short-term liquid investment.
Answer: FALSE
Diff: 2 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

13) Long-term liabilities are debts that will be paid off at least three years into the future.
Answer: FALSE
Diff: 1 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

14) A high debt-to-asset ratio indicates an excessive amount of debt and should be reduced over time to avoid any debt repayment problems.
Answer: TRUE
Diff: 2 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Qualitative
Skill Type: Recall

15) Your net worth can change even if your net cash flows are zero.
Answer: TRUE
Diff: 3 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Applied

16) Budgeting is the forecasting of future income, expenses, and savings.
Answer: TRUE
Diff: 1 Type: TF
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

17) Paying $2000 to reduce your car loan to $5000 would increase your debt-to-asset ratio (all else being equal).
Answer: FALSE
Diff: 1 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

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18) Someone with a monthly income of $5000, $5000 in their checking account and monthly expenses of $5000 would have Liquidity Ratio of 2.
Answer: FALSE
Diff: 2 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

19) A debt-to-asset ratio above 1 is more important than a liquidity ratio above 1.
Answer: FALSE
Diff: 2 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

20) If JT's gross income is $50 000, disposable income is $36 000, and he saves $5000 annually, his savings ratio is 10%.
Answer: FALSE
Diff: 2 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

21) It is possible to budget for irregular expenses paid infrequently.
Answer: TRUE
Diff: 2 Type: TF
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

22) If your net cash flow is $1000, the total value of your assets is $14 000, and your total debts are $4000, then your net worth is $11 000.
Answer: FALSE
Diff: 2 Type: TF
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

23) A net worth statement can be used to monitor the changes in your wealth over time.
Answer: TRUE
Diff: 2 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

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24) Students with a negative net worth are essentially bankrupt.
Answer: FALSE
Diff: 2 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

25) Net worth always increases when you increase the value of your assets.
Answer: FALSE
Diff: 3 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Applied

26) Assets valued at $400 000 with liabilities of $300 000 means a liquidity ratio of 3 to 1.
Answer: FALSE
Diff: 3 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

27) Assets valued at $400 000 with liabilities of $300 000 means a debt-to-asset ratio of 0.75.
Answer: TRUE
Diff: 3 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

28) A liquidity ratio between 1 and 2 is ideal.
Answer: FALSE
Diff: 2 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

29) A high debt-to-asset level is common during the early- to mid-earning life stages.
Answer: TRUE
Diff: 2 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Qualitative
Skill Type: Recall

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30) If you feel your debt-to-asset ratio is low, you should review your cash flows to maximize your income and minimize expenses.
Answer: FALSE
Diff: 3 Type: TF
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

31) Income of $2760 monthly with expenditures of $2880 monthly will result in a negative cash flow of $120.
Answer: TRUE
Diff: 1 Type: TF
Categories: Personal Cash Flow Statement
Financial Type: Quantitative
Skill Type: Applied

32) Mutual funds are portfolio investments that require investors to make individual stock or bond investment decisions themselves.
Answer: FALSE
Diff: 1 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

33) Household assets include jewelry and furniture and should be valued at their original cost.
Answer: FALSE
Diff: 2 Type: TF
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Applied

34) Raymond has a $5000 bank loan due in nine months, $3000 in credit card liabilities due in 1.5 months, and another $4000 loan due in 1.5 years. In this case, Raymond has total long-term liabilities of $4000.
Answer: TRUE
Diff: 2 Type: TF
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

35) If you have an increase in monthly disposable income from $4000 to $4500 and an increase in spending of $650 per month, your net cash flow is reduced by $150 per month.
Answer: TRUE
Diff: 2 Type: TF
Categories: Factors That Affect Cash Flows
Financial Type: Quantitative
Skill Type: Applied

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Multiple Choice

1) What is the purpose of creating your personal cash flow statement?
A) To develop your budget
B) To create your balance sheet
C) To track your net worth
D) For your annual tax return records
Answer: A
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Applied

2) This month Jill received $1000 income from her job and $200 in stock dividends. Her expenses were rent and utilities of $300 and $300 on groceries and $200 on clothing. Which of the following is **true**?
A) Jill has a net cash flow of $400.
B) Jill has net expenses of $400.
C) Jill has a net cash flow of $200.
D) Jill has net income of $400.
Answer: A
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Quantitative
Skill Type: Applied

3) Which of the following is required in creating a cash flow statement?
A) The values of all assets
B) Value of all liabilities
C) Amounts used for expenses
D) The ideal emergency fund amount
Answer: C
Diff: 1 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

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4) Which of the following is **not** a cash inflow?
A) Interest received
B) Dividend income
C) Car payment
D) Salary
Answer: C
Diff: 1 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

5) What are net cash flows?
A) All assets minus liabilities
B) All incomes minus living expenses
C) Current assets minus current liabilities
D) After-tax income minus expenses
Answer: D
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

6) This month Joshua has $2000 income from his job and $100 interest income. His expenses are rent $500, food and entertainment $400 and car expenses $600. He has $40 000 held in bonds and a car loan of $10 000. What is his cash flow this month?
A) $600
B) $500
C) -$9400
D) $30 600
Answer: A
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Quantitative
Skill Type: Applied

7) This month Joshua has $2000 income from his job and $100 interest income. His expenses are rent $500, food and entertainment $400, car expenses $600. He has $40 000 held in bonds and a car loan of $10 000. What is his net worth?
A) $30 000
B) $32 100
C) $30 600
D) $30 500
Answer: A
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

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8) Net cash flows is defined as which of the following?
A) After tax income minus expenses and saving for an emergency fund, investments and major asset purchases
B) After tax income minus expenses and saving for an emergency fund and investments
C) After tax income minus expenses and saving for an emergency fund
D) After tax income minus expenses
Answer: D
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

9) Jeff has a $1000 salary and $100 dividend income this month. This month Jeff has rent and utilities of $600 and he spent $200 on groceries and $100 on clothing. What is his net cash flow this month?
A) $500
B) $100
C) $200
D) $1100
Answer: C
Diff: 1 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Quantitative
Skill Type: Applied

10) What error do many individuals make in budgeting?
A) Overestimate expenses and underestimate income
B) Overestimate income and underestimate expenses
C) Overestimate income and expenses
D) Underestimate income and expenses
Answer: B
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

11) Which cash inflow will probably be discontinued after retirement?
A) Dividend and interest received from investments
B) Pension payments
C) Salary
D) Social assistance benefits
Answer: C
Diff: 1 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

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12) Which of the following usually affects cash inflows the most?
A) The education and income of your parents
B) Your job skills
C) Your personal consumption behaviour
D) The size of your family
Answer: B
Diff: 2 Type: MC
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Recall

13) All of the following affect cash outflows **except**
A) the size of the family.
B) your age.
C) your education level.
D) your personal consumption behaviour.
Answer: C
Diff: 2 Type: MC
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Recall

14) What tends to be the case for the retirement life stage?
A) Lower debt levels than in early-earning and mid-earning life stages
B) Managing expenses for new hobbies becomes challenging.
C) Managing RRSP investments becomes paramount.
D) Increase in taxes due to income on retirement funds
Answer: A
Diff: 2 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Qualitative
Skill Type: Recall

15) If both a husband and a wife are employed full time, their consumption behaviour
A) is usually higher.
B) tends to decrease.
C) will decrease as they age.
D) is similar to all mid earning life stage people.
Answer: A
Diff: 2 Type: MC
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Recall

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16) A cash flow statement is
A) an accurate recording of recent actual expenses and incomes.
B) a forecast of cash inflows and outflows.
C) only concerned with regular sources of income and expenses.
D) a summary of monthly cash surpluses or deficits.
Answer: A
Diff: 2 Type: MC
Categories: Personal Cash Flow Statement
Financial Type: Qualitative
Skill Type: Recall

17) If you do **not** budget for unexpected expenses, you will likely experience
A) cash shortages.
B) an increase in your emergency fund.
C) an increase in assets.
D) chronic stress-related issues.
Answer: A
Diff: 1 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

18) What is a practical way to make sure you stay within your budget and achieve your savings goals?
A) Use the pay yourself first method.
B) Use a credit card for all expenses.
C) Reduce your spending.
D) Get a second job.
Answer: A
Diff: 2 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

19) A budget is
A) the same thing as a cash flow statement.
B) a method to measure net worth and monitor wealth.
C) an historical record of income and expenses.
D) a forecast of all items on the cash flow statement.
Answer: D
Diff: 1 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

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20) Which of the following is the worst approach to solving the problem of an annual budget deficit?
A) Liquidate enough savings or investments to make up the deficit.
B) Get an additional credit card and cover the deficit with that.
C) Renegotiate debt to longer term, lower interest options.
D) Increase income by getting an additional part-time job.
Answer: B
Diff: 3 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

21) Which one of the following is a liquid asset?
A) Money in a savings account
B) A car
C) Cash in an RRSP
D) Stock held in an investment account
Answer: A
Diff: 1 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Applied

22) Which of the following would increase your liquid assets?
A) Paying off a loan
B) Depositing funds to a savings account
C) Buying rental property
D) Contributing to an RRSP
Answer: B
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

23) Which of the following is **not** a liquid asset?
A) Cash in your pocket
B) Money in a savings account
C) Access to your credit card
D) Money in your chequing account
Answer: C
Diff: 1 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

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24) Which of the following is **not** considered an asset for a family?
A) Cash in a chequing account
B) A mortgaged home
C) Access to a line of credit
D) Furniture
Answer: C
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

25) Property such as a person's home, car, and furniture is called
A) personal assets.
B) household assets.
C) major property assets.
D) long-term assets.
Answer: B
Diff: 1 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

26) When a person owns corporate stocks, government or corporate bonds, or mutual funds, these are called
A) liquid assets.
B) long-term assets.
C) investment assets.
D) retirement assets.
Answer: C
Diff: 1 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

27) Which of the following is a **true** statement about mutual funds?
A) You get to choose what stocks the mutual fund invests your money in.
B) A minimum investment is required.
C) They are only invested in stocks.
D) The value of shares are not reported in *The Globe and Mail* or on various websites.
Answer: B
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

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28) Balance sheet assets should be valued at
A) original purchase price.
B) replacement value.
C) insured value.
D) fair market value.
Answer: D
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

29) If your budget forecasts a future shortfall in cash flow, the best way to use your budget is to
A) eliminate all entertainment expenses for that period.
B) build an emergency fund to prepare for the shortfall.
C) increase cash flows from all sources.
D) obtain credit in advance of the predicted shortfall.
Answer: B
Diff: 3 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

30) Bills that are to be paid off within a year are called
A) short-term liabilities.
B) one-year liabilities.
C) current liabilities.
D) insignificant bills.
Answer: C
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

31) Which is an example of a possible unanticipated cash flow shortage?
A) Your car gets damaged in an accident.
B) Your annual life insurance payment comes due.
C) Your property tax bill is overdue.
D) Your car loan payment falls due.
Answer: A
Diff: 1 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

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32) A major part of the budgeting process to ensure overall financial success is
A) reducing credit limits on credit cards.
B) limiting entertainment expenses.
C) establishing an emergency fund.
D) planning an overdraft for your chequing account.
Answer: C
Diff: 2 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Recall

33) Liabilities can be calculated by
A) adding assets plus net worth.
B) subtracting net worth from assets.
C) adding assets plus income.
D) subtracting expenses from assets.
Answer: B
Diff: 3 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Applied

34) Which of the following has the best debt-to-asset ratio?
A) John has total assets of $600 000 and total debt of $400 000.
B) Fred has total assets of $36 000 and total debt of $23 000.
C) Maria has a monthly gross income of $8000 and expenses of $6000.
D) Cassandra has a gross monthly income of $2000 and expenses of $1200.
Answer: B
Diff: 2 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

35) Current liabilities include all of the following **except**
A) this year's monthly car payments on a three-year loan.
B) the total mortgage on a home.
C) the amount due on a credit card.
D) next month's payment on a student loan.
Answer: B
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

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36) Student loans, car loans, and mortgages are likely examples of
A) long-term liabilities.
B) current liabilities.
C) short-term debts.
D) household liabilities.
Answer: A
Diff: 1 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

37) A personal balance sheet summarizes
A) income, expenses and net worth.
B) cash inflows, outflows and net worth.
C) assets, net worth, and income.
D) assets, liabilities, and net worth.
Answer: D
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

38) Jennifer has assets of $100 000 and debts of $10 000. She could
A) borrow more money, since her debt ratio is low.
B) apply for a bank loan, but expect to be turned down.
C) borrow approximately $200 000 at below-market rates.
D) establish an emergency fund of $10 000 in order to qualify for a loan.
Answer: A
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

39) Which of the following actions will decrease your net worth?
A) Fitness club dues paid monthly
B) Contributions to a mutual fund paid monthly
C) Student loan payments paid monthly
D) Home mortgage payments paid monthly
Answer: A
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Qualitative
Skill Type: Applied

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40) Which of the following would increase your net worth (all else the same)?
A) Your home increasing in value
B) Getting a salary increase
C) Selling your condo
D) Paying down your mortgage with excess cash flow
Answer: A
Diff: 3 Type: MC
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

41) If your net worth is **not** improving over time, you can use your budget to
A) make yourself take a more disciplined approach.
B) add part-time income you had not previously included in your budget.
C) identify the components in the budget you can change.
D) improve your rate of return on investments by raising the risk level.
Answer: C
Diff: 3 Type: MC
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

42) The current financial position of an individual or family is best presented with the use of a
A) net worth statement.
B) cash flow statement.
C) balance sheet.
D) bank statement.
Answer: C
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

43) If you sell stock from your portfolio to pay off your car loan, your debt ratio of 0.5 will
A) improve (increase).
B) improve (decrease).
C) remain unchanged.
D) decrease (unfavourably).
Answer: B
Diff: 3 Type: MC
Categories: Relation Between Cash Flows and Wealth
Financial Type: Quantitative
Skill Type: Applied

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44) Nancy has a gross income of $47 000, disposable income of $40 000, a net worth of $80000 and saves $8000 a year. Her savings rate is
A) 10 percent.
B) 15 percent.
C) 17 percent.
D) 20 percent.
Answer: D
Diff: 2 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

45) If Jo Ann had $4000 in liquid assets and $1000 in current liabilities, she would have a current ratio of
A) 0.25.
B) 4.0.
C) 1000.
D) 4000.
Answer: B
Diff: 2 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

46) A low liquidity ratio means that
A) you have very few debts.
B) you will not likely have trouble paying your monthly bills.
C) you probably will have trouble paying your monthly bills.
D) you have many liquid assets.
Answer: C
Diff: 2 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

47) Paying off a credit card with savings will have what effect on net worth?
A) Increase
B) Decrease
C) No effect
D) Insufficient data
Answer: C
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

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48) If your debt-to-asset ratio is less than 1, which of the following will improve it?
A) Taking out a line of credit
B) Buying a car with cash
C) Paying off a student loan
D) Buying stock with cash
Answer: C
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

49) Credit cards are
A) a good source of short term funds to be used in a period of negative cash flow.
B) used to spend excessively by some because it avoids using up available cash.
C) a great way to discipline yourself to delay gratification to the future.
D) an interest free source of credit as long as the balanced is paid of every other month.
Answer: B
Diff: 2 Type: MC
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

50) George has total debts of $10 000, liquid assets of $8000 and current liabilities of $5000. His current ratio is
A) 0.8.
B) 0.63.
C) 6.3.
D) 1.6.
Answer: D
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

51) Paradis has total assets of $360 000, current assets of $35 000, current liabilities of $22 000, and total liabilities of $195 000. His debt-to-asset ratio is
A) 1.59.
B) 0.63.
C) .54.
D) 1.85.
Answer: C
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

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52) Should Shane be concerned about his liquidity ratio of 80 percent?
A) No, he is in good position regarding liquidity.
B) No, this indicates a healthy cash flow.
C) Yes, he may have problems covering upcoming payments.
D) Yes, he may decrease his net worth with too many investments.
Answer: C
Diff: 2 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

53) Ben's salary is $3000 per month, taxes are $500, fixed expenses are $1500 and savings are $500. His disposable income is
A) $1500.
B) $3000.
C) $2500.
D) $500.
Answer: C
Diff: 2 Type: MC
Categories: Creating a Budget
Financial Type: Quantitative
Skill Type: Applied

54) Kim has a net worth of -$20 000 and a debt-to-asset ratio of three. Which of the following do you know is **true**?
A) Kim has a major liquidity problem.
B) Kim is on the verge of bankruptcy.
C) Kim has assets of $10 000.
D) Kim has liabilities of $20 000.
Answer: C
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

55) Over time the balance sheet will show that your budgeting process is successful if
A) there is a constant positive cash flow.
B) you have controlled all spending habits.
C) your budget is continually accurate.
D) your net worth increases each year.
Answer: D
Diff: 3 Type: MC
Categories: Personal Balance Sheet
Financial Type: Qualitative
Skill Type: Recall

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56) Jerry has assets of $200 000, net worth of $150 000, gross income of $60 000 and disposable income of $50 000. What are Jerry's liabilities?
A) $110 000
B) $50 000
C) $100 000
D) $0
Answer: B
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

57) Last year John purchased a car for $45 000, a desktop computer for $4000, and a camera for $2500. At present, John has $1000 in credit card debt and a $1800 bank loan. With reasonable estimate of market values, John's car is worth $40 000, computer is worth $2000, and camera is worth $3000. What is John's net worth today?
A) $37 200
B) $48 700
C) $42 200
D) $39 200
Answer: C
Diff: 3 Type: MC
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

58) Raymond feels that he is wealthy because he has $10 000 cash in the bank, two expensive cars worth about $100 000, and a house worth $1 million. However, he also carries a $25 000 credit card liability and has a $40 000 bank loan due within six months. What financial problem does Raymond have?
A) Fixed assets are too high.
B) Total net worth is too low.
C) Current ratio is too low.
D) Liquidity ratio is too low.
Answer: C
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

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59) Mary earns $3500 per month. After payroll deductions from the government, Mary takes home 85 percent of her salary. Mary wants to use a pay yourself first method and puts $330 into her savings account before spending anything and pays $200 towards her student loans. What is Mary's saving rate?
A) 9.4 percent
B) 11.1 percent
C) 15.1 percent
D) 17.8 percent
Answer: B
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

60) Robert feels his personal finance is not so healthy in terms of managing debt. He has a $12 000 credit card liability, a $10 000 car loan, and a $300 000 mortgage liability. Robert possesses a car worth $12 000 and a house worth $388 000. What is Robert's debt-to-asset ratio?
A) 80.5 percent
B) 77.3 percent
C) 83.3 percent
D) Insufficient information to calculate
Answer: A
Diff: 3 Type: MC
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

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Essay

1) Use an example with numbers to illustrate how someone's net worth could increase over a year while their cash flow was negative.
Answer: There are many possibilities, here is one illustration.

The balance sheet includes assets, liabilities, and net worth. With assets growing in value by 2% and the liability is being systematically paid down, the overall net worth could increase even if cash flow is negative for a year and for example there is a $5000 credit card debt at the end of the year.

If the balance sheet beginning of year has assets that are growing by 2% such as:

Investments:	200 000 after a year	204 000
House:	600 000 after a year	612 000

Liability:

Mortgage:	300 000 (assume pay $1000 a month principal)	288 000
Credit card	0	5000
Net worth:	500 000	523 000

The income statement includes income and expenses

Salary	50 000
Taxes	10 000
Expenses	45 000

Cash flow - 5000 over the year and could be a balance on a credit card or line of credit.
Diff: 3 Type: ES
Categories: Personal Balance Sheet
Financial Type: Quantitative
Skill Type: Applied

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2) Use an example with numbers to illustrate financial ratios are important when considering someone's balance sheet.
Answer: There are unlimited what to illustrate this but a simple way is to illustrate two balance sheets with the same net worth, but drastically different ratios and the risks that implies.

The balance sheet includes assets, liabilities, and net worth.

Bill:		Sarah:	
Assets:			
House:	2 100 000	Condo:	170 000
Investments:	0	TFSA:	30 000
Total assets:	2 100 000		200 000
Liabilities:			
Line of credit:	75 000		0
Mortgage:	1 900 000		100 000
Credit card	25 000		0
Total liabilities:	2 000 000		100 000
Net worth:	100 000		100 000
Debt-to -asset ratio	.95		.5
Current ratio:	0/25 000 = 0	30 000/2000?	

These financial ratios tell a big story of one person in a very stable financial situation and one with a house of cards.
Diff: 3 Type: ES
Categories: Financial Ratio Calculations
Financial Type: Quantitative
Skill Type: Applied

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3) George has a very low debt to asset ratio because he has paid off his mortgage on his house and has very little other debt. Recently, he quit his high-stress job and has taken a much more enjoyable lower-paying position. Consequently, he also now has a low liquidity ratio. He used up all of his emergency fund while looking for the new job and he is having difficulty continuing to save for his retirement. Comment on his situation and make suggestions to help him with his retirement budgeting.
Answer: George is asset rich but cash flow poor due to his recent circumstances. His first course of action should be to do a new personal cash flow statement to identify areas where he can reduce expenses and adjust his behaviour to his new status in life.

It may be necessary for him to re-evaluate his goals. Once satisfied he can comfortably adjust to his new goals he should prepare a new budget.

First, he should emphasize the replacement of an emergency fund and then the funding of his retirement plan.
A balance sheet would provide valuable information regarding his opportunities to borrow. George, in his current position, has fortunately demonstrated a healthy respect for debt and might consider borrowing money against his assets to put in his retirement fund if he still cannot budget for it out of his cash flow.

Alternatively, George could consider selling assets to raise the cash required after he has considered exactly what changes he will make to his new lifestyle.
Diff: 3 Type: ES
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

4) Marta has been keen on following her budget for some time, but unexpected expenses such as car repairs or broken appliances always seem to force her to cancel her vacation each year. Suggest what course of action Marta should follow.
Answer: Marta has not likely budgeted for an emergency fund and this is the reason her plan is not working.

She should re-do her personal cash flow statement, making sure that she has accounted for unusual and unexpected expenses and allocate funds to build her emergency fund to three times her monthly expenses.

Since she has followed a budget in the past this should be an easier process as she goes through her records. Reassessing her goals may be necessary to ensure that there are enough funds to meet her vacation needs.

During this process she should review opportunities to raise cash flow and areas where expenses can be reduced.
Diff: 2 Type: ES
Categories: Creating a Budget
Financial Type: Qualitative
Skill Type: Applied

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5) Jason is a stockbroker who is on variable compensation. In good years he receives a healthy bonus that might triple his base salary. During these times he is accustomed to a lavish lifestyle, driving expensive cars and taking exotic vacations. He knows it is important to save for retirement but he makes RRSP contributions only in years in which he receives good bonus cheques. In poor years he will receive only a base salary. During these poor years he finds himself scrambling to pay off debts and meet monthly expenses.

He always seems to have more unexpected expenses during these times, too. He always has at least $1000 cash in his wallet and tries to avoid the use of credit cards as much as possible. Jason is funding all short-term goals with current earnings and hasn't set any mid- or long-term goals.

He is frustrated by his wildly fluctuating income and his constant concern about his potential earnings at the beginning of each year. How can you assist Jason?
Answer: First, Jason needs to set realistic short-, medium-, and long-term goals.

Then Jason needs to create a personal cash flow statement, budget, balance sheet, and net worth statements as well as a complete review of spending habits to establish an emergency fund. In his circumstances, he needs a much larger emergency fund than many people because his income varies significantly.

One positive is that he has not abused credit and has some RRSP savings so he is not beyond redemption. People in this stage of life have huge potential but it will take some sacrifices to live within a budget. He needs to control consumption and change personal habits drastically.

Establishing order in his life with a budget and setting future goals may be a welcome change. For starters, the cash must stay out of his wallet and he should control and record his expenses with the use of a debit card.

Once enough information has been gathered, he needs to make some decisions about spending patterns and implement a cash outflow tailored to essential expenses. To adhere to the budget, initially it should include a liberal entertainment expenses that can be altered over time to condition him to a new and disciplined lifestyle.

The budget should be sufficient to cover all of the expected expenses incurred during his lower-earning years.
Diff: 3 Type: ES
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Applied

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6) Describe why some people may need alternative budget strategies? Give an example to illustrate why someone might need the envelope method while someone else needs the pay yourself first method.
Answer: If someone has good intentions but is still unable to anticipate cash shortages or is unable to consistently apply the budget method, then he or she may need alternative budgeting strategies.

Envelope method: To force you to stick to a cash-only budget for some of your expense categories. Putting $100 cash in an envelope labelled "Entertainment" to set a maximum of $100 spending on entertainment is an example. If someone is extremely impulsive and for example cannot resist buying the great sale deals on their credit card, they may need to get rid of the card and use the envelope method.

Pay yourself first method: To control the amount of money going out of your bank account after each pay cheque comes in. For instance, you transfer $200 from your chequing account to your savings account after the direct deposit of salary to stop yourself from spending $200 in your chequing account. For many people this method ensures that the critical savings get done first, while all other expenses are clearly documented on the credit card or bank statement to track monthly cash flow.
Diff: 2 Type: ES
Categories: Factors That Affect Cash Flows
Financial Type: Qualitative
Skill Type: Applied

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