Test Bank for Focus on Personal Finance 6th Kapoor

Access Complete Test Bank for Focus on Personal Finance 6th Kapoor

Personal Finance, 6e (Kapoor)
Chapter 2 Money Management Skills

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

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

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

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

5) Some people keep various documents and valuables in safe deposit boxes in banks and other financial institutions because the safety of the contents of these boxes is absolutely foolproof.

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

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

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

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

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

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

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

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

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

15) Net worth is the amount owed to others.

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

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

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

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

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

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

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

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

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

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

26) Annual investment account statements should be shredded.

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

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

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

30) A high debt ratio is best.

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.

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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 these choices 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.

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) Common stock and bond brokerage statements are an example of a(n) _____ record.
A) investment
B) insurance
C) estate planning
D) tax
E) consumer purchase

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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 own 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 these choices 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

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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, amounts owed, and your net worth.
E) Family financial goals.

45) The current financial position of an individual or family is best presented in the form 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 that you own that have a 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 surrender value of life insurance
C) Checking account balance
D) Money market accounts
E) All of these are liquid assets

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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 surrender value of life insurance
B) Checking account
C) Personal possessions in your home
D) Retirement account such as a 401k
E) Vacation property

53) When creating a personal balance sheet, which of the following is a current liability?
A) Checking account
B) Thirty-year mortgage
C) Educational loan
D) 5-year home equity 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) Assets minus Cash outflows = Net worth.
B) Cash inflows minus Liabilities = Net worth.
C) Cash inflows minus Cash outflows = Net worth.
D) Assets minus Liabilities = Net worth.
E) Cash inflows + Liabilities = Net worth.

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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) Decrease their debt ratio.
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

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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

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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) Housing, food and other living expenses
E) Social Security taxes

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74) Disposable income equals
A) Gross income.
B) The amount a person or household has to spend.
C) Money left over after paying for housing, food, and other necessities.
D) Social Security taxes.
E) The amount being saved each month.

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) A mortgage or rent payment.
B) An installment loan payment.
C) A monthly train ticket for commuting to work.
D) A monthly allocation for life insurance.
E) Utilities.

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80) An example of a fixed expense is
A) Medical expenses.
B) Gifts.
C) Utilities.
D) Home rental 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 financial worry
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.

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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(n)
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(n)
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) Monthly investment brokerage statement.
C) Budget.
D) Bank statement.
E) Credit card statement.

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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) Given the following information, calculate the net worth:

Assets = $8,000
Cash inflows = $6,000
Cash outflows = $4,500
Liabilities = $5,000
A) $500
B) $1,500
C) $2,000
D) $3,500
E) $3,000

95) 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

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96) 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

97) 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

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98) 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%

99) 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%

100) 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

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101) 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

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Personal Finance, 6e **(Kapoor)**
Chapter 2 Money Management Skills

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

Answer: TRUE
Difficulty: 1 Easy
Page Ref: 45
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: Money management refers to day-to-day financial activities.
Difficulty: 1 Easy
Page Ref: 45
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: An organized system of financial records provides a basis to handle daily business activities, plan and measure financial progress, complete required tax returns and reports, make effective investment decisions, and determine available resources for current and future spending. However, organized financial records, although very important, do not form the basis for reducing credit card usage. Self-control and other strategies can help with that.
Difficulty: 2 Medium
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: A budget is a spending plan that shows how a person or family intends to spend their money in the future.
Difficulty: 2 Medium
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

5) Some people keep various documents and valuables in safe deposit boxes in banks and other financial institutions because the safety of the contents of these boxes is absolutely foolproof.

Answer: FALSE
Explanation: While these boxes are usually very safe, each year some people lose the contents of their safe deposit boxes through theft, fire, or natural disasters. Such losses are usually, but not always, covered by the financial institution's insurance.
Difficulty: 1 Easy
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: See Exhibit 2-1: Credit card records belong in a home file, home computer, or online.
Difficulty: 1 Easy
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Explanation: See Exhibit 2-1: These records belong in a safe deposit box or a fireproof home safe.
Difficulty: 1 Easy
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Explanation: See Exhibit 2-1: Medical information is a part of insurance records, which belong in a home file, home computer, or online.
Difficulty: 2 Medium
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: These should be kept in a home file to allow quick access to needed information.
Difficulty: 1 Easy
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 1 Easy
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: These should be saved for seven years.
Difficulty: 1 Easy
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: These should be kept permanently.
Difficulty: 1 Easy
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: The two statements include the personal balance sheet and the cash flow statement.
Difficulty: 2 Medium
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 2 Medium
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

15) Net worth is the amount owed to others.

Answer: FALSE
Explanation: Liabilities are amounts owed to others. Net worth is your wealth and is calculated as total assets minus total liabilities.
Difficulty: 1 Easy
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 1 Easy
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: 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.
Difficulty: 2 Medium
Page Ref: 49-50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: This equation is for a personal balance sheet.
Difficulty: 2 Medium
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 2 Medium
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 2 Medium
Page Ref: 52-53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: Take-home pay is calculated as salary (or gross income) minus deductions. Therefore, take-home pay plus deductions equals gross salary.
Difficulty: 2 Medium
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: An emergency fund should cover three to six months of living expenses.
Difficulty: 1 Easy
Page Ref: 55
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: 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." That means you should factor a reasonable amount to save from current income and incorporate that amount into your budget as opposed to "Seeing what is left" at the end of the month.
Difficulty: 2 Medium
Page Ref: 55
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: Automatically deducting an amount from your salary and depositing it in savings is one method to make saving easier. It is a form of "forced" savings and therefore, reduced spending.
Difficulty: 1 Easy
Page Ref: 62
Topic: Personal Finance
Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 1 Easy
Page Ref: 62
Topic: Personal Finance
Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

26) Annual investment account statements should be shredded.

Answer: FALSE
Explanation: Quarterly investment statements should be shredded while annual statements should be kept.
Difficulty: 2 Medium
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: A mortgage is an amount borrowed to buy a house or other real estate.
Difficulty: 1 Easy
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: FALSE
Explanation: assets − liabilities = net worth; thus, 195,000 − 75,000 = 120,000
Difficulty: 3 Hard
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: TRUE
Difficulty: 1 Easy
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

30) A high debt ratio is best.

Answer: FALSE
Explanation: The debt ratio is calculated as follows: liabilities/net worth. Therefore, a low debt ratio would be best.
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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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.

Answer: B
Difficulty: 1 Easy
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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 these choices are components of money management.

Answer: E
Difficulty: 2 Medium
Page Ref: 45
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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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.

Answer: B
Difficulty: 2 Medium
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: D
Difficulty: 2 Medium
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
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Gradable: automatic

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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.

Answer: E
Explanation: Home file: Warranty (consumer purchase and automobile records), tax records, current budget.
Safe deposit box: Death certificate, adoption papers.
Difficulty: 3 Hard
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: A
Explanation: Home file: W-2s for tax records, current budget.
Safe deposit box: Rare coins and stamps, marriage certificate, adoption papers.
Difficulty: 3 Hard
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
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Gradable: automatic

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37) Common stock and bond brokerage statements are an example of a(n) _____ record.
A) investment
B) insurance
C) estate planning
D) tax
E) consumer purchase

Answer: A
Difficulty: 2 Medium
Page Ref: 47
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: D
Difficulty: 2 Medium
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
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Gradable: automatic

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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

Answer: E
Difficulty: 2 Medium
Page Ref: 46
Topic: A Successful Money Management Plan; Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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 own these items.
C) Seven years.
D) Ten years.
E) Permanently.

Answer: B
Difficulty: 2 Medium
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
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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.

Answer: E
Difficulty: 2 Medium
Page Ref: 46
Topic: Financial Planning; Personal Finance
Learning Objective: 02-01 Identify the main components of wise money management.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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 these choices are correct

Answer: E
Difficulty: 2 Medium
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
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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

Answer: B
Difficulty: 1 Easy
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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, amounts owed, and your net worth.
E) Family financial goals.

Answer: D
Difficulty: 1 Easy
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
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Gradable: automatic

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45) The current financial position of an individual or family is best presented in the form of a:
A) Budget.
B) Cash flow statement.
C) Balance sheet.
D) Bank statement.
E) Time value of money report.

Answer: C
Difficulty: 2 Medium
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: A
Difficulty: 1 Easy
Page Ref: 48
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
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Gradable: automatic

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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.

Answer: A
Difficulty: 1 Easy
Page Ref: 49
Topic: Personal Financial Statements
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

48) Items that you own that have a monetary value are referred to as
A) Liabilities.
B) Variable expenses.
C) Net worth.
D) Income.
E) Assets.

Answer: E
Difficulty: 1 Easy
Page Ref: 51
Topic: Personal Financial Statements
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
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49) Which of the following is a liquid asset?
A) Savings/money market accounts
B) Cash surrender value of life insurance
C) Checking account balance
D) Money market accounts
E) All of these are liquid assets

Answer: E
Difficulty: 2 Medium
Page Ref: 49
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: B
Difficulty: 2 Medium
Page Ref: 49-50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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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

Answer: A
Difficulty: 2 Medium
Page Ref: 49-50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

52) When creating a personal balance sheet, which of the following is an investment asset?
A) Cash surrender value of life insurance
B) Checking account
C) Personal possessions in your home
D) Retirement account such as a 401k
E) Vacation property

Answer: D
Difficulty: 2 Medium
Page Ref: 49-50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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53) When creating a personal balance sheet, which of the following is a current liability?
A) Checking account
B) Thirty-year mortgage
C) Educational loan
D) 5-year home equity loan
E) Medical bill

Answer: E
Difficulty: 2 Medium
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: B
Difficulty: 2 Medium
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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Gradable: automatic

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55) The equation to calculate net worth is
A) Assets minus Cash outflows = Net worth.
B) Cash inflows minus Liabilities = Net worth.
C) Cash inflows minus Cash outflows = Net worth.
D) Assets minus Liabilities = Net worth.
E) Cash inflows + Liabilities = Net worth.

Answer: D
Difficulty: 3 Hard
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: B
Difficulty: 1 Easy
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
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Gradable: automatic

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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

Answer: D
Explanation: Insolvency occurs when liabilities, $55,000, far exceed assets, $40,000.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

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) Decrease their debt ratio.
E) Increase their debt ratio.

Answer: E
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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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

Answer: C
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: D
Difficulty: 2 Medium
Page Ref: 51-52
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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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

Answer: B
Explanation: Cash outflows include fixed expenses and variable expenses.
Difficulty: 2 Medium
Page Ref: 52
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: B
Explanation: Loan payments are a part of fixed expenses on the cash flow statement. The other choices would appear on the personal balance sheet.
Difficulty: 2 Medium
Page Ref: 52
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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63) Financial experts recommend monthly savings of _____ of gross income.
A) 0%
B) 5-10%
C) 20%
D) 25-35%
E) 50%

Answer: B
Difficulty: 1 Easy
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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%

Answer: C
Difficulty: 1 Easy
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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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.

Answer: E
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: B
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
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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

Answer: A
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: B
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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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

Answer: C
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: D
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
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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

Answer: E
Difficulty: 2 Medium
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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

Answer: E
Difficulty: 2 Medium
Page Ref: 52-53
Topic: Personal Finance; Taxes
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
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Gradable: automatic

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73) Which of the following is a deduction to determine take-home pay?
A) Interest earned on savings
B) Commissions
C) Dividends
D) Housing, food and other living expenses
E) Social Security taxes

Answer: E
Difficulty: 1 Easy
Page Ref: 52-53
Topic: Personal Finance; Taxes
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

74) Disposable income equals
A) Gross income.
B) The amount a person or household has to spend.
C) Money left over after paying for housing, food, and other necessities.
D) Social Security taxes.
E) The amount being saved each month.

Answer: B
Difficulty: 2 Medium
Page Ref: 53
Topic: Personal Finance; Taxes
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
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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.

Answer: D
Difficulty: 1 Easy
Page Ref: 53
Topic: Personal Finance; Taxes
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: B
Difficulty: 1 Easy
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
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Gradable: automatic

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77) Take-home pay is also called
A) Monthly savings.
B) Discretionary income.
C) Net pay.
D) Gross income.
E) Deductions.

Answer: C
Difficulty: 1 Easy
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: E
Difficulty: 2 Medium
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
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79) All of the following are fixed expenses *except*
A) A mortgage or rent payment.
B) An installment loan payment.
C) A monthly train ticket for commuting to work.
D) A monthly allocation for life insurance.
E) Utilities.

Answer: E
Difficulty: 2 Medium
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

80) An example of a fixed expense is
A) Medical expenses.
B) Gifts.
C) Utilities.
D) Home rental payment.
E) Recreation.

Answer: D
Difficulty: 2 Medium
Page Ref: 53
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Understand
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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 financial worry
C) Reach financial goals
D) Prepare for financial emergencies
E) Develop wise financial management habits

Answer: B
Explanation: A main purpose of a budget is to spend your money wisely.
Difficulty: 2 Medium
Page Ref: 54
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Page Ref: 54-55
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Understand
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Gradable: automatic

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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.

Answer: E
Difficulty: 2 Medium
Page Ref: 55
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: A
Difficulty: 1 Easy
Page Ref: 57
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Remember
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Gradable: automatic

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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.

Answer: D
Difficulty: 2 Medium
Page Ref: 57
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: C
Difficulty: 2 Medium
Page Ref: 57
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
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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

Answer: E
Explanation: 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.
Difficulty: 2 Medium
Page Ref: 59
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

88) A budget system that involves envelopes, folders, or containers to hold money or slips of paper is called a(n)
A) Mental budget.
B) Physical budget.
C) Written budget.
D) Digital budget.
E) Allocated budget.

Answer: B
Difficulty: 1 Easy
Page Ref: 59
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Remember
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Gradable: automatic

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89) A budget system that can be kept on notebook paper or accounting paper is called a(n)
A) Mental budget.
B) Physical budget.
C) Written budget.
D) Digital budget.
E) Allocated budget.

Answer: C
Difficulty: 1 Easy
Page Ref: 59
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
Bloom's: Remember
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: B
Difficulty: 2 Medium
Page Ref: 60
Topic: Personal Finance
Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.
Bloom's: Understand
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Gradable: automatic

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91) The document that would be most useful to plan spending and saving to achieve financial goals is the
A) Balance sheet.
B) Monthly investment brokerage statement.
C) Budget.
D) Bank statement.
E) Credit card statement.

Answer: C
Difficulty: 2 Medium
Page Ref: 60
Topic: Personal Finance
Learning Objective: 02-04 Connect money management activities with saving for personal financial goals.
Bloom's: Understand
Accessibility: Keyboard Navigation
Gradable: automatic

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.

Answer: A
Difficulty: 2 Medium
Page Ref: 60
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.; 02-04 Connect money management activities with saving for personal financial goals.
Bloom's: Understand
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Gradable: automatic

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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.

Answer: B
Explanation: Assets minus Liabilities = $100,000 − 60,000 = $40,000.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

94) Given the following information, calculate the net worth:

Assets = $8,000
Cash inflows = $6,000
Cash outflows = $4,500
Liabilities = $5,000
A) $500
B) $1,500
C) $2,000
D) $3,500
E) $3,000

Answer: E
Explanation: Assets minus Liabilities = Net worth; $8,000 minus $5,000 = $3,000.
Difficulty: 3 Hard
Page Ref: 50
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
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95) 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

Answer: A
Explanation: Liabilities/Net worth = $25,000/$75,000 = 0.3333 = 33.33%.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
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96) 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

Answer: B
Explanation: Liquid assets/Current liabilities = $5,000/$2,000 = 2.50.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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97) 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

Answer: C
Explanation: Liquid assets/Monthly expenses = $5,000/$2,050 = 2.44.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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98) 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%

Answer: D
Explanation: Monthly credit payments/Take-home pay = 800/$2,300 = 0.3478 = 34.78%.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
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99) 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%

Answer: E
Explanation: Monthly savings/Gross income = $760/$3,500 = 0.217 = 21.71%.
Difficulty: 3 Hard
Page Ref: 51
Topic: Personal Finance
Learning Objective: 02-02 Create a personal balance sheet and cash flow statement.
Bloom's: Apply
Accessibility: Keyboard Navigation
Gradable: automatic

100) 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

Answer: B
Explanation: $395 budgeted less $425 spent = $30 deficit.
Difficulty: 3 Hard
Page Ref: 57
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
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101) 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

Answer: D
Explanation: $1,200 budgeted less $1,160 spent = $40 surplus.
Difficulty: 3 Hard
Page Ref: 57
Topic: Financial Planning; Personal Finance
Learning Objective: 02-03 Develop and implement a personal budget.
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