Personal Finance 7th edition Madura Test Bank

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Personal Finance, 7e **(Madura)**
Chapter 2 Planning with Personal Financial Statements

2.1 Create Your Personal Cash Flow Statement

1) For most people, the first step in finding where their money goes each month is to correctly assess their true net income.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

2) Salary or wages are the only cash inflows for working people.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

3) Your cash outflows are equal to your liabilities such as the amount you owe on your car or home.
Answer: FALSE
Diff: 3
Question Status: Minor Revision
AACSB: Application of Knowledge

4) Net cash flows are the difference between cash inflows and cash outflows and can be either positive or negative.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

5) The primary goal of financial planning is to
A) increase earnings.
B) maximize cash inflows.
C) maximize wealth.
D) minimize financial risk.
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

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6) The personal cash flow statement measures
A) cash inflows.
B) cash outflows.
C) cash inflows and outflows.
D) All of these are part of the cash flow statement.
Answer: D
Diff: 2
Question Status: Major Revision
AACSB: Application of Knowledge

7) The cash flow statement reports a person's or family's
A) net worth.
B) current income and payments.
C) plan for borrowing.
D) value of investments.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

8) Creating a cash flow statement requires that you determine
A) all cash coming in for the period.
B) liabilities.
C) cash used for expenses.
D) A and C are both correct.
Answer: D
Diff: 2
Question Status: Major Revision
AACSB: Application of Knowledge

9) Which of the following is **not** a cash inflow?
A) Interest received
B) Dividend income
C) Car payment
D) Salary
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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10) Jim has $1,000 income from his job and $200 stock dividend income this month. This month Jim has rent and utilities of $300 and he spent $300 on groceries and $200 on clothing. What is his cash inflow this month?
A) $1,200
B) $400
C) $600
D) $500
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

11) Cash inflows can include
A) dividends.
B) interest income.
C) income.
D) All of these are cash inflows.
Answer: D
Diff: 2
Question Status: Major Revision
AACSB: Application of Knowledge

12) Which of the following is **not** a cash outflow?
A) Salary
B) Rent
C) Telephone bill
D) Car payment
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

13) Jim has $1,000 of salary and $100 of dividend income this month. This month he also has rent and utilities of $300 and he spent $200 on groceries and $100 on clothing. What is Jim's net cash flow this month?
A) $400
B) $600
C) $500
D) $1,100
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

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14) A document that shows your cash inflows and cash outflows is called a(n) _____.
Answer: personal cash flow statement
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

Use the following items to answer the matching questions below:

A) a financial statement that measures cash inflows and outflows
B) items owned by a household such as a home or car
C) a summary of assets, liabilities and net worth
D) the difference between cash inflows and outflows

15) cash flow statement
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

16) household assets
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

17) balance sheet
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

18) net cash flows
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

Answers: 15) A 16) B 17) C 18) D

19) The main source of cash flow for most people is
A) salary and wages.
B) dividends.
C) interest.
D) parents.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

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20) When you retire, which of the following will be key sources of cash flow?
A) Salary and wages
B) Interest and dividends
C) Social security and 401K
D) B and C
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

21) The only sources of cash outflows for most people are
A) mortgage or rent payments.
B) car payments.
C) college loan payments.
D) Every expenditure is a cash outflow.
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

22) Health insurance and auto insurance premiums are not cash outflows because they prevent large expenditures which are outflows.
Answer: FALSE
Diff: 2
Question Status: New
AACSB: Reflective Thinking

23) Cash inflows tend to increase as a person gets older since they tend to spend less once they have their education and home purchase behind them.
Answer: FALSE
Diff: 2
Question Status: New
AACSB: Reflective Thinking

2.2 Factors Affecting Cash Flows

1) Cash inflows tend to be higher for younger individuals and lower for individuals in their 50s.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

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2) Individuals who switch from a low-demand industry to a high-demand industry usually earn higher incomes.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

3) High income earners always have positive cash flow.
Answer: FALSE
Diff: 2
Question Status: New
AACSB: Reflective Thinking

4) Some people with large incomes spend their entire paychecks within a few days, while others with small incomes may be big savers.
Answer: TRUE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

5) Which cash inflow is more likely to be discontinued after retirement?
A) Dividend and interest received from investments
B) Pension payments
C) Salary
D) Social Security benefits
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

6) Which of the following usually affects cash flow the most?
A) The size of your family
B) Your job skills
C) Your personal consumption behavior
D) All of these
Answer: D
Diff: 2
Question Status: Major Revision
AACSB: Reflective Thinking

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7) At which time do cash inflows tend to be the highest?
A) College
B) Retirement
C) 20 years into a career
D) First job out of college
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

8) All of the following affect cash outflows, **except**
A) the size of your family.
B) your age.
C) your education level.
D) your personal consumption behavior.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

9) If both a husband and wife are employed, their consumption will tend to
A) increase.
B) decrease.
C) stay the same.
D) None of the above; the employment of spouses is unrelated to consumption behavior.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

10) Cash inflow can be increased by all of the following, **except**
A) making credit card payments.
B) working overtime.
C) selling stock.
D) getting a second job.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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11) Which factor affects a household's cash flows?
A) Monthly spending on non-essentials
B) Stage in career
C) Type or level of job
D) All of these
Answer: D
Diff: 1
Question Status: Major Revision
AACSB: Application of Knowledge

12) Cash inflows tend to increase as a person gets older since they are further along in their careers.
Answer: TRUE
Diff: 2
Question Status: New
AACSB: Reflective Thinking

2.3 Forecasting Your Cash Flows

1) A personal cash flow statement is usually the starting point for an individual's or family's budget.
Answer: TRUE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

2) 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
Question Status: Carryover
AACSB: Application of Knowledge

3) The most common error people make is to underestimate cash inflows and overestimate cash outflows.
Answer: FALSE
Diff: 3
Question Status: Carryover
AACSB: Application of Knowledge

4) Detecting future cash flow shortages improves with practice in the budgeting process.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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5) 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
Question Status: Carryover
AACSB: Application of Knowledge

6) Forecasting for more than a month at a time is not helpful because you can't plan for unexpected expenses in the future.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

7) Getting financial help from family and friends is easy and should be your first option in case of an emergency.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

8) Careful budgeting and controlled spending lead to self-reliance and a feeling of financial freedom.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

9) Many individuals tend to _____ their cash inflows and _____ their outflows.
A) underestimate; overestimate
B) overestimate; underestimate
C) minimize; maximize
D) not know; accurately know
Answer: B
Diff: 3
Question Status: Carryover
AACSB: Reflective Thinking

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10) A cash flow statement that is based on forecasted cash flows for a future time period is called a(n)
A) cash outflow.
B) net cash flow.
C) income statement.
D) budget.
Answer: D
Diff: 3
Question Status: Carryover
AACSB: Application of Knowledge

11) A budget will **not** do which of the following?
A) Help determine how much risk a family should take on investments
B) Anticipate cash shortages
C) Determine the excess you have to invest
D) Determine the additional payments you can make to reduce personal debt
Answer: A
Diff: 2
Question Status: Minor Revision
AACSB: Reflective Thinking

12) If you do not budget for unexpected expenses in a given month, you will likely experience a(n)
A) cash shortage.
B) cash surplus.
C) increase in assets.
D) decrease in liabilities.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

13) In budgeting, it is useful to compare _____ with the budgeted amounts to determine the accuracy or error of the budget and adjust it as necessary.
A) actual inflows
B) actual outflows
C) both actual inflows and outflows
D) current assets
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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14) If spending exceeds the amount of your income over a period of time, your best option is probably to
A) reduce your spending.
B) get a second job.
C) increase your work hours.
D) All of these
Answer: D
Diff: 1
Question Status: Major Revision
AACSB: Application of Knowledge

15) Which of the following is **not** an appropriate approach to solving the problem of an annual budget deficiency?
A) Liquidate enough savings or investments to make up the deficiency
B) Increase short-term, flexible expenditure items
C) Renegotiate terms for long-term expense items
D) Increase income by getting an additional part-time job
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

16) Allison expects her monthly cash inflow after taxes to be $3,000. She also has the following monthly expenses: Rent, $750; student loan payment, $200; utilities, $150; food, $300; recreation, $600; car expenses, $200; clothing, $150. What is Allison's net cash flow for the current month?
A) $2,350
B) $650
C) ($650)
D) $3,000
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

17) Allison anticipates an additional car expense two months from now of $400 for new tires that she has not previously budgeted for. What action should Allison take?
A) Nothing; wait another month to consider the expense since she doesn't need the tires for another two months.
B) Plan to use her credit card to purchase the tires. Then she won't have to use her excess cash.
C) Revise her car expenses over the next two months to allow for the additional cost of the new tires.
D) Ask her parents for the money for the new tires.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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18) A(n) _____ is a forecast of your future cash inflows and outflows.
Answer: budget
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

19) Budgeting is a starting point for developing your financial plan. A good understanding of cash inflows and outflows, or what you make and spend is essential. Describe one way to increase your cash inflows and one way to decrease your personal outflows.
Answer: Increase inflows through more income such as a pay increase or another job. To decrease outflows, cut expenses on a variety of personal expenditures. The answer is subjective and there are a variety of acceptable answers in addition to this basic one.
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

20) Lucky Louie has the following cash inflows and outflows: $500 rent, $200 car payment, $100 car repair, $100 discretionary purchases, $300 food, $150 electric bill, $3,500 monthly salary after deductions for tax, etc., $200 cell phone, $400 repayment of loan to dad, and $500 planned spending on weekend fun. What is Lucky's net cash flow?
A) $1,050
B) $200
C) $1,150
D) Not enough information regarding paycheck
Answer: A
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

21) How would you assess the accuracy of your budget?
A) Compare your cash inflow forecast vs. actual cash inflows.
B) If you have money left at the end of the month, the budget is fine.
C) Compare cash outflow forecast vs. actual cash outflows.
D) A and C are both necessary.
Answer: D
Diff: 2
Question Status: New
AACSB: Reflective Thinking

2.4 Create Your Personal Balance Sheet

1) Stocks are considered liquid assets since they are easy to sell without a loss in value.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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2) Long-term liabilities are debts that will be paid at least three years into the future.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

3) A high debt ratio indicates an excessive amount of debt and should be reduced over time to avoid any debt repayment problems.
Answer: TRUE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

4) Which of the following is **not** an asset you might find on a personal balance sheet?
A) Liquid assets
B) Inventory
C) Household assets
D) Personal investments
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

5) Which of the following results in an increase in liquid assets?
A) Take advantage of company matching funds in 401(k)
B) Increase your contribution to 401(k)
C) Have $200 from each paycheck automatically sent to a credit union savings account
D) Sell stock held in a retirement account and hold proceeds in cash
Answer: C
Diff: 2
Question Status: New
AACSB: Application of Knowledge

6) The term "liquid assets" refers to
A) the earnings on savings.
B) financial assets that can be easily sold without a loss in value.
C) the amount of insurance coverage a person has.
D) a person's inability to pay his or her debt.
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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7) Which of the following would increase your liquid assets?
A) Buying a new car
B) Making regular deposits to a savings account at your bank
C) Buying rental property
D) Putting more of your salary into a retirement account
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

8) Which of the following is **not** a liquid asset?
A) Cash in your pocket
B) Money in a savings account
C) Corporate stock you own outright
D) Money in your checking account
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

9) Which of the following is **not** considered an asset for a family?
A) Cash in a checking account
B) A mortgaged home
C) A leased car
D) Furniture
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

10) Property such as a person's home, car, and furniture are called
A) liquid assets.
B) household assets.
C) major property assets.
D) investment assets.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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11) The amount you would receive if you sold an asset today is called the asset's
A) market value.
B) book value.
C) sales value.
D) cost.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

12) Investment assets include all of the following, **except**
A) stocks.
B) automobiles.
C) bonds.
D) rental property.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

13) Corporate stocks, government or corporate bonds, or mutual funds, are called
A) liquid assets.
B) household assets.
C) investment assets.
D) retirement assets.
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

14) An investment company that sell shares to individuals and then invests the proceeds in stocks or bonds is called a
A) current liability.
B) mutual fund.
C) stock.
D) bond.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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15) Which of the following is **not** a true statement about mutual funds?
A) They are managed by professional managers.
B) Proceeds are only invested in stocks.
C) A minimum investment is required.
D) The value of shares is widely reported both online and in *The Wall Street Journal.*
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

16) Corporations issue stocks for all of the following reasons, **except**
A) to purchase new machinery.
B) to expand into new markets.
C) to fund a plant expansion.
D) to loan money to shareholders.
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

17) Which of the following statements about stocks is **not** true?
A) Stocks represent partial ownership of a firm.
B) Corporations issue stocks to obtain money for various projects.
C) Investments in stocks are considered liquid assets.
D) The market value of stocks changes daily.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

18) Balance sheet assets should be valued at
A) original purchase price.
B) replacement value.
C) insured value.
D) market value.
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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19) Debts that are to be paid off within a year are called
A) intermediate-term liabilities.
B) one-year liabilities.
C) current liabilities.
D) insignificant debts.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

20) Liabilities can be calculated by
A) adding assets to net worth.
B) subtracting net worth from assets.
C) adding assets to income.
D) subtracting expenses from assets.
Answer: B
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

21) Long-term liabilities include all of the following, **except**
A) the monthly payment due on a credit card.
B) the mortgage on a home.
C) a three-year auto loan.
D) a student loan.
Answer: A
Diff: 2
Question Status: Minor Revision
AACSB: Application of Knowledge

22) Student loans, auto loans, and housing loans are good examples of
A) long-term liabilities.
B) current liabilities.
C) short-term debts.
D) personal obligations.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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23) The difference between assets and liabilities is called
A) surplus.
B) deficit.
C) net income.
D) net worth.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

24) Another term for your wealth, calculated by deducting the amount that you owe from the value of the things you own. is
A) gross income.
B) net income.
C) net property.
D) net worth.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

25) A personal balance sheet presents
A) amounts budgeted for spending.
B) income and expenses for a period of time.
C) earnings on savings and investments.
D) items owned and amounts owed.
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

26) A personal balance sheet summarizes
A) income and expenses.
B) cash inflows and outflows.
C) assets, net worth, and income.
D) assets, liabilities, and net worth.
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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27) In the balance sheet, a(n) _____ in assets _____ net worth.
A) increase; increases
B) decrease; increases
C) decrease; decreases
D) Both A and C are correct
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

28) Jennifer has assets of $100,000 and $10,000 of debt. 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) not borrow more money until she pays off her current debt.
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

29) The current financial position of an individual or family is best presented with the use of a
A) budget.
B) cash flow statement.
C) balance sheet.
D) bank statement.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

30) Your current liquidity ratio is 2.0. If you take money out of your savings account to pay off a credit card your liquidity ratio will
A) increase.
B) decrease.
C) stay the same.
D) More information is needed to determine what effect this action will have.
Answer: A
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

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31) If you sell stock from your portfolio to pay off your car loan, your debt ratio of 0.5 will
A) increase.
B) decrease.
C) stay the same.
D) More information is needed to determine what effect this action will have.
Answer: B
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

32) Margaret has $5,000 in her checking account, a home with a market value of $175,000, and stocks valued at $10,000. Margaret also has credit card debt of $15,000. Margaret's liquidity ratio is
A) 1.00.
B) 12.00.
C) 12.67.
D) .33.
Answer: D
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

33) Nancy has $40,000 of annual disposable income and saves $8,000 a year. Her savings rate is
A) 5%.
B) 12%.
C) 17%.
D) 20%.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

34) You save the same dollar amount from each paycheck during your career. As your income increases, your savings rate will
A) increase.
B) decrease.
C) stay the same.
D) More information is needed to determine what effect this action will have.
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

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35) Bill's annual savings rate is 9%. If Bill currently saves $6,750 annually, how much more will he need to save to increase his savings rate to 11%?
A) $8,250
B) $135
C) $1,500
D) More information is needed to determine the answer.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

36) If Jo Ann has $4,000 in liquid assets and $1,000 in current liabilities, her liquidity ratio is
A) 0.25.
B) 4.0.
C) 1,000.
D) 4,000.
Answer: B
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

37) A low liquidity ratio means that
A) you have very few debts.
B) liquid assets are increasing faster than current debt.
C) you probably will have trouble paying your current bills.
D) you have too many liquid assets.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

38) Paying cash for an Alaskan cruise would
A) increase assets.
B) decrease assets.
C) increase net worth.
D) decrease liabilities.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

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39) Paying off a credit card with cash will have which of the following effects on net worth?
A) Increase
B) Decrease
C) No effect
D) Insufficient data to determine the answer
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

40) Which of the following will **not** increase your liquidity?
A) Selling a boat and depositing the proceeds in your checking account
B) Selling a car in exchange for cash
C) Selling stock in exchange for cash
D) Using cash to purchase a home entertainment system
Answer: D
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

41) Which of the following will increase your debt?
A) Paying off a student loan
B) Buying a smart phone with cash
C) Borrowing funds to buy a car
D) Buying stock with cash
Answer: C
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

42) If Kim's current debt ratio is 45%, this means that _____ of Kim's assets are purchased on credit.
A) 55%
B) 45%
C) 50%
D) Not enough data to determine the answer
Answer: B
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

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43) Jerry has assets of $200,000, a net worth of $150,000, and an annual income of $100,000. What are Jerry's liabilities?
A) $100,000
B) $250,000
C) $50,000
D) $450,000
Answer: C
Explanation: $200,000 - $150,000 = $50,000
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

44) If you have liquid assets of $20,000 and current liabilities of $10,000, then you
A) have a current liquidity ratio of 2.
B) are in poor financial shape with a liquidity ratio of 0.5.
C) may have trouble paying your bills depending on their due dates.
D) are over-extended by $10,000.
Answer: A
Explanation: $20,000/$10,000 = 2
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

45) A family with $45,000 in assets and $22,000 in liabilities would have a net worth of
A) $45,000.
B) $23,000.
C) $22,000.
D) $67,000.
Answer: B
Explanation: $45,000 - $22,000 = $23,000
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

46) David's liquidity ratio is 3.0. He has $1,000 in current liabilities. Therefore, he has _____ worth of liquid assets.
A) $3,000
B) $333
C) $4,000
D) $700
Answer: A
Explanation: x/$1,000 = 3.0
x = $3,000
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

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47) The cash in your wallet, your checking account balance, and your savings account comprise your _____ assets.
Answer: liquid
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

48) If your monthly disposable income equals $1,500 and you currently save $500/month, your savings rate is _____.
Answer: 33%
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

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Use the following two columns of items to answer the matching questions below:

A) financial instruments representing partial ownership of a firm
B) financial instruments issued by borrowers to raise funds
C) investment companies that sell shares to individuals and invest the proceeds in stocks and bonds
D) debt that will be paid within a year
E) financial assets that can be easily sold without a loss
F) rental property and land

49) liquid assets
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

50) bonds
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

51) real estate
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

52) stocks
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

53) mutual funds
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

54) current liabilities
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

Answers: 49) E 50) B 51) F 52) A 53) C 54) D

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55) List three components of your personal balance sheet and two components of your income statement.
Answer: The balance sheet includes assets, liabilities, and net worth. The income statement includes income and expenses.
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

56) Indicate whether the following are liquid assets or household assets by placing an L or H beside them.
_____ Car
_____ Home
_____ Checking account
_____ Furniture
_____ Cash
_____ Savings account
Answer: H, H, L, H, L, L
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

57) Judy has cash inflows of $3,000 for the month of June. Her expenses or cash outflows were $4,000. What is her net cash flow? List two options for Judy to meet her financial obligations in June. What is the effect (increase or decrease) of these options on her assets and liabilities?
Answer: Net cash flow is a negative $1,000. Her options include taking money out of her investments (asset reduction) or borrowing money (increase liabilities).
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking /Application of Knowledge

58) A personal balance sheet is comprised of
A) your assets, liabilities and net worth.
B) your loans and credit card balances.
C) monthly loan, credit card and other "fixed" payments.
D) gross monthly income less "fixed" payments.
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

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2.5 How Personal Financial Statements Fits Within Your Financial Plan

1) Your net worth can change even if your net cash flows are zero.
Answer: TRUE
Diff: 3
Question Status: Carryover
AACSB: Application of Knowledge

2) Which of the following will **not** increase your net worth?
A) Country club dues paid monthly
B) Contributions to a mutual fund paid monthly
C) Car payments paid monthly
D) Home mortgage payments paid monthly
Answer: A
Diff: 2
Question Status: Minor Revision
AACSB: Application of Knowledge

3) A person's net worth would increase as a result of
A) reducing amounts owed to others.
B) reducing earnings.
C) decreasing the value of assets.
D) increasing spending on current living expenses.
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

4) The net worth of an individual or family can be increased by
A) increasing spending.
B) increasing liabilities.
C) decreasing assets.
D) increasing income without increasing spending.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

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5) If your cash outflows are $600 and your cash inflows are $1,000, you can increase your net worth by
A) $1,000.
B) $600.
C) $1,600.
D) $400.
Answer: D
Explanation: $1,000 - $600 = $400
Diff: 1
Question Status: Carryover
AACSB: Analytical Thinking

6) If your net cash inflows exceed your net cash outflows, you can increase your net worth by investing the difference in more _____.
Answer: assets
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

7) Analyzing your expected income and expenses over the coming 6 months is
A) called budgeting and is worthwhile no matter your life stage.
B) generally not necessary early in your career.
C) not necessary until you are nearing retirement.
D) only necessary once a year.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

8) Lucky Louie just inherited $50,000 from his great aunt, has $1,500 in his checking account, owns a car with a value of $8,000, and has $20,000 in his 401(k) at work. Louie owes $6,000 on his car, $12,000 on school loans and $3,000 on his credit card. What is Louie's net worth?
A) $58,500
B) $58,000
C) $38,500
D) He has no net worth since he does not own a house.
Answer: A
Diff: 3
Question Status: Carryover
AACSB: Analytical Thinking

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9) Why is it important to monitor your debt level?
A) So it does not become so high that you cannot cover the monthly payments
B) So that you maintain a liquidity ratio of at least 2.5
C) In order to qualify for another credit card to capture the introductory points
D) So that your total debt does not exceed your annual income
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

10) Which of the following is **not** a key budgeting influence for a personal financial plan?
A) Change investments from risky stocks to more conservative stocks
B) Improve near term net cash flow
C) Reduce debt payments by 50%
D) Improve long-term net cash flow
Answer: A
Diff: 2
Question Status: New
AACSB: Analytical Thinking

11) Economic conditions can impact your personal balance sheet by
A) increasing the value of your assets.
B) increasing interest rates which reduces cash flow and results in added borrowing.
C) reducing the value of your home.
D) All of these
Answer: D
Diff: 2
Question Status: New
AACSB: Application of Knowledge

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