PFIN 7th edition Billingsley Test Bank

SKU: 9780357033609-TEST-BANK

2. Using Financial Statements and Budgets

1. The balance sheet shows an individual's financial condition as of the time the statement is prepared.
   a. True
   b. False

ANSWER:	True
RATIONALE:	The balance sheet describes an individual's financial position—the assets an individual holds, less the debts an individual owes, equals an individual's net worth (general level of wealth)—at a given point in time. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Financial statements
DATE CREATED:	7/25/2018 9:49 AM
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2. A budget is a financial report that forecasts an individual's current income as a percentage of his or her past earnings.
   a. True
   b. False

ANSWER:	False
RATIONALE:	A budget is a detailed financial report that looks forward and is based on expected income and expenses. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal budgets
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3. An income and expense statement provides a measure of financial performance over a period of time.
   a. True
   b. False

ANSWER:	True
RATIONALE:	A financial statement that measures financial performance over time is known as an income and expense statement. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy

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	Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
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4. Financial planning is necessary only if an individual earns a lot of money.
   a. True
   b. False

ANSWER:	False
RATIONALE:	Operating without a financial plan is like traveling without a road map. Financial planning provides direction toward financial security by helping an individual work toward specific financial goals. Therefore, financial planning is necessary for everyone. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal financial plans Personal financial decisions
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5. The preparation of an income and expense statement is the first step in the personal financial planning process.
   a. True
   b. False

ANSWER:	False
RATIONALE:	Before you can set realistic goals, develop your financial plans, or effectively manage your money, you must understand your current financial situation. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future

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2. Using Financial Statements and Budgets

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TOPICS:	Personal financial plans Personal financial decisions
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6. Knowing how to prepare and interpret personal financial statements is a cornerstone of personal financial planning.
   a. True
   b. False

ANSWER:	True
RATIONALE:	Financial statements help an individual identify potential financial problems and make financial decisions. Thus, knowing how to prepare and interpret financial statements is a cornerstone of personal financial planning. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
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7. Financial plans provide direction to annual budgets.
   a. True
   b. False

ANSWER:	True
RATIONALE:	Various financial statements and reports are related to the personal financial planning process. Financial plans provide direction to annual budgets. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
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8. If Jenny obtains a loan to purchase a car in June, the loan amount will be included as income for the month of June.
   a. True
   b. False

ANSWER:	False
RATIONALE:	A loan represents an amount that is owed and to be repaid in the future. Hence, the loan amount will be included in the liabilities section of the individual's balance sheet. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Applying
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Liabilities
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9. An individual's auto loan payments are listed as an expense on the income and expense statement.
   a. True
   b. False

ANSWER:	True
RATIONALE:	Expenses represent money used for outlays. Auto loan payments come under the asset purchase classification of expenses. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Expenses
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10. Amit lists his gross salary in the income portion of his income and expense statement, and he includes his income taxes and Social Security taxes in the expenses portion.
   a. True
   b. False

ANSWER:	True
RATIONALE:	When making your list of expenses for the year, remember to include the amount of income tax and Social Security taxes withheld from your paycheck as well as any other

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	payroll deductions (health insurance, savings plans, retirement and pension contributions, and professional/union dues). See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Applying
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income Expenses
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11. Net income should be used when preparing an income and expense statement.
    a. True
    b. False

ANSWER:	False
RATIONALE:	The income that a person receives from his or her employer before taxes and other payroll deductions is used when preparing an income and expense statement. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income
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12. It is best to prepare your financial statements at least once a year, ideally when drawing up your budget.
    a. True
    b. False

ANSWER:	True
RATIONALE:	It is best to prepare an individual’s personal financial statements at least once a year, ideally when drawing up his or her budget. Many people update their financial statements every 3 or 6 months. See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Easy

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	Bloom's: Remembering
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal financial record keeping Accounting records
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13. It is recommended that you maintain a ledger to summarize all of your financial transactions.
    a. True
    b. False

ANSWER:	True
RATIONALE:	A ledger has sections for assets, liabilities, sources of income, and expenses; these sections contain separate accounts for each item. See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Accounting records Personal financial record keeping
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14. An individual can maintain his or her personal financial statements using spreadsheet software.
    a. True
    b. False

ANSWER:	True
RATIONALE:	An individual can develop a good record-keeping system and prepare personal financial statements using spreadsheet software like Excel. See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	True / False

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2. Using Financial Statements and Budgets

HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Accounting records Personal financial record keeping
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15. A cash budget uses short-term financial goals to help you reach long-term financial goals.
    a. True
    b. False

ANSWER:	True
RATIONALE:	After defining your short-term financial goals, you can prepare a cash budget for the coming year. Recall that a budget is a short-term financial planning report that helps you achieve your short-term financial goals. You increase your ability to control your expenses by comparing actual with budgeted expenses. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Budgeting
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16. An individual is said to have a balanced budget when his or her total income for the year equals or exceeds his or her total expenditures for the year.
    a. True
    b. False

ANSWER:	True
RATIONALE:	The difference between projected income and projected expense equals a surplus or deficit. In a balanced budget, the total income for the year equals or exceeds the total expenses. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Budgeting

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2. Using Financial Statements and Budgets

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17. The best way to balance your annual budget is to increase borrowing to cover shortages.
    a. True
    b. False

ANSWER:	False
RATIONALE:	Liquidate enough savings and investments or borrow enough to meet the total budget shortfall for the year. Obviously, this option is not preferred because it violates the objective of budgeting: to set expenses at a level that allows you to enjoy a reasonable standard of living and progress toward achieving your long-term goals. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal budgets
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18. Budgeting and record keeping are the same.
    a. True
    b. False

ANSWER:	False
RATIONALE:	Budgeting is the process of preparing a budget, which is a short-term financial planning report that helps one in achieving his or her short-term financial goals. Record keeping helps one manage his or her personal financial affairs. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Remembering
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Budgeting
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19. Estimating expenses using actual expenses from previous years and tracking current expenses make the task of preparing a cash budget easier.

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2. Using Financial Statements and Budgets

a. True
b. False

ANSWER:	True
RATIONALE:	A schedule of estimated expenses for the coming year is prepared using the actual expenses from previous years along with the predetermined short-term financial goals. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Remembering
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Cash budgets
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20. A cash budget has value only if you use it, and you keep careful records of actual income and expenses.

a. True
b. False

ANSWER:	True
RATIONALE:	A cash budget has value only if one uses it and keeps careful records of actual income and expenses. These records show whether one is staying within his or her budget limits. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Cash budgets
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21. In a budget, “fun money” is for family members to spend as they like.

a. True
b. False

ANSWER:	True
RATIONALE:	Don’t forget an allowance for “fun money,” which family members can spend as they wish. This gives each person some financial independence and may help family members feel more comfortable with being on a budget. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.

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2. Using Financial Statements and Budgets

POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
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22. Future value calculations to estimate the funds needed to meet a goal take compounding into account.
    a. True
    b. False

ANSWER:	True
RATIONALE:	Future value is the value to which an amount today will grow if it earns a specific rate of interest over a given period. This growth in value occurs not only because of earning interest but also because of compounding—the interest earned each year is left in the account and becomes a part of the balance (or principal) on which interest is earned in subsequent years. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Future value
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23. A balance sheet describes your:
    a. financial position at a given point in time.
    b. financial performance over a period of time.
    c. financial performance at a given point in time.
    d. financial goals over a specific period of time.
    e. financial plans over a period of time.

ANSWER:	a
RATIONALE:	The balance sheet is a financial statement that describes your financial position at a given point in time. See 2-1: Mapping Out Your Financial Future.
POINTS:	1

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2. Using Financial Statements and Budgets

DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
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24. Which of the following statements regarding an individual's income and expense statement is true?
    a. An income and expense statement describes your financial position at a given point in time.
    b. An income and expense statement looks forward in time to control spending.
    c. An income and expense statement identifies your financial goals.
    d. An income and expense statement measures your financial performance over a period of time.
    e. An income and expense statement can be used to predict inflation and interest rates.

ANSWER:	d
RATIONALE:	The income and expense statement measures financial performance over time. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Evaluating
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Financial statements Income statements
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25. Which of the following statements regarding a budget is true?
    a. It shows the computation of the interest on a loan.
    b. It is a schedule of personal investments.
    c. It is a list of prepaid expenses.
    d. It is a detailed financial report that looks forward.
    e. It identifies your assets and liabilities.

ANSWER:	d
RATIONALE:	A budget is a detailed financial report that looks forward and is based on expected income and expenses. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Evaluating

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REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
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26. A budget helps in:
    a. setting financial goals.
    b. calculating discounted cash flows.
    c. giving feedback on how close you are to reaching your long-term financial goals.
    d. monitoring and controlling spending.
    e. determining the value of assets.

ANSWER:	d
RATIONALE:	A budget is forward looking; it allows a person to monitor and control spending because it is based on expected income and expenses. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
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TOPICS:	Personal budgets
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27. Which of the following statements regarding budgets is true?
    a. Budgets are meant for poor people only.
    b. Budgets need software to be effective.
    c. Budgets are forward looking.
    d. Budgets do not need to be revised.
    e. Budgets provide long-term financial forecasts.

ANSWER:	c
RATIONALE:	Budgets are detailed short-term financial forecasts that compare estimated income with estimated expenses and allow you to monitor and control expenses and purchases in a manner that is consistent with your financial plans. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Evaluating

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REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal budgets
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28. Which of the following statements regarding budgets is true?
    a. Budgets are detailed forward-looking financial reports based on expected income and expenses.
    b. Budgets describe a person's financial position at a given point in time.
    c. Budgets measure a person's financial performance at a given point in time.
    d. Budgets describe a person's financial goals over a specific period of time.
    e. Budgets are historical documents that tell an individual how he or she has performed in the past.

ANSWER:	a
RATIONALE:	Budgets are forward looking; they allow an individual to monitor and control spending because they are based on expected income and expenses. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Evaluating
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
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29. The three parts of an individual's balance sheet are his or her:
    a. income, liabilities, and net worth.
    b. assets, expenditures, and net worth.
    c. assets, liabilities, and expenses.
    d. assets, liabilities, and net worth.
    e. income, liabilities, and assets.

ANSWER:	d
RATIONALE:	A balance sheet has three parts that, taken together, summarize an individual's financial position. These three parts are an individual's assets—what he or she owns; his or her liabilities, or debts—what he or she owes; and his or her net worth—the difference between his or her assets and liabilities. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy

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	Bloom's: Remembering
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Balance sheets
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30. Which of the following is listed as an asset on an individual's balance sheet?
    a. Bank credit card balances
    b. Education loans
    c. Outstanding medical bills
    d. Checking accounts
    e. Leased automobiles

ANSWER:	d
RATIONALE:	Assets are the items that an individual owns. An item is classified as an asset whether it was purchased with cash or financed using debt. A checking account is a form of liquid asset that is listed on the balance sheet. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Balance sheets Assets
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31. When Phil lists his house on his balance sheet, he should record its:
    a. actual purchase price.
    b. depreciated value.
    c. insured value.
    d. deferred price.
    e. fair market value.

ANSWER:	e
RATIONALE:	In personal financial analysis, it is important for all assets, regardless of category, to be recorded on the balance sheet at their current fair market value, which may differ considerably from their original purchase price. Therefore, Phil should list his house at its fair market value on his balance sheet. See 2-2: The Balance Sheet: How Much Are You

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	Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Applying
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Balance sheets
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32. Your _____ is an example of a liquid asset.
    a. home
    b. car
    c. checking account
    d. charge account
    e. life insurance cash value

ANSWER:	c
RATIONALE:	Cash on hand or in a checking or savings account, money market mutual funds, or certificates of deposit that mature within one year are all examples of liquid assets. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Assets
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33. Sam and his wife Ann purchased a home in Lubbock, Texas, in 1980 for $100,000. Their original home mortgage payment was $90,000. The house has a current market value of $175,000 and a replacement value of $200,000. They still owe $55,000 of their home mortgage payment. In their current balance sheet, their home will be reflected as:
    a. a $200,000 asset for the replacement value and a $55,000 liability for the outstanding mortgage.
    b. a $200,000 asset for the replacement value and a $90,000 liability for the original mortgage.
    c. a $175,000 asset for the market value and a $55,000 liability for the outstanding mortgage.
    d. a $175,000 asset for the market value and a $90,000 liability for the original mortgage.
    e. a $100,000 asset for the purchase price and a $55,000 liability for the outstanding mortgage.

ANSWER:	c
RATIONALE:	As assets are recorded at their fair market value, the asset side of Sam and Ann's balance

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	sheet will reflect $175,000. The liabilities side will show $55,000 of the home mortgage balance since only the outstanding principal portion is reflected in the balance sheet for mortgages. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Balance sheets
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34. _____ is an example of personal property.

a. Jewelry
b. A mutual fund
c. A corporate bond
d. A charge account
e. A certificate of deposit

ANSWER:	a
RATIONALE:	Personal property is movable property, such as automobiles, recreational equipment, household furnishings, jewelry, and similar items. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Assets
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35. Which of the following is an example of real property?

a. Jewelry
b. A computer
c. An automobile
d. A garage
e. Office furniture

ANSWER:	d
RATIONALE:	Real property refers to immovable property: land and anything fixed to it, such as a

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	house. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Assets
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36. _____ will be listed as a liability on your balance sheet.
    a. A money market deposit account
    b. A checking account
    c. Equipment
    d. The cash value of a life insurance policy
    e. An education loan

ANSWER:	e
RATIONALE:	A liability is something that you owe and must repay in the future. Thus, an education loan will be listed as a liability on your balance sheet as it represents the amount you owe to your bank. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Liabilities
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37. Loans should be recorded as a liability on the balance sheet at their _____ outstanding balance.
    a. original
    b. year-end
    c. average
    d. current
    e. beginning

ANSWER:	d
RATIONALE:	Regardless of the type of loan, only the latest outstanding loan balance should be shown as a liability on the balance sheet. This is because at any given time, it is the balance still due that matters, not the initial loan balance. See 2-2: The Balance Sheet: How Much Are

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	You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Liabilities
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38. Which of the following portions of a mortgage loan is recorded as a liability on the balance sheet?
    a. Interest only
    b. Sum of the interest paid and the outstanding balance
    c. Sum of the interest due and the outstanding balance
    d. Outstanding principal portion only
    e. Principal portion and interest paid

ANSWER:	d
RATIONALE:	Only the outstanding principal portion of a loan or mortgage should be listed as a liability on the balance sheet. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
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39. Sonny and Cher have a net worth of $35,000 and total assets of $200,000. If they have credit card purchases of $1,200 and unpaid bills of $1,000, what will their long-term liabilities be?
    a. $115,000
    b. $140,000
    c. $142,200
    d. $162,800
    e. $165,000

ANSWER:	d
RATIONALE:	Sonny and Cher’s long-term liabilities are calculated by subtracting the net worth of $35,000, the credit card purchases of $1,200 and the unpaid bills of $1,000 from the total assets of $200,000, which is equal to $162,800. See 2-2: The Balance Sheet: How Much

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	Are You Worth Today?
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Liabilities
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40. You are solvent if your:
    a. total liabilities exceed your total assets.
    b. total assets exceed your total liabilities.
    c. total assets exceed your equity.
    d. total liabilities exceed your equity.
    e. current liabilities exceed your current assets.

ANSWER:	b
RATIONALE:	Net worth equals total assets minus total liabilities. If your net worth is less than zero, you are technically insolvent. Although this does not necessarily mean that you will end up in bankruptcy proceedings, it is likely to show insufficient financial planning. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Wealth Personal finance Personal financial plans
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41. Which of the following statements regarding an individual's net worth is true?
    a. It is the sum of an individual's current assets and his or her current liabilities.
    b. It is the sum of an individual's take-home pay and his or her payroll taxes.
    c. It is the difference between an individual's current assets and his or her current liabilities.
    d. It is the difference between an individual's monthly income and his or her expenses.
    e. It is the difference between an individual's total assets and his or her total liabilities.

ANSWER:	e

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2. Using Financial Statements and Budgets

RATIONALE:	Net worth represents the amount of money an individual would have left after selling all of his or her owned assets at their estimated fair market values and paying off all his or her liabilities (assuming there are no transaction costs). See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Evaluating
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Assets Wealth
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42. If your _____, your net worth on the balance sheet will increase from one period to the next.
    a. liabilities increase and assets remain constant
    b. liabilities increase and assets decrease
    c. assets increase and liabilities remain constant
    d. income and liabilities decrease
    e. liabilities and expenses increase

ANSWER:	c
RATIONALE:	Net worth equals total assets minus total liabilities. Thus, if your assets increase and liabilities remain constant or decrease, your net worth on the balance sheet will increase from one period to the next. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Challenging Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Wealth Personal finance
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43. The income and expense statement measures your financial:
    a. obligations that have been paid.
    b. performance over time.
    c. current position.
    d. liquid assets.

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e. long-term objectives.

ANSWER:	b
RATIONALE:	The income and expense statement measures financial performance over time. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Bloom's: Remembering Easy
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income statements
DATE CREATED:	7/25/2018 9:49 AM
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44. An income statement includes:
    a. income, liabilities, and net worth.
    b. income, expenses, and cash surplus or deficit.
    c. expenses, net worth, and cash surplus or deficit.
    d. net worth, surplus, and profit or loss.
    e. savings, surplus, and profit or loss.

ANSWER:	b
RATIONALE:	The income and expense statement has three major parts: income, expenses, and cash surplus (or deficit). See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income statements
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45. You record _____ on an income and expense statement.
    a. the value of your stock portfolio
    b. your installment loan balance
    c. your checking account balance
    d. your cash on hand
    e. your charitable payments

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2. Using Financial Statements and Budgets

ANSWER:	e
RATIONALE:	You would include charitable payments made in an income and expense statement as they indicate an actual cash outflow. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income statements Expenses
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46. I should record _____ on my income and expense statement for the period of January 1 to June 30.
    a. an $800 refrigerator I bought on credit on May 30
    b. an outstanding education loan account
    c. jewelry I purchased with an arrangement to pay later
    d. my checking account balance
    e. the groceries I bought and paid for in June

ANSWER:	e
RATIONALE:	In my income and expense statement, I should record the groceries I bought and paid for in June because they involve an actual cash outlay. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income statements Expenses
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47. A cash surplus on an income and expense statement prepared on a cash basis indicates that:
    a. the net worth is equal to zero.
    b. investments are less than the cash balance.
    c. the payments on debts are not met.

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d. the total expense is less than the total income.
e. income and expense are equal.

ANSWER:	d
RATIONALE:	Subtracting total expenses from total income gives you the cash surplus (or deficit) for the period. At a glance, you can see how you did financially over the period. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income statements
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48. If your statement of income and expense prepared on a cash basis shows a deficit, you have:
a. increased your debts.
b. liquidated your investments.
c. increased your savings.
d. taken a cash loan on your insurance.
e. sold some securities.

ANSWER:	a
RATIONALE:	A positive figure indicates that expenses were less than income, resulting in a cash surplus. A value of zero indicates that expenses were exactly equal to income for the period, while a negative value means that your expenses exceeded income and you have a cash deficit. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income statements
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49. When estimating income for the income and expense statement, you should:
a. use gross income.

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b. include expected pay increases.
c. adjust expenses for inflation.
d. use net income less capitalized interest.
e. include the value of any assets purchased.

ANSWER: a
RATIONALE: When estimating income for the income and expense statement, you should use gross wages, salaries, and commissions, which constitutes the amount of income you receive from your employer before taxes and other payroll deductions. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Understanding
REFERENCES: Generate a personal income and expense statement.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Income
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50. If your liquid assets equal $15,000 and your current debts equal $50,000, your liquidity ratio is:
a. 30%.
b. 70%.
c. 143%.
d. 233%.
e. 333%.

ANSWER: a
RATIONALE: Liquidity Ratio = Total Liquid Assets ÷ Total Current Debts = $15,000 ÷ $50,000 = 30%
See 2-4: Using Your Personal Financial Statements.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Applying
REFERENCES: Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Ratio analysis
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51. If your total assets equal $87,000 and your total liabilities equal $10,000, your solvency ratio is:

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a. 11.5%.
b. 13.0%.
c. 77.0%.
d. 87.0%.
e. 88.5%.

ANSWER: e
RATIONALE: Solvency ratio is calculated by dividing total net worth by total assets. Solvency Ratio = ($87,000 – $10,000) ÷ $87,000 = 88.5% See 2-4: Using Your Personal Financial Statements.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Applying
REFERENCES: Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Ratio analysis
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52. Which of the following ratios indicates your ability to pay current debts with existing assets that can be converted to cash readily?

a. Solvency
b. Liquidity
c. Cash
d. Savings
e. Debt service

ANSWER: b
RATIONALE: Your liquidity ratio shows your ability to pay current debts with existing liquid assets. See 2-4: Using Your Personal Financial Statements.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Remembering
REFERENCES: Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Ratio analysis
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2. Using Financial Statements and Budgets

53. A savings ratio calculated from an income and expense statement represents the:

a. percentage of gross income saved.
b. ability to cover immediate debt when there is an interruption in income.
c. percentage of after-tax income saved.
d. percentage of tax-deferred income earned annually.
e. percentage of asset value salvaged.

ANSWER:	c
RATIONALE:	A savings ratio represents the percentage of after-tax income saved. Savings Ratio = Cash Surplus ÷ Income after Taxes See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Financial statements
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54. Assume that your total income for the current year is $35,000. Your total expenses, including taxes of $5,000, are $30,000. Your savings ratio is:

a. 7.5%.
b. 10.0%.
c. 12.5%.
d. 13.3%.
e. 16.7%.

ANSWER:	e
RATIONALE:	Savings Ratio = Cash Surplus ÷ Net Income = ($35,000 – $30,000) ÷ ($35,000 – $5,000) = 16.7% See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
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2. Using Financial Statements and Budgets

55. Jacques's total monthly loan payments amount to $1,020, while his gross income is $3,000 per month. What is his debt service ratio?

a. 34%
b. 43%
c. 50%
d. 75%
e. 82%

ANSWER:	a
RATIONALE:	Jacques's Debt Service Ratio = Total Monthly Loan Payments ÷ Monthly Gross Income = $1,020 ÷ $3,000 = 34% See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Ratio analysis
DATE CREATED:	7/25/2018 9:49 AM
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56. Mike and Teresa have a monthly gross income of $5,000. They pay $1,000 per month toward taxes and $2,000 per month toward various loans. What is their debt service ratio?

a. 20%
b. 30%
c. 40%
d. 50%
e. 60%

ANSWER:	c
RATIONALE:	Mike and Teresa's Debt Service Ratio = Total Monthly Loan Payments ÷ Monthly Gross Income = $2,000 ÷ $5,000 = 40% See 2-4: Using Your Personal Financial Statements.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Ratio analysis
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57. Which of the following is one of the three stages in preparing a cash budget?
    a. Calculating financial ratios
    b. Estimating expenses
    c. Calculating depreciation expenses
    d. Finalizing the balance sheet
    e. Preparing the bank reconciliation report

ANSWER: b
RATIONALE: The cash budget preparation process has three stages: forecasting income (cash in), estimating expenses (cash out), and finalizing the cash budget. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Easy
Bloom's: Remembering
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Cash budgets
DATE CREATED: 7/25/2018 9:49 AM
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58. A cash budget helps you:
    a. monitor and control your finances.
    b. analyze your financial position.
    c. calculate your solvency ratio.
    d. measure your net worth.
    e. identify your long-term debt.

ANSWER: a
RATIONALE: A cash budget is a valuable money management tool that helps you: (1) maintain the necessary information to monitor and control your finances; (2) decide how to allocate your income to reach your financial goals; (3) implement a system of disciplined spending—as opposed to just existing from one paycheck to the next; (4) reduce needless spending so you can increase the funds allocated to savings and investments; and (5) achieve your long-term financial goals. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Remembering
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS: 22785889 - Analytic

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TOPICS:	Cash budgets
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59. The Wilsons' short-term goals might include:
    a. buying back-to-school clothes in August.
    b. buying a house.
    c. sending the kids to college.
    d. planning to retire at the age of 60.
    e. going on a world tour.

ANSWER:	a
RATIONALE:	Short-term goals are those that have to be achieved within the time frame of one year. Therefore, the Wilsons' short-term goals might include buying new clothes for their children in August. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal budgets
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60. There is a need for budget adjustments when:
    a. income is stable.
    b. account deficits and surpluses balance out.
    c. account deficits are more than surpluses.
    d. a new calendar year begins.
    e. short-term financial goals are achieved.

ANSWER:	c
RATIONALE:	If you find that you have a deficit at projected year end, you'll have to go back and adjust your expenses. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Understanding
REFERENCES:	Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Deficit Budgeting

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2. Using Financial Statements and Budgets

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61. The best approach to solve the problem of an annual budget deficit is to:
    a. liquidate more assets than required to meet the budget shortfall for the year.
    b. borrow funds on credit cards.
    c. reduce flexible expenditures on nonessential items.
    d. reduce fixed expenses.
    e. reduce high-priority expenses on the budget.

ANSWER: c
RATIONALE: Cut low-priority expenses from the budget. This option is clearly preferable to the first one. It balances the budget without using external funding sources by eliminating expenses associated with your least important short-term goals, such as flexible or discretionary expenses for nonessential items (e.g., recreation, entertainment, and some types of clothing). See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Analyzing
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Deficit
Budgeting
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62. What can you do if your budget shows an annual budget deficit?
    a. You can liquidate investments to meet the total budget shortfall.
    b. You can increase low-priority expenses on the budget.
    c. You can invest more in real estate/personal estate.
    d. You can discourage additional borrowing.
    e. You can shift expenses from the surplus months to the deficit months.

ANSWER: a
RATIONALE: Although it is not a preferred option, you can liquidate enough savings and investments to meet the total budget shortfall for the year. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Understanding
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets

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ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Deficit
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63. Your investment advisor wants you to purchase an annuity that will pay you $25,000 per year for 10 years. You require a 7% return. The present value annuity factor at 7% for 10 years is 7.0236. What is the most you should pay for this investment?

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

ANSWER: b
RATIONALE: The amount that you should pay for the investment is calculated by multiplying $25,000 by 7.0236 (present value annuity factor at 7% for 10 years), which is equal to $175,590. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS: 1
DIFFICULTY: Challenging
Bloom's: Applying
REFERENCES: Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Present value
Time value of money
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64. Theresa invested $5,000 in an account she expects will earn 7% annually. Approximately how many years will it take for the account to double in value? (Round the number of years to the nearest whole number.)

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

ANSWER: c
RATIONALE: In the financial calculator, input the value of PV as –5000, i as 7, and FV as 10000 to compute the value of N equal to 10.2. Rounding off to the nearest whole number yields 10 years as the answer. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS: 1
DIFFICULTY: Challenging
Bloom's: Applying

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REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Future value Time value of money
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65. Jamil invested $9,500 in an account he expects will earn 5% annually. Approximately how many years will it take for the account to double in value? (Round answer to one decimal place.)

a. 8.8
b. 9.7
c. 10.8
d. 11.4
e. 14.2

ANSWER:	e
RATIONALE:	Considering the future value of the investment to double, the FV is equal to 2 times $9,500 which equals $19,000. In the financial calculator, input the value of PV as –9500, i as 5, and FV as 19000 to compute the value of N equal to 14.2. Hence, Jamil's investment amount will double in 14.2 years. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS:	1
DIFFICULTY:	Challenging Bloom's: Applying
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Future value Time value of money
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66. Phil has $2,000, and he needs it to grow to $4,000 in 8 years. Assuming he does not add any more money to this fund, what rate of interest would he need to earn? (Round the rate of interest to the nearest whole number.)

a. 6%
b. 7%
c. 8%
d. 9%
e. 10%

ANSWER:	d

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RATIONALE:	In the financial calculator, input the value of PV as –2000, FV as 4000, and N as 8 to compute the value of i equal to 9.05. By rounding off to the nearest whole number, the rate of interest is 9%. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS:	1
DIFFICULTY:	Challenging Bloom's: Applying
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Future value Time value of money
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67. Michael and Sandy purchased a home for $100,000 5 years ago. If its value appreciated at 6% annually, what is it worth today? (Round the answer to the nearest dollar.)

a. $100,000
b. $106,000
c. $130,000
d. $133,823
e. $135,603

ANSWER:	d
RATIONALE:	In the financial calculator, input the value of PV as –100000, N as 5, and I as 6 to compute the value of FV equal to 133,823. Hence, the value of home will grow to $133,823 in 5 years at a rate of interest of 6%. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS:	1
DIFFICULTY:	Challenging Bloom's: Applying
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Future value Time value of money
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68. Elena purchased a stamp collection for $5,000 30 years ago. If its value appreciated at 8% annually, what is it worth today? (Round the answer to the nearest dollar.)

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a. $17,000
b. $36,400
c. $50,313
d. $123,023
e. $150,000

ANSWER: c
RATIONALE: In the financial calculator, input the value of PV as –5000, N as 30, and I as 8 to compute the value of FV equal to 50,313. The value today is calculated as $50,313. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS: 1
DIFFICULTY: Challenging
Bloom's: Applying
REFERENCES: Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Future value
Time value of money
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69. A balance sheet provides a statement of one's financial:
a. position.
b. performance.
c. goals.
d. ratios.
e. history.

ANSWER: a
RATIONALE: A balance sheet is a financial statement that describes an individual's financial position—the assets he or she holds, less the debts he or she owes, equals his or her net worth—at a given point in time. See 2-1: Mapping Out Your Financial Future.
POINTS: 1
DIFFICULTY: Easy
Bloom's: Remembering
REFERENCES: Understand the relationship between financial plans and statements.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Financial statements
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2. Using Financial Statements and Budgets

70. The first step in financial planning is to:
    a. define one's financial goals.
    b. set up a budget.
    c. calculate one's liquidity ratio.
    d. prepare a trend analysis.
    e. list expenses.

ANSWER:	a
RATIONALE:	The first step in financial planning is to define an individual's financial goals so that evaluating his or her performance becomes easy. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Financial statements
DATE CREATED:	7/25/2018 9:49 AM
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71. A detailed forecast used to monitor and control expenses is called a(n):
    a. balance sheet.
    b. profit and loss account.
    c. budget.
    d. income and expense statement.
    e. cash inflow.

ANSWER:	c
RATIONALE:	A budget is a detailed short-term financial report that looks forward, based on expected income and expenses. See 2-1: Mapping Out Your Financial Future.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between financial plans and statements.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.01 - 2-1 Mapping Out Your Financial Future
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Personal budgets
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72. A _____ is an example of a liquid asset.

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a. fixed deposit of 3 years
b. savings account
c. tax
d. retirement account
e. car

ANSWER: b
RATIONALE: Liquid assets are low-risk financial assets held in the form of cash or instruments that can be converted into cash readily, with little or no loss in value. Cash on hand or in a checking or savings account, money market deposit accounts, money market mutual funds, or certificates of deposit that mature within one year are all examples of liquid assets. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS: 1
DIFFICULTY: Easy
Bloom's: Understanding
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Assets
DATE CREATED: 7/25/2018 9:49 AM
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73. A _____ is an example of a tangible asset.

a. house
b. patent
c. copyright
d. trademark
e. mortgage

ANSWER: a
RATIONALE: Real and personal property are tangible assets that we use in our everyday lives. Real property refers to immovable property: land and anything fixed to it, such as a house. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS: 1
DIFFICULTY: Easy
Bloom's: Understanding
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Assets
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74. Investment assets are required to:

a. be used in our everyday lives.
b. increase productivity.
c. provide a service.
d. earn a return.
e. be easily converted to cash.

ANSWER:	d
RATIONALE:	Investments are assets acquired to earn a return rather than provide a service. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Assets
DATE CREATED:	7/25/2018 9:49 AM
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75. A(n) _____ is an example of a current liability.

a. auto loan
b. credit card balance
c. mortgage
d. education loan
e. furniture loan

ANSWER:	b
RATIONALE:	Any debt currently owed and due within one year of the date of the balance sheet can be categorized as a current liability. Examples include charges for consumable goods, utility bills, rent, insurance premiums, taxes, medical bills, repair bills, and total open account credit obligations—the outstanding balances against established credit lines (usually through credit card purchases). See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Easy Bloom's: Understanding
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Liabilities
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76. When your liabilities exceed your assets, you:
    a. are bankrupt.
    b. have growing equity.
    c. have a positive net worth.
    d. are insolvent.
    e. have less real assets than investments.

ANSWER: d
RATIONALE: Net worth equals total assets minus total liabilities. If net worth is less than zero, the individual is technically insolvent. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Understanding
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Personal finance
DATE CREATED: 7/25/2018 9:49 AM
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77. When your assets exceed your liabilities, you:
    a. are losing equity.
    b. have negative net worth.
    c. are solvent.
    d. are bankrupt.
    e. have more real assets than investments.

ANSWER: c
RATIONALE: Net worth equals total assets minus total liabilities. If net worth is greater than zero, the individual is solvent. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Understanding
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
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78. Your car has a market value of $4,000, while the balance of the loan against it is now $2,500. Your ownership interest in the car is:

a. $2,500.
b. $4,000.
c. $6,500.
d. $1,500.
e. $5,500.

ANSWER:	d
RATIONALE:	The actual ownership/equity in a specific asset or a group of assets is calculated by subtracting the debt portion from the asset value. Your ownership interest in the car is calculated as $4,000 – $2,500 = $1,500. See 2-2: The Balance Sheet: How Much Are You Worth Today?
POINTS:	1
DIFFICULTY:	Moderate Bloom's: Applying
REFERENCES:	Prepare a personal balance sheet.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Wealth
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79. The total amount of salary you earn before taxes are deducted is your _____ salary.

a. gross
b. after-tax
c. take-home
d. net
e. liquid

ANSWER:	a
RATIONALE:	Gross wages, salaries, and commissions constitute the amount of income you receive from your employer before taxes and other payroll deductions. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Generate a personal income and expense statement.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Income
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80. You bought a $500 stereo on an installment plan and made two payments of $75 each during the year. On your income and expense statement for the year, you will show an expense of:

a. $150.
b. $575.
c. $650.
d. $500.
e. $75.

ANSWER: a

RATIONALE: Expenses represent the money used for outlays. In this case, the actual outlay equals two payments of $75 each during the year. Therefore, you will show an amount of $150 as an expense on your income and expense statement for the year. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.

POINTS: 1

DIFFICULTY: Easy
Bloom's: Applying

REFERENCES: Generate a personal income and expense statement.

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes

ACCREDITING STANDARDS: 22785889 - Analytic

TOPICS: Expenses

DATE CREATED: 7/25/2018 9:49 AM

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81. _____ are considered to be variable expenses.

a. Interest payments
b. Medical expenses
c. Rent payments
d. Insurance expenses
e. Cable TV fees

ANSWER: b

RATIONALE: Expenses such as food, clothing, utilities, entertainment, and medical expenses are variable expenses, because their amounts change from one time period to another. Hence, it is difficult to estimate such expenses. See 2-3: The Income and Expense Statement: What We Earn and Where It Goes.

POINTS: 1

DIFFICULTY: Easy
Bloom's: Understanding

REFERENCES: Generate a personal income and expense statement.

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes

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2. Using Financial Statements and Budgets

ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Expenses
DATE CREATED: 7/25/2018 9:49 AM
DATE MODIFIED: 10/19/2018 10:52 AM

82. Total assets on your balance sheet are $6,000 and liabilities are $2,000. Your solvency ratio will be:

a. 30%.
b. 33%.
c. 67%.
d. 85%.
e. 75%.

ANSWER: c
RATIONALE: The solvency ratio is calculated by dividing total net worth by total assets ($6,000 – $2,000) ÷ $6,000. It measures the degree of exposure to insolvency. See 2-4: Using Your Personal Financial Statements.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Applying
REFERENCES: Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Financial statements
DATE CREATED: 7/25/2018 9:49 AM
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83. The liquidity ratio is designed to show the percentage of _____ you can cover with your current assets.

a. current debts
b. current expenses
c. long-term debts
d. planned savings
e. planned purchases

ANSWER: a
RATIONALE: The liquidity ratio shows your ability to pay current debts with existing liquid assets. It is calculated by dividing total liquid assets by total current debts. See 2-4: Using Your Personal Financial Statements.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Remembering
REFERENCES: Develop a good record-keeping system and use ratios to evaluate personal financial statements.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False

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2. Using Financial Statements and Budgets

LEARNING OBJECTIVES: PFIN7.BILL.20.02.04 - 2-4 Using Your Personal Financial Statements
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Financial statements
DATE CREATED: 7/25/2018 9:49 AM
DATE MODIFIED: 10/19/2018 10:52 AM

84. If your annual budget shows a deficit, you can _____ to balance your budget.
    a. increase your savings
    b. increase your income
    c. increase your expenses
    d. increase your investments
    e. purchase real property

ANSWER: b
RATIONALE: If your budget shows a deficit, you are required to increase your income to balance your budget. Transferring income from the months with surpluses to those with deficits helps balance one's budget. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Easy
Bloom's: Understanding
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Deficit
DATE CREATED: 7/25/2018 9:49 AM
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85. A cash budget will have value only if it is actually used and:
    a. records of actual income and expenses are kept.
    b. spending never deviates from the budgeted amount.
    c. it reflects actual financial position.
    d. it takes into account only credit transactions.
    e. all liabilities are paid.

ANSWER: a
RATIONALE: A cash budget will have value only if it is actually used and records of actual income and expenses are kept. These records show whether you are staying within your budget limits. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Understanding
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets

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2. Using Financial Statements and Budgets

ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Budgeting
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86. _____ is the most preferred way for one to deal with budget deficits.
a. Liquidating savings and investments
b. Borrowing money from relatives
c. Cutting low-priority expenses
d. Increasing income
e. Paying all short-term liabilities

ANSWER: c
RATIONALE: Cutting low-priority expenses is the most preferable way to deal with budget deficits. It balances budgets without using external funding sources. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Easy
Bloom's: Analyzing
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Deficit
Personal budgets
DATE CREATED: 7/25/2018 9:49 AM
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87. Once you define your _____ financial goals, you can prepare a cash budget for the upcoming year.
a. post-retirement
b. short-term
c. immediate
d. long-term
e. career-oriented

ANSWER: b
RATIONALE: Once you define your short-term financial goals, you can prepare a cash budget for the upcoming year. See 2-5: Cash In and Cash Out: Preparing and Using Budgets.
POINTS: 1
DIFFICULTY: Easy
Bloom's: Remembering
REFERENCES: Construct a cash budget and use it to monitor and control spending.
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: PFIN7.BILL.20.02.05 - 2-5 Cash In and Cash Out: Preparing and Using Budgets
ACCREDITING STANDARDS: 22785889 - Analytic

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2. Using Financial Statements and Budgets

TOPICS:	Cash budgets
DATE CREATED:	7/25/2018 9:49 AM
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88. _____ value is the value today of an amount to be received in the future.

a. Present
b. Future
c. Intrinsic
d. Extrinsic
e. Actual

ANSWER:	a
RATIONALE:	Present value represents the amount you would have to invest today at a given interest rate over a specified time period to accumulate the future amount. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Present value
DATE CREATED:	7/25/2018 9:49 AM
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89. The process of finding present value is called:

a. discounting.
b. calculating.
c. compounding.
d. computing.
e. balancing.

ANSWER:	a
RATIONALE:	The process of finding present value is called discounting, which is the inverse of compounding to find future value. See 2-6: The Time Value of Money: Placing a Dollar Value on Financial Goals.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals

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2. Using Financial Statements and Budgets

ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Present value
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90. Jean and Jim have liquid assets of $3,600 and other assets of $42,800. Their total liabilities equal $26,000. What is their net worth? (Show all work.)

ANSWER: Net Worth = Total Assets – Total Liabilities
Net Worth = ($42,800 + $3,600) – $26,000 = $20,400
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Applying
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Wealth
DATE CREATED: 7/25/2018 9:49 AM
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91. Rosa and Jose have liquid assets of $5,000 and other assets of $50,000. Their total liabilities equal $26,000. What is their net worth? (Show all work.)

ANSWER: Net Worth = Total Assets – Total Liabilities
Net Worth = ($50,000 + $5,000) – $26,000 = $29,000
POINTS: 1
DIFFICULTY: Moderate
Bloom's: Applying
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Wealth
DATE CREATED: 7/25/2018 9:49 AM
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92. Construct a balance sheet using the following information. Be sure the format is correct. (Show all work.)

Cash on hand	$ 75
Bank credit card balance	1,200
Utility bill (overdue)	100
Auto loan balance	3,500
Mortgage	75,000
Primary residence	105,000

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2. Using Financial Statements and Budgets

Jewelry	2,000
Stocks	17,500
Coin collection	2,500
2011 Toyota	7,500

ANSWER:

BALANCE SHEET					
Assets			**Liabilities**		
Liquid Assets			**Current liabilities**		
Cash on hand	$ 75		Bank credit card balance	$1,200	
			Utility bill (overdue)	100	
Total Liquid Assets		$ 75	Total Current Liabilities		$ 1,300
Investments					
Stocks	$ 17,500				
Total Investments		$ 17,500			
Real Property					
Primary residence	$105,000				
Total Real Property		$105,000			
Personal Property			**Long-Term Liabilities**		
Auto(s): 2011 Toyota	$ 7,500		Auto loan balance	$ 3,500	
Jewelry	2,000		Mortgage	75,000	
Coin collection	2,500		Total Long-Term Liabilities		$ 78,500
Total Personal Property		$ 12,000	Total Liabilities		$ 79,800
			Net Worth		$ 54,775
Total Assets		$134,575	Total Liabilities and Net Worth		$134,575

POINTS: 1

DIFFICULTY: Challenging
Bloom's: Applying

REFERENCES: Prepare a personal balance sheet.

QUESTION TYPE: Essay

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

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2. Using Financial Statements and Budgets

LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Balance sheets
DATE CREATED: 7/25/2018 9:49 AM
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93. Construct a balance sheet using the following information. Be sure the format is correct. (Show all work.)

Cash on hand	$ 500
Bank credit card balance	750
Taxes due	500
Utility bills (overdue)	120
Auto loan balance	6,000
Mortgage	45,000
Primary residence	60,000
Jewelry	1,200
Stocks	6,000
Coin collection	2,500
2011 Toyota	7,500
Auto payment	250

ANSWER:

BALANCE SHEET					
Assets			**Liabilities**		
Liquid Assets			**Current liabilities**		
Cash on hand	$ 500		Bank credit card balance	$ 750	
			Taxes due	500	
			Utility bill (overdue)	120	
Total Liquid Assets		$ 500	Total Current Liabilities		$ 1,370
Investments					
Stocks	$ 6,000				
Total Investments		$ 6,000			
Real Property					
Primary residence	$60,000				
Total Real Property		$60,000			
Personal Property			**Long-Term Liabilities**		

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Auto(s): 2011 Toyota	$ 7,500		Auto loan balance	$ 6,000	
Jewelry	1,200		Mortgage	45,000	
Coin collection	2,500		Total Long-Term Liabilities		$51,000
Total Personal Property		$11,200	Total Liabilities		$52,370
			Net Worth		$25,330
Total Assets		$77,700	Total Liabilities and Net Worth		$77,700

POINTS: 1
DIFFICULTY: Challenging
Bloom's: Applying
REFERENCES: Prepare a personal balance sheet.
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: PFIN7.BILL.20.02.02 - 2-2 The Balance Sheet: How Much Are You Worth Today?
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Balance sheets
DATE CREATED: 7/25/2018 9:49 AM
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94. The Harts spend 30% of their disposable income on housing, 5% on medical expenses, 25% on food, 10% on clothing, 14% on loan repayments, and 8% on entertainment. How much of their disposable income is available for saving and investment? (Show all work.)
ANSWER: The disposable income is 100%. The total outlays equal 92%, which is calculated by adding 30%, 5%, 25%, 10%, 14%, and 8%. Therefore, the total disposable income available for saving and investment = 100% – 92% = 8%.
POINTS: 1
DIFFICULTY: Challenging
Bloom's: Applying
REFERENCES: Generate a personal income and expense statement.
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: PFIN7.BILL.20.02.03 - 2-3 The Income and Expense Statement: What We Earn and Where It Goes
ACCREDITING STANDARDS: 22785889 - Analytic
TOPICS: Income
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2. Using Financial Statements and Budgets

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95. Inflation is expected to be 4% in the coming year. If Mr. Gonza earned $37,000 this year, how much must he earn in the following year to keep up with inflation and maintain a balance between his income and his increasing expenditures? (Show all work.)

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

POINTS: 1

DIFFICULTY: Bloom's: Applying
Challenging

REFERENCES: Apply time value of money concepts to put a monetary value on financial goals.C

QUESTION TYPE: Essay

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals

ACCREDITING STANDARDS: 22785889 - Analytic

TOPICS: Personal budgets

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96. Inflation is expected to be 3% in the coming year. If Mr. Gonza earned $45,000 this year, how much must he earn in the following year to keep up with inflation and maintain a balance between his income and his increasing expenditures? (Show all work.)

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

POINTS: 1

DIFFICULTY: Bloom's: Applying
Challenging

REFERENCES: Apply time value of money concepts to put a monetary value on financial goals.C

QUESTION TYPE: Essay

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals

ACCREDITING STANDARDS: 22785889 - Analytic

TOPICS: Personal budgets

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97. Jamie wants to have $1,000,000 for her retirement in 25 years. How much should she save annually if she expects to earn 10% on her investments?

ANSWER: In the financial calculator, input the value of FV as 1000000, N as 25, and i as 10 to compute the value of PMT equal to 10168.07. Hence, Jamie should save $10,168.07 annually.

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POINTS:	1
DIFFICULTY:	Challenging Bloom's: Applying
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Essay
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Present value
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98. The Hamptons want to have $1,750,000 for their retirement in 30 years. How much should they save annually if they expect to earn 8% on their investments?

ANSWER:	The future value that the Hamptons want equals $1,750,000. The time left for retirement is 30 years, and the interest rate is 8%. In the financial calculator, input the value of FV as 1750000, N as 30, and i as 8 to compute the value of PMT equal to 15448.01. Therefore, the present value of periodic payments equals $15,448.01.
POINTS:	1
DIFFICULTY:	Challenging Bloom's: Applying
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Essay
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Present value
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99. The Flemings will need $80,000 annually for 20 years during their retirement. How much will they have at retirement if they can earn a 4% rate of interest on their investment?

ANSWER:	In the financial calculator, input the value of PMT as 80000, N as 20, and i as 4 to compute the value of PV equal to 1087226.11. Therefore, the Flemings will have $1,087,226.11 at retirement.
POINTS:	1
DIFFICULTY:	Challenging Bloom's: Applying
REFERENCES:	Apply time value of money concepts to put a monetary value on financial goals.
QUESTION TYPE:	Essay
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic

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LEARNING OBJECTIVES:	PFIN7.BILL.20.02.06 - 2-6 The Time Value of Money: Placing a Dollar Value on Financial Goals
ACCREDITING STANDARDS:	22785889 - Analytic
TOPICS:	Present value
DATE CREATED:	7/25/2018 9:49 AM
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100. Nominal interest rates are not adjusted for inflation.

a. True

b. False

ANSWER:	True
RATIONALE:	Nominal interest rates are unadjusted for inflation. See 2-7: Inflation and Interest Rates.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between inflation and nominal interest rates and calculate the real interest rate.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.07 - 2-7 Inflation and Interest Rates
ACCREDITING STANDARDS:	22785889 - Analytic
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101. The best way to handle inflation in long-term financial planning decisions is first to consider the history of inflation.

a. True

b. False

ANSWER:	False
RATIONALE:	The best way to handle inflation in long-term financial planning decisions is first to consider prevailing forecasts of future inflation. See 2-7: Inflation and Interest Rates.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between inflation and nominal interest rates and calculate the real interest rate.
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.07 - 2-7 Inflation and Interest Rates
ACCREDITING STANDARDS:	22785889 - Analytic
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102. The real rate of return is also referred to as the real:

a. liability rate.

b. short-term rate.

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c. estimated rate.
d. inflation rate.
e. interest rate.

ANSWER:	e
RATIONALE:	The real rate of return is also referred to as the real interest rate. See 2-7: Inflation and Interest Rates.
POINTS:	1
DIFFICULTY:	Easy Bloom's: Remembering
REFERENCES:	Understand the relationship between inflation and nominal interest rates and calculate the real interest rate.
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	PFIN7.BILL.20.02.07 - 2-7 Inflation and Interest Rates
ACCREDITING STANDARDS:	22785889 - Analytic
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