

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

- 1) Money management refers to day-to-day financial activities necessary to manage current personal economic resources while working toward long-term financial security.
- 2) Money management refers to annual financial activities necessary to manage personal economic resources.
- 3) An organized system of financial records provides a basis for reducing credit card usage.
- 4) A budget is a record of how a person or family has spent their money.
- 5) Some people keep various documents and valuables in safe deposit boxes in banks and other financial institutions because the safety of the contents of these boxes is absolutely foolproof.
- 6) In an organized system of financial records, credit card records belong in a safe deposit box.
- 7) In an organized system of financial records, birth and marriage certificates belong in a safe deposit box.
- 8) In an organized system of financial records, medical information belongs in a home file.
- 9) Financial documents that you may need quick access to should be kept in a safe deposit box.
- 10) In an organized system of financial records, investment records belong in a home file, home computer, or online.
- 11) Copies of tax returns and supporting data should be saved for 10 years.
- 12) Birth certificates, wills, and Social Security data should be kept for up to 7 years.
- 13) The two personal financial statements that you create yourself are the personal balance sheet and a credit card payoff statement.
- 14) The current financial position of an individual or family is a common starting point for financial planning.
- 15) Net worth is the amount owed to others.
- 16) Current liabilities are the debts you must pay within a short time, usually less than a year.
- 17) Liquid assets can be easily converted to cash and include money in checking accounts and personal possessions.

- 18) A cash flow statement uses this equation: $\text{Assets} - \text{Liabilities} = \text{Net worth}$.
- 19) A cash flow statement uses this equation: $\text{Total cash received during the time period} - \text{Cash outflows during the time period} = \text{Cash surplus (or deficit)}$.
- 20) When completing a cash flow statement, deductions are subtracted from gross salary to determine take-home pay.
- 21) When completing a cash flow statement, take-home pay less deductions equals gross salary.
- 22) Financial advisers suggest that an emergency fund should cover one to two months of living expenses.
- 23) When creating a budget, it is important to save the amount you have left at the end of the month.
- 24) One method to spend more money is to deduct an amount automatically from your salary in a direct deposit system.
- 25) One method to save more money is to write a check each payday and deposit it in a separate savings account.
- 26) Annual investment account statements should be shredded.
- 27) A mortgage is an amount borrowed to buy a television or other personal possession.
- 28) If a household has \$195,000 of assets and \$75,000 of liabilities, then their net worth would be \$125,000.
- 29) A balance sheet reports what an individual or family owns and owes.
- 30) A high debt ratio is best.
- 31) Money management refers to
- A) Preparing personal financial statements.
 - B) Day-to-day financial activities.
 - C) Trade-offs that occur with financial decisions.
 - D) Storing financial records for easy access.
 - E) Spending money on current living expenses.

- 32) Which of the following is a component of money management?
- A) Storing and maintaining personal financial records and documents.
 - B) Creating a balance sheet.
 - C) Creating and implementing a plan for spending and saving.
 - D) Creating a cash flow statement.
 - E) All of these choices are components of money management.
- 33) A home file should be used to keep
- A) All financial documents and records.
 - B) Financial records for current needs.
 - C) Documents that require maximum security.
 - D) Obsolete financial documents.
 - E) Records that are difficult to replace.
- 34) Which of the following financial documents would most likely be stored in a safe deposit box or fireproof home safe?
- A) W-2 forms
 - B) Personal financial statements
 - C) Warranties
 - D) Marriage certificates
 - E) Bank statements
- 35) Which of the following is most correct?
- A) A current budget belongs in your safe deposit box.
 - B) A warranty belongs in a safe deposit box.
 - C) Adoption papers belong in a home file.
 - D) A death certificate should be kept in a home file.
 - E) Tax records belong in a home file.
- 36) Which of the following is most correct?
- A) Rare coins and stamps belong in a safe deposit box.
 - B) A marriage certificate should be kept in a home file.
 - C) W-2s for tax records belong in a safe deposit box.
 - D) A current budget belongs in your safe deposit box.
 - E) Adoption papers belong in a home file.
- 37) Common stock and bond brokerage statements are an example of a(n) _____ record.
- A) investment
 - B) insurance
 - C) estate planning
 - D) tax
 - E) consumer purchase

- 38) The number of personal financial records a household has to organize may seem overwhelming. How long should you keep copies of your tax returns?
- A) Until you receive your refund
 - B) Until the end of the current year
 - C) Three years
 - D) Seven years
 - E) Permanently
- 39) The number of personal financial records a household has to organize may seem overwhelming. How long should you keep documents relating to the purchase and sale of real estate?
- A) Until the mortgage is paid off
 - B) Until you move out of the house
 - C) Three years
 - D) Seven years
 - E) Indefinitely
- 40) How long should you keep documents relating to investments?
- A) No need to since the broker probably has a copy.
 - B) As long as you own these items.
 - C) Seven years.
 - D) Ten years.
 - E) Permanently.
- 41) How long should you keep your most current will?
- A) No need to keep it since your lawyer probably has a photocopy.
 - B) One year.
 - C) Three years.
 - D) Seven years.
 - E) Permanently.
- 42) The main purposes of personal financial statements are to
- A) Report your current financial position.
 - B) Measure your progress toward financial goals.
 - C) Maintain information about your financial activities.
 - D) Provide data for preparing tax forms or applying for credit.
 - E) All of these choices are correct
- 43) Which of the following are two personal financial statements that you create yourself?
- A) Budget and credit card statements
 - B) Personal balance sheet and cash flow statement
 - C) Checkbook and budget
 - D) Tax returns
 - E) Bank statement and a balance sheet

- 44) A personal balance sheet reports
- A) Amounts budgeted for spending.
 - B) Income and expenses for a period of time.
 - C) Earnings on savings and investments.
 - D) Items owned, amounts owed, and your net worth.
 - E) Family financial goals.
- 45) The current financial position of an individual or family is best presented in the form of a:
- A) Budget.
 - B) Cash flow statement.
 - C) Balance sheet.
 - D) Bank statement.
 - E) Time value of money report.
- 46) Another name for a statement of financial position is a
- A) Balance sheet.
 - B) Bank statement.
 - C) Budget.
 - D) Cash flow statement.
 - E) Time value of money report.
- 47) The statement that includes liquid assets, real estate, personal possessions, and investment assets is known as a
- A) Personal balance sheet.
 - B) Bank statement.
 - C) Budget.
 - D) Cash flow statement.
 - E) Time value of money report.
- 48) Items that you own that have a monetary value are referred to as
- A) Liabilities.
 - B) Variable expenses.
 - C) Net worth.
 - D) Income.
 - E) Assets.
- 49) Which of the following is a liquid asset?
- A) Savings/money market accounts
 - B) Cash surrender value of life insurance
 - C) Checking account balance
 - D) Money market accounts
 - E) All of these are liquid assets

50) When creating a personal balance sheet, which of the following is a real estate asset?

- A) Cash value of life insurance
- B) Vacation property
- C) Possessions in your home
- D) Investments for financing children's education
- E) Retirement accounts

51) When creating a personal balance sheet, which of the following is considered to be a personal possession asset?

- A) A five-year-old television set
- B) A home
- C) Cash in a checking account
- D) Retirement accounts
- E) Vacation property

52) When creating a personal balance sheet, which of the following is an investment asset?

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

53) When creating a personal balance sheet, which of the following is a current liability?

- A) Checking account
- B) Thirty-year mortgage
- C) Educational loan
- D) 5-year home equity loan
- E) Medical bill

54) The amount you would have left if all assets were sold and all debts were paid in full is called your

- A) Net assets.
- B) Net worth.
- C) Total liabilities.
- D) Total income.
- E) Budgeted expenses.

55) The equation to calculate net worth is

- A) Assets minus Cash outflows = Net worth.
- B) Cash inflows minus Liabilities = Net worth.
- C) Cash inflows minus Cash outflows = Net worth.
- D) Assets minus Liabilities = Net worth.
- E) Cash inflows + Liabilities = Net worth.

56) The inability to pay debts when they are due because liabilities far exceed the value of assets is called

- A) Liabilities.
- B) Insolvency.
- C) Net worth.
- D) Cash flow.
- E) Liquid assets.

57) Which of the following situations describes a person who could be insolvent?

- A) Assets \$56,000; annual expenses \$60,000
- B) Assets \$78,000; net worth \$22,000
- C) Liabilities \$45,000; net worth \$6,000
- D) Assets \$40,000; liabilities \$55,000
- E) Annual cash inflows \$45,000; liabilities \$50,000

58) All of the following are ways that households can increase their net worth *except*

- A) Increase their savings.
- B) Reduce spending.
- C) Increase value of investments.
- D) Decrease their debt ratio.
- E) Increase their debt ratio.

59) Which of the following will increase the net worth of a household?

- A) Decrease saving by \$50 per month
- B) Increase the amount borrowed for major purchases
- C) Decrease spending by \$5 per day
- D) Invest in possessions whose values do not increase
- E) Increase spending by \$5 per day

60) Which of the following is a cash inflow?

- A) Payment for rent
- B) Purchase of groceries
- C) Payment for loan
- D) Income from employment
- E) Payment for medical expenses

61) Which of the following appears as a cash outflow on a cash flow statement?

- A) Liquid assets
- B) Variable expenses
- C) Net worth
- D) Personal possessions
- E) Real estate assets

- 62) Which of the following appears as a cash outflow on a cash flow statement?
- A) Home value
 - B) Loan payment
 - C) Net worth
 - D) Balance of mortgage
 - E) Cash value of life insurance
- 63) Financial experts recommend monthly savings of _____ of gross income.
- A) 0%
 - B) 5-10%
 - C) 20%
 - D) 25-35%
 - E) 50%
- 64) Financial experts recommend a debt/payments ratio of less than _____ of take-home pay.
- A) 0%
 - B) 5-10%
 - C) 20%
 - D) 25-35%
 - E) 50%
- 65) A current ratio of 2 means
- A) 2% from each paycheck is available for savings.
 - B) The minimum payment for a credit card is 2% of the balance.
 - C) 2 months of living expenses are available in case of emergency.
 - D) Net worth equals 2 times the amount of debt.
 - E) \$2 in liquid assets are available for every \$1 of current liabilities.
- 66) A debt ratio of 0.5 indicates
- A) The balance on the mortgage = 50% of the value of the home.
 - B) For every dollar of net worth, debt equals \$0.50.
 - C) For every dollar of debt, net worth equals \$0.50.
 - D) For every dollar of take-home pay, monthly credit payments equal \$0.50.
 - E) For every dollar of assets, monthly credit payments equal \$0.50.
- 67) Which of the following ratios shows the relationship between debt and net worth?
- A) Debt ratio
 - B) Current ratio
 - C) Household ratio
 - D) Debt payments ratio
 - E) Savings ratio

68) Which of the following ratios indicates that liquid assets are available to pay current liabilities for a household?

- A) Debt ratio
- B) Current ratio
- C) Liquidity ratio
- D) Debt payments ratio
- E) Savings ratio

69) Which of the following ratios indicates the number of months in which living expenses can be paid if an emergency arises?

- A) Debt ratio
- B) Current ratio
- C) Liquidity ratio
- D) Debt payments ratio
- E) Savings ratio

70) Which of the following ratios indicates the amount of a person's earnings that goes for payments for credit cards, auto loans, and other debt (except mortgage)?

- A) Debt ratio
- B) Current ratio
- C) Liquidity ratio
- D) Debt payments ratio
- E) Savings ratio

71) Which of the following ratios shows the relationship between gross income and money saved?

- A) Debt ratio
- B) Current ratio
- C) Liquidity ratio
- D) Debt payments ratio
- E) Savings ratio

72) All of the following are sources of income *except*

- A) Interest earned on savings
- B) Commissions
- C) Dividends
- D) Salary
- E) Social Security taxes

73) Which of the following is a deduction to determine take-home pay?

- A) Interest earned on savings
- B) Commissions
- C) Dividends
- D) Housing, food and other living expenses
- E) Social Security taxes

74) Disposable income equals

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

75) Discretionary income equals

- A) Gross income.
- B) Take-home pay.
- C) The amount being saved each month.
- D) Money left over after paying for housing, food, and other necessities.
- E) Social Security taxes.

76) The money left over after paying for housing, food, and other necessities is called

- A) Monthly savings.
- B) Discretionary income.
- C) Disposable income.
- D) Gross income.
- E) Take-home pay.

77) Take-home pay is also called

- A) Monthly savings.
- B) Discretionary income.
- C) Net pay.
- D) Gross income.
- E) Deductions.

78) An example of a variable expense is a(n)

- A) Mortgage or rent payment.
- B) Installment loan payment.
- C) Monthly train ticket for commuting to work.
- D) Monthly allocation for life insurance.
- E) Electric bill.

79) All of the following are fixed expenses *except*

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

- 80) An example of a fixed expense is
- A) Medical expenses.
 - B) Gifts.
 - C) Utilities.
 - D) Home rental payment.
 - E) Recreation.
- 81) Which of the following is NOT a main purpose of a budget?
- A) Help to live within your income
 - B) Spend your money without financial worry
 - C) Reach financial goals
 - D) Prepare for financial emergencies
 - E) Develop wise financial management habits
- 82) When creating a budget, which of the following statements is true?
- A) Include in income the bonuses and gifts you expect to receive.
 - B) It is easier to create a budget if your earnings vary by season.
 - C) Common financial problems can be maximized through budgeting.
 - D) Numbers in the budget are estimates.
 - E) It is better to overestimate your income for next year.
- 83) When creating a budget, it is important to
- A) Save the amount you have left at the end of the month.
 - B) Set aside savings after your variable expenses are paid.
 - C) Save an amount no more than 3% of your annual income in an emergency fund.
 - D) Spend the amount of money you have budgeted in each category.
 - E) "Pay yourself first" by setting aside savings before other expenses are budgeted.
- 84) The difference between the amount budgeted and the actual amount received or spent is called the
- A) Budget variance.
 - B) Cash outflow.
 - C) Income.
 - D) Cash inflow.
 - E) Variable expense.
- 85) A budget deficit would result when a person's or family's
- A) Actual spending is less than planned spending.
 - B) Assets exceed liabilities.
 - C) Actual spending equals planned spending.
 - D) Actual spending exceeds planned spending.
 - E) Net worth decreases.

- 86) After having established a spending plan, it is important to
- A) File the budget in a safe deposit box.
 - B) Compare it to the previous budget.
 - C) Keep track of your actual income and expenses.
 - D) Pay attention only to expenses that are more than 10 percent of your salary.
 - E) None of these are true since budgets are just estimates.
- 87) When household budgets must be cut, which of the following categories would be most difficult to cut?
- A) Vacations
 - B) Lawn services
 - C) Cable
 - D) Charitable donations
 - E) Auto insurance
- 88) A budget system that involves envelopes, folders, or containers to hold money or slips of paper is called a(n)
- A) Mental budget.
 - B) Physical budget.
 - C) Written budget.
 - D) Digital budget.
 - E) Allocated budget.
- 89) A budget system that can be kept on notebook paper or accounting paper is called a(n)
- A) Mental budget.
 - B) Physical budget.
 - C) Written budget.
 - D) Digital budget.
 - E) Allocated budget.
- 90) The document that would tell you what you received and spent over the past month is the
- A) Balance sheet.
 - B) Cash flow statement.
 - C) Budget.
 - D) Bank statement.
 - E) Credit card statement.
- 91) The document that would be most useful to plan spending and saving to achieve financial goals is the
- A) Balance sheet.
 - B) Monthly investment brokerage statement.
 - C) Budget.
 - D) Bank statement.
 - E) Credit card statement.

- 92) The document that would report your current financial position is the
- A) Balance sheet.
 - B) Cash flow statement.
 - C) Budget.
 - D) Bank statement.
 - E) Credit card statement.

- 93) A family with \$100,000 in assets and \$60,000 of liabilities would have a net worth of
- A) \$20,000.
 - B) \$40,000.
 - C) \$60,000.
 - D) \$100,000.
 - E) \$160,000.

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

Assets = \$8,000
Cash inflows = \$6,000
Cash outflows = \$4,500
Liabilities = \$5,000

- A) \$500
- B) \$1,500
- C) \$2,000
- D) \$3,500
- E) \$3,000

- 95) Given the following information, calculate the debt ratio percentage:

Liabilities = \$25,000
Liquid assets = \$5,000
Monthly credit payments = \$800
Monthly savings = \$760
Net worth = \$75,000

Take-home pay = \$2,300
Gross income = \$3,500
Monthly expenses = \$2,050

- A) 33.33 percent
- B) 30.00 percent
- C) 3.00 percent
- D) 3.20 percent
- E) 8.20 percent

96) Given the following information, calculate the current ratio:

Liquid assets = \$5,000
Monthly credit payments = \$800
Monthly savings = \$760
Net worth = \$75,000
Current liabilities = \$2,000
Take-home pay = \$2,300
Gross income = \$3,500
Monthly expenses = \$2,050
A) 2.44
B) 2.50
C) 6.25
D) 0.16
E) 0.41

97) Given the following information, calculate the liquidity ratio:

Liabilities = \$25,000
Liquid assets = \$5,000
Monthly credit payments = \$800
Monthly savings = \$760
Net worth = \$75,000
Current liabilities = \$2,600
Take-home pay = \$2,300
Gross income = \$3,500
Monthly expenses = \$2,050
A) 0.16
B) 0.41
C) 2.44
D) 2.50
E) 6.25

98) Given the following information, calculate the debt payments ratio:

- Liabilities = \$25,000
 - Liquid assets = \$5,000
 - Monthly credit payments = \$800
 - Monthly savings = \$760
 - Net worth = \$75,000
 - Current liabilities = \$2,000
 - Take-home pay = \$2,300
 - Gross income = \$3,500
 - Monthly expenses = \$2,050
- A) 33.79%
 - B) 3.06%
 - C) 2.40%
 - D) 34.78%
 - E) 21.71%

99) Given the following information, calculate the savings ratio:

- Liabilities = \$25,000
 - Liquid assets = \$5,000
 - Monthly credit payments = \$800
 - Monthly savings = \$760
 - Net worth = \$75,000
 - Current liabilities = \$2,000
 - Take-home pay = \$2,300
 - Gross income = \$3,500
 - Monthly expenses = \$2,050
- A) 33.79%
 - B) 3.06%
 - C) 2.40%
 - D) 34.78%
 - E) 21.71%

100) Rebecca Wilson budgeted \$395 for a new wardrobe in June. She actually spent \$425. What is her budget variance?

- A) \$25 deficit
- B) \$30 deficit
- C) \$425 deficit
- D) \$25 surplus
- E) \$30 surplus

101) Rebecca Wilson budgeted \$1,200 for housing and utilities in July. She actually spent \$1,160. What is her budget variance?

- A) \$1,160 deficit
- B) \$40 deficit
- C) \$60 deficit
- D) \$40 surplus
- E) \$1,160 surplus