

Personal Finance © 2012

Chapter 5: Money Management Strategy

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Money management is getting the most out of your money. To accomplish this, you must make sound decisions regarding trade-offs, selecting the option that is financially beneficial.
2. Keeping and maintaining financial records helps you to plan and measure your financial progress, determine how much you will have now and in the future, and decide how to save money.
3. An effective system for maintaining financial documents should include a home file for personal documents that are not hard to replace such as bank statements; a safe-deposit-box for important documents such as titles, birth certificates, and valuable collectibles; and a home computer for budgets, transactions, and resumes.

Higher Order Thinking

4. Managing opportunity costs and maintaining financial records are both critical to a sound financial plan. Making sound financial decisions to get the most out of your money is an important step. In order to make and track these decisions you need to maintain financial records to keep track of your money and determine your financial position.

21st Century Skills

5. **Communicate Clearly** Answers should include first establishing which records should be stored and which need to be made readily available, then determining the appropriate locations for each. Explanations should include the need to have bank statements available to reconcile accounts, the need to store paycheck stubs for tax purposes, and the need to store receipts for future tracking of spending as well as product problems.

Mathematics

6. **Determine Opportunity Costs** $250 \times .0675 = 16.88$, $250 + 16.88 = 266.88$; $235 \times .06 = 14.10$, $235 + 14.10 = 249.10$, $249.10 + 9.95 = 259.05$; Purchasing the stereo from the Web site is the least expensive option.

Section 2

Review Key Concepts

1. A personal balance sheet is a financial statement that shows what you own and what you owe.

2. A cash flow statement is a summary of cash inflow and outflow during a period of time.

3. A personal balance sheet is created by listing all of your assets and liabilities. It contains liquid assets, real estate, personal possessions, and investment assets. It also contains current liabilities and long term liabilities. A cash flow statement is created by listing all of your income sources and your expenses. It contains a list of all income sources and fixed and variable expenses.

Higher Order Thinking

4. A cash flow statement and a personal balance sheet both list expenses/liabilities and provide a snapshot of your financial situation. However, a cash flow statement does not break down all of your liabilities. It focuses on your monthly payments. A personal balance sheet does not show your income only the balance in your *accounts*.

English Language Arts

5. **Spending Habits** Answers will vary. Students' responses should identify a position regarding Larry's finances and present the similarities and differences between Larry's options for using his surplus. Students' responses should provide support from the text for their decision.

Mathematics

6. **Net Worth** $33,521.07 + 488,600 + 112,330.50 + 198,658.88 = 833,110.45$ (total assets); $22,564.70 + 30,562 + 456,253.65 = 509,380.35$ (total liabilities); net worth = $833,110.45 - 509,380.35 = 323,730.10$

Section 3

Review Key Concepts

1. Step 1: identify your long- and short-term financial goals; Step 2: estimate your income but do not include gifts or bonuses; Step 3: set money aside to address any unexpected expenses such as medical emergencies; Step 4: list your fixed expenses such as loan payments and fixed bills; Step 5: estimate cost for variable expenses such as transportation and food costs, utility bills, etc.; Step 6: record all of your spending for the set period; Step 7: review your budget and spending and revise it if necessary to account for any variance

2. Set your financial goals, estimate your income, budget for unexpected expenses, budget for fixed expenses, budget for variable expenses, record what you spend, review spending and savings.

3. If you increase your savings you can prepare for unexpected expenses or possibly retire comfortably. Increasing savings will help you to reach your financial goals.

Higher Order Thinking

4. It is difficult to resist the temptation to spend any extra money each month. If you increase your savings you may need to adjust spending in another area such as your variable expenses.

English Language Arts

5. **Wants and Needs** Answers will vary. Students' responses should discuss the importance of a budget and the need to make difficult decisions to eliminate unnecessary spending to increase savings.

Mathematics

6. **Budget Variance** $600 + 300 + 200 = 1100$ (estimated expenses); $360 + 210 + 590 = 1160$ (actual expenses); budget variance: $1100 - 1160 = -\$60$