

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 3 Money Management Strategy

### Reviewing Key Terms: Complete the Sentence



**DIRECTIONS:** Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- |                     |                 |                         |
|---------------------|-----------------|-------------------------|
| A. money management | D. assets       | G. insolvency           |
| B. safe-deposit box | E. market value | H. cash flow            |
| C. net worth        | F. liabilities  | I. income               |
|                     |                 | J. discretionary income |

- \_\_\_\_\_ are any items of value that an individual or company owns, including cash, property, personal possessions, and investments.
- \_\_\_\_\_ are the debts that you owe.
- The difference between the amount you own and the debts that you owe is called \_\_\_\_\_.
- Planning how to get the most from your money is called \_\_\_\_\_.
- \_\_\_\_\_ is the money that you receive.
- \_\_\_\_\_ is the money that actually goes into and out of your wallet and bank accounts.
- The price at which a property would sell is called its \_\_\_\_\_.
- A(n) \_\_\_\_\_ is a small, secure storage compartment that you can rent in a bank.
- The money left over after you have paid for the essentials—food, clothing, shelter, transportation, and medical care—is called your \_\_\_\_\_.
- \_\_\_\_\_ occurs if your liabilities are greater than your assets.

# CHAPTER 3 Money Management Strategy

## Understanding Key Concepts



**DIRECTIONS:** On a separate sheet of paper, answer the following questions.

1. Identify two kinds of personal financial documents.
2. List three ways that organizing financial documents can help you.
3. Describe a balance sheet.
4. How do real estate and liquid assets differ?
5. Washington has an extensive collection of baseball cards. He wants to know how much his mint condition, rookie-year Hank Aaron is worth. How might he determine the card's current market value?
6. What kind of assets do people typically set aside for long-term financial needs?
7. Rachel's take-home pay is \$600 per month. She pays \$200 for rent and utilities, \$100 for food, \$5 for medication, and \$30 for transportation. How much discretionary income does Rachel have?
8. Summarize the seven steps for creating a good budget.
9. Name four characteristics of a successful budget.
10. Cody is a freelance photographer who is paid only after he completes an assignment. He may spend several months working on a large, well-paying assignment or get many small jobs for less pay over the same period of time. Often he has to wait several weeks after completing a job for his paycheck. Which method of saving described in the chapter would you recommend for Cody? Explain why the other methods might not work for him.

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## CHAPTER 3 Money Management Strategy

### Activity 1: Prepare a Handout for Younger Students



#### SKILLS ACHIEVED

Writing, Teaching others, Creative thinking, Problem solving, Reasoning, Acquiring and evaluating information, Interpreting and communicating information, Organizing and maintaining information

**OBJECTIVE:** Prepare a top ten list of suggestions on how to become financially responsible to give to sixth-graders.

Sometimes the best way to understand an idea is to teach it to someone else. Imagine that you have been asked to make a short presentation to a group of sixth-graders on the topic of becoming financially responsible. As a handout, you have decided to give them a "top ten" countdown-style list of things to do. Using the information in this chapter, make a list of financial suggestions with number 1 being the most important. Use a separate piece of paper to make notes and organize your choices.

10. \_\_\_\_\_
9. \_\_\_\_\_
8. \_\_\_\_\_
7. \_\_\_\_\_
6. \_\_\_\_\_
5. \_\_\_\_\_
4. \_\_\_\_\_
3. \_\_\_\_\_
2. \_\_\_\_\_
1. \_\_\_\_\_

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# CHAPTER 3 Money Management Strategy

## Activity 2: Evaluate Personal Financial Statements



### SKILLS ACHIEVED

Math, Reading, Problem solving, Reasoning, Acquiring and evaluating information, Interpreting and communicating information, Organizing and maintaining information

**OBJECTIVE:** Analyze and correct personal financial statements.

A friend has asked you to take a look at her personal financial statements to point out possible mistakes. Unfortunately, her statements contain eight errors, including items in the wrong categories, math mistakes, and incorrect understanding of cash flow. On the next page, rewrite the statements using the same basic form, correcting the eight errors.

### Balance Sheet

Liquid assets	
savings account	\$ 900
½ ownership of car	1,200
Personal possessions	
stereo	600
snowboard	300
flute	250
clothing	875
Liabilities	
owed to parents for loan to buy car	(800)
monthly pledge to Habitat for Humanity	(20)
Net worth	\$4,305

### Monthly Cash Flow Statement

Cash flow, current month	
Income	
take-home pay from job at grocery store	\$ 325
allowance	75
baby-sitting	60
interest on savings account at 4% per year	36
total	496
Expenses	
gas for car	(35)
lunches at school, about \$15 per week	
entertainment	(60)
car insurance	(50)
deposit to savings	(100)
total	\$ (260)
Total Cash Flow	\$ 236





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# CHAPTER 3 Money Management Strategy

## Finance Online: Using the Consumer Price Index



Chapter 3 discusses the Consumer Price Index (CPI) as an aid in determining whether you are spending too much for commonly purchased goods and services.

The Bureau of Labor Statistics compiles facts about the average expenses for Americans that could help you. For instance, is your family overspending on entertainment with money that might go toward the shoes or jacket you need? To find out, consult the Consumer Price Index. For this activity use an Internet search engine to find the Consumer Price Index for All Urban Customers.

Keywords Used	Site Names	Web-Site Addresses	Information Offered

1. Is the Consumer Price Index increasing or decreasing?

\_\_\_\_\_  
\_\_\_\_\_

2. What percentage of consumers' incomes goes for food? Apparel? Recreation?

\_\_\_\_\_  
\_\_\_\_\_

3. Keep track of your food, apparel, and recreation expenses for a month. Collect all sales receipts, add the amounts in each category, and divide the total by your monthly take-home income. How do your results compare to the percentages from the Consumer Price Index?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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## Your Financial Portfolio Worksheet



### What Is Your Net Worth?

Calculate your net worth by listing in the following chart all your liquid assets, personal possessions, and any other assets, as well as liabilities (what you owe). Be sure to fill in the areas in the following chart that are applicable and to list others that apply to you.

LIQUID ASSETS		
Checking account balance		
Savings accounts		
Other		
PERSONAL POSSESSIONS		
INVESTMENT ASSETS		
<b>Total Assets</b>		
LIABILITIES		
<b>Total Liabilities</b>		
<b>Net Worth (assets – liabilities)</b>		

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Are you surprised that your net worth is as much (or as little) as it is? How much would you like your net worth to be in ten years? When you retire?



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Software  
Activity  
(Optional)

### Quicken Application

#### Preparing and Evaluating a Budget



**OBJECTIVE:** Create a budget, determine budget variances, and implement a successful money management strategy.

#### Practice Situation

Hannah Peck would like to create a budget for the month of March. She estimates the following income and expense data for the month.

#### Budget Data:

Salary \$1,875	Car Payment \$190	Doctor visits \$60
Rent \$500	Utility bills \$110	Entertainment \$70
Car Insurance \$105	Clothing \$250	Groceries \$300
Household \$45	Eating Out \$80	Auto fuel \$45
Emergency savings transfer \$50	Long-term savings transfer \$100	Interest income \$30

#### Actual Data:

Hannah entered her banking activities into Quicken. She recorded the deposit of her paycheck of \$1,875. She spent \$287.76 on clothes, \$260.88 on groceries, \$96.88 for utilities. She also visited her eye doctor and paid her \$80 for the office visit and \$25 for a prescription. She spent \$120 on entertainment and \$100 at restaurants. She bought new dishes at Crate & Barrel for \$58.65. She earned \$27.88 in interest on each of her savings accounts. Her car insurance was \$107 this month. Gas for her car was \$54.50. Her other expenses were paid as budgeted. She made her planned transfers into her savings accounts.

Using Quicken, record Hannah's budgeted income and expenses. Then, use Quicken's Reports to generate a Monthly Budget Report for March. Quicken will use Hannah's actual expenditures and the budgeted amounts to create this report.

#### Quicken Directions

1. Start your Quicken software program and open the file SA03.qdf.
2. Select *Budget* from the **Planning** menu.
3. Click the **Income** tab and highlight the income account for which you will create a budget.
4. Under the account budget section to your right, click on *Monthly Detail*.
5. You will notice zero amounts underneath each month for this account. Click on the zero amount and change it to the budgeted amount. Enter this amount in the March column. Click **Apply**. Input the income amounts, then the expenses by clicking the **Expenses** tab. Use only whole dollar amounts.

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- As you enter each budget amount for March, notice *Total Income*, *Total Expenses*, and *Difference* at the bottom of your screen. If all of Hannah's budgeted amounts are correct, the *Difference* amount will equal \$0.00. Check your entries if the *Difference* does not equal \$0.00.
- When the *Difference* amount is equal to \$0.00, print Hannah's budget. Click **Print** in the top of the Budget window. Use this report to answer the questions that follow.
- Generate a Monthly Budget Report. Select *Monthly Budget Report* from the **Reports** menu in the Budget window.
- Click **Customize** and enter the custom dates of 3/1/2006 to 3/31/2006.
- Click on the **Accounts** tab to verify that Hannah's checking account is the only account checked. Uncheck Hannah's savings accounts if they are marked. Click **OK**.
- Print this report. Click **Print** in the top menu of the Monthly Budget window. You will use this report to answer the questions that follow.
- To save your work, click **File** in the top menu, then select *File Operations*, then *Copy*. In the field provided, specify the disk drive and path to the directory for your file copy. Include the file name SA03\*\*\*.qdf. (Replace \*\*\* with your initials.)
- Close your Quicken software program.

**Interpreting Results**

- What total amount was budgeted in March for discretionary expenses? Mandatory expenses?  
\_\_\_\_\_
- In which categories did Hannah overspend in the month of March?  
\_\_\_\_\_  
\_\_\_\_\_
- What was the Overall Total Difference between Actual and Budget on the Monthly Budget Report?  
\_\_\_\_\_

**Drawing Conclusions**

- Did Hannah stay within her budget for March? Explain.  
\_\_\_\_\_  
\_\_\_\_\_
- Are Hannah's budgeted amounts realistic? How would you suggest that she adjust her budget?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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## CHAPTER 3 Money Management Strategy

### SELF-ASSESSMENT QUIZ

**DIRECTIONS:** Circle the letter of the choice that best completes the statement or best answers the question.

1. An opportunity cost is a(n) (A) good price (B) trade-off (C) income (D) asset.
2. A home file is the best place to keep (A) valuable collectibles (B) birth certificates (C) mortgage papers (D) canceled checks.
3. Your net worth is the difference between your (A) liquid assets and your real estate's market value (B) personal possessions' market value and your investment assets (C) assets and liabilities (D) current liabilities and long-term liabilities.
4. Cars fall into the category of (A) liquid assets (B) personal possessions (C) real estate (D) investment assets.
5. The condition that occurs when a person's liabilities are greater than his or her assets is called (A) long-term liability (B) low cash flow (C) insolvency (D) bankruptcy.
6. An example of cash outflow is (A) a paycheck (B) an allowance (C) interest on savings (D) a credit card payment.
7. The amount of income left after taxes and other deductions are taken out of your paycheck is called (A) net pay (B) gross pay (C) discretionary income (D) cash flow.
8. An example of a variable expense is (A) a mortgage payment (B) an auto insurance premium (C) school tuition (D) medical expenses.
9. Your budget shows a surplus when you (A) spend more money than budgeted on entertainment (B) receive a cut in pay (C) spend money budgeted for emergencies on car repairs (D) spend less than you earn.
10. The key to establishing a sound financial future is to (A) increase your savings (B) keep track of every expense (C) buy whatever you want (D) run a budget deficit.