

FINA 200

SAMPLE QUIZ 1 COVERING CHAPTERS 1 - 3

Question 1

At which stage of the financial planning process do evaluating risk and assessing opportunity costs play a role?

- a) Identify alternate course of action.
- b) Determine your current financial situation.
- c) Develop financial goals.
- d) Evaluate alternatives.

Question 2

"Financial goals should be based on your income and life situation." This relates to which desirable characteristic of financial goals?

- a) Realistic.
- b) Specific and measurable.
- c) Timely.
- d) Indicative of the action required.

Question 3

Which statements are correct?

- I. Inflation is most harmful to people living on fixed incomes.
 - II. Inflation has little impact on lenders of money.
 - III. Interest rates rise in periods of high inflation.
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- a) I and II, only.
 - b) I and III, only.
 - c) II and III, only.
 - d) I, II and III.

Question 4

You borrow \$5,000 for a well-deserved 3-month sabbatical. You have already saved \$2,000 for this purpose. If interest rates are 6%, compounded monthly, how much can you spend each month of your sabbatical?

Which expression below would lead you to the correct answer?

- a) \$5,000 PV, 1 n, 6 i, COMP PMT \div 12
- b) \$7,000 PV, 1 n, 6 i, COMP PMT \div 12
- c) \$5,000 PV, 12 n, 6 i, COMP PMT
- d) \$7,000 PV, 12 N, 6/12 i, COMP PMT

Question 5

For those under the age of 50, which type of personal insurance is likely overlooked?

- a) Life insurance.
- b) Medical insurance.
- c) Disability insurance.
- d) Long-term care insurance.

Question 6

What is the opportunity cost of using savings for current purchases?

- I. Lost interest earnings.
 - II. Inability to use savings for other purposes.
 - III. A reduction in your current lifestyle.
-
- a) I and II, only.
 - b) I and III, only.
 - c) II and III, only.
 - d) I, II and III.

Question 7

If your net worth is \$50,000, your short-term liabilities are \$5,000 and your total assets are \$75,000, what are your long-term liabilities?

- a) \$30,000
- b) \$20,000
- c) \$15,000
- d) \$10,000

Question 8

Which statement is true?

- a) Liquid assets are funds set aside for long-term needs.
- b) Future benefits accumulated under the CPP/QPP are omitted from a personal balance sheet.
- c) Personal possessions should be valued on a personal balance sheet at cost.
- d) The cash value of a life insurance policy is categorized as an investment asset.

Question 9

Which is/are not included on a personal cash flow statement?

- I. Employer contributions to the Canada or Quebec Pension Plan.
 - II. Unrealized capital gains incurred in a non-registered investment account.
 - III. Debt repayments.
-
- a) III, only.
 - b) I and II, only.
 - c) II and III, only.
 - d) I, II and III.

Question 10

Syed owns the following. What is his asset allocation?

Bank accounts	\$5,000
RRSP - stocks only	\$25,000
Real estate - home	\$150,000
Unregistered account - long term bonds only	\$10,000

- a) 0% liquid, 37.5% fixed income, 62.5% equity
- b) 12.5% liquid, 25.0% fixed income, 62.5% equity
- c) 2.6% liquid, 13.2% fixed income, 82.4% equity
- d) 2.6% liquid, 5.3% fixed income, 92.1% equity

Question 11

Given the following, what is Aliesha's debt-payments ratio?

Liabilities	\$65,000
Net Annual Income	\$78,000
Monthly Savings	\$1,000
Gross Annual Income	\$120,000
Monthly Expenses	\$5,000
Liquid Assets	\$7,500
Annual Credit Payments	\$18,000
Net Worth	\$45,000

- a) 15.0%
- b) 23.1%
- c) 42.3%
- d) 65.0%

Question 12

Which should be omitted when drawing up a budget?

- a) Year-end bonuses.
- b) Variable expenses.
- c) Periodic expenses.
- d) The cost of financial goals.

Question 13

Referring to Exhibit 2-6, which spending category exhibits the most consistency across income quintiles?

- a) Personal taxes.
- b) Food.
- c) Transportation.
- d) Clothing.

Question 14

Given the following, what is the overall budgeting variance?

Salary	Earned \$3,000 more than budgeted
Deductions at source	\$500 less than budgeted
Fixed expenses	\$5,000 more than budgeted
Variable expenses	\$2,000 less than budgeted

- a) -\$500
- b) +\$500
- c) +\$5,500
- d) +\$6,500

Question 15

Jack earns \$30,000 and Jill earns \$60,000. Which type of budgeting strategy would be the least suitable for them?

- a) Pooled income.
- b) Sharing the bills.
- c) 50/50.
- d) Proportionate contributions.

Question 16

James earns \$50,000 of employment income, \$2,500 in interest from Canadian bonds, and \$500 in interest on U.S. bonds. How much income must he declare for tax purposes?

- a) \$50,000
- b) \$50,500
- c) \$52,500
- d) \$53,000

Question 17

What type of tax is levied at the time of death of a Canadian resident?

- a) Sales tax.
- b) Excise tax.
- c) Capital gains tax.
- d) Estate tax.

Question 18

Yan is a self-employed financial consultant. Her husband works for the Bank of Montreal. What is the income tax filing deadline for Yan's husband?

- a) December 31st of the taxation year.
- b) March 15 following the taxation year.
- c) April 30th following the taxation year.
- d) June 15 following the taxation year.

Question 19

Matthew earned \$36,000 of taxable employment income and also incurred a \$5,000 capital gain. Assume that the first federal tax bracket is 0-\$38,000 at a rate of 15% and that the next tax bracket is at 22%. What would be Matthew's federal tax bill before consideration of tax credits?

- a) \$5,775
- b) \$5,810
- c) \$6,360
- d) \$8,470

Question 20

A student born in Saskatchewan attends JMSB. His summer job is in Saskatchewan, where he earns on average \$10,000 a summer. He does not work while attending university. If it costs \$500 each way to move back home to work and then return to Montreal for the university term, how much can he deduct for moving expenses at the federal level?

- a) Zero.
- b) \$250
- c) \$500
- d) \$1,000

Question 21

Which deduction(s) are permitted when calculating net income?

- I. Spousal support payments.
 - II. Interest on student loans.
 - III. Net capital losses of prior years.
-
- a) I, only.
 - b) I and II, only.
 - c) III, only.
 - d) I, II and III.

Question 22

Refer to Exhibit 3-4. If your eligible medical expenses are \$5,000 and your net income is \$40,000, what is your medical expense tax credit? Amounts are transformed into tax credits at a rate of 15%.

- a) \$750.00
- b) \$570.00
- c) \$561.25
- d) \$180.50

Question 23

Which gives rise to a non-refundable tax credit?

- a) RRSP contributions.
- b) Federal taxes deducted at source.
- c) The capital gain on the sale of a primary residence.
- d) Employment insurance premiums.

Question 24

You receive \$5,000 in eligible dividends from a Canadian bank and \$2,000 in dividends from a U.S. bank. How much taxable income must you report?

- a) \$3,500
- b) \$7,000
- c) \$9,250
- d) \$10,150

Question 25

What tax laws encourage a small business owner to choose remuneration in the form of a salary over dividends?

- I. Salaries form part of earned income for purposes of determining RRSP contribution limits.
- II. Certain business expenses are deductible against the owner's salary.
- III. The owner's salary is not taxed until it exceeds \$250,000.

- a) I, only.
- b) III, only.
- c) I and II, only.
- d) I, II and III.

Question 26

Mary turns 20 years old on January 1, 2013. She has never contributed to a TFSA. Assuming the annual limit for 2009 and each year thereafter is \$5,000, what is the maximum she could contribute to a TFSA in 2013?

- a) \$5,000
- b) \$15,000
- c) \$20,000
- d) \$25,000

Question 27

You incurred capital gains and losses as follows. Had you claimed all gains/(losses) in prior years, what would be your taxable capital gain in 2012?

Year	Capital gain/(loss)
2010	\$5,000
2011	(\$6,000)
2012	\$2,000

- a) \$500
- b) \$1,000
- c) \$2,000
- d) \$3,000

Question 28

If you borrow \$15,000 under the Home Buyers' Plan and purchase an eligible home in 2013, what would be your minimum loan repayment in the first year it is due?

- a) \$500
- b) \$1,000
- c) \$2,000
- d) \$2,500

Question 29

You gift \$5,000 to your spouse. He invests and earns \$500 of taxable investment income. Who is taxed on the income?

- a) \$500 to you.
- b) \$500 to your spouse.
- c) \$250 to each of you.

Question 30

Which statements are true with respect to tax audits?

- I. The simplest type of audit is the desk audit.
 - II. In a field audit, the tax agent conducts the audit in your place of business.
 - III. A reassessment cannot be issued if more than 3 years have passed from the last assessment, except in cases of fraud.
-
- a) I and II, only.
 - b) II and III, only.
 - c) I and III, only.
 - d) I, II and III.

SOLUTIONS

QUESTION	ANSWER	PAGE
1	d	5
2	a	11
3	b	15
4	d	41
5	c	23
6	a	17
7	b Total liabilities = total assets - net worth Total liabilities = \$75,000 - \$50,000 = \$25,000 Long-term liabilities = total – short Long-term liabilities = \$25,000 - \$5,000 = \$20,000	52
8	b	51
9	b	54
10	b Total investment assets = \$5,000 + \$25,000 + \$10,000 = \$40,000 Liquid = \$5,000/\$40,000 = 0.125 or 12.5% Fixed Income = \$10,000/\$40,000 = 0.25 or 25% Equity = \$25,000/\$40,000 = 0.625 or 62.5%	57
11	b Debt payments ratio = \$18,000/\$78,000 = 0.231 or 23.1%	58
12	a	59
13	d	61
14	b \$3,000 + \$500 - \$5,000 + \$2,000 = \$500 positive variance	62
15	c	66
16	d World wide income.	74
17	c	73
18	d	83

19	b Taxable income = $\$36,000 + (0.5)(\$5,000) = \$38,500$ Taxes = $(\$38,000)(0.15) + (\$500)(0.22) = \$5,810$	77
20	c Only moving costs to Saskatchewan, where he earns income, can be deducted.	76
21	a	76
22	b 3% of net income = $\$1,200$ (lower than $\$1,925$) Eligible amount = $\$5,000 - \$1,200 = \$3,800$ $\$3,800 \times 0.15 = \570	82
23	d	82
24	c $\$5,000 \times 1.45 + \$2,000 = \$9,250$	74
25	a	92
26	b Mary could contribute $\$5,000$ for the year in which she turned 18, 19 and 20, i.e. $3 \times \$5,000 = \$15,000$	92
27	a In 2010 you would have declared a taxable capital gain of $(0.5)(\$5,000) = \$2,500$. In 2011 you could have offset your 2010 taxable gain by $(0.5)(\$5,000) = \$2,500$. This would still leave you with an unclaimed loss of $\$1,000$. In 2012, your taxable capital gain would be $(0.5)(\$2,000 - \$1,000) = \$500$	95
28	b Or 1/15.	96
29	a	98
30	d	105