

Accredited Financial Counselor (AFC) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What typically characterizes a high credit score?**
 - A. Frequent overdrafts and missed payments**
 - B. A long history of managing credit responsibly**
 - C. High levels of debt**
 - D. Multiple loan applications in a short period**

- 2. Which type of plan allows employees to choose from among various tax-sheltered and non-tax-sheltered benefits?**
 - A. Employer-sponsored qualified retirement plans**
 - B. Health savings account**
 - C. Cafeteria plan**
 - D. Flexible spending accounts**

- 3. What investment strategy is Jeffrey utilizing by investing \$300 monthly in his Roth IRA?**
 - A. Market timing**
 - B. Asset allocation**
 - C. Dollar cost averaging**
 - D. Value investing**

- 4. What type of investment is commonly considered risk-free?**
 - A. Corporate bonds**
 - B. Stocks**
 - C. T-bills**
 - D. Index funds**

- 5. In general, how does the interest rate on a certificate of deposit relate to maturity and investment amount?**
 - A. The longer the maturity, the lower the interest**
 - B. The shorter the maturity, the higher the interest**
 - C. The longer the maturity and the larger the dollar amount, the higher the interest rate**
 - D. The amount invested does not affect the interest rate**

- 6. When determining taxable income, which deduction is NOT subtracted from gross income?**
- A. Exclusions**
 - B. Credits**
 - C. Exemptions**
 - D. Adjustments**
- 7. Which of the following is a benefit of establishing a financial goal?**
- A. Limits savings to fixed percentages.**
 - B. Encourages impulse buying.**
 - C. Helps to maintain focus on desired outcomes.**
 - D. Eliminates all debts immediately.**
- 8. What should the counselor do next after a client expresses uncertainty about a potential job promotion?**
- A. Provide a definitive answer immediately**
 - B. Paraphrase what the client said then ask follow-up questions**
 - C. Advise the client to take the job**
 - D. Suggest the client stay where they are**
- 9. What is the tax rate for Missouri mentioned in the scenario?**
- A. 6%**
 - B. 30%**
 - C. 8%**
 - D. 15%**
- 10. What type of retirement plan often provides tax advantages to employees?**
- A. Pension plan**
 - B. Defined-contribution plan**
 - C. Social Security**
 - D. Roth IRA**

Answers

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1. B
2. C
3. C
4. C
5. C
6. B
7. C
8. B
9. C
10. B

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Explanations

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1. What typically characterizes a high credit score?

- A. Frequent overdrafts and missed payments
- B. A long history of managing credit responsibly**
- C. High levels of debt
- D. Multiple loan applications in a short period

A high credit score is typically characterized by a long history of managing credit responsibly. This involves consistently making on-time payments, maintaining low balances relative to credit limits, and having a diversified mix of credit accounts. Responsible management of credit indicates to lenders that the borrower is reliable and less likely to default on loans. Factors contributing to the establishment of a high credit score include a history of timely bill payments, minimal credit utilization, a stable credit account history, and a balanced credit mix, which together show financial stability and responsibility. This track record of positive behavior in handling credit significantly aids in achieving and maintaining a high score. The other options, in contrast, involve behaviors that could negatively impact one's credit score. Frequent overdrafts and missed payments reflect poor financial management, high levels of debt may lead to higher credit utilization ratios affecting scores negatively, and multiple loan applications in a short period can signal financial distress, which can also lower credit scores.

2. Which type of plan allows employees to choose from among various tax-sheltered and non-tax-sheltered benefits?

- A. Employer-sponsored qualified retirement plans
- B. Health savings account
- C. Cafeteria plan**
- D. Flexible spending accounts

The correct answer is the cafeteria plan, which is designed to give employees a level of choice regarding their benefits and allows them to select from a menu of various tax-sheltered and non-tax-sheltered options. This flexibility is beneficial as it enables employees to tailor their benefits package to better fit their personal needs and circumstances. For instance, they might choose extra health coverage, additional life insurance, or other benefits depending on their individual or family situation. Cafeteria plans recognize that employees have different priorities. By allowing them to allocate the benefits they value most and weigh them against the tax implications, cafeteria plans foster a more personalized approach to employee welfare. In contrast, employer-sponsored qualified retirement plans are typically more rigid, focusing solely on retirement savings without the variety of other benefits offered under cafeteria plans. Health savings accounts are specifically designated for medical expenses and do not provide varied options outside of health-related benefits. Flexible spending accounts, while they offer some level of choice in how employees spend their pre-tax dollars, are primarily limited to health-related expenses and do not include broader benefit options that are part of cafeteria plans.

3. What investment strategy is Jeffrey utilizing by investing \$300 monthly in his Roth IRA?

- A. Market timing**
- B. Asset allocation**
- C. Dollar cost averaging**
- D. Value investing**

The investment strategy Jeffrey is using by investing \$300 monthly in his Roth IRA is dollar cost averaging. This strategy involves consistently investing a fixed amount of money at regular intervals, regardless of the price of the investment. By doing so, he buys more shares when prices are low and fewer shares when prices are high, which can lower his average cost per share over time. This method helps mitigate the impact of market volatility and reduces the risk associated with trying to time the market. In contrast, market timing involves making investment decisions based on predictions about the future movement of prices, which Jeffrey is not doing. Asset allocation refers to diversifying investments across various asset classes to manage risk and optimize returns, but it doesn't specifically describe the consistent investment of a fixed amount. Value investing focuses on identifying undervalued stocks to invest in, which does not apply to Jeffrey's regular monthly contribution strategy. Thus, dollar cost averaging is the most accurate description of Jeffrey's approach.

4. What type of investment is commonly considered risk-free?

- A. Corporate bonds**
- B. Stocks**
- C. T-bills**
- D. Index funds**

T-bills, or Treasury bills, are considered one of the safest investments available. They are short-term government securities issued by the U.S. Department of the Treasury, with maturities that typically range from a few days to one year. T-bills are backed by the full faith and credit of the U.S. government, which means there is virtually no risk of default. Investors purchase T-bills at a discount to their face value and receive the full face value at maturity, ensuring a secure return on investment. In contrast, corporate bonds carry a degree of risk related to the issuing company's financial stability. Stocks are subject to market fluctuations and can significantly rise or fall in value, making them much more volatile. Index funds, while generally regarded as a diversified investment option, still reflect the performance of the stock market and thus inherit its risks. In this context, T-bills stand out as the investment that is deemed risk-free, making them a common choice for risk-averse investors seeking a safe place to store capital.

5. In general, how does the interest rate on a certificate of deposit relate to maturity and investment amount?

A. The longer the maturity, the lower the interest

B. The shorter the maturity, the higher the interest

C. The longer the maturity and the larger the dollar amount, the higher the interest rate

D. The amount invested does not affect the interest rate

The correct answer reflects the relationship between the maturity length and the investment amount in determining the interest rate on a certificate of deposit (CD). Generally, CDs are structured such that longer maturities typically come with higher interest rates. This is because financial institutions are willing to offer more attractive rates to encourage investors to lock their funds away for a longer period of time—essentially compensating them for committing their money for an extended timeframe. Additionally, larger investment amounts can also lead to higher interest rates. Financial institutions often promote larger deposits with better rates as a means to attract more significant funds. This is a strategy to incentivize savers to choose CDs over other savings options, leveraging both the time commitment and the amount deposited to offer more competitive interest rates. The relationship described in the correct choice underscores a common practice in banking, where both maturity duration and investment size can influence the returns offered to savers. This dynamic allows the bank to manage its liquidity more effectively while providing customers with the opportunity to earn more interest based on their investment decisions.

6. When determining taxable income, which deduction is NOT subtracted from gross income?

A. Exclusions

B. Credits

C. Exemptions

D. Adjustments

To understand why the correct answer is credits, it is important to grasp the concepts of taxable income calculation. Taxable income is determined by starting with gross income and then subtracting allowable deductions to arrive at the amount that is subject to tax. Exclusions refer to certain types of income that are not subject to taxation; this income does not even count as gross income, and therefore they are not included in the taxable income calculation from the outset. Adjustments are specific deductions that reduce gross income directly, like contributions to traditional IRAs or student loan interest. Exemptions, while historically part of the tax process, functioned similarly to deductions, providing another avenue to reduce taxable income. On the other hand, credits directly reduce the tax liability itself rather than the amount of income that is subject to tax. They are applied after the taxable income has been calculated and do not adjust the taxable income figure. Understanding this distinction is crucial in tax planning and filing, as credits can significantly impact the final tax owed without influencing the reported income.

7. Which of the following is a benefit of establishing a financial goal?

- A. Limits savings to fixed percentages.**
- B. Encourages impulse buying.**
- C. Helps to maintain focus on desired outcomes.**
- D. Eliminates all debts immediately.**

Establishing a financial goal plays a crucial role in personal finance management because it helps to maintain focus on desired outcomes. When individuals set specific, measurable goals, they create a clear roadmap for their financial journey. This clarity allows them to prioritize their spending, allocate their resources more effectively, and make informed decisions that align with their long-term objectives. Goals serve as motivational tools, enabling individuals to persevere through challenges and stay committed to their financial plans. While other choices may imply certain financial behaviors, they do not provide the foundational support that well-defined financial goals do. For instance, limiting savings to fixed percentages may hinder flexibility in responding to changing financial circumstances. Encouraging impulse buying directly contradicts the principle of setting goals, which encourages thoughtful spending. Lastly, the notion that financial goals can eliminate all debts immediately overlooks the reality of financial management, which often requires time, strategy, and effort. Overall, the ability to focus on desired outcomes is essential for achieving and maintaining financial stability and success.

8. What should the counselor do next after a client expresses uncertainty about a potential job promotion?

- A. Provide a definitive answer immediately**
- B. Paraphrase what the client said then ask follow-up questions**
- C. Advise the client to take the job**
- D. Suggest the client stay where they are**

When a client expresses uncertainty about a potential job promotion, the most effective approach is to paraphrase their concerns and then ask follow-up questions. This method serves several important purposes in the counseling process. Firstly, paraphrasing allows the counselor to demonstrate active listening, ensuring the client feels heard and understood. It shows empathy and validation of the client's feelings, which can help to build trust and encourage further dialogue. Secondly, asking follow-up questions encourages the client to explore their thoughts and feelings more deeply. This exploration can lead to greater self-awareness and clarity about their situation, allowing them to make a more informed decision regarding the job promotion. The other approaches would not be as effective in addressing the client's uncertainty. Providing a definitive answer or advising the client to take the job could come off as dismissive of the client's feelings and may not take into account their unique circumstances and aspirations. Similarly, suggesting the client stay where they are does not engage with the client's concerns and may limit their potential growth. Engaging with the client's thoughts through active listening and inquiry promotes a more supportive counseling environment, aiding them in making a decision that aligns with their personal and professional goals.

9. What is the tax rate for Missouri mentioned in the scenario?

- A. 6%
- B. 30%
- C. 8%**
- D. 15%

The main idea here is to identify the exact tax rate stated for Missouri in the scenario and use that figure for any calculations. The scenario specifies 8% as Missouri's rate, so 8% is the value you apply. The other numbers don't match what the scenario says, so they wouldn't yield the results the scenario expects. Remember that in real life, Missouri's state sales tax is around 4.225%, and the total with local taxes can be higher—often near 8% in many areas—so the 8% in the scenario likely reflects a combined rate rather than just the state portion.

10. What type of retirement plan often provides tax advantages to employees?

- A. Pension plan
- B. Defined-contribution plan**
- C. Social Security
- D. Roth IRA

The type of retirement plan that often provides tax advantages to employees is the defined-contribution plan. These plans, such as 401(k) and 403(b) plans, allow employees to contribute a portion of their earnings to their retirement savings, often with the employer matching a portion of those contributions. The contributions made to these plans can reduce the taxable income of the employee for the year in which they are made, offering immediate tax benefits. Additionally, the funds in a defined-contribution plan grow tax-deferred until withdrawal, which means that taxes are deferred until the funds are accessed during retirement, typically when the individual may be in a lower tax bracket. This structure helps incentivize saving for retirement while providing a way to accumulate wealth without the burden of immediate taxation. In contrast, a pension plan provides set retirement benefits based on salary and years of service but may not offer the same flexibility in terms of employee-controlled contributions or immediate tax advantages on individual contributions. Social Security, while a significant source of retirement income, is a government program rather than a plan individuals can contribute to directly in a way that provides immediate tax advantages. Lastly, a Roth IRA offers unique tax advantages, but contributions are made with after-tax dollars, meaning they do not provide a tax

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://accreditedfinancialcounselor.examzify.com>

We wish you the very best on your exam journey. You've got this!

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