

AFIP Basic Certification Practice Exam (Sample)

Study Guide



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Questions

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- 1. Which of the following describes a "credit sale" under TILA/Reg Z?**
 - A. A cash purchase at a retailer**
 - B. An arrangement involving instant financing**
 - C. A customer funding through a dealership manager**
 - D. A purchase made through a private lender**
- 2. What is one of the key obligations of lenders when they receive customer credit applications?**
 - A. To approve all applications received.**
 - B. To assess the application and determine creditworthiness.**
 - C. To notify customers of any promotional offers.**
 - D. To contact previous lenders about the customer's history.**
- 3. What type of order may be issued for repeated violations of advertising rules?**
 - A. Warning letters**
 - B. Cease and desist orders**
 - C. Temporary suspensions**
 - D. Monetary fines only**
- 4. In contract law, what is typically required from each party?**
 - A. Agreement on all terms**
 - B. Something of value in exchange**
 - C. A signed document only**
 - D. Witnesses for validity**
- 5. What does "consideration" mean in a contract?**
 - A. Only monetary value**
 - B. A notarized signature**
 - C. The requirement of value exchange between parties**
 - D. A witnessed agreement**

- 6. What two Acts does the Adverse Action fall under?**
- A. FCRA and ECOA**
 - B. FCRA and TILA**
 - C. TDCA and ECOA**
 - D. B and C**
- 7. True or False: A violation of advertising rules can lead to potential state-level UDAP actions.**
- A. True**
 - B. False**
 - C. Only if it affects multiple consumers**
 - D. Only if the fine exceeds a specific limit**
- 8. What are the potential liabilities for a dealer if a court finds against them for a civil violation of TILA/Reg Z or CLA/Reg M?**
- A. No penalties apply.**
 - B. Only a warning will be issued.**
 - C. Fines and suspension of operations may occur.**
 - D. All of the above.**
- 9. What is the potential penalty for a dealer who continues to run an ad after receiving a cease and desist order?**
- A. \$1,000 per day.**
 - B. \$43,792 per day, per violation.**
 - C. \$10,000 per day.**
 - D. No penalty applies.**
- 10. What does UDAAP stand for?**
- A. Unfair Debt and Abuse Prevention**
 - B. Uniformly Deceptive Acts and Practices**
 - C. Unfair, Deceptive, Abusive Acts or Practices**
 - D. Universal Deceptive Accountability Practices**

Answers

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

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Explanations

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1. Which of the following describes a "credit sale" under TILA/Reg Z?

- A. A cash purchase at a retailer**
- B. An arrangement involving instant financing**
- C. A customer funding through a dealership manager**
- D. A purchase made through a private lender**

A "credit sale" under the Truth in Lending Act (TILA) and Regulation Z refers to a transaction in which a buyer agrees to pay for a product or service over time, using a credit extension arrangement. This typically involves financing that is arranged through a dealership or a retailer, allowing the customer to take possession of the item while repayment occurs later, often with interest. In the context of dealership management, option C accurately represents a credit sale because it involves the dealership facilitating financing for the customer. This arrangement means that the customer does not pay the full purchase price upfront, but rather engages in a payment plan facilitated by the dealership, which usually falls under TILA regulations due to the credit terms involved. Other options present scenarios that do not align with the definition of a credit sale. Cash purchases or immediate payment transactions do not involve credit, and while instant financing or private lenders might offer credit, they are not characterized as credit sales in context without the dealership's facilitation of that arrangement. Thus, option C clearly illustrates the characteristics of a credit sale under TILA/Reg Z.

2. What is one of the key obligations of lenders when they receive customer credit applications?

- A. To approve all applications received.**
- B. To assess the application and determine creditworthiness.**
- C. To notify customers of any promotional offers.**
- D. To contact previous lenders about the customer's history.**

One of the key obligations of lenders when they receive customer credit applications is to assess the application and determine creditworthiness. This process involves a thorough review of the applicant's financial history, income, and other relevant factors to evaluate their ability to repay the loan. This assessment is crucial in responsible lending practices, ensuring that financial institutions make informed decisions that minimize the risk of default and protect both the lender and borrower. Evaluating creditworthiness helps lenders not only to determine whether to approve or deny an application but also to set appropriate loan terms, such as interest rates. It contributes to maintaining the stability of the financial system by ensuring loans are given to individuals who are likely to meet repayment obligations. This obligation is aligned with regulatory requirements designed to promote fair lending practices.

3. What type of order may be issued for repeated violations of advertising rules?

- A. Warning letters**
- B. Cease and desist orders**
- C. Temporary suspensions**
- D. Monetary fines only**

A cease and desist order is an authoritative directive issued to stop unlawful behavior. In the context of repeated violations of advertising rules, such an order is particularly effective as it not only mandates the cessation of the specific non-compliant advertising practices but also serves as a formal warning that further violations could result in more severe consequences. This type of order emphasizes the seriousness of recurring infractions and aims to ensure compliance with established advertising standards. By issuing a cease and desist order, regulatory bodies communicate the need for immediate rectification of practices that do not adhere to legal or ethical guidelines. The regulatory framework supports the use of cease and desist orders as a necessary enforcement mechanism to protect consumers and maintain trust in advertising practices. This is essential for promoting fair competition and ensuring that all businesses play by the same rules, particularly in industries where misleading advertisements can have significant negative impacts on consumers.

4. In contract law, what is typically required from each party?

- A. Agreement on all terms**
- B. Something of value in exchange**
- C. A signed document only**
- D. Witnesses for validity**

In contract law, for a contract to be valid and enforceable, it typically requires something of value to be exchanged between the parties, known as consideration. This can take many forms, including money, services, goods, or any tangible or intangible benefit. The essence of consideration is that it demonstrates a mutual exchange; each party must provide something that the other party values. The requirement of consideration ensures that both parties have a stake in the contract, which promotes fairness and encourages compliance with the agreed terms. Without this exchange of value, a contract may not have legal standing, as it could be considered a gift rather than a binding agreement. While an agreement on all terms is important for mutual assent, it alone does not constitute a contract without the presence of consideration. Similarly, a signed document or witnesses can enhance the enforceability of a contract or provide evidence of its existence, but they are not strictly required for all contracts, especially verbal agreements where consideration can still be present. The presence of consideration remains the fundamental requirement in establishing a contract's validity, highlighting why this answer is recognized as correct.

5. What does "consideration" mean in a contract?

- A. Only monetary value
- B. A notarized signature
- C. The requirement of value exchange between parties**
- D. A witnessed agreement

In the context of a contract, "consideration" refers to the requirement of a value exchange between the parties involved. This concept is fundamental in contract law, as it signifies that for an agreement to be legally enforceable, both parties must provide something of value. This may come in many forms, not strictly limited to monetary value; it could also include goods, services, or a promise to perform or refrain from an action. By ensuring that there is consideration, the law recognizes that the agreement is mutual and that each party has a stake in the contract, which adds to the binding nature of the agreement. This mutual exchange helps establish the legitimacy and enforceability of contracts in legal contexts. The other choices do not accurately capture the concept of consideration. For instance, a notarized signature is related to the formal validation of a document rather than the underlying value exchange, while witnessed agreements focus on the verification of the parties' signatures instead of the essence of what they're exchanging. Only monetary value severely limits the understanding of consideration, as it overlooks other forms of value that can be exchanged in contractual agreements.

6. What two Acts does the Adverse Action fall under?

- A. FCRA and ECOA
- B. FCRA and TILA
- C. TDCA and ECOA
- D. B and C**

Adverse Action is primarily concerned with the principles set forth in the Fair Credit Reporting Act (FCRA) and the Equal Credit Opportunity Act (ECOA). The FCRA is designed to promote the accuracy and privacy of information in the files of consumer reporting agencies, which can influence adverse action, as it relates to how consumers are treated based on their credit history. The ECOA aims to ensure equal access to credit and prohibits discrimination in any aspect of a credit transaction, making it essential in the context of adverse actions. While TILA (Truth in Lending Act) and TDCA (Texas Debt Collection Act) have relevance in the broader context of consumer finance and protection, they are not directly related to the concept of adverse action. Therefore, recognizing that adverse actions primarily fall under the purviews of FCRA and ECOA clarifies the correct relationship, making the conjunction of both acts the accurate choice in this question. Therefore, the inclusion of both FCRA and ECOA forms a comprehensive understanding of the regulations governing adverse actions in credit transactions, leading to the selection that combines B (FCRA and TILA) and C (TDCA and ECOA) appropriately.

7. True or False: A violation of advertising rules can lead to potential state-level UDAP actions.

A. True

B. False

C. Only if it affects multiple consumers

D. Only if the fine exceeds a specific limit

The assertion that a violation of advertising rules can lead to potential state-level Unfair and Deceptive Acts and Practices (UDAP) actions is accurate. UDAP laws are designed to protect consumers from misleading, deceptive, or fraudulent practices in commerce, including advertising. When a business engages in false or misleading advertising, it can be subject to enforcement actions by state regulators or even lawsuits from consumers. State-level authorities take violations of advertising rules seriously because they undermine consumer confidence and can lead to financial harm for individuals. The regulatory framework in most states allows for a wide range of enforcement actions in response to deceptive advertising, reflecting a commitment to maintaining ethical standards in business practices. Other options, while they present different scenarios, do not capture the direct link between advertising rule violations and the possibility of UDAP actions as comprehensively as the true statement does. Thus, the correct answer is true, as it encapsulates the broader implications of advertising violations within the context of consumer protection laws.

8. What are the potential liabilities for a dealer if a court finds against them for a civil violation of TILA/Reg Z or CLA/Reg M?

A. No penalties apply.

B. Only a warning will be issued.

C. Fines and suspension of operations may occur.

D. All of the above.

The correct response indicates that the potential liabilities for a dealer found in violation of TILA (Truth in Lending Act)/Reg Z or CLA (Consumer Leasing Act)/Reg M can encompass a range of outcomes, including fines and even suspension of operations. TILA/Reg Z and CLA/Reg M are designed to protect consumers in credit and leasing transactions by requiring clear disclosures and fair lending practices. When a court determines that a dealer has committed a civil violation under these regulations, significant penalties can be instituted to enforce compliance and protect consumers. This can include monetary fines, which act as a deterrent against future violations. Additionally, in serious cases or repeated violations, there might be the suspension of operations, which serves to prevent the dealer from conducting business until they rectify the issues that led to the violation. Although the response suggests that no penalties or only warnings could apply, that is overly simplistic and does not reflect the serious implications of violating consumer protection laws. Each violation has its own potential consequences based on severity and frequency, reinforcing the importance of compliance for dealers engaging in lending and leasing practices.

9. What is the potential penalty for a dealer who continues to run an ad after receiving a cease and desist order?

- A. \$1,000 per day.**
- B. \$43,792 per day, per violation.**
- C. \$10,000 per day.**
- D. No penalty applies.**

The potential penalty for a dealer who continues to run an advertisement after receiving a cease and desist order can be quite substantial, and \$43,792 per day, per violation, reflects the seriousness of such an infraction. A cease and desist order is a legal directive that notifies individuals or businesses to stop unlawful activities, and ignoring this order can lead to significant financial repercussions. The high figure serves as a deterrent to ensure compliance with advertising regulations, emphasizing the importance of adhering to legal guidelines in marketing practices. The rationale behind such severe penalties is to protect consumers from misleading or illegal advertising and to maintain fairness in the marketplace. This particular amount also indicates the potential for cumulative penalties if violations occur more than once, highlighting the gravity of the situation when a dealer decides to disregard a cease and desist order.

10. What does UDAAP stand for?

- A. Unfair Debt and Abuse Prevention**
- B. Uniformly Deceptive Acts and Practices**
- C. Unfair, Deceptive, Abusive Acts or Practices**
- D. Universal Deceptive Accountability Practices**

UDAAP stands for "Unfair, Deceptive, Abusive Acts or Practices." This term is used in the context of consumer protection, particularly in the financial services sector, to refer to practices that could cause consumer harm. UDAAP is particularly significant because it outlines standards that institutions must adhere to, ensuring that they do not engage in behaviors that could mislead or exploit consumers. The regulation aims to protect consumers from unfair treatment and to foster trust within financial markets. The phrase encompasses three main categories: - Unfair acts: Practices that cause substantial consumer injury that is not outweighed by benefits to consumers or competition. - Deceptive acts: Practices that mislead consumers regarding important information about products or services. - Abusive acts: Practices that take unreasonable advantage of a consumer's lack of understanding or inability to protect their interests. These components underline the intention of UDAAP to create a safer and fairer market for consumers, emphasizing transparency and ethical conduct. Understanding UDAAP is crucial for anyone working in finance or consumer advocacy, as it frames how companies must interact with consumers to ensure ethical practices.