

ASSOCIATION FOR FINANCIAL PROFESSIONALS (AFP) PRACTICE EXAM (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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 does "fiscal policy" generally include?**
 - A. Tax regulations and stock market adjustments
 - B. Government spending and tax policies used to influence economic conditions
 - C. Monetary supply and banking regulations
 - D. Trade agreements and international relations analysis
- 2. Since the Sarbanes-Oxley Act of 2002, who is responsible for ensuring the accuracy of financial statements?**
 - A. The Board of Directors
 - B. The Chief Financial Officer (CFO)
 - C. The Controller
 - D. The Treasurer
- 3. What is the primary objective of treasury management?**
 - A. Cost reduction
 - B. Financing
 - C. Investment profit
 - D. Receivables management
- 4. In the context of a letter of credit, what does the term "issuing bank" refer to?**
 - A. The bank that advises the exporter
 - B. The bank that issues the L/C in favor of the exporter
 - C. The bank that accepts payment from the buyer
 - D. The bank that confirms the L/C terms
- 5. What service does a positive pay system offer to businesses?**
 - A. Protection against unauthorized check payments
 - B. Facilitation of electronic fund transfers
 - C. Management of foreign currency risks
 - D. Improvement of cash flow forecasting

- 6. What financial concept is calculated by dividing fixed costs by the contribution margin per unit?**
- A. Profit margin
 - B. Break-even point
 - C. Return on investment
 - D. Operating leverage
- 7. A bond with a maturity of three years is classified as which type of financial instrument?**
- A. Long-term bond
 - B. Intermediate-term note
 - C. Term loan
 - D. Indexed bond
- 8. What is indicated by a downward sloping yield curve?**
- A. Rising inflation expectations
 - B. Investors expect lower returns in the future
 - C. Increased demand for long-term bonds compared to short-term bonds
 - D. Expectation of an economic downturn or lower interest rates
- 9. Which type of financial institution accepts deposits and makes loans?**
- A. A brokerage firm
 - B. A consumer credit company
 - C. A mutual fund provider
 - D. A commercial bank
- 10. What tool helps a treasurer summarize relevant data from a treasury management system starting at a high level?**
- A. Dashboard
 - B. Key performance indicator (KPI)
 - C. PowerPoint presentation
 - D. Exception reporting

Answers

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

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Explanations

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1. What does "fiscal policy" generally include?

- A. Tax regulations and stock market adjustments
- B. Government spending and tax policies used to influence economic conditions**
- C. Monetary supply and banking regulations
- D. Trade agreements and international relations analysis

Fiscal policy primarily encompasses government spending and tax policies that aim to influence the economic conditions of a country. When a government adjusts its levels of spending and taxation, it directly affects overall economic activity—this includes stimulating growth during a recession or cooling down an overheating economy by either increasing taxes or reducing spending. For instance, during economic downturns, governments may increase public spending or reduce taxes to boost demand, while in a booming economy, they might do the opposite to manage inflation and maintain stability. Other options present different concepts not typically categorized as fiscal policy. For example, adjustments in tax regulations and stock market dynamics are more related to regulatory and market environments rather than direct fiscal measures. Similarly, monetary supply and banking regulations are tied into monetary policy, which focuses on controlling the money supply and interest rates, distinct from fiscal actions. Lastly, trade agreements and the analysis of international relations do not fall under fiscal policy as they relate more to trade policies and diplomatic relations than to government spending and taxes aimed at economic influence.

2. Since the Sarbanes-Oxley Act of 2002, who is responsible for ensuring the accuracy of financial statements?

- A. The Board of Directors
- B. The Chief Financial Officer (CFO)**
- C. The Controller
- D. The Treasurer

The Chief Financial Officer (CFO) holds the primary responsibility for ensuring the accuracy of financial statements as mandated by the Sarbanes-Oxley Act of 2002. This act was enacted to enhance corporate governance and accountability, particularly in the wake of financial scandals. It emphasizes the importance of accurate financial reporting and establishes the requirement for top executives to personally certify the financial statements. Under this legislation, the CFO must ensure that the financial disclosures are complete and accurate, and they hold a significant legal responsibility for any misleading statements. This accountability extends to implementing internal controls and maintaining the integrity of the financial reporting process. While the Board of Directors plays a crucial role in overseeing the financial practices of a company, it is ultimately the CFO who is directly responsible for the accuracy of the financial statements. Other roles, such as the Controller and Treasurer, may assist with financial reporting and management, but they do not carry the same level of legal responsibility for the overall accuracy of the financial statements as the CFO does.

3. What is the primary objective of treasury management?

- A. Cost reduction
- B. Financing**
- C. Investment profit
- D. Receivables management

The primary objective of treasury management revolves around managing a company's liquidity and mitigating financial risks. This includes ensuring that the organization has enough cash flow to meet its obligations while optimizing the use of financial resources. Financing is a critical aspect of treasury management, as it encompasses securing the necessary funds to support business operations and growth strategies. This involves not just obtaining funds but also managing debt, forecasting cash needs, and planning for future financial requirements. Focusing on financing allows the treasury to align its strategies with the overall financial goals of the organization, ensuring sufficient capital is available for investments, operations, and any unexpected expenses. Effective treasury management is vital for maintaining the company's financial health and stability, which ultimately contributes to its long-term success. While the other options, such as cost reduction, investment profit, and receivables management, are important components within the broader landscape of financial management, they serve as sub-goals or strategies that support the primary objective of financing. For instance, reducing costs can improve profitability, but it does not capture the holistic aim of ensuring sufficient funding and liquidity. Similarly, while maximizing investment profit is valuable, it is secondary to securing the necessary financing for operational stability and growth.

4. In the context of a letter of credit, what does the term "issuing bank" refer to?

- A. The bank that advises the exporter
- B. The bank that issues the L/C in favor of the exporter**
- C. The bank that accepts payment from the buyer
- D. The bank that confirms the L/C terms

In the context of a letter of credit (L/C), the term "issuing bank" refers specifically to the bank that actually issues the letter of credit in favor of the exporter. This is a critical role in the process as the issuing bank essentially provides a guarantee of payment to the exporter, assuming that the exporter fulfills their part of the agreement by meeting the terms outlined in the L/C. The issuing bank evaluates the creditworthiness of the buyer (the applicant) before issuing the letter of credit, thus taking on the risk associated with the transaction. This role is distinguished from other banks involved in the transaction, such as the advising bank, which notifies the exporter that an L/C has been issued, or the confirming bank, which adds its own guarantee to the L/C. The issuing bank is central to the financial security provided by letters of credit, making it a fundamental aspect of international trade finance.

5. What service does a positive pay system offer to businesses?

A. Protection against unauthorized check payments

B. Facilitation of electronic fund transfers

C. Management of foreign currency risks

D. Improvement of cash flow forecasting

A positive pay system is primarily designed to provide businesses with protection against unauthorized check payments. This service works by allowing a company to share a list of checks it has issued with its bank. When a check is presented for payment, the bank matches the check information against the company's approved list. If the check does not match — either because it has been altered, is a duplicate, or was issued fraudulently — the bank will alert the company and may refuse to process the payment. This added layer of verification helps mitigate the risks of check fraud, which can lead to significant financial losses for businesses. By implementing a positive pay system, organizations can enhance their security concerning check transactions and maintain tighter control over their cash outflows. The other services mentioned, such as facilitating electronic fund transfers or managing foreign currency risks, do not specifically relate to the primary function of a positive pay system. Similarly, while improvement of cash flow forecasting is essential in financial management, it is not a direct benefit of positive pay. Instead, the focus remains on enhancing security and preventing unauthorized check transactions.

6. What financial concept is calculated by dividing fixed costs by the contribution margin per unit?

A. Profit margin

B. Break-even point

C. Return on investment

D. Operating leverage

The calculation of fixed costs divided by the contribution margin per unit allows businesses to determine their break-even point. The break-even point is the level of sales at which total revenues equal total costs, meaning the business is not making a profit but also not incurring a loss. In this context, fixed costs are the expenses that do not change with the level of production or sales, such as rent, salaries, and certain utilities. The contribution margin per unit is calculated as the selling price per unit minus variable costs per unit, indicating how much each unit sold contributes to covering fixed costs and generating profit. By using this formula, businesses can identify how many units they need to sell to cover all fixed costs, thus pinpointing their break-even sales volume. This understanding is crucial for financial planning, pricing strategy, and overall business decision-making, as it helps companies ascertain the minimum sales necessary to avoid losses.

7. A bond with a maturity of three years is classified as which type of financial instrument?

- A. Long-term bond
- B. Intermediate-term note**
- C. Term loan
- D. Indexed bond

A bond with a maturity of three years is classified as an intermediate-term note. Financial instruments are typically categorized based on their maturities, and these categories help investors understand the risk and return associated with each. In this case, bonds are generally broken down into three categories: short-term (maturities of one year or less), intermediate-term (maturities typically ranging from one to ten years), and long-term (maturities of ten years or more). Since the bond in question has a maturity of three years, it falls squarely within the intermediate-term range. The other categories do not accurately describe a bond with a three-year maturity. Long-term bonds, as previously mentioned, are those with maturities of ten years or more, and term loans usually involve borrowing rather than investing in a debt instrument like a bond. Indexed bonds are tied to a specific index and can vary in terms of maturity, but their classification depends on other factors such as interest rate adjustments rather than solely on their maturity duration. Thus, the classification of the bond as an intermediate-term note is what makes sense given its three-year maturity.

8. What is indicated by a downward sloping yield curve?

- A. Rising inflation expectations
- B. Investors expect lower returns in the future
- C. Increased demand for long-term bonds compared to short-term bonds
- D. Expectation of an economic downturn or lower interest rates**

A downward sloping yield curve, often referred to as an inverted yield curve, suggests that investors expect lower interest rates in the future, typically as a result of anticipated economic downturns. This phenomenon occurs when long-term interest rates fall below short-term rates, indicating that investors have a pessimistic outlook on future economic growth and are seeking the relative safety of long-term bonds. In an environment where the yield curve is inverted, it implies that market participants believe that the central bank will likely reduce interest rates to stimulate the economy as growth slows. This expectation can lead to a preference for long-term bonds, as investors lock in current yields before they decline further in response to weakening economic conditions. Understanding this context helps clarify the significance of a downward sloping yield curve and its implications for economic activity and interest rates.

9. Which type of financial institution accepts deposits and makes loans?

- A. A brokerage firm
- B. A consumer credit company
- C. A mutual fund provider
- D. A commercial bank**

A commercial bank is a type of financial institution that plays a critical role in the economy by accepting deposits from individuals and businesses, and using those deposits to provide loans. This dual-function of accepting deposits and making loans allows commercial banks to facilitate savings and investment in the economy, helping individuals manage their finances and businesses fund their growth. Deposits made by customers, such as checking and savings accounts, provide banks with the necessary capital to lend to borrowers in the form of personal loans, mortgages, and business loans. This process not only supports consumer spending and investment but also contributes to overall economic stability and growth. Other financial institutions mentioned, such as brokerage firms and mutual fund providers, primarily act as intermediaries in the investment market and do not typically accept deposits or make loans. Consumer credit companies, on the other hand, focus on providing credit to consumers but do not function as traditional depositories. Thus, the distinguishing characteristic of a commercial bank is its role in both accepting deposits and making loans, making it the correct answer.

10. What tool helps a treasurer summarize relevant data from a treasury management system starting at a high level?

- A. Dashboard**
- B. Key performance indicator (KPI)
- C. PowerPoint presentation
- D. Exception reporting

A dashboard serves as an essential tool for a treasurer as it provides a visual summary of key metrics and data pulled from a treasury management system. Dashboards are designed to present high-level overviews, allowing treasurers to quickly assess the financial health and performance of an organization. They often include graphical representations like charts and gauges that consolidate various pieces of data into a format that is easy to interpret at a glance. This capability is instrumental for decision-making and strategic planning, as it enables treasury professionals to track key aspects such as cash flow, liquidity, and risk management indicators without getting lost in granular details. The use of a dashboard helps to streamline the monitoring process, making it a valuable asset in managing a company's treasury function efficiently. Other options, while useful in their own contexts, do not prioritize presenting a high-level summary in the same effective manner as dashboards do. For example, key performance indicators focus on measuring specific outcomes rather than offering a comprehensive view. PowerPoint presentations are more suited for formal communication rather than real-time data analysis. Exception reporting addresses specific anomalies or breaches in expected performance rather than providing an overarching summary.

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://afp.examzify.com>

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

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