

CANNON FINANCIAL INSTITUTE CFIRS PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. If a stockholder fails to subscribe to a rights offering, how is their interest in the company affected?**
 - A. Unchanged
 - B. Increased
 - C. Reduced
 - D. Prorated upwards
- 2. What final authority determines permitted investments in a trust indenture?**
 - A. Directions from the obligor
 - B. The trust indenture
 - C. The Prudent Person rule
 - D. Bond counsel
- 3. Which type of security is subject to registration under the Securities Act of 1933?**
 - A. Municipal Securities
 - B. U.S. Government Securities
 - C. Securities of a Publicly-held Company
 - D. Securities of a Nonprofit Organization
- 4. How is a testamentary general power of appointment taxed?**
 - A. Only the income is taxed if the power is exercised
 - B. The full value of the property is included in the holder's estate
 - C. It is not taxed until the power is exercised
 - D. Only capital gains are taxed at the time of distribution
- 5. Which of the following statements about T-Bills is NOT true?**
 - A. It is issued at a discount.
 - B. It has a \$1,000 minimum denomination.
 - C. Maturities are up to two years.
 - D. It is in book-entry form.

- 6. What is a key regulatory requirement for national banks regarding fiduciary actions?**
- A. To conduct regular audits with reports to stakeholders
 - B. To have a conflict of interest policy in place
 - C. To ensure transparency in all transactions
 - D. To adapt to changes in banking regulations quickly
- 7. What do corporate bonds represent?**
- A. Employment contracts.
 - B. Guarantees.
 - C. Ownership.
 - D. Debt.
- 8. Which of the following types of stock guarantees a dividend even when the issuing corporation does not earn a profit?**
- A. Collateral preferred
 - B. Protected preferred
 - C. Capital stock
 - D. Common
- 9. When reviewing employee benefit account transactions, which deposits would not be criticized by a trust auditor?**
- A. The deposits bear a reasonable interest rate and are authorized by the plan.
 - B. The prohibited transactions are approved by the Trust Committee.
 - C. The deposits are limited to 10% of the market value of plan assets.
 - D. The deposits are consistent with the investment objectives of the plan.
- 10. An investor in a 28% tax bracket needs to receive what taxable return on a corporate bond to equal a 7.2% tax-free yield?**
- A. 7.2%
 - B. 10%
 - C. 25.7%
 - D. 28%

Answers

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

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Explanations

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1. If a stockholder fails to subscribe to a rights offering, how is their interest in the company affected?

- A. Unchanged
- B. Increased
- C. Reduced**
- D. Prorated upwards

When a stockholder fails to subscribe to a rights offering, their ownership stake in the company becomes diluted, leading to a reduction in their interest. A rights offering allows existing shareholders the opportunity to purchase additional shares at a specified price, usually at a discount to the current market price. When a shareholder does not take advantage of this opportunity and chooses not to buy additional shares, they forfeit the chance to maintain their proportional ownership in the company. As the company issues new shares to those who do participate in the offering, the total number of shares outstanding increases. Therefore, the stockholder's percentage of ownership decreases because their number of shares remains the same while more shares are introduced into circulation. This dilution can also impact the stockholder's voting power and potentially their share of future profits if the company issues more shares that lead to increased earnings. Consequently, failing to subscribe to a rights offering results in a reduced ownership interest in the company.

2. What final authority determines permitted investments in a trust indenture?

- A. Directions from the obligor
- B. The trust indenture**
- C. The Prudent Person rule
- D. Bond counsel

The trust indenture serves as the foundational document that outlines the terms and conditions under which the trust operates, including the types of investments that are permitted. It is a legally binding agreement between the issuer of the bonds and the bondholders, providing detailed instructions on how the trust's assets are to be managed. This document specifies the investment strategy, risk tolerance, and guidelines that the trustee must adhere to when managing the trust's portfolio. Therefore, the final authority regarding permitted investments lies within the provisions set forth in the trust indenture itself, ensuring that all actions taken by the trustee comply with the outlined stipulations to protect the interests of the beneficiaries. Understanding this relationship helps reinforce the importance of legal documents in investment management and fiduciary duties, making the trust indenture the key reference point for permissible investment choices within a trust structure.

3. Which type of security is subject to registration under the Securities Act of 1933?

- A. Municipal Securities
- B. U.S. Government Securities
- C. Securities of a Publicly-held Company**
- D. Securities of a Nonprofit Organization

Securities of publicly-held companies are required to be registered under the Securities Act of 1933. This act was established to provide investors with full and fair disclosure of the financial information related to these securities before they are offered for sale to the public. The registration process involves filing a registration statement with the Securities and Exchange Commission (SEC), which includes detailed information about the company, its business operations, and the specifics of the securities being offered. The rationale for this requirement is to protect investors by ensuring they have access to essential information that could influence their investment decisions. Publicly-held companies, due to their size and the nature of their operations, are held to strict regulatory standards to promote transparency and maintain investor confidence in the financial system. In contrast, municipal securities and U.S. government securities are generally exempt from registration due to their nature and the entities backing them. Municipal securities are issued by local governments or their agencies and are considered lower risk mainly because they typically are backed by tax revenues. U.S. government securities, like Treasury bonds or bills, are issued by the federal government and carry the full faith and credit of the government, making them essentially risk-free and also exempt from the registration requirement. Furthermore, securities of nonprofit organizations may not necessarily

4. How is a testamentary general power of appointment taxed?

- A. Only the income is taxed if the power is exercised
- B. The full value of the property is included in the holder's estate**
- C. It is not taxed until the power is exercised
- D. Only capital gains are taxed at the time of distribution

A testamentary general power of appointment is an estate planning tool that allows an individual to designate who will receive their property upon their death. When the holder of this power dies, the value of the property subject to the power is included in their gross estate for estate tax purposes. This inclusion occurs because the donor (the original owner of the property) has given the holder complete control over the disposition of the property, meaning that the holder of the power has the ability to determine who receives the property and under what conditions. As a result, the full value of the property is subject to estate taxes at the time of the holder's death, reflecting the idea that they had the effective ownership of that property. Understanding this concept is crucial in estate planning, as it affects how the property's value is handled for tax purposes and influences the overall estate tax liability.

5. Which of the following statements about T-Bills is NOT true?

- A. It is issued at a discount.
- B. It has a \$1,000 minimum denomination.
- C. Maturities are up to two years.**
- D. It is in book-entry form.

The statement that T-Bills have maturities up to two years is not accurate. Treasury bills, or T-Bills, are short-term securities issued by the U.S. government with maturities that typically range from a few days to one year. They are issued with maturities of 4 weeks, 8 weeks, 13 weeks, 26 weeks, and 52 weeks. Therefore, it is incorrect to say that T-Bills have maturities extending to two years, as that duration falls outside the typical range for these financial instruments. T-Bills are indeed issued at a discount to their face value, meaning investors pay less than what they will receive upon maturity. The minimum denomination for T-Bills is \$1,000, and they are issued in book-entry form, meaning there are no physical certificates; ownership is recorded electronically. This structure is designed to enhance efficiency and security in the Treasury securities market, supporting the statements that are true regarding T-Bills.

6. What is a key regulatory requirement for national banks regarding fiduciary actions?

- A. To conduct regular audits with reports to stakeholders**
- B. To have a conflict of interest policy in place
- C. To ensure transparency in all transactions
- D. To adapt to changes in banking regulations quickly

The key regulatory requirement for national banks regarding fiduciary actions is to conduct regular audits with reports to stakeholders. This requirement stems from the need for accountability and transparency in fiduciary activities, which involve managing client assets and interests. Regular audits help ensure that the bank complies with applicable laws and regulations, minimizes risks, and addresses any discrepancies or issues that may arise in the management of fiduciary accounts. These audits provide stakeholders, including clients and regulatory bodies, with assurance that the bank is acting in the best interests of its clients and adhering to its fiduciary responsibilities. They are essential for maintaining trust and integrity in the financial system, particularly as fiduciaries hold a position of significant responsibility in managing funds for others. While having a conflict of interest policy, ensuring transparency in transactions, and adapting to changes in regulations are all important aspects of ethical banking practices, they do not specifically encompass the core regulatory requirement emphasized in this context. Regular audits directly reflect the need for oversight and assessment of fiduciary actions to protect clients and uphold industry standards.

7. What do corporate bonds represent?

- A. Employment contracts.
- B. Guarantees.
- C. Ownership.
- D. Debt.**

Corporate bonds represent a form of debt in which an investor loans money to a corporation for a specified period at a fixed interest rate. When a corporation needs to raise capital, it can issue bonds to the public, effectively borrowing funds that it agrees to repay, along with interest, over time. This arrangement allows the company to finance various projects or operational costs without giving up ownership stakes in the business. In the context of corporate finance, bonds are a common way for companies to "leverage" their operations, enabling them to invest in growth opportunities while spreading the risk among a broader range of investors. Investors who purchase these bonds are essentially lending money to the corporation, making them creditors rather than owners. This distinction is crucial for understanding the nature of corporate bonds and the financial relationships they establish.

8. Which of the following types of stock guarantees a dividend even when the issuing corporation does not earn a profit?

- A. Collateral preferred
- B. Protected preferred**
- C. Capital stock
- D. Common

The type of stock that guarantees a dividend payment even when the issuing corporation does not earn a profit is known as protected preferred stock. This particular class of preferred stock comes with certain rights and assurances, one of which is the commitment to pay dividends before any dividends can be paid to common stockholders. Protected preferred stock has features that provide security to investors, including cumulative dividend rights, which means that if a dividend is not paid in a given year (due to the corporation not earning a profit, for example), it must still be paid in the future before any distributions can be made to common shareholders. This preference for receiving dividends helps to mitigate the risk for investors during times when the company's profitability may be fluctuating. In contrast, collateral preferred stock, capital stock, and common stock do not provide the same level of guarantee regarding dividend payments. Collateral preferred stock may come with specific asset backing, but does not guarantee dividends if the company does not generate profits. Capital stock typically refers to common shares, which are the last in line for dividends unless all preferred dividends have been satisfied. Common stockholder dividends are discretionary and depend entirely on the company's profitability and decisions made by the board of directors.

9. When reviewing employee benefit account transactions, which deposits would not be criticized by a trust auditor?

- A. The deposits bear a reasonable interest rate and are authorized by the plan.**
- B. The prohibited transactions are approved by the Trust Committee.
- C. The deposits are limited to 10% of the market value of plan assets.
- D. The deposits are consistent with the investment objectives of the plan.

Deposits that bear a reasonable interest rate and are authorized by the plan would not be criticized by a trust auditor because they align with the fundamental principles of trust management and compliance. In a trust environment, it is crucial that all transactions, including deposits, adhere to the specific terms outlined in the employee benefit plan. When deposits are authorized, it indicates that they meet the predefined criteria established by the plan, ensuring that they are legitimate and compliant. Additionally, a reasonable interest rate implies that the deposit is being managed prudently, providing value to the plan participants without exposing the trust to unnecessary risk. Maintaining compliance with these standards helps safeguard the assets of the plan and supports the fiduciary duty of those managing the plan. This means the transactions are accounted for and seen as part of sound financial management practices, which is critical during an audit. Understanding the importance of these principles assists in ensuring that deposits enrich the employee benefit account's value while remaining within the legal and regulatory frameworks that govern such financial practices.

10. An investor in a 28% tax bracket needs to receive what taxable return on a corporate bond to equal a 7.2% tax-free yield?

- A. 7.2%
- B. 10%**
- C. 25.7%
- D. 28%

To determine the taxable return needed to equal a 7.2% tax-free yield for an investor in a 28% tax bracket, it's essential to understand the relationship between taxable and tax-exempt yields. The formula to convert a tax-free yield to a taxable equivalent yield is: $\text{Taxable Yield} = \text{Tax-Free Yield} / (1 - \text{Tax Rate})$. In this case, the tax-free yield is 7.2%, and the tax rate is 28%, or 0.28 in decimal form. Plugging these values into the formula gives: $\text{Taxable Yield} = 7.2\% / (1 - 0.28) = 7.2\% / 0.72 = 10\%$. This means that the investor would need to receive a 10% return on a taxable corporate bond to achieve the same after-tax return as a 7.2% yield on a tax-free bond. When considering their tax rate, this effectively translates the tax-free yield into its taxable equivalent. Therefore, an investor in a 28% tax bracket needs a 10% taxable return to equal the 7.2% tax-free yield, confirming that this is indeed the correct answer.

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://cannoncfirs.examzify.com>

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

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