

Certified Divorce Financial Analyst (CDFA) Certification Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

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- 1. What aspect of financial planning may significantly change post-divorce?**
 - A. Investment strategies remain unchanged**
 - B. Living expenses often increase**
 - C. Retirement savings will automatically grow**
 - D. Income is guaranteed to remain stable**
- 2. Which tax carryforward does not have a rule for allocation between spouses?**
 - A. Capital losses**
 - B. Alternative minimum tax credit**
 - C. Gift tax exemption**
 - D. Charitable contribution carryforward**
- 3. What is a primary characteristic of asset-based valuation?**
 - A. It focuses on the current cash flow of an individual**
 - B. It considers the net worth of all assets and liabilities**
 - C. It evaluates market trends over time**
 - D. It assesses historical performance of investment properties**
- 4. Why might the IRS be concerned with the classification of spousal support?**
 - A. To ensure equal treatment of both parents**
 - B. To discourage tax fraud schemes**
 - C. To manage the shifting of income between parties**
 - D. To enhance child welfare policies**
- 5. What should be considered when valuing a business in a divorce?**
 - A. Only the tangible assets of the business**
 - B. The emotional attachment of one spouse to the business**
 - C. Current market trends and the business's earning potential**
 - D. The length of time the business has been operating**

- 6. What current trend regarding spousal support is gaining popularity?**
- A. Permanent spousal support**
 - B. Cohabitation allowances**
 - C. Short-term spousal support**
 - D. Elimination of permanent spousal support**
- 7. What is the impact of child custody arrangements on child support calculations?**
- A. It has no impact**
 - B. It can decrease child support obligations**
 - C. It can increase child support obligations**
 - D. It solely determines visitation rights**
- 8. Which of the following is NOT a method spouses might use to hide assets in divorce?**
- A. Denying the existence of an asset**
 - B. Transferring the asset to a third party**
 - C. Creating a trust for the asset**
 - D. Claiming the asset was lost or dissipated**
- 9. What aspect of divorce could require adjustments in both immediate and long-term financial planning?**
- A. Adjustments to asset division only.**
 - B. Income from debts incurred during marriage.**
 - C. Support payments, considering inflation and future earnings potential.**
 - D. Children's education expenses only.**
- 10. When are losses on the sale of a primary residence tax deductible?**
- A. Always, regardless of property type**
 - B. Only if the property is rented**
 - C. Only if it's a personal vacation property**
 - D. Never, they are not deductible**

Answers

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

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Explanations

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1. What aspect of financial planning may significantly change post-divorce?

- A. Investment strategies remain unchanged**
- B. Living expenses often increase**
- C. Retirement savings will automatically grow**
- D. Income is guaranteed to remain stable**

The aspect of financial planning that may significantly change post-divorce is living expenses often increase. After a divorce, individuals typically find themselves needing to manage household expenses on their own. This may involve additional costs related to maintaining separate residences, potentially increased utility bills, and single-income households, which can strain a budget. Moreover, any child support or alimony obligations can further impact one's financial situation. People may also need to adjust to a different lifestyle or spending patterns that were previously shared. Understanding these changes in living expenses is crucial for effective financial planning, as they can impact budgeting, savings, and overall financial health going forward. In contrast, investment strategies may require reassessment but aren't necessarily unchanged; retirement savings don't automatically grow due to divorce; and income stability is often not guaranteed post-divorce, as individuals may lose a dual-income safety net.

2. Which tax carryforward does not have a rule for allocation between spouses?

- A. Capital losses**
- B. Alternative minimum tax credit**
- C. Gift tax exemption**
- D. Charitable contribution carryforward**

The alternative minimum tax (AMT) credit is the correct answer because it is a nonrefundable credit that can only be used to offset regular tax liabilities. This credit does not have specific rules for allocation between spouses in the event of a divorce. Unlike some other tax attributes, which may have specific allocation rules to determine how they are shared or divided during divorce proceedings, the AMT credit remains with the individual who earned it and cannot be transferred or shared with a spouse. In contrast, capital losses and charitable contribution carryforwards have defined rules for allocation in divorce situations. These attributes can be allocated between spouses based on various factors such as the ownership of the assets that generated the losses or contributions. The gift tax exemption also has rules in place regarding transfers and how they may affect each spouse, especially concerning joint gifting. Thus, the absence of any allocation rules for the alternative minimum tax credit distinguishes it from the other options provided.

3. What is a primary characteristic of asset-based valuation?

- A. It focuses on the current cash flow of an individual
- B. It considers the net worth of all assets and liabilities**
- C. It evaluates market trends over time
- D. It assesses historical performance of investment properties

The primary characteristic of asset-based valuation is that it considers the net worth of all assets and liabilities. This approach involves determining the value of a business or an individual's assets and liabilities to present a clear snapshot of their financial position. Asset-based valuation is centered on the balance sheet perspective, where assets such as real estate, investments, and personal property are valued, and liabilities such as debts and obligations are subtracted to derive net worth. This method is particularly useful in divorce financial analysis as it provides a straightforward assessment of the tangible and intangible assets involved in divorce settlements. In contrast, focusing on current cash flow pertains more to income-based valuations, which look at an individual's or business's ability to generate cash over time. Evaluating market trends and assessing historical performance are methodologies associated with market-based valuation and income approaches, respectively, but do not directly align with the essence of asset-based valuation, which strictly analyzes a snapshot of current assets and liabilities.

4. Why might the IRS be concerned with the classification of spousal support?

- A. To ensure equal treatment of both parents
- B. To discourage tax fraud schemes
- C. To manage the shifting of income between parties**
- D. To enhance child welfare policies

The IRS is concerned with the classification of spousal support primarily to manage the shifting of income between parties. Spousal support, also known as alimony, has specific tax implications for both the payer and the recipient. Understanding how spousal support is classified impacts how it is reported for tax purposes—specifically regarding deductibility by the payer and tax liability for the recipient. When spousal support is correctly classified, it helps ensure that income is allocated appropriately, providing clarity on how it should be treated within the tax system. This classification prevents potential manipulation of income that could arise if individuals attempt to unfairly benefit from the tax treatment associated with spousal support. Therefore, the IRS focuses on ensuring that these payments are accurately categorized to maintain the integrity of tax reporting and compliance. In contrast, while the equal treatment of parents, discouraging tax fraud schemes, and enhancing child welfare policies are all important considerations in the broader scope of family law and tax implications, they do not directly address the IRS's primary concern regarding income shifting and the accurate reporting and classification of spousal support.

5. What should be considered when valuing a business in a divorce?

- A. Only the tangible assets of the business**
- B. The emotional attachment of one spouse to the business**
- C. Current market trends and the business's earning potential**
- D. The length of time the business has been operating**

When valuing a business in a divorce, one of the most critical considerations is the current market trends and the business's earning potential. This approach ensures a comprehensive view of the business's worth, as it looks beyond just physical assets or emotional attachments that could skew the valuation. Current market trends provide insight into the business's operating environment, helping to assess how external factors affect its profitability and longevity. Understanding these trends can guide the evaluation of future revenues and expenses, leading to a more informed and pragmatic valuation. Additionally, assessing the business's earning potential offers insight into how the business can generate income moving forward, which directly impacts the value assigned during the divorce proceedings. Other factors, such as emotional attachment or the age of the business, can be relevant in specific cases, but they do not provide an objective or comprehensive picture of the business's financial health or viability in the competitive landscape. Thus, focusing on market trends and earning potential is paramount for an accurate and fair valuation in divorce situations.

6. What current trend regarding spousal support is gaining popularity?

- A. Permanent spousal support**
- B. Cohabitation allowances**
- C. Short-term spousal support**
- D. Elimination of permanent spousal support**

The trend towards the elimination of permanent spousal support reflects a shift in societal norms and the evolving landscape of divorce law. In recent years, there has been growing recognition that, as individuals become more independent and self-sufficient, the traditional notion of permanently supporting a former spouse is less applicable. Many jurisdictions are moving towards time-limited support arrangements that encourage both parties to become financially independent rather than relying indefinitely on support payments. This trend is driven by various factors, including an increase in dual-income households, changing gender roles, and the idea that once a marriage ends, both parties should work towards maintaining their own financial stability. Legal systems are increasingly leaning towards transitional or rehabilitative support mechanisms, which provide assistance for a defined period while the receiving spouse is expected to seek employment or improve their earning capacity. By eliminating permanent spousal support, the laws aim to empower individuals to be proactive about their financial futures, aligning with contemporary views about personal responsibility and economic independence.

7. What is the impact of child custody arrangements on child support calculations?

- A. It has no impact**
- B. It can decrease child support obligations**
- C. It can increase child support obligations**
- D. It solely determines visitation rights**

Child custody arrangements play a significant role in child support calculations, and can indeed lead to an increase in child support obligations. In general, when one parent receives primary custody of a child, the non-custodial parent may be required to contribute a greater amount in child support. This is largely because the custodial parent incurs more expenses on a daily basis for the child's living costs, including housing, food, clothing, and other necessities. The child support calculations often take into account the income of both parents, as well as the number of overnights the child spends with each parent. A custodial arrangement that allows the child to spend significantly more time with one parent can result in a higher financial obligation for the other parent, thereby supporting the children's needs in a stable and secure environment. Additionally, courts typically aim for the child to maintain a similar standard of living in both households, which can further affect the support calculations. Understanding the dynamics of custody arrangements helps in accurately assessing how much support one parent may need to provide to ensure that the child's needs are met adequately.

8. Which of the following is NOT a method spouses might use to hide assets in divorce?

- A. Denying the existence of an asset**
- B. Transferring the asset to a third party**
- C. Creating a trust for the asset**
- D. Claiming the asset was lost or dissipated**

Creating a trust for the asset is not a typical method spouses might use to hide assets in a divorce. Trusts are legal arrangements that can serve various purposes, including asset protection and estate planning. While some individuals may use trusts inappropriately to shield assets from their spouses, the creation of a trust itself is a legitimate financial planning tool. It generally involves formal legal processes and is subject to specific tax and legal regulations. In contrast, the other methods listed, such as denying the existence of an asset or falsely claiming it was lost or dissipated, are often associated with deceitful behaviors aimed at concealing assets from a spouse during divorce proceedings. Transferring assets to third parties can also be a strategy used to obscure ownership and limit visibility in asset disclosures during divorce negotiations. These methods are explicitly aimed at evading transparency and can lead to significant legal implications if discovered.

9. What aspect of divorce could require adjustments in both immediate and long-term financial planning?

- A. Adjustments to asset division only.**
- B. Income from debts incurred during marriage.**
- C. Support payments, considering inflation and future earnings potential.**
- D. Children's education expenses only.**

Support payments play a critical role in the financial planning associated with divorce. They encompass spousal support (alimony) and child support, both of which require careful consideration of various factors, including future inflation and the potential for changes in future earnings. Immediate financial planning involves calculating the right amount of support that one party may need to transition effectively into their new financial situation post-divorce. This includes evaluating current expenditures and lifestyle needs. Adjustments may also be needed based on what one spouse will require to maintain a similar standard of living and the other spouse's ability to pay. However, long-term financial planning is equally crucial as support payments aren't static. They can change over time due to inflation, which erodes the purchasing power of fixed amounts, meaning that what is sufficient today may not be adequate in the future. Additionally, future earning potential can impact spousal support, especially if one party is expected to earn more over time, which necessitates a re-evaluation of the support payments. In contrast, adjustments to asset division alone focus on the distribution of property rather than ongoing financial obligations. Debts incurred during the marriage do have financial implications but do not directly relate to the ongoing nature of support payments. Finally, while children's education expenses are certainly important

10. When are losses on the sale of a primary residence tax deductible?

- A. Always, regardless of property type**
- B. Only if the property is rented**
- C. Only if it's a personal vacation property**
- D. Never, they are not deductible**

Losses on the sale of a primary residence are not tax deductible according to the Internal Revenue Service (IRS) regulations. When individuals sell their primary home, they can usually exclude up to \$250,000 (\$500,000 for married couples filing jointly) of gain from the sale from their taxable income, as long as they meet certain ownership and use tests. However, if the sale results in a loss, the IRS does not allow taxpayers to claim that loss as a deductible expense. This principle applies specifically to primary residences and does not extend to investment properties or those that are rented out, where different tax rules might apply. Losses on these types of properties may be deductible against other income, depending on the circumstances. Understanding this aspect of real estate transactions is crucial for individuals going through a divorce, as it impacts how assets are divided and the overall financial implications of property sales.