

# Certified Financial Planner (CFP) 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

- 1. What is the best characterization of the CFP Board Code of Ethics for CFP professionals?**
  - A. A means to avoid disciplinary action.**
  - B. A tool for achieving financial goals.**
  - C. A guide to the personal financial planning process.**
  - D. Aspirational statements providing ethical guidance.**
- 2. What is the most tax-efficient way for Kevin to contribute \$100,000 towards his child's education?**
  - A. Paying the college directly**
  - B. Gift splitting**
  - C. Contributing to a Custodial account**
  - D. Setting up an Education IRA**
- 3. What is a potential consequence for a CFP® professional failing to act within their fiduciary duty?**
  - A. A positive increase in client trust and satisfaction.**
  - B. A possible disciplinary action or revocation of certification.**
  - C. Improved business reputation within the community.**
  - D. Increased client referrals for their services.**
- 4. What financial statements are developed to reflect an individual's income and expenses as well as assets and liabilities?**
  - A. Income and balance sheet**
  - B. Cash flows and income**
  - C. Assets and cash flows**
  - D. Cash flows and balance sheet**

- 5. What is the proper course of action for a CFP® professional after a client experiences significant portfolio losses?**
- A. Ignore previous strategies and adopt a new entirely different approach.**
  - B. Gather information to amend the original financial plan.**
  - C. Disclose performance results only if it aligns with the original strategy.**
  - D. Encourage the client to reassess their risk tolerance to address concerns.**
- 6. Which of the following services is not provided at the State and Local level when planning for special needs?**
- A. Social Security Benefits**
  - B. Transportation Services**
  - C. Respite Care Services**
  - D. Residential Services**
- 7. If interest on an investment account is compounded semiannually, how does the effective rate of interest compare to the nominal rate?**
- A. Higher than the nominal rate**
  - B. Lower than the nominal rate**
  - C. The same as the simple rate**
  - D. Equal to the nominal rate**
- 8. What is a recommended step for minimizing liability as a CFP® professional?**
- A. Use a suitability standard for all recommendations.**
  - B. Partner with other CFP® practitioners.**
  - C. Purchase liability insurance.**
  - D. Provide services with a fiduciary standard.**



- 9. Which of the following is NOT required to be considered when determining compensation disclosure?**
- A. Compensation the CFP® professional's other clients receive or are entitled to receive from any association with the CFP® professional.**
  - B. How the client pays for products, services, and additional incurred costs including surrender charges and sales loads.**
  - C. How the CFP® professional and their firm are compensated for providing products and services.**
  - D. Disclosure of Economic Benefit for Referral or Engagement of Additional Persons.**
- 10. What is the primary goal of engagement in financial planning?**
- A. To develop a comprehensive investment strategy.**
  - B. To ensure compliance with financial regulations.**
  - C. To help clients meet their life goals through integrated advice.**
  - D. To minimize costs associated with financial management.**

## **Answers**

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

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## **Explanations**

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**1. What is the best characterization of the CFP Board Code of Ethics for CFP professionals?**

- A. A means to avoid disciplinary action.**
- B. A tool for achieving financial goals.**
- C. A guide to the personal financial planning process.**
- D. Aspirational statements providing ethical guidance.**

The best characterization of the CFP Board Code of Ethics for CFP professionals is that it comprises aspirational statements providing ethical guidance. This framework establishes the ethical standards and conduct expected from certified financial planners, promoting integrity, objectivity, competence, fairness, confidentiality, professionalism, and diligence in their professional relationships. The Code encourages financial planners to uphold high ethical standards and make decisions that prioritize their clients' best interests. It is not merely a set of rules to avoid disciplinary action or a procedural guide—it emphasizes the importance of ethical considerations in financial planning practices and encourages CFP professionals to strive for excellence in their service delivery. By viewing the Code as aspirational, professionals are inspired to go beyond minimum standards and commit to continuous improvement in their ethical practice and client interactions.

**2. What is the most tax-efficient way for Kevin to contribute \$100,000 towards his child's education?**

- A. Paying the college directly**
- B. Gift splitting**
- C. Contributing to a Custodial account**
- D. Setting up an Education IRA**

When considering tax-efficient ways to contribute towards a child's education, paying the college directly for qualified educational expenses can be advantageous. This method allows the donor to pay the institution directly without impacting the annual gift tax exclusion limit. Educational expenses covered in this manner include tuition, fees, books, supplies, and equipment required for courses. By leveraging this approach, Kevin can effectively contribute the \$100,000 without it counting towards his annual gift tax exclusion limit, which for the year might be up to \$17,000 per recipient (depending on legislative updates). This means he can fully utilize his funds toward the child's education without facing any immediate gift tax implications, allowing him to maximize support while adhering to tax regulations. Other options, such as gift splitting, contributing to a custodial account, or setting up an Education IRA (now known as a Coverdell Education Savings Account), might involve different tax implications or limitations. Gift splitting might require both spouses to agree and could still count against annual exclusion limits. A custodial account could lead to the child being taxed at their potentially higher rate on investment income, and while a Coverdell can provide tax-free growth for educational expenses, it has contribution limits (\$2,000 per year) and income phase-outs that might

**3. What is a potential consequence for a CFP® professional failing to act within their fiduciary duty?**

- A. A positive increase in client trust and satisfaction.**
- B. A possible disciplinary action or revocation of certification.**
- C. Improved business reputation within the community.**
- D. Increased client referrals for their services.**

When a CFP® professional fails to act within their fiduciary duty, one of the potential consequences is indeed disciplinary action or the revocation of their certification. Fiduciary duty implies that a financial planner must act in the best interests of their clients, placing the client's needs above their own. If a planner neglects this obligation, they jeopardize their professional integrity and can face serious repercussions from regulatory bodies, which may include suspension or possible termination of their certification. This consequence serves to uphold the standards of the profession and maintain public trust in financial advisory services. The fiduciary standard is a cornerstone of ethical financial planning, and failure to adhere to it can result in significant professional and legal ramifications.

**4. What financial statements are developed to reflect an individual's income and expenses as well as assets and liabilities?**

- A. Income and balance sheet**
- B. Cash flows and income**
- C. Assets and cash flows**
- D. Cash flows and balance sheet**

The correct answer focuses on the financial statements that comprehensively capture both the financial performance and position of an individual. Specifically, a balance sheet provides a snapshot of an individual's assets and liabilities at a given point in time, allowing for the determination of net worth. It details what the individual owns (assets) and what they owe (liabilities). On the other hand, the cash flow statement reflects the inflows and outflows of cash over a specified period, typically summarizing sources of income and expenses. This statement is crucial for understanding the individual's cash management and financial solvency, tracking how money moves in and out of a person's finances. Together, the cash flow statement and the balance sheet provide a comprehensive view, highlighting both the ongoing financial activities (income and expenses) as well as the overall financial status (assets and liabilities), making them essential for assessing an individual's complete financial picture. This combination is vital for effective financial planning and analysis.

**5. What is the proper course of action for a CFP® professional after a client experiences significant portfolio losses?**

- A. Ignore previous strategies and adopt a new entirely different approach.**
- B. Gather information to amend the original financial plan.**
- C. Disclose performance results only if it aligns with the original strategy.**
- D. Encourage the client to reassess their risk tolerance to address concerns.**

The proper course of action for a CFP® professional after a client experiences significant portfolio losses involves encouraging the client to reassess their risk tolerance to address concerns. This step is crucial as it allows the client to reflect on their investment goals and their psychological comfort with risk. A decline in portfolio performance can often lead to emotional responses that might cloud judgment regarding future investment decisions. By facilitating a reassessment of risk tolerance, the financial planner can better align the investment strategy with the client's current financial situation and emotional state. This conversation can help clients understand market volatility and the importance of having a strategy that reflects their risk tolerance, ultimately strengthening the client-advisor relationship and leading to more informed decisions moving forward. This approach also suggests a commitment to ongoing communication and adjustment of the financial plan, fostering a more resilient investment strategy tailored to the client's needs. The other options either lead to ignoring established strategies or fail to engage with the client's emotional and psychological responses after such loss, which are critical to planning and investment success.

**6. Which of the following services is not provided at the State and Local level when planning for special needs?**

- A. Social Security Benefits**
- B. Transportation Services**
- C. Respite Care Services**
- D. Residential Services**

When considering the planning for special needs at the state and local level, it is essential to understand the role of Social Security Benefits compared to other services like transportation, respite care, and residential services. Social Security Benefits are primarily a federal program, specifically including Social Security Income (SSI) and Social Security Disability Insurance (SSDI), which are administered at the national level and not specifically managed or provided by state or local governments. On the other hand, transportation services, respite care services, and residential services are often administered at the state and local levels. These services are part of broader support networks that aim to aid individuals with special needs and their families, ensuring they have access to necessary resources within their communities. For instance, many states have specific transportation programs designed for individuals with disabilities, respite care programs that allow caregivers a break while ensuring their loved ones are cared for, and various residential services, including group homes and supported living situations. Each of these services responds directly to local needs and is often tailored to the specific resources and communities within a state. Understanding this division between federal benefits and state/local service provision is critical for effective planning for individuals with special needs, ensuring that families are aware of where to seek out, and who to contact for, the necessary support.

**7. If interest on an investment account is compounded semiannually, how does the effective rate of interest compare to the nominal rate?**

**A. Higher than the nominal rate**

**B. Lower than the nominal rate**

**C. The same as the simple rate**

**D. Equal to the nominal rate**

When interest on an investment account is compounded semiannually, the effective interest rate is indeed higher than the nominal rate. This is because the nominal rate does not take into account the effects of compounding during the year. Compounding semiannually means that interest is calculated and added to the principal twice a year. As a result, each time interest is added, the new amount generates further interest in subsequent periods. This leads to a growth effect that is not captured by simply assessing the nominal interest rate, which represents the annual rate without considering the compounding frequency. To better understand this, it's useful to think of two concepts: nominal interest and effective interest. The nominal rate might state a certain percentage return annually (e.g., 6% nominal interest), while the effective rate will be higher due to the additional interest earned on interest over the semiannual periods. Therefore, the effective rate reflects the true return realized by the investor, accounting for these compounding periods, leading to a higher effective interest rate compared to the nominal rate.

**8. What is a recommended step for minimizing liability as a CFP® professional?**

**A. Use a suitability standard for all recommendations.**

**B. Partner with other CFP® practitioners.**

**C. Purchase liability insurance.**

**D. Provide services with a fiduciary standard.**

Minimizing liability as a CFP® professional is fundamentally tied to the standards of care applied to client interactions and recommendations. Adopting a fiduciary standard is particularly effective because it requires the advisor to act in the best interests of their clients, prioritizing their needs over any potential conflicts of interest. This commitment to a fiduciary duty creates a legal and ethical obligation to put the client's interests first, which can significantly reduce the risk of disputes and liability due to allegations of negligence or misconduct. Additionally, adhering to a fiduciary standard builds trust with clients, as they recognize that their financial advisor is dedicated to providing the best possible outcomes for their financial well-being. This proactive approach in holding oneself to a higher standard is a key strategy in minimizing legal risks associated with financial advising. While using a suitability standard, partnering with other practitioners, or purchasing liability insurance are all important considerations, they do not inherently provide the same level of protection against liability that establishing a fiduciary relationship does. A suitability standard, for instance, only requires that recommendations fit the client's needs but not necessarily be the best option available - which may still expose the advisor to liability. Coinciding with a fiduciary approach enhances overall client relations and minimizes the potential for legal challenges,



**9. Which of the following is NOT required to be considered when determining compensation disclosure?**

- A. Compensation the CFP® professional's other clients receive or are entitled to receive from any association with the CFP® professional.**
- B. How the client pays for products, services, and additional incurred costs including surrender charges and sales loads.**
- C. How the CFP® professional and their firm are compensated for providing products and services.**
- D. Disclosure of Economic Benefit for Referral or Engagement of Additional Persons.**

The correct answer is that compensation the CFP® professional's other clients receive or are entitled to receive from any association with the CFP® professional is not required when determining compensation disclosure. Compensation disclosure focuses primarily on the relationship between the CFP® professional and their specific client. This entails detailing how the individual client is compensated, how they pay for services, and the firm's compensation structure related to the products and services provided. Each client's understanding of their own costs and the fees associated with their transactions is crucial for transparency and trust. While disclosure of economic benefits related to referrals or engagements with additional persons is relevant for ensuring comprehensive understanding, what other clients receive is not pertinent to the specific client relationship. The information regarding other clients' compensation can be irrelevant and might not provide the necessary clarity on the client's own circumstances, which is why it is not a required element in compensation disclosures.

**10. What is the primary goal of engagement in financial planning?**

- A. To develop a comprehensive investment strategy.**
- B. To ensure compliance with financial regulations.**
- C. To help clients meet their life goals through integrated advice.**
- D. To minimize costs associated with financial management.**

The primary goal of engagement in financial planning is to help clients meet their life goals through integrated advice. This encompasses understanding the client's unique aspirations, values, and circumstances, which allows the financial planner to tailor their approach and recommendations accordingly. Effective engagement fosters a collaborative relationship where clients feel supported in making informed financial decisions that align with their long-term objectives. This goal prioritizes a holistic view of the client's financial situation, integrating various aspects of planning—such as investment, tax efficiency, estate planning, and risk management—to ensure that all facets of the client's financial life work together seamlessly. It ultimately drives the planner to consider not just numbers and compliance but the broader context of a client's life and aspirations, leading to more personalized and meaningful financial advice.

## 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](mailto:hello@examzify.com).**

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

**<https://certifiedfinancialplanner.examzify.com>**

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