

CFP Ethics Practice Test (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

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- 1. A prospective mutual fund purchaser faces a large capital gain soon. Which questions should you ask?**
 - A. I: What is her date of birth?**
 - B. II: What are her investment objectives?**
 - C. III: What other investments does she have?**
 - D. IV: Will she take the capital gains in cash or reinvest? All of the above**

- 2. In rendering professional services, which items must be disclosed to the client as material information relevant to the professional relationship?**
 - A. I, II, IV**
 - B. I, II**
 - C. I, IV**
 - D. I, II, III**

- 3. When a client asks you to review his or her tax return for free, what is the appropriate action?**
 - A. Terminate the relationship**
 - B. Tell Tim reviewing his tax return is not part of your mutual agreement to provide services**
 - C. Ask Tim for permission to talk to his CPA about the 1040 return**
 - D. Tell Tim you will review the tax return and come back with an answer**

- 4. Which items must be disclosed as changes that affect the professional relationship?**
 - A. I only**
 - B. I, II**
 - C. I, II, IV**
 - D. II and IV**

- 5. Regarding defining the scope of the engagement in the first step of the financial planning process, which statements are true?**
- A. All of the above**
 - B. I, II, IV**
 - C. I, II**
 - D. I, IV**
- 6. In establishing the client-planner relationship, which document is required to be in writing to disclose all material information?**
- A. Signed engagement letter**
 - B. Written disclosure of all material information**
 - C. Email copy**
 - D. Verbal confirmation**
- 7. A statement of compensation can use estimates and can be based on reasonable assumptions. Which of the following is true about this statement?**
- A. It is permissible to use estimates**
 - B. It must be exact**
 - C. It cannot include estimates**
 - D. It is not allowed**
- 8. Which description best characterizes the data used in Step 2?**
- A. It is solely numerical data**
 - B. It comprises both quantitative and qualitative information**
 - C. It is largely speculative projections**
 - D. It is limited to financial assets only**

- 9. After a client's previous engagement involved selling a collection for \$25 million, what should be the CFP professional's next step when re-engaging with the client for personal financial planning?**
- A. Find out what happened to the \$25 million**
 - B. Allocate his investments to create a better marginal tax bracket**
 - C. Consider a charitable remainder trust**
 - D. Re-establish and define the client-planner relationship**
- 10. Under CFP Board practice standards, which statement about the 600 Series and the scope of the engagement is true?**
- A. I**
 - B. II**
 - C. I and II**
 - D. Neither I or II**

Answers

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

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Explanations

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1. A prospective mutual fund purchaser faces a large capital gain soon. Which questions should you ask?

- A. I: What is her date of birth?**
- B. II: What are her investment objectives?**
- C. III: What other investments does she have?**
- D. IV: Will she take the capital gains in cash or reinvest? All of the above**

When a client faces a large capital gain, the central issue is how the tax event fits into the person's overall financial plan and needs. Age matters because it signals retirement horizon, current and future tax considerations, and potential liquidity needs. A client's date of birth helps you gauge whether the gain will push them into a higher tax bracket now, how it interacts with retirement planning, and whether long-term planning or tax timing should influence the recommendation. Understanding investment objectives is essential to ensure tax considerations align with goals. If the priority is tax efficiency, you might favor funds with lower turnover or tax-managed features; if the objective is growth or income, other nuances come into play. The objectives shape whether postponing or accelerating tax events makes sense and whether the fund selection supports the client's aims. Knowing what other investments the client has allows you to see the bigger picture: overall portfolio risk, diversification, and how a mutual fund's capital gains distributions will interact with existing assets. It also opens opportunities to use tax strategies across the portfolio, such as coordinating gains and losses for tax efficiency. Finally, the choice between taking capital gains distributions in cash or reinvesting affects both cash flow and future tax planning. Distributions are taxable in the year they're paid, regardless of reinvestment, but reinvesting changes the cost basis and future growth, while taking cash affects liquidity to meet tax obligations or other needs. Considering this option helps tailor the plan to the client's cash flow needs and tax situation. Together, these questions cover the key factors that influence whether a mutual fund recommendation will be suitable and tax-efficient for the client.

2. In rendering professional services, which items must be disclosed to the client as material information relevant to the professional relationship?

- A. I, II, IV**
- B. I, II**
- C. I, IV**
- D. I, II, III**

Material information that could affect a client's decision to engage or continue services must be disclosed to ensure the client can make an informed choice and trust the relationship. The disclosures that matter most are about the engagement itself (what services will be provided and what will not), how the professional is compensated (including any commissions or third-party payments), and any conflicts of interest or relationships that could influence objectivity or advice. These areas are material because they directly shape costs, expectations, and the advisor's impartiality. If information doesn't alter the client's understanding of the engagement or risk, it isn't required as a material disclosure. So the best answer is the set that includes disclosures about scope, fees, and conflicts of interest, since those are the elements that materially affect the professional relationship.

- 3. When a client asks you to review his or her tax return for free, what is the appropriate action?**
- A. Terminate the relationship**
 - B. Tell Tim reviewing his tax return is not part of your mutual agreement to provide services**
 - C. Ask Tim for permission to talk to his CPA about the 1040 return**
 - D. Tell Tim you will review the tax return and come back with an answer**

Clear expectations about scope and fees before providing services is the principle at play. When a client asks for a free tax-return review, the appropriate response is to treat it as a paid service and outline how you'll proceed under a defined engagement. Saying you will review the return and come back with an answer communicates that you're willing to perform the work, but you will do so under a structured plan—you'll assess the work, determine the time and effort involved, and then provide a billable result or a formal fee arrangement before delivering final guidance. This approach respects professional standards by avoiding unpriced or informal advice and ensures transparency for both you and the client. This isn't about cutting off help; it's about setting professional terms up front. It also avoids implying that free, off-the-cuff advice is standard practice, and it keeps you aligned with ethical expectations for fair compensation and clear client engagement.

- 4. Which items must be disclosed as changes that affect the professional relationship?**
- A. I only**
 - B. I, II**
 - C. I, II, IV**
 - D. II and IV**

Disclosing material changes that affect the professional relationship is essential for maintaining trust and fulfilling ethical duties. When something changes in a way that could influence the client's decisions, the services you provide, or your obligations to the client, that change must be disclosed promptly and clearly—often in writing, so there's a record. The correct choice is the one that includes every item that represents a material change to the engagement. If any of those material changes are left out, the disclosure would be incomplete, which could mislead the client or create an opportunity for conflict of interest. In other words, only by covering all the relevant changes do you preserve transparency and the integrity of the relationship. In practice, you would explain the nature of the change, describe its impact on services and fees or compensation, and confirm the client's understanding and consent. This helps ensure the client can make informed decisions and that you remain aligned with your fiduciary responsibilities.

5. Regarding defining the scope of the engagement in the first step of the financial planning process, which statements are true?

A. All of the above

B. I, II, IV

C. I, II

D. I, IV

Defining the scope of the engagement at the start is about setting clear boundaries and expectations for the client-planner relationship. This step should spell out exactly what services will be provided, what the client is responsible for (such as supplying complete and accurate information), what duties the planner will perform (analysis, recommendations, implementation if applicable), and what the deliverables will be. It also covers limitations or exclusions (what won't be included in the engagement), any assumptions being made, and the terms of the engagement itself, including how the engagement is compensated, confidentiality, and any use of third-party professionals. Getting all of these elements in writing up front helps ensure both parties share a precise understanding of what will be delivered, reduces the risk of misunderstandings later, and supports ethical and fiduciary standards. If the statements in the item align with these components—service scope, responsibilities, deliverables, assumptions/limitations, and engagement terms—then they collectively describe a complete scope. That's why a choice asserting that all relevant statements about scope are true is the best pick. In contrast, any option that omits one of these essential elements would not fully capture the scope definition, making it less accurate.

6. In establishing the client-planner relationship, which document is required to be in writing to disclose all material information?

A. Signed engagement letter

B. Written disclosure of all material information

C. Email copy

D. Verbal confirmation

The main idea is that before forming a client-planner relationship, there must be a written disclosure of all material information. This written document ensures the client receives a complete, verifiable record of all material facts that could affect their decision to engage the planner—covering who is providing what services, how compensation or conflicts of interest may arise, and any limitations or risks. It creates transparency and a clear basis for consent. An engagement letter documents terms like scope and fees, but it isn't the required disclosure of all material information. Email copies and verbal confirmations don't provide a formal, durable written record of all material factors either, so they don't meet this specific requirement.

7. A statement of compensation can use estimates and can be based on reasonable assumptions. Which of the following is true about this statement?

A. It is permissible to use estimates

B. It must be exact

C. It cannot include estimates

D. It is not allowed

The idea being tested is that estimates are allowable in a statement of compensation when they're grounded in reasonable assumptions. In practice, financial planning and related disclosures often rely on projections or educated guesses because exact numbers aren't always known. What's essential is transparency: clearly state the basis for the estimates, the data or methods used, and any limitations or uncertainties. If you're presenting compensation that depends on future events or variables, you can use a reasonable assumption and present it with a clear disclosure, or offer a range or multiple scenarios to reflect potential variability. This approach helps users understand how the numbers were derived and what could cause them to change. So, the statement is true because estimates are permissible as long as they're reasonable and disclosed. The other options aren't accurate because exactness isn't required, estimates can be included, and such statements aren't forbidden when properly supported.

8. Which description best characterizes the data used in Step 2?

A. It is solely numerical data

B. It comprises both quantitative and qualitative information

C. It is largely speculative projections

D. It is limited to financial assets only

Data used in Step 2 should combine quantitative measurements with qualitative information to give a complete view of the situation. Quantitative data provides objective numbers, trends, and comparisons that let you measure performance and quantify outcomes. Qualitative information adds context, explains why trends occur, and captures factors that numbers alone can miss, such as stakeholder opinions, processes, and qualitative risk indicators. Using both types enables more accurate interpretation, better identification of drivers, and more robust decision-making in Step 2. Relying only on numerical data misses context; describing the data as largely speculative projections would be forecasting rather than describing actual data used; limiting data to financial assets would ignore non-financial factors that can influence results.

- 9. After a client's previous engagement involved selling a collection for \$25 million, what should be the CFP professional's next step when re-engaging with the client for personal financial planning?**
- A. Find out what happened to the \$25 million**
 - B. Allocate his investments to create a better marginal tax bracket**
 - C. Consider a charitable remainder trust**
 - D. Re-establish and define the client-planner relationship**

When re-engaging with a client after a major financial event, the essential first step is to re-establish and clearly define the client-planner relationship. This means confirming the scope of services, the planner's duties and fiduciary responsibilities, confidentiality, and the fee arrangement, and obtaining updated information about the client's goals, circumstances, and preferences. This foundation ensures that any advice or planning work is aligned with the client's current objectives and that both parties have a shared understanding of what will be provided and how decisions will be made. Once the engagement terms are in place, you gather current information and discuss goals, risk tolerance, liquidity needs, and tax considerations. Only then would you move into specific planning actions or strategy discussions, such as how to allocate investments or whether a vehicle like a charitable remainder trust fits the client's objectives.

- 10. Under CFP Board practice standards, which statement about the 600 Series and the scope of the engagement is true?**
- A. I**
 - B. II**
 - C. I and II**
 - D. Neither I or II**

The key idea is that the 600 Series defines how the scope of an engagement is set and documented. It emphasizes clear boundaries: specify in writing exactly which services will be provided, what will not be done, and how the work will be carried out. This clarity protects both you and the client from misunderstandings and helps ensure ethical practice by preventing work beyond the agreed scope without proper authorization. Therefore, the true statement is the one that reflects this boundary-setting role of the 600 Series—that the scope of the engagement is defined and limited, and any tasks outside that scope should be addressed separately or through a written amendment. A choice that suggests the 600 Series either doesn't govern scope or allows for outside work without proper amendment would not fit CFP Board standards. For practical application, always document the scope in an engagement letter and handle any requests beyond that scope with a new engagement or a written addendum.

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://cfpethics.examzify.com>

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

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