

Financial Planning I (FP I) 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

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- 1. Calculate the Gross Debt Service Ratio (GDSR) for a household with a gross income of \$100,000, monthly mortgage payments of \$2,000, annual property taxes of \$5,000, and annual heating costs of \$1,440.**
 - A. 8%.**
 - B. 30%.**
 - C. 20%.**
 - D. 50%.**

- 2. What is the primary purpose of an investment policy statement?**
 - A. To outline trading strategies in real estate**
 - B. To define personal financial goals, risk tolerance, and asset allocation**
 - C. To keep track of spending and budgeting**
 - D. To increase liquidity in investments**

- 3. Which losses can be carried back three years or forward for 20 years to offset other income?**
 - A. Capital losses.**
 - B. Business investment losses.**
 - C. Non-capital losses.**
 - D. All of the above.**

- 4. What are blue-chip stocks characterized by?**
 - A. High volatility and risk**
 - B. Shares in newly established companies**
 - C. Reliability, strong financial performance, and regular dividends**
 - D. Infrequent dividends and unstable performance**

- 5. What is the most effective investment structure for maximizing savings for a child's post-secondary education?**
 - A. An RRSP**
 - B. An RESP**
 - C. An in-trust account**
 - D. A Tax-Free Savings Account**

- 6. Which statement best describes an efficient financial plan?**
- A. A plan that delivers the desired results.**
 - B. A plan that uses a balanced approach to selecting investments.**
 - C. A plan that generates optimal results for the least amount of money.**
 - D. A plan that incurs the highest rates of return for the least amount of risk.**
- 7. What type of information does a balance sheet provide?**
- A. Projected income for the future**
 - B. A summary of past expenses only**
 - C. Assets, liabilities, and net worth at a specific time**
 - D. Investment performance over time**
- 8. How can the fee structure impact your choice of a financial advisor?**
- A. Lower fees always indicate better service**
 - B. Fee structures can influence the advisor's incentive alignment with a client**
 - C. Fee structure is irrelevant to the advisory service quality**
 - D. Advisors with no fees are the best choice**
- 9. Why is it essential to periodically review a financial plan?**
- A. To ensure alignment with changing personal circumstances**
 - B. To keep the same plan indefinitely**
 - C. To focus on maximizing expenses**
 - D. To avoid any changes in investments**
- 10. What is the role of a financial advisor?**
- A. To manage a business's finances exclusively**
 - B. To provide guidance on managing finances and investments**
 - C. To prepare taxes for individuals**
 - D. To control market trends**

Answers

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

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Explanations

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1. Calculate the Gross Debt Service Ratio (GDSR) for a household with a gross income of \$100,000, monthly mortgage payments of \$2,000, annual property taxes of \$5,000, and annual heating costs of \$1,440.
- A. 8%.
 - B. 30%.**
 - C. 20%.
 - D. 50%.

To determine the Gross Debt Service Ratio (GDSR), you first need to calculate the total annual housing-related expenses and then divide that amount by the household's gross income, expressed as a percentage. Here's how the calculation is done: 1. **Monthly Mortgage Payments**: The household pays \$2,000 per month. - Annual mortgage payments: $\$2,000 \times 12 = \$24,000$. 2. **Annual Property Taxes**: The household pays \$5,000 per year. 3. **Annual Heating Costs**: The household incurs \$1,440 per year for heating. Next, sum up these annual expenses: - Total annual housing costs = Annual mortgage payments + Annual property taxes + Annual heating costs - Total annual housing costs = $\$24,000$ (mortgage) + $\$5,000$ (property taxes) + $\$1,440$ (heating) = $\$30,440$. Now, to find the Gross Debt Service Ratio, divide the total annual housing costs by the gross income and convert it into percentage form: - GDSR = (Total annual housing costs / Gross income) x 100 - GDSR = $(\$30,440 / \$100,000) \times 100$

2. What is the primary purpose of an investment policy statement?
- A. To outline trading strategies in real estate
 - B. To define personal financial goals, risk tolerance, and asset allocation**
 - C. To keep track of spending and budgeting
 - D. To increase liquidity in investments

The primary purpose of an investment policy statement (IPS) is to define personal financial goals, risk tolerance, and asset allocation. An IPS serves as a crucial foundational document for investors, guiding their investment decisions and helping to maintain a disciplined approach to managing investments over time. By clearly articulating goals, such as retirement funding or education savings, and detailing the investor's risk tolerance, the IPS helps ensure that the investment strategy aligns with the individual's financial objectives and comfort level with market volatility. Furthermore, the IPS outlines the asset allocation strategy, which specifies how investments should be diversified across different asset classes, such as stocks, bonds, and cash. This structured approach aids in constructing a portfolio that matches the specified investment horizons and risk preferences, ultimately leading to more informed decisions and better alignment with an investor's long-term vision. Other options do not capture the comprehensive nature of what an IPS represents in the financial planning process. For instance, while trading strategies in real estate or liquidity considerations are important aspects of investing, they do not encompass the broader, holistic perspective that the IPS offers to guide overall investment conduct.

3. Which losses can be carried back three years or forward for 20 years to offset other income?

A. Capital losses.

B. Business investment losses.

C. Non-capital losses.

D. All of the above.

Business investment losses are distinct in that they can be carried back to offset other types of income for the previous three years or carried forward for up to 20 years. This provision allows taxpayers to utilize these losses more flexibly, which makes them a valuable tool for managing tax liability. Non-capital losses, while they can be carried back for three years and forward for 20 years, pertain specifically to losses derived from business activities or employment income. Capital losses, on the other hand, can generally only be applied against capital gains, making them less versatile in terms of offsetting other income. Thus, while capital and non-capital losses have their own specific treatments, the unique nature of business investment losses allows them to have the longest functional carryover period for the purpose of offsetting a variety of income types. This makes business investment losses the correct answer for the question about which losses can be utilized in that manner over such defined periods.

4. What are blue-chip stocks characterized by?

A. High volatility and risk

B. Shares in newly established companies

C. Reliability, strong financial performance, and regular dividends

D. Infrequent dividends and unstable performance

Blue-chip stocks are characterized by their reliability, strong financial performance, and regular dividend payments. These companies are typically well-established and financially sound, often having a long history of stable earnings and strong market presence. Investors choose blue-chip stocks for their perceived lower risk and dependable return, especially through dividends. This consistent performance adds to their attractiveness as part of a diversified investment portfolio, appealing to both conservative investors and those seeking steady growth with regular income. The characteristics of blue-chip stocks often include market capitalizations in the billions, a history of reliable sales and earnings, and a reputation for quality management. This reliability can be particularly comforting during periods of market volatility, making them a cornerstone in many investors' strategies.

5. What is the most effective investment structure for maximizing savings for a child's post-secondary education?

- A. An RRSP**
- B. An RESP**
- C. An in-trust account**
- D. A Tax-Free Savings Account**

Choosing the most effective investment structure for maximizing savings for a child's post-secondary education centers around the specific features and benefits that directly support education funding. The Registered Education Savings Plan (RESP) is specifically designed for this purpose and comes with advantages that make it the optimal choice. RESPs offer tax-deferred growth on the contributions made, meaning that the investments can grow without being taxed until withdrawals are made. Additionally, they allow for government grants, such as the Canada Education Savings Grant (CESG), where the government will match a percentage of contributions up to a certain limit. This means that not only is the money invested growing, but there is also additional funding provided by the government, significantly increasing the total available funds for education. In contrast, while other options like the RRSP, in-trust accounts, and Tax-Free Savings Accounts (TFSA) provide their own benefits, they do not specifically cater to education savings in the same way. RRSP withdrawals for education can incur significant tax penalties and may reduce retirement savings. An in-trust account lacks the educational grant benefits and may involve complexities related to tax liabilities. Although TFSA allow for tax-free growth and withdrawals, they do not provide the same targeted incentives and grants intended for education that RESPs

6. Which statement best describes an efficient financial plan?

- A. A plan that delivers the desired results.**
- B. A plan that uses a balanced approach to selecting investments.**
- C. A plan that generates optimal results for the least amount of money.**
- D. A plan that incurs the highest rates of return for the least amount of risk.**

An efficient financial plan is characterized by its ability to generate optimal results for the least amount of money, aligning resources effectively to achieve financial goals. This definition underscores the importance of cost-effectiveness in financial planning, ensuring that every dollar spent contributes meaningfully to the desired outcomes. In the context of financial planning, efficiency also involves maximizing returns while managing costs, which means that the financial plan should not only focus on high returns but also on minimizing unnecessary expenses. By aiming for optimal results at a lower cost, such a plan can enhance overall wealth-building and financial stability over time. While other choices touch on important elements of financial planning—such as delivering desired results, balancing investments, and managing risk—none encapsulate the core efficiency criterion of maximizing outcomes relative to the costs incurred as effectively as option C does.

7. What type of information does a balance sheet provide?

- A. Projected income for the future
- B. A summary of past expenses only
- C. Assets, liabilities, and net worth at a specific time**
- D. Investment performance over time

The balance sheet is a financial statement that offers a snapshot of an individual or organization's financial position at a specific point in time. It is structured around the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$. This means that it provides a comprehensive overview of what an entity owns (assets), what it owes (liabilities), and the residual interest of the owners (net worth or equity) after all liabilities have been settled. By showcasing assets such as cash, property, and investments, as well as liabilities like loans and other obligations, the balance sheet allows for an assessment of financial health and solvency. It is distinct from other financial reports as it does not project future income or include historical expenses in isolation, nor does it focus on investment performance over time. Instead, its primary function is to provide a clear and immediate understanding of financial standing at a designated moment.

8. How can the fee structure impact your choice of a financial advisor?

- A. Lower fees always indicate better service
- B. Fee structures can influence the advisor's incentive alignment with a client**
- C. Fee structure is irrelevant to the advisory service quality
- D. Advisors with no fees are the best choice

The fee structure of a financial advisor plays a crucial role in aligning the advisor's incentives with the client's financial goals. When an advisor's compensation is based on a percentage of the assets under management, their success is tied to the client's investment performance. This alignment ensures that the advisor is motivated to provide effective services that enhance the client's financial situation, as both parties benefit from positive investment outcomes. Additionally, understanding fee structures helps clients assess the cost-effectiveness of the services they are receiving. For instance, a flat fee might incentivize advisors to offer a wide range of services without the pressure of managing assets solely for commission. On the other hand, commission-based structures may lead to conflicts if the advisor has an incentive to recommend certain products that may not align with the client's best interests. By recognizing how different fee structures work, clients can make informed decisions about which type of advisory relationship will best serve their financial objectives and who they believe will prioritize their interests effectively. This thought process promotes a transparent and productive relationship between clients and their advisors.

9. Why is it essential to periodically review a financial plan?

- A. To ensure alignment with changing personal circumstances**
- B. To keep the same plan indefinitely**
- C. To focus on maximizing expenses**
- D. To avoid any changes in investments**

Periodically reviewing a financial plan is essential primarily to ensure alignment with changing personal circumstances. Life is dynamic, and various factors such as changes in income, family status (like marriage or having children), career changes, health issues, and shifts in personal goals can significantly impact an individual's financial situation. Maintaining a financial plan that reflects current realities allows individuals to adapt their strategies and make informed decisions. For instance, a person may need to adjust their savings goals as their family grows or revise their investment strategy based on their risk tolerance as they approach retirement. This ongoing assessment helps to stay on track toward achieving long-term financial objectives while accommodating life's inevitable changes. The other choices do not support the need for regular reviews. Keeping the same plan indefinitely ignores the evolution of personal finance needs, while focusing on maximizing expenses or avoiding changes in investments would not align with effective financial management practices. An adaptive and responsive financial strategy is crucial for achieving long-term financial success.

10. What is the role of a financial advisor?

- A. To manage a business's finances exclusively**
- B. To provide guidance on managing finances and investments**
- C. To prepare taxes for individuals**
- D. To control market trends**

The role of a financial advisor primarily revolves around providing guidance on managing finances and investments. Financial advisors work with clients to create financial plans tailored to their individual goals and circumstances. Their expertise allows them to offer insights into investment strategies, retirement planning, estate planning, risk management, and overall financial health. This guidance includes educating clients about various financial products, helping them make informed decisions, and adjusting their financial strategies as needed to align with changes in their life situations or market conditions. By focusing on comprehensive financial planning, a financial advisor ensures that clients are better positioned to achieve their financial objectives and secure their financial future. The other options, while related to aspects of finance, do not encapsulate the broader role of a financial advisor. Managing a business's finances is a more specialized function, tax preparation is typically performed by accountants or tax professionals, and controlling market trends is beyond the capacity of any individual advisor. Instead, a financial advisor facilitates understanding and management of a client's financial landscape.

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://financialplanning1.examzify.com>

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

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