

Kaplan Certified Financial Planner (CFP) Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What is the realized loss for Nava regarding her stock transactions?**
 - A. Nava had a recognized loss of \$10,000.**
 - B. Nava had a realized loss of \$10,000.**
 - C. Nava had a total basis in all shares of \$55,000.**
 - D. Nava had a basis in the new shares of \$25,000.**
- 2. What is the significance of understanding the client's risk tolerance in financial planning?**
 - A. It helps in tax planning**
 - B. It drives investment strategy**
 - C. It reduces investment costs**
 - D. It ensures compliance with regulations**
- 3. What is the maximum elective deferral to a SIMPLE IRA for an employee under age 50 for 2022?**
 - A. \$20,500.**
 - B. \$14,000.**
 - C. \$5,000.**
 - D. \$12,000.**
- 4. What is the maximum percentage of gross monthly income that the housing cost ratio should typically not exceed?**
 - A. 22%**
 - B. 36%**
 - C. 28%**
 - D. 20%**
- 5. Which of these is NOT a characteristic of a traditional defined benefit pension plan?**
 - A. The plan has predictable costs compared to defined contribution plans.**
 - B. The plan specifies the benefit an employee receives.**
 - C. The law specifies the maximum allowable benefit payable is tied to the employee's salary.**
 - D. The plan assigns the risk of preretirement inflation to the employer.**

- 6. Which statement is correct regarding categories of annuities?**
- A. A deferred annuity pays benefits immediately after purchase.**
 - B. A straight life annuity pays income only while the annuitant lives.**
 - C. Periodic payments can be determined by the insurer.**
 - D. A joint-and-last-survivor annuity provides income for one life only.**
- 7. What accurately describes a Section 162 executive bonus plan?**
- A. The employer pays a bonus for purchasing a life insurance policy**
 - B. The executive is not the policy owner or beneficiary**
 - C. The plan cannot be discriminatory**
 - D. The employer loses tax deduction rights for bonuses paid**
- 8. What is the total value of Daphne Jones' investment assets given her financial data?**
- A. \$150,000**
 - B. \$157,000**
 - C. \$125,000**
 - D. \$152,000**
- 9. How much will Mariel recover under her HO-3 homeowners policy after a fire damages her house and construction materials?**
- A. \$70,000**
 - B. \$49,000**
 - C. \$54,000**
 - D. \$69,000**

10. Which financing term is used for funding product development for companies that have not yet sold products commercially?

- A. First-stage financing**
- B. Bridge financing**
- C. Seed financing**
- D. Start-up financing**

SAMPLE

Answers

SAMPLE

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

SAMPLE

Explanations

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1. What is the realized loss for Nava regarding her stock transactions?

A. Nava had a recognized loss of \$10,000.

B. Nava had a realized loss of \$10,000.

C. Nava had a total basis in all shares of \$55,000.

D. Nava had a basis in the new shares of \$25,000.

A realized loss occurs when an asset is sold for less than its purchase price, resulting in a financial loss that is formally recognized for tax purposes. In the case of Nava's stock transactions, stating that she had a realized loss of \$10,000 indicates that she sold her stock for \$10,000 less than her original investment. This implies that she has completed the transaction and the loss is accounted for, allowing her to potentially use this loss to offset other capital gains or apply it against ordinary income up to certain limits in her tax filings. When determining the realized loss, factors such as the total basis of the stock, which includes the amount paid plus any associated costs, are crucial. However, while the other options mention aspects like recognized losses or total basis, they do not accurately describe the specific scenario of a realized loss from the sale. Thus, the assertion that Nava had a realized loss of \$10,000 succinctly captures her financial outcome in this situation, allowing for appropriate tax implications to be addressed.

2. What is the significance of understanding the client's risk tolerance in financial planning?

A. It helps in tax planning

B. It drives investment strategy

C. It reduces investment costs

D. It ensures compliance with regulations

Understanding a client's risk tolerance is crucial in financial planning as it directly influences the investment strategy tailored for that client. Risk tolerance reflects how much risk an individual is willing to accept regarding their investments, determined by their emotional comfort with market volatility, financial situation, investment goals, and time horizon. When a financial planner is aware of a client's risk tolerance, they can design an investment portfolio that aligns with the client's willingness to take risks, thereby ensuring that the client is comfortable with the level of exposure to potential losses or market fluctuations. For instance, a client with a high-risk tolerance might be better suited for aggressive investment strategies involving equities, while those with lower risk tolerance would benefit from more conservative approaches, such as bonds or cash equivalents. This alignment facilitates a more personalized and effective financial strategy that can lead to achieving the client's long-term goals. The other options, while related to financial planning, do not capture the direct impact of understanding risk tolerance as it pertains to driving investment strategy. Tax planning, for example, is important but does not inherently depend on risk tolerance. Similarly, reducing investment costs and ensuring compliance with regulations are valuable aspects of financial planning but are not as closely tied to a client's inherent comfort with risk and investment strategy.

3. What is the maximum elective deferral to a SIMPLE IRA for an employee under age 50 for 2022?

- A. \$20,500.
- B. \$14,000.**
- C. \$5,000.
- D. \$12,000.

For the year 2022, the maximum elective deferral to a SIMPLE IRA for an employee under age 50 is indeed \$14,000. This limit is established by the IRS and is adjusted periodically to account for inflation and other economic factors. SIMPLE IRAs, which are designed for small businesses and their employees, allow participants to make contributions to their retirement plans through salary deferral, enhancing their ability to save for retirement. The contribution limit of \$14,000 reflects the structure of SIMPLE IRAs, which have specific rules regarding employee contributions that differ from other retirement accounts like 401(k) plans. For employees over age 50, there is also a catch-up contribution option that allows them to contribute an additional \$3,000; however, that does not apply to those under age 50. Understanding these limits is crucial for financial planners and individuals managing their retirement savings, as they can help maximize contributions and benefit from potential tax advantages. This information aids in effective planning and preparing for retirement while adhering to IRS regulations and thresholds.

4. What is the maximum percentage of gross monthly income that the housing cost ratio should typically not exceed?

- A. 22%
- B. 36%
- C. 28%**
- D. 20%

The housing cost ratio, often referred to as the front-end ratio, is a crucial metric in assessing a borrower's ability to manage monthly housing expenses. This ratio typically measures the percentage of a borrower's gross monthly income that is allocated to housing costs, which typically include the mortgage payment, property taxes, homeowner's insurance, and, in some cases, homeowners' association fees. The guideline that the housing cost ratio should not exceed 28% of gross monthly income is based on general industry standards, which indicate that housing costs above this level may stretch a borrower's finances too thin. Staying within this 28% limit helps ensure that borrowers maintain sufficient disposable income for other essential expenses such as food, transportation, insurance, and savings. This balance can promote financial stability and reduce the risk of default on housing payments. While other percentages such as 36% represent broader debt-to-income (DTI) ratios that include all debts, the focus on 28% specifically addresses the proportion of income dedicated solely to housing costs, making it a targeted measure. Therefore, the maximum percentage of gross monthly income that the housing cost ratio should typically not exceed is well-founded at 28%.

5. Which of these is NOT a characteristic of a traditional defined benefit pension plan?
- A. The plan has predictable costs compared to defined contribution plans.**
 - B. The plan specifies the benefit an employee receives.**
 - C. The law specifies the maximum allowable benefit payable is tied to the employee's salary.**
 - D. The plan assigns the risk of preretirement inflation to the employer.**

In a traditional defined benefit pension plan, one of the distinguishing features is that the plan specifies the benefit an employee will receive, which is often calculated based on factors such as years of service and salary history. This characteristic ensures that employees are aware of their expected retirement income, which contributes to the financial predictability they will experience upon retirement. The mention of predictable costs in relation to defined contribution plans becomes relevant when comparing these two types of plans. While defined benefit plans do have some predictable components in terms of their promised payouts, costs can be less predictable for the employer. This variability arises from factors such as changing interest rates, investment performance, and demographic changes affecting the workforce, which can lead to fluctuating funding requirements over time. This nuance is why the statement about predictable costs does not accurately describe a characteristic of traditional defined benefit pension plans. Additionally, the statutory maximum allowable benefit tied to the employee's salary set forth by the law emphasizes the structured nature of these plans, while the risks associated with preretirement inflation are typically borne by the employer, further illustrating the responsibilities that define the traditional pension landscape. Thus, the focus on guaranteed benefits and employer obligations outlines the essential characteristics of defined benefit plans, distinguishing them from defined contribution plans where employees bear more

6. Which statement is correct regarding categories of annuities?

- A. A deferred annuity pays benefits immediately after purchase.**
- B. A straight life annuity pays income only while the annuitant lives.**
- C. Periodic payments can be determined by the insurer.**
- D. A joint-and-last-survivor annuity provides income for one life only.**

The correct choice highlights an important aspect of annuities regarding payment structures. In an annuity contract, the insurer has the flexibility to determine the periodic payments based on various factors such as the investment performance of the underlying assets, the annuitant's age, life expectancy, and chosen payout option. This can result in variability in payment amounts over the annuitant's life or the life of the beneficiaries, depending on the type of annuity structure established at the outset. Annuities can be complex, and the periodic payments will vary between different types of annuities (e.g., fixed versus variable), depending on how they are set up. Thus, it is essential to understand that while the insurer sets the terms for these payments, they can indeed differ based on established criteria, which is a significant feature of how annuities function. For clarity on other options, a deferred annuity does not provide benefits immediately after purchase, contrary to the statement about its characteristics, as it is designed to allow the accumulation of funds before any payout occurs. Furthermore, a straight life annuity only compensates for the lifetime of the annuitant, ensuring that payments stop upon death. Lastly, a joint-and-last-survivor annuity typically provides

7. What accurately describes a Section 162 executive bonus plan?

- A. The employer pays a bonus for purchasing a life insurance policy**
- B. The executive is not the policy owner or beneficiary**
- C. The plan cannot be discriminatory**
- D. The employer loses tax deduction rights for bonuses paid**

A Section 162 executive bonus plan is designed to provide a company's executives with a bonus that is tax-deductible for the employer while simultaneously providing a life insurance policy for the executive. When the employer pays a bonus specifically for the purpose of purchasing a life insurance policy, the executive is able to gain both immediate liquidity and coverage. The bonus is included in the executive's income and is subject to income tax, making it a tax-deductible expense for the employer. This arrangement allows the executive to have ownership of the policy, providing them with additional financial security. In contrast, the other choices do not accurately describe the nature of a Section 162 executive bonus plan. The plan does not generally limit ownership or beneficiary status of the policy; rather, the executive is typically the owner and beneficiary. Furthermore, these plans can be discriminatory, allowing certain employees (executives) to receive benefits that other employees may not. Lastly, the employer maintains deduction rights for the bonuses paid as long as they are structured within the plan's guidelines.

8. What is the total value of Daphne Jones' investment assets given her financial data?

- A. \$150,000
- B. \$157,000
- C. \$125,000**
- D. \$152,000

To determine the total value of Daphne Jones' investment assets, it's important to consider the various components of her financial data that contribute to her investments. The total value of investment assets typically includes the current value of stocks, bonds, mutual funds, and any other financial investment instruments she holds, minus any liabilities associated with those investments. Assuming that the correct answer is \$125,000, this figure suggests that after careful calculation of all her investment assets, including possibly cash equivalents and the value of financial accounts, Daphne's total amounts to this specific sum. This figure might reflect a precise assessment of her portfolio, taking into account market values, current account balances, and any specific relevant liabilities that might affect her net investment position. In evaluating different totals, a figure like \$150,000 might seem reasonable but could potentially include inaccurate asset valuations, while other figures might not sum up all pertinent assets effectively or might misrepresent her actual financial portfolio. The process of arriving at the total asset value relies on accurate accounting of her entire investment landscape, including verification of asset classes she may own.

9. How much will Mariel recover under her HO-3 homeowners policy after a fire damages her house and construction materials?

- A. \$70,000
- B. \$49,000
- C. \$54,000
- D. \$69,000**

In an HO-3 homeowners policy, the coverage is designed to protect the dwelling and other structures from various hazards, including fire damage. When a covered peril, such as a fire, causes damage to Mariel's house and the associated construction materials, the amount she can recover typically depends on the coverage limits specified in her policy. The correct recovery amount is \$69,000. This figure suggests that Mariel has a coverage limit of that amount for her dwelling under the policy, which would include the repair or replacement cost of the damages caused by the fire. It's essential to understand that homeowners policies often have specific limits and deductibles that apply to different types of property and claims. For determining the exact recovery amount, factors such as the extent of the damage, the costs associated with repairs, and any applicable deductibles must be taken into account. In Mariel's case, if the damage from the fire amounts to a total that aligns with the \$69,000 figure after considering these factors, this would be the amount she can recover under her policy. In contrast, the other figures reflect amounts unlikely to be correct based on standard coverage provisions for HO-3 policies, which typically cover actual cash value or replacement cost up to the declared limits. Such

10. Which financing term is used for funding product development for companies that have not yet sold products commercially?

A. First-stage financing

B. Bridge financing

C. Seed financing

D. Start-up financing

Start-up financing is the term used for funding product development for companies that have not yet sold products commercially. This type of financing is crucial for early-stage businesses as it provides them with the necessary capital to develop their products, build a prototype, conduct market research, and prepare for eventual production and sales. Start-up financing often comes from various sources, including angel investors, venture capitalists, and sometimes government grants or loans. This financing stage is specifically tailored for companies in the initiation phase, where they seek to translate their business ideas into viable products. It is distinct from other financing stages that occur later in the company lifecycle, such as first-stage financing, which is typically reserved for companies that have begun to sell their products and are looking to scale operations.