

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

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	9
Explanations	11
Next Steps	17

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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. If BEC's current dividend is \$1.20 and its earnings are expected to grow at 6%, what is the intrinsic value of the stock?**
 - A. \$20.00**
 - B. \$25.44**
 - C. \$24.00**
 - D. \$10.91**

- 2. What is the primary focus of the CFP® professional's role while implementing a financial plan?**
 - A. Maximizing returns on investments**
 - B. Coordinating with legal and financial professionals**
 - C. Minimizing taxes for clients**
 - D. Encouraging aggressive savings habits**

- 3. What is incorrect about Real Estate Investment Trusts (REITs)?**
 - A. For REIT shareholders, income received is considered passive income.**
 - B. Equity REITs acquire real estate for rental to other companies.**
 - C. Hybrid REITs are a combination of equity REITs and mortgage REITs.**
 - D. Mortgage REITs finance real estate ventures through loans.**

- 4. For a qualified plan, which of the following statements is accurate?**
 - A. Both cash balance and money purchase pension plans are qualified plans.**
 - B. Top hat plans are considered qualified plans.**
 - C. Both defined benefit and profit-sharing plans are nonqualified plans.**
 - D. Only one example of a qualified plan is correct.**

- 5. When must employees be allowed to participate in a retirement plan if not excluded based on employment classification?**
- A. Immediately upon hire.**
 - B. No later than the entry date after age and service requirements.**
 - C. Within 8 months of meeting requirements.**
 - D. Only upon request by the employee.**
- 6. Which method correctly calculates the geometric mean of investment returns if the investor's return series is: 18.3%, 0.7%, -7.6%, 11.9%, and 2.5%?**
- A. 4.77%**
 - B. 8.01%**
 - C. 4.20%**
 - D. 8.20%**
- 7. Which of the following assets purchased by Baxter is amortizable for federal income tax purposes?**
- A. A small office building he will rent to others**
 - B. Several new computers for his office**
 - C. Land on which he will be building a warehouse**
 - D. Trademark and copyright**
- 8. Who among the following may make a deductible contribution to a traditional IRA for 2022?**
- A. Julie, Jerry, Buffy, and Marilyn**
 - B. Jerry and Buffy only**
 - C. Julie and Marilyn only**
 - D. Only Jerry**

9. What is the significance of investing in life insurance for an IRA?

- A. It is not recommended for an IRA owner over age 50.**
- B. It may be recommended to generate high returns but cannot represent more than 25% of the total account value.**
- C. It is not recommended because it may lead to the loss of IRA status.**
- D. It may be recommended but cannot represent more than 50% of the total account value.**

10. If someone opts for a distribution from a pension plan due to a hardship, what is the nature of the distribution typically concerning taxes?

- A. Always subject to capital gains tax.**
- B. Subject to ordinary income tax and possibly early withdrawal penalties.**
- C. Tax-free if reinvested.**
- D. No tax implications at all.**

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Answers

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

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Explanations

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1. If BEC's current dividend is \$1.20 and its earnings are expected to grow at 6%, what is the intrinsic value of the stock?
- A. \$20.00
 - B. \$25.44**
 - C. \$24.00
 - D. \$10.91

To determine the intrinsic value of BEC's stock, we can utilize the Gordon Growth Model, also known as the Dividend Discount Model for a stock with constant growth. This formula estimates the present value of an infinite series of future dividends that are expected to grow at a constant rate. The formula is expressed as follows: $P = \frac{D_0 \times (1 + g)}{r - g}$ Where: P = Intrinsic value of the stock - D_0 = Current dividend (\$1.20 in this case) - g = Growth rate of dividends (6% or 0.06) - r = Required rate of return Using the information provided: - The expected dividend for the next year (D_1) is calculated as $(D_0 \times (1 + g))$, which equals $(1.20 \times (1 + 0.06) = 1.20 \times 1.06 = 1.272)$. - The intrinsic value can now be calculated, but we still need the required rate of return (r), which is typically estimated based on market

2. What is the primary focus of the CFP® professional's role while implementing a financial plan?
- A. Maximizing returns on investments
 - B. Coordinating with legal and financial professionals**
 - C. Minimizing taxes for clients
 - D. Encouraging aggressive savings habits

The primary focus of the Certified Financial Planner (CFP®) professional's role while implementing a financial plan is to coordinate with legal and financial professionals. This collaboration is essential to ensure that all aspects of a client's financial situation are cohesive and align with their overall goals. By working with other experts—such as attorneys, accountants, and investment advisors—a CFP® can provide comprehensive and customized advice to effectively address the client's unique needs. Coordinating with professionals allows the CFP® to integrate legal considerations, tax strategies, and investment management into the financial plan, ensuring that clients receive a holistic approach. This collaboration is particularly important in complex situations involving estate planning, tax implications, or regulatory considerations related to investments, where specialized knowledge from various professionals can enhance the effectiveness of the financial plan. In contrast, focusing solely on maximizing investment returns, minimizing taxes, or encouraging aggressive savings habits does not encompass the full breadth of what a CFP® professional should aim for during implementation. These aspects are certainly components of a financial plan but do not capture the critical role of ensuring a coordinated effort among different financial disciplines.

3. What is incorrect about Real Estate Investment Trusts (REITs)?

- A. For REIT shareholders, income received is considered passive income.**
- B. Equity REITs acquire real estate for rental to other companies.**
- C. Hybrid REITs are a combination of equity REITs and mortgage REITs.**
- D. Mortgage REITs finance real estate ventures through loans.**

Real Estate Investment Trusts (REITs) are structured to give investors access to real estate investments, and understanding the nature of income derived from these investments is crucial. The statement regarding REIT shareholders receiving income classified as passive income is misleading. Though the income from REITs often appears passive, under the IRS tax rules, it is treated as ordinary income rather than passive income for tax purposes, particularly when it is generated from dividends paid out by the REIT. The other statements are accurate in their representation of REIT types. Equity REITs indeed invest in properties and generate income primarily through leasing space and collecting rents. Hybrid REITs combine the characteristics of both equity and mortgage REITs, indicating they engage in property ownership and also invest in real estate debt. Mortgage REITs focus on providing financing for income-producing real estate by originating or purchasing mortgage loans and mortgage-backed securities, earning income from the interest on these loans. Each type of REIT has distinct functions and income generation methods, but the nature of the income derived by shareholders is what makes the first statement incorrect in the context of REITs.

4. For a qualified plan, which of the following statements is accurate?

- A. Both cash balance and money purchase pension plans are qualified plans.**
- B. Top hat plans are considered qualified plans.**
- C. Both defined benefit and profit-sharing plans are nonqualified plans.**
- D. Only one example of a qualified plan is correct.**

The statement regarding qualified plans is accurate because it correctly identifies that both cash balance plans and money purchase pension plans are indeed classified as qualified plans. Qualified plans are retirement plans that meet specific IRS requirements allowing them to receive tax benefits, such as tax-deferred growth on earnings and tax deductions for employer contributions. Cash balance plans are a type of defined benefit plan where the employer credits a participant's account with a set percentage of their yearly compensation plus interest charges. Money purchase pension plans, on the other hand, require fixed contributions from the employer to an employee's retirement account. Both of these plans meet the criteria established by the IRS to be considered qualified. In contrast, top hat plans are generally exempt from many ERISA requirements and do not qualify for the same tax advantages as qualified plans, which is why they are not included under this classification. Similarly, defined benefit plans and profit-sharing plans can both qualify as qualified plans when they meet the necessary regulations. Thus, stating that both defined benefit and profit-sharing plans are nonqualified is incorrect. The mention of only one example being correct does not hold true in this context since multiple examples classify as qualified plans.

5. When must employees be allowed to participate in a retirement plan if not excluded based on employment classification?

A. Immediately upon hire.

B. No later than the entry date after age and service requirements.

C. Within 8 months of meeting requirements.

D. Only upon request by the employee.

The correct answer is that employees must be allowed to participate in a retirement plan no later than the entry date after meeting specified age and service requirements. This reflects the provisions of the Employee Retirement Income Security Act (ERISA), which sets guidelines for when employees can join retirement plans. Typically, retirement plans are required to have certain eligibility criteria defined in their plan documents. These criteria often include minimum age and service requirements that must be fulfilled before employees can enroll. Once these criteria are met, there will be a predetermined entry date, which is the point when the employees can begin participating in the retirement plan. Immediate participation upon hire may not be a requirement for all plans; some allow a deferred entry based on the outlined eligibility criteria. The option suggesting participation within 8 months of meeting requirements misinterprets the entry dates, as it is not a general standard across all plans. Lastly, allowing participation only upon request by the employee may not align with ERISA's provisions, as plans must proactively offer participation based on eligibility criteria, rather than relying on employees to ask about it.

6. Which method correctly calculates the geometric mean of investment returns if the investor's return series is: 18.3%, 0.7%, -7.6%, 11.9%, and 2.5%?

A. 4.77%

B. 8.01%

C. 4.20%

D. 8.20%

To determine the geometric mean of the investment returns, you first need to convert the percentage returns into a decimal format by adding 1 to each return and then multiplying these values together. After this multiplication, the result is then raised to the power of one divided by the number of returns, and finally, you subtract 1 and convert back to percentage form. 1. Convert the percentage returns to decimal form: $-1 + 0.183 = 1.183$ $-1 + 0.007 = 1.007$ $-1 - 0.076 = 0.924$ $-1 + 0.119 = 1.119$ $-1 + 0.025 = 1.025$ 2. Multiply these values together: $(1.183 \times 1.007 \times 0.924 \times 1.119 \times 1.025 = 1.18750816)$ 3. Calculate the geometric mean: Take the fifth root (because there are five returns) of the product: $((1.18750816)^{1/5}) \approx 1.07724894$ 4.

7. Which of the following assets purchased by Baxter is amortizable for federal income tax purposes?

- A. A small office building he will rent to others**
- B. Several new computers for his office**
- C. Land on which he will be building a warehouse**
- D. Trademark and copyright**

The correct choice pertains to intangible assets such as trademarks and copyrights, which are considered amortizable for federal income tax purposes. Amortization allows a taxpayer to deduct the cost of certain intangible assets over a specific period, reflecting the asset's useful life. In the case of trademarks and copyrights, the IRS allows for amortization over 15 years, enabling the owner to recover the asset's cost gradually rather than in a single year's expense. In contrast, the other options include types of assets that do not qualify for amortization. Real estate, such as the small office building or the land for the warehouse, is generally depreciated rather than amortized. Depreciation applies to tangible assets, whereas amortization applies specifically to intangible assets. Meanwhile, computers are tangible assets as well and would also be depreciated over their useful life, not amortized. This distinction clarifies why only trademarks and copyrights can be amortized for federal income tax purposes, making them the correct choice in this scenario.

8. Who among the following may make a deductible contribution to a traditional IRA for 2022?

- A. Julie, Jerry, Buffy, and Marilyn**
- B. Jerry and Buffy only**
- C. Julie and Marilyn only**
- D. Only Jerry**

To determine who may make a deductible contribution to a traditional IRA for 2022, it's essential to consider the eligibility rules surrounding contributions. Individuals can generally contribute to a traditional IRA regardless of income level, but whether their contributions are fully deductible can depend on several factors, including their participation in an employer-sponsored retirement plan and their income level. In this scenario, unless specific income and employment status details about Julie, Jerry, Buffy, and Marilyn are provided, one can deduce that all listed individuals—Julie, Jerry, Buffy, and Marilyn—are eligible to make deductible contributions to their traditional IRAs. This may imply that none are participants in an employer-sponsored plan, or they have income levels allowing them to fully deduct their contributions, thereby qualifying them all under the rules. Therefore, stating that all four individuals can make deductible contributions is a reasonable conclusion based on typical contribution situations where there are no limitations previously mentioned. This understanding showcases the general approach to IRA deductions, which typically favors individuals who are not involved in workplace retirement plans or who qualify based on their income levels.

9. What is the significance of investing in life insurance for an IRA?

- A. It is not recommended for an IRA owner over age 50.**
- B. It may be recommended to generate high returns but cannot represent more than 25% of the total account value.**
- C. It is not recommended because it may lead to the loss of IRA status.**
- D. It may be recommended but cannot represent more than 50% of the total account value.**

Investing in life insurance within an Individual Retirement Account (IRA) is typically viewed with caution primarily because of potential implications for the tax-advantaged status of the IRA. Life insurance is considered “non-qualified” and when an IRA owner invests in life insurance, it can jeopardize the account's status as a qualified retirement plan. If an IRA holds life insurance, it may lead to the loss of the IRA's tax benefits. Specifically, if the IRS views the life insurance policy as an inappropriate or unpermitted investment, the entire IRA could be at risk of being reclassified in a way that subjects it to taxes and penalties. This is pivotal because the fundamental purpose of an IRA is to provide tax-deferred (or tax-free in the case of Roth IRAs) growth for retirement savings. Therefore, the correct answer underscores the potential risks and regulatory issues that arise from investing in life insurance within an IRA, making it advisable to avoid such arrangements unless carefully structured to comply with IRS regulations.

10. If someone opts for a distribution from a pension plan due to a hardship, what is the nature of the distribution typically concerning taxes?

- A. Always subject to capital gains tax.**
- B. Subject to ordinary income tax and possibly early withdrawal penalties.**
- C. Tax-free if reinvested.**
- D. No tax implications at all.**

When a participant takes a distribution from a pension plan due to a hardship, the nature of the distribution is typically subjected to ordinary income tax because retirement plan distributions are generally treated as taxable income in the year they are received. This means that the amount withdrawn will be included in the participant's gross income and taxed at their applicable income tax rate. Additionally, if the participant is under the age of 59½ at the time of withdrawal, they are subject to an early withdrawal penalty, which is often an additional 10% on the amount distributed. This penalty aims to discourage premature access to retirement funds, emphasizing the importance of using the funds for retirement purposes. The other options reflect incorrect tax treatments associated with pension distributions. Capital gains tax is not applicable, as pension distributions do not involve capital gains. Tax-free distributions usually apply to types of accounts like Roth IRAs, where certain conditions must be met, but this does not apply to hardship withdrawals from a pension plan. Lastly, stating that there are no tax implications at all is misleading since any traditional pension plan distributions are subject to income tax, and potential penalties if applicable.

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://kaplancfp.examzify.com>

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

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