KAPLAN CERTIFIED FINANCIAL PLANNER (CFP) PRACTICE TEST (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. Why might business owners prefer a partnership structure over a regular (C) corporation for taxation purposes?

A. They can shelter personal capital gains in the partnership.

B. Partnerships are pass-through entities for income tax purposes.

C. Their liability for taxation is limited under a partnership.

D. They can shelter personal capital losses in the partnership.

2. What is a key disadvantage of investing in real estate?

A. Nearly all real estate values decline as inflation increases.

B. Properties are typically homogeneous, reducing the diversification benefits of investing in real estate.

C. Real estate is not easily divisible, making it difficult for investors to purchase real estate investments that match their preferred investment level.

D. Real estate returns are highly positively correlated with stock and bond returns.

3. Which life insurance settlement option pays installments while the beneficiary is alive and stops upon death?

A. Life annuity with period certain

B. Single life annuity

C. Joint and survivor annuity

D. Life annuity with cash refund

4. When did Nicole convert her traditional IRA to a Roth IRA?

A. 2018

B. 2019

C. 2020

D. 2021

5. Which action is NOT a requirement for employer contributions in a profit-sharing plan?

A. They must be made based on employee performance.

B. They must be allocated according to compensation.

C. They can be made in cash or stock.

D. They must reduce forfeitures or be reallocated.

6. Which method is not a form of the interest-adjusted method for comparing life insurance policy costs?

A. Annuity method

B. Gross payment cost index

C. Net-cost method

D. Surrender cost index

7. Which statement regarding parties in interest for qualified plans is correct?

A. Only sponsors are considered parties in interest.

B. Only investment advisers qualify as parties in interest.

C. Both employees and sponsors are included.

D. External consultants are not included as parties in interest.

8. What is required for a property insurance policy to be approved by underwriting?

A. The property must be located in a low-risk area.

B. The owner must have a financial interest in the property.

C. The property must be fully paid off.

D. Coverage must be at least 100% of the property's market value.

9. 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%

10. Given DEF Company's stock statistics, what is the probability of earning more than 15%?

A. 33%

B. 16%

C. 19%

D. 13%

Answers

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

Explanations

1. **Why might business owners prefer a partnership structure over a regular (C) corporation for taxation purposes?**

A. They can shelter personal capital gains in the partnership.

B. Partnerships are pass-through entities for income tax purposes.

C. Their liability for taxation is limited under a partnership.

D. They can shelter personal capital losses in the partnership.

Business owners often prefer a partnership structure over a regular C corporation due to the favorable tax treatment afforded by partnerships. Partnerships are classified as pass-through entities, meaning that the income generated by the partnership is not taxed at the partnership level. Instead, the income is passed through to the individual partners, who report their share on their personal tax returns. This allows for a single layer of taxation on the income, avoiding the double taxation that occurs with C corporations, where profits are taxed at the corporate level and again as dividends when distributed to shareholders. This structure can be particularly advantageous for business owners, as it typically results in lower overall tax liabilities and offers greater flexibility in the allocation of income and losses among the partners. Additionally, partners can utilize losses from the partnership to offset their other personal income, providing a tax advantage that is not available to owners of C corporations.

2. **What is a key disadvantage of investing in real estate?**

A. Nearly all real estate values decline as inflation increases.

B. Properties are typically homogeneous, reducing the diversification benefits of investing in real estate.

C. Real estate is not easily divisible, making it difficult for investors to purchase real estate investments that match their preferred investment level.

D. Real estate returns are highly positively correlated with stock and bond returns.

The key disadvantage of investing in real estate is its lack of divisibility, which makes it challenging for investors to buy real estate in amounts that correspond to their preferred investment levels. Unlike stocks or bonds, which can be purchased in fractional shares or specified dollar amounts, real estate transactions typically involve entire properties. This means that if an investor wants to allocate a certain dollar amount to real estate, they may need to invest in an entire property, which can require significantly more capital than they wish to commit. This lack of flexibility can be a barrier for smaller investors or those looking to diversify their investments more granularly. Additionally, divisibility is significant when it comes to liquidity. Real estate is not as easily sold as publicly traded equities, which can be bought and sold quickly through a brokerage. Real estate transactions can take considerable time and effort, involving various legal and financial processes that further complicate the ability to quickly adjust one's investment portfolio.

3. Which life insurance settlement option pays installments while the beneficiary is alive and stops upon death?

A. Life annuity with period certain

B. Single life annuity

C. Joint and survivor annuity

D. Life annuity with cash refund

The option that pays installments while the beneficiary is alive and stops upon death is the single life annuity. This type of annuity is specifically designed to provide income for a single individual throughout their lifetime. Payments cease once the annuitant (the individual receiving the payments) passes away, making it a suitable choice for beneficiaries looking for stable income during their lifetime without a payout continuing after their death. In contrast, the other options often incorporate different structures or guarantees that extend beyond the life of the annuitant. For instance, a life annuity with period certain would provide guaranteed payments for a specified period, regardless of whether the annuitant is alive or not, ensuring that if the annuitant dies early, payments will continue to a beneficiary for the remainder of that period. A joint and survivor annuity engages two lives and guarantees payments for as long as either of the individuals is alive, which means payments would continue after the first death. Lastly, a life annuity with cash refund includes a provision that would return any remaining balance to a beneficiary if the annuitant dies before the total amount of premiums paid has been reciprocated through payments. Understanding these nuances helps clarify that a single life annuity is the most straightforward option for payments only while

4. When did Nicole convert her traditional IRA to a Roth IRA?

A. 2018

B. 2019

C. 2020

D. 2021

The conversion of a traditional IRA to a Roth IRA generally involves a taxable event where the account owner must include the amount converted in their taxable income for the year of the conversion. The correct answer indicates that Nicole converted her traditional IRA in 2019, likely aligned with specific tax rules or financial strategies that may have been relevant during that year. Tax planning principles suggest that individuals often evaluate conversion opportunities based on their projected income levels and tax brackets. Additionally, 2019 was a year when many individuals were considering Roth conversions due to various factors, including market conditions and changes in tax laws that might have prompted a reassessment of their long-term savings strategies. In the context of retirement planning, choosing to convert to a Roth IRA can provide tax-free growth potential and tax-free withdrawals in retirement, making it an essential decision point in managing one's retirement assets. This strategic conversion could have offered Nicole enhanced tax planning flexibility, particularly if she anticipated being in a higher tax bracket in the future.

5. Which action is NOT a requirement for employer contributions in a profit-sharing plan?

A. They must be made based on employee performance.

B. They must be allocated according to compensation.

C. They can be made in cash or stock.

D. They must reduce forfeitures or be reallocated.

In a profit-sharing plan, the primary requirement for employer contributions is that they must be allocated according to the compensation of employees. This means that contributions should be tied to each employee's earnings, ensuring equitable distribution based on their pay levels. Contributions to a profit-sharing plan can also be made in the form of cash or stock, offering flexibility to the employer on how they want to fund these contributions. Additionally, plans must manage forfeitures properly, either by reducing them or reallocating them to eligible participants, ensuring that benefits are effectively utilized and not wasted. The requirement that contributions must be based on employee performance is not a stipulation within the framework of profit-sharing plans. While an employer can choose to reward high performers, it is not mandated that contributions to the plan be determined solely by individual performance metrics. Instead, it is more common within the context of such plans to base contributions on overall company profitability and employee compensation.

6. Which method is not a form of the interest-adjusted method for comparing life insurance policy costs?

A. Annuity method

B. Gross payment cost index

C. Net-cost method

D. Surrender cost index

The annuity method is focused on evaluating the costs of life insurance policies by converting the total premium payments into a series of annuity payments. This method emphasizes the amount of premium paid over time rather than adjusting for the time value of money or interest rates. Interest-adjusted methods, on the other hand, are designed to compare the cost of different life insurance policies by taking into account the time value of money. This includes methodologies like the gross payment cost index, net-cost method, and surrender cost index, which all incorporate estimations of future cash flows and the associated opportunity cost of premiums paid. These methods provide a more nuanced understanding of policy costs by adjusting for interest earned over time and enabling a comparison that reflects more accurately the financial implications of choosing one policy over another. Therefore, since the annuity method does not incorporate interest adjustments in the same way as the other options, it stands apart as not being a form of interest-adjusted method for comparing life insurance policy costs.

7. Which statement regarding parties in interest for qualified plans is correct?

A. Only sponsors are considered parties in interest.

B. Only investment advisers qualify as parties in interest.

C. Both employees and sponsors are included.

D. External consultants are not included as parties in interest.

The correct statement is that both employees and sponsors are included as parties in interest with respect to qualified plans. In the context of qualified retirement plans, the term "parties in interest" refers to individuals or entities that have a particular relationship with the plan. This significant inclusion reflects the regulatory framework established by the Employee Retirement Income Security Act (ERISA), which outlines the obligations and responsibilities of various stakeholders in a retirement plan. Employees are regarded as parties in interest because they are the participants who benefit from the plan and can have interests that are directly affected by the plan's management and provisions. Similarly, sponsors, often employers who establish and maintain the plan, have a vested interest in the plan's operation and compliance with applicable laws. This designation ensures that those who are directly impacted by the retirement plan's structure and operations are considered as key stakeholders, participating in any responsibilities or liabilities associated with the plan. The other options present incomplete or inaccurate views of who qualifies as parties in interest. As such, they fail to fully recognize the broad category of individuals and entities that must be considered in the governance and oversight of qualified plans, which include both employees and sponsors, among others.

8. What is required for a property insurance policy to be approved by underwriting?

A. The property must be located in a low-risk area.

B. The owner must have a financial interest in the property.

C. The property must be fully paid off.

D. Coverage must be at least 100% of the property's market value.

For a property insurance policy to be approved by underwriting, one key requirement is that the owner must have a financial interest in the property. This means that the policyholder must own or have a stake in the property they are insuring. Underwriters assess risks associated with insuring a property and ensuring that the policyholder has a financial interest is vital. It aligns the interests of the insured with those of the insurer; if the property were to be damaged or destroyed, the policyholder would suffer a loss and thus have an incentive to maintain and protect the property. While being located in a low-risk area and the property coverage amount relative to market value are significant factors in the underwriting process, they do not directly pertain to the basic requirement of a financial interest for policy approval. Moreover, whether the property is fully paid off is not a prerequisite for purchasing insurance, as individuals can insure properties that are still under mortgage or other forms of financing. Therefore, possessing a financial interest in the property is a fundamental aspect of getting property insurance approved.

9. 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%.

10. Given DEF Company's stock statistics, what is the probability of earning more than 15%?

A. 33%

B. 16%

C. 19%

D. 13%

To determine the probability of earning more than 15% on DEF Company's stock, one must analyze the underlying distribution of the stock's returns, which is typically represented as a part of statistical data. The probability of a specific return threshold can usually be computed from historical return data, a normal distribution, or relevant performance metrics. If the correct answer is identified as 16%, this indicates that through statistical analysis—such as using cumulative distribution functions (CDF) or calculating based on empirical data—16% represents the likelihood that the stock's performance will exceed 15%. This implies that in nearly 16% of the data or historical observations, the stock has yielded returns greater than 15%. In the context of the other available percentages, they represent different probabilities and do not align with the statistical evidence leading to the 16% probability figure. Therefore, the conclusion drawn that there is a 16% chance of earning more than 15% reflects the assessment of the company's stock returns in relation to the specified criterion. This probability provides valuable insight for investors considering whether to invest based on their target return thresholds.

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!