

Money Laundering Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of 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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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- 1. Which illegal activity is considered the largest source of funds that undergo the money laundering process?**
 - A. Financial crimes**
 - B. Embezzlement and extortion**
 - C. Drug trafficking**
 - D. Organized crime rings**
- 2. What rule applies to a transfer of \$4,000 from John's account to his brother Bill's account within the same brokerage firm?**
 - A. The transfer rule**
 - B. Neither the joint rule nor the transfer rule**
 - C. The joint rule**
 - D. Both the joint rule and the transfer rule**
- 3. Can money laundering occur in non-financial businesses?**
 - A. No, only financial institutions are at risk**
 - B. Yes, in businesses handling large amounts of cash**
 - C. Yes, but only in retail settings**
 - D. No, it is limited to government entities**
- 4. How does layering assist in conducting money laundering?**
 - A. It simplifies the tracking of legitimate funds.**
 - B. It obscures the trail of the illicit funds, making it difficult to trace the source.**
 - C. It consolidates funds into one account.**
 - D. It enhances the transparency of transactions.**
- 5. How do businesses typically report suspicious activities?**
 - A. By conducting internal audits.**
 - B. By filing a Suspicious Activity Report (SAR) with regulatory authorities.**
 - C. By increasing employee awareness programs.**
 - D. By reporting to local law enforcement directly.**

6. What is a primary force driving increased compliance efforts in money laundering?

- A. Reputational risk**
 - B. A company's good reputation improves business**
 - C. Regulatory requirements**
 - D. Money laundering activities are on the decline**
- 7. Define 'forfeiture' in relation to money laundering.**
- A. The voluntary return of assets to the owner**
 - B. The process by which banks return unauthorized transactions**
 - C. The legal process by which assets involved in criminal activity are seized by the government**
 - D. A method of auditing financial transactions for discrepancies**

8. How does layering assist in the money laundering process?

- A. It simplifies the original source of the funds**
 - B. It obscures the original source of the funds**
 - C. It verifies the legitimacy of transactions**
 - D. It directly links funds to a legal source**
- 9. What occurs during the placement stage of money laundering?**
- A. The initial introduction of illicit funds into the financial system**
 - B. The concealment of financial transactions through third parties**
 - C. The observation of financial behaviors and patterns**
 - D. The blending of legal and illegal revenue streams**

10. What is an "AML risk assessment"?

- A. A report on compliance with regulations**
- B. A systematic analysis of potential money laundering risks faced by an organization**
- C. An audit of customer transaction histories**
- D. A framework for employee training in AML practices**

Answers

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

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Explanations

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1. Which illegal activity is considered the largest source of funds that undergo the money laundering process?

- A. Financial crimes**
- B. Embezzlement and extortion**
- C. Drug trafficking**
- D. Organized crime rings**

The correct answer reflects the reality that drug trafficking is indeed one of the largest sources of funds that are laundered. This is primarily due to the vast amounts of money generated from illegal drug sales, which can range into billions of dollars annually. The cash generated is often in small denominations, making it difficult to deposit into traditional financial institutions without attracting attention. The process of money laundering is then employed to disguise the origins of this illicit cash, allowing traffickers to re-integrate the funds into the legitimate economy with less risk of detection. This can include various methods such as structuring deposits, using shell companies, or investing in legitimate businesses. While financial crimes, embezzlement, extortion, and organized crime also contribute to the money laundering landscape, they typically do not reach the same scale in terms of the volume of cash generated as a result of drug trafficking. Consequently, drug trafficking is regarded as the primary driver of the money laundering process globally.

2. What rule applies to a transfer of \$4,000 from John's account to his brother Bill's account within the same brokerage firm?

- A. The transfer rule**
- B. Neither the joint rule nor the transfer rule**
- C. The joint rule**
- D. Both the joint rule and the transfer rule**

The correct answer pertains to the joint rule, which applies in situations where funds are transferred between accounts owned by family members or affiliates within the same brokerage firm. The joint rule recognizes that such transfers, especially between siblings or close relatives, can be legitimate personal transactions, rather than transactions that could raise concerns about money laundering or other illicit activities. In this case, since the transfer is occurring between John's account and his brother Bill's account at the same brokerage firm, it is likely to be treated under the joint rule, which typically does not attract the same level of scrutiny as transfers that may have suspicious implications. This understanding is essential in compliance and regulatory frameworks, as it helps in identifying and differentiating between legitimate transactions among family members and potential money-laundering activities. Considering the nuances of fund transfers, other options do not accurately capture the regulatory perspective pertaining to personal transactions between family members within the same brokerage firm. The absence of application of the transfer rule indicates that the transaction does not raise immediate red flags, thereby affirming why the joint rule is the most applicable in this scenario.

3. Can money laundering occur in non-financial businesses?

- A. No, only financial institutions are at risk
- B. Yes, in businesses handling large amounts of cash**
- C. Yes, but only in retail settings
- D. No, it is limited to government entities

Money laundering can indeed occur in non-financial businesses, and the scenarios where it is most likely to happen often involve entities that handle large amounts of cash. This is because cash can be more difficult to trace compared to electronic transactions, allowing illicit funds to be concealed with less risk of detection. Non-financial businesses, such as restaurants, casinos, and pawn shops, typically engage in cash transactions that can provide opportunities for money laundering. For instance, a business might inflate its sales figures, providing a cover for the placement of illegally obtained money. This process allows criminals to disguise the origins of their funds and integrate them into legitimate financial systems. While financial institutions are heavily regulated and monitored for suspicious activities, non-financial businesses may not face the same level of scrutiny. Consequently, those that handle significant cash amounts present a higher risk for laundering activities since they can easily mix illicit funds with legitimate cash flow. The other choices suggest limitations on where money laundering can occur, incorrectly implying that it is confined to financial institutions or specific business types. In reality, the spectrum of businesses vulnerable to money laundering is broader, encompassing various sectors, especially those involving high volumes of cash transactions.

4. How does layering assist in conducting money laundering?

- A. It simplifies the tracking of legitimate funds.
- B. It obscures the trail of the illicit funds, making it difficult to trace the source.**
- C. It consolidates funds into one account.
- D. It enhances the transparency of transactions.

Layering is a crucial phase in the money laundering process that involves the separation of illicit funds from their original sources. The primary goal of layering is to obscure the trail of the illicit funds, which makes it exceedingly difficult for law enforcement and financial institutions to trace the source of the money. This phase employs complex and often convoluted transactions, such as transferring money through various accounts, converting it to different currencies, or using multiple financial institutions. Each of these steps adds a layer that further disguises the origins of the funds, thereby reducing the likelihood of detection. The goal is to create such a complex web of transactions that identifying or tracing the movements back to the original illegal activity becomes nearly impossible. By making the financial trail more challenging to follow, layering effectively protects the money from investigations, allowing the launderers to use it without raising suspicion. This is why it is a vital tactic in the money laundering process.

5. How do businesses typically report suspicious activities?

- A. By conducting internal audits.
- B. By filing a Suspicious Activity Report (SAR) with regulatory authorities.**
- C. By increasing employee awareness programs.
- D. By reporting to local law enforcement directly.

Businesses typically report suspicious activities by filing a Suspicious Activity Report (SAR) with regulatory authorities. This process is a critical component of anti-money laundering (AML) regulations and is required under the Bank Secrecy Act (BSA) in the United States. When a financial institution or designated non-financial business suspects that a transaction may involve funds derived from illegal activities or attempts to hide those funds, they must document their findings and submit a SAR to the appropriate regulatory body, such as the Financial Crimes Enforcement Network (FinCEN). Filing a SAR not only helps in tracking criminal activity but also aids in the enforcement of laws designed to combat money laundering and other financial crimes. It is a legal obligation and also serves to protect the reporting institution from potential liability, demonstrating that they took the necessary steps to report illicit behavior. Other options, while relevant to overall compliance and risk management, do not specifically focus on the direct reporting of suspicious activities as required by law. Internal audits help assess compliance and detect issues, awareness programs educate employees on recognizing suspicious behavior, and reporting to local law enforcement might not meet the specific legal requirements set forth for financial institutions regarding SARs.

6. What is a primary force driving increased compliance efforts in money laundering?

- A. Reputational risk
- B. A company's good reputation improves business
- C. Regulatory requirements
- D. Money laundering activities are on the decline**

The primary force driving increased compliance efforts in money laundering is closely linked to regulatory requirements. Financial institutions and businesses are under increasing scrutiny from regulatory bodies to prevent and report suspicious activity that may be related to money laundering. These regulations require organizations to implement comprehensive compliance programs, including Know Your Customer (KYC) procedures, transaction monitoring, and reporting mechanisms, to identify and mitigate the risk of money laundering activities effectively. Regulatory bodies impose significant penalties and reputational damage for non-compliance, motivating companies to enhance their compliance efforts rigorously. As the global focus on anti-money laundering has intensified, staying compliant with these evolving regulations is critical for the survival and success of financial entities. This compliance is not simply a matter of good business practice but a legal obligation that they must fulfill to operate within the financial system.

7. Define 'forfeiture' in relation to money laundering.

- A. The voluntary return of assets to the owner**
- B. The process by which banks return unauthorized transactions**
- C. The legal process by which assets involved in criminal activity are seized by the government**
- D. A method of auditing financial transactions for discrepancies**

Forfeiture, in relation to money laundering, specifically refers to the legal process by which assets that are connected to criminal activity are seized by the government. This is an important mechanism utilized to combat money laundering and other financial crimes. When assets are tied to illicit activities, such as drug trafficking, fraud, or organized crime, law enforcement has the ability to confiscate these assets to prevent them from being used further in ongoing criminal enterprises and to disrupt the financial benefits derived from such activities. This process serves not only as a deterrent to criminals but also as a way to ensure that proceeds from illegal actions do not permeate legitimate businesses and the economy. Forfeiture is a key tool for regulatory agencies and law enforcement in their efforts to maintain the integrity of financial systems and mitigate the impacts of financial crime.

8. How does layering assist in the money laundering process?

- A. It simplifies the original source of the funds**
- B. It obscures the original source of the funds**
- C. It verifies the legitimacy of transactions**
- D. It directly links funds to a legal source**

Layering is a crucial stage in the money laundering process where the focus is on obfuscating the original source of illicit funds. This step involves conducting a series of complex financial transactions designed to make tracing the origins of the money more difficult. These transactions can include transferring funds between various accounts, converting cash into different forms of currency, or utilizing shell companies. The primary goal is to separate the money from its illegal source, thereby making it challenging for law enforcement agencies to uncover where the funds originated. By obscuring the original source of the funds, layering helps perpetrators of money laundering to protect their illegal gains and integrates them into the legitimate financial system. This is vital for those involved in criminal activities, as it reduces the risk of detection and prosecution. The layering process is characterized by its complexity and obscurity, which is why it is considered an essential step in successfully laundering money.

9. What occurs during the placement stage of money laundering?

- A. The initial introduction of illicit funds into the financial system**
- B. The concealment of financial transactions through third parties**
- C. The observation of financial behaviors and patterns**
- D. The blending of legal and illegal revenue streams**

During the placement stage of money laundering, the primary focus is on the initial introduction of illicit funds into the financial system. This stage is critical because it is where the criminal attempts to distance the money from its illegal origins. By depositing or exchanging these funds through various means—such as cash deposits, purchasing assets, or using gambling—criminals aim to make the money appear legitimate. This phase is often characterized by high-risk transactions, as they involve the movement of large sums of cash or assets that may raise red flags with financial institutions. Once the illicit funds are successfully placed into the financial system, the laundering process can proceed to the subsequent stages, blending or concealing the funds further to obfuscate their true source. This initial movement is essential for the overall laundering process, as failing to successfully place the funds could jeopardize the entire operation.

10. What is an "AML risk assessment"?

- A. A report on compliance with regulations**
- B. A systematic analysis of potential money laundering risks faced by an organization**
- C. An audit of customer transaction histories**
- D. A framework for employee training in AML practices**

An AML risk assessment is a systematic analysis of the potential money laundering risks that an organization faces. This process involves identifying, evaluating, and prioritizing risks associated with various factors, such as customer types, geographic locations, products and services offered, and delivery channels used. Conducting an effective risk assessment helps organizations to tailor their anti-money laundering (AML) strategies and controls to address the specific risks they encounter. This proactive approach is essential for compliance with legal and regulatory requirements and for protecting the organization against financial crime. By understanding the risks, organizations can implement more targeted policies and procedures, ensuring they allocate resources effectively to mitigate potential money laundering activities. The other options do not encapsulate the essence of an AML risk assessment. A report on compliance with regulations focuses more on adherence than on evaluating risks. An audit of customer transaction histories is a review process, while a framework for employee training deals with educating staff rather than assessing risks. Therefore, the emphasis on systematic risk analysis in the chosen answer accurately captures the primary purpose of an AML risk assessment.

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://moneylaundering.examzify.com>

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

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