

Personal Financial Planning 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. What does "Part C" of renter's insurance usually cover?**
 - A. Property damage to others**
 - B. Bodily injury to others**
 - C. Personal property loss**
 - D. Health insurance claims**
- 2. How should a brokerage account containing stocks and mutual funds be classified on your balance sheet?**
 - A. Retirement Investment Asset**
 - B. Non-Retirement Investment Asset**
 - C. Liability Asset**
 - D. Real Estate Asset**
- 3. What is the recommended method to insure a ceramic vase valued at \$10,000?**
 - A. General homeowner's insurance.**
 - B. Purchase a "personal article floater" for \$10,000.**
 - C. Buy a standard renters insurance policy.**
 - D. Specify the vase under a generic contents policy.**
- 4. What is a good strategy for reducing overall spending without affecting lifestyle?**
 - A. Taking on more debt**
 - B. Creating a strict budget to identify unnecessary expenses**
 - C. Only spending on luxury items**
 - D. Relying on credit cards for all purchases**
- 5. Which strategy is legally suggested for married couples to reduce their federal income taxes?**
 - A. Claiming only itemized deductions**
 - B. Using the smaller of standard or itemized deduction**
 - C. Utilizing only tax credits for deductions**
 - D. Choosing the larger of the standard or itemized deduction**

6. What does the principle of "Pay Yourself First" entail?

- A. Saving or investing after paying bills**
- B. Saving or investing 5-10% of your paycheck as soon as you receive it**
- C. Only saving if you have extra funds**
- D. Investing in real estate first before savings**

7. Using Alex's rule of thumb, what is a good estimate of take-home pay for someone with a gross annual salary of \$50,000?

- A. \$25,000**
- B. \$35,000**
- C. \$37,500**
- D. \$45,000**

8. What is Rasheed's approximate borrowing capacity for a car with a monthly payment of \$600 for 4 years at 6% interest?

- A. \$15,000**
- B. \$25,548**
- C. \$30,000**
- D. \$35,000**

9. What financial behavior can result in a negative impact on your credit score?

- A. Paying all bills on time.**
- B. Maintaining a low credit utilization ratio.**
- C. Making late payments on loans.**
- D. Having a mix of credit accounts.**

10. What form of payment can you obtain from the US Post Office or convenience stores for a fee?

- A. Cashier's check**
- B. Bank transfer**
- C. Money order**
- D. Debit card**

Answers

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

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Explanations

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1. What does "Part C" of renter's insurance usually cover?

- A. Property damage to others
- B. Bodily injury to others
- C. Personal property loss**
- D. Health insurance claims

"Part C" of renter's insurance typically covers personal property loss, which includes various types of personal belongings such as furniture, clothing, electronics, and other items owned by the tenant. This part of the policy is designed to protect the insured from financial loss due to events like theft, fire, or certain types of water damage. The coverage ensures that if these personal items are damaged or stolen, the policyholder can receive compensation to replace or repair them, based on the terms outlined in their insurance policy. This understanding is crucial for tenants, as renters insurance is an important financial safeguard that helps mitigate the impact of unforeseen events that could otherwise result in significant out-of-pocket expenses for replacing personal property. Other options, while related to insurance, do not accurately represent what "Part C" of renter's insurance covers. Property damage to others and bodily injury to others pertain more to liability coverage, which is generally included in other sections of an insurance policy, while health insurance claims are outside the scope of renter's insurance altogether.

2. How should a brokerage account containing stocks and mutual funds be classified on your balance sheet?

- A. Retirement Investment Asset
- B. Non-Retirement Investment Asset**
- C. Liability Asset
- D. Real Estate Asset

A brokerage account that holds stocks and mutual funds should be classified as a Non-Retirement Investment Asset on your balance sheet. This classification is appropriate because these assets are typically intended for investment and are not specifically designated for retirement purposes, distinguishing them from assets held in retirement accounts like IRAs or 401(k)s. Non-Retirement Investment Assets are liquid assets that can be easily converted to cash, and they are part of your overall investment strategy, focusing on growth or income generated through dividends and appreciation. This classification also helps in assessing your financial position and planning for future needs, without the restrictions or penalties associated with retirement accounts. The other classifications listed, such as Retirement Investment Asset, Liability Asset, and Real Estate Asset, do not apply in this case. Retirement Investment Assets refer specifically to accounts set aside for retirement, while Liability Asset is a non-standard term, as liabilities represent debts or obligations rather than assets. Real Estate Assets would pertain to properties owned and do not include securities from a brokerage account. Thus, classifying the brokerage account as a Non-Retirement Investment Asset aligns accurately with its function and purpose.

3. What is the recommended method to insure a ceramic vase valued at \$10,000?

- A. General homeowner's insurance.
- B. Purchase a "personal article floater" for \$10,000.**
- C. Buy a standard renters insurance policy.
- D. Specify the vase under a generic contents policy.

When it comes to insuring a valuable item like a ceramic vase valued at \$10,000, purchasing a "personal article floater" is the most suitable method. This type of policy is designed specifically for high-value items and offers broader coverage than typical insurance options. It allows for the item to be insured at its full appraised value without the limitations and deductibles that often accompany standard homeowners or renters insurance policies. A personal article floater covers specific risks that may not be included in a general homeowner's insurance policy, such as accidental damage or loss while being transported. It ensures that the item is protected comprehensively, providing peace of mind for the owner. In contrast, general homeowner's insurance may cover personal property up to a certain limit, but it might not fully cover high-value items or may subject them to exclusions and limitations. Renters insurance typically also has similar limitations and may not adequately cover the specific needs of high-value items. A generic contents policy could lack the specificity needed for unique items like a high-value vase, which could leave it underinsured or at risk of inadequate coverage in case of a claim. Thus, selecting a personal article floater is the best approach to ensure that the vase is protected appropriately, capturing its full

4. What is a good strategy for reducing overall spending without affecting lifestyle?

- A. Taking on more debt
- B. Creating a strict budget to identify unnecessary expenses**
- C. Only spending on luxury items
- D. Relying on credit cards for all purchases

Creating a strict budget to identify unnecessary expenses is an effective strategy for reducing overall spending while still maintaining one's lifestyle. A budget serves as a financial plan that outlines income versus expenditures, allowing individuals to see where their money is going. By tracking spending habits, individuals can pinpoint areas where they can cut back without compromising their essential needs or quality of life, such as dining out less often or canceling unused subscriptions. In contrast, taking on more debt would likely increase financial strain rather than reduce spending. Only spending on luxury items contradicts the goal of reducing overall spending, as it could lead to higher expenditures rather than a balanced financial approach. Relying on credit cards for all purchases can also lead to increased debt and potential financial instability, as it may encourage overspending and create a reliance on borrowed money instead of managing personal finances responsibly. Thus, creating a budget is a proactive and sustainable approach to financial management.

5. Which strategy is legally suggested for married couples to reduce their federal income taxes?

- A. Claiming only itemized deductions**
- B. Using the smaller of standard or itemized deduction**
- C. Utilizing only tax credits for deductions**
- D. Choosing the larger of the standard or itemized deduction**

Choosing the larger of the standard or itemized deduction is the most effective strategy for married couples to reduce their federal income taxes. By selecting the larger amount, couples can maximize their deductions and thus lower their taxable income. This choice enables them to benefit from the available tax deductions based on their unique financial situation. Married couples have the option to either claim the standard deduction, which is a fixed dollar amount determined by the IRS, or itemize their deductions, which involves listing specific eligible expenses such as mortgage interest, medical expenses, and charitable contributions. If their itemized deductions exceed the standard deduction, using the larger amount can lead to significant tax savings. In contrast, strategies that advocate only itemizing deductions, using solely tax credits for deductions, or maintaining the smaller of the two deductions may not maximize potential tax savings based on one's specific financial context. Therefore, choosing the larger deduction is a straightforward and effective approach for minimizing tax liability.

6. What does the principle of "Pay Yourself First" entail?

- A. Saving or investing after paying bills**
- B. Saving or investing 5-10% of your paycheck as soon as you receive it**
- C. Only saving if you have extra funds**
- D. Investing in real estate first before savings**

The principle of "Pay Yourself First" entails saving or investing a portion of your income immediately upon receiving it, ideally before any other expenses are paid. This strategy emphasizes the importance of prioritizing savings and investments as a non-negotiable part of your financial plan, helping to foster a habit of saving consistently over time. Choosing to save or invest 5-10% of your paycheck right away ensures that you are creating a financial cushion or growing your investment portfolio rather than being tempted to spend that money elsewhere. By treating savings like a recurring expense, you make it part of your financial routine, which is crucial for long-term financial stability. This proactive approach to personal finance helps to build wealth more effectively than waiting until after bills are paid or only saving when there are leftover funds, which can be unpredictable. It underscores the idea that savings should be prioritized in order to reach financial goals and maintain financial health.

7. Using Alex's rule of thumb, what is a good estimate of take-home pay for someone with a gross annual salary of \$50,000?

- A. \$25,000
- B. \$35,000
- C. \$37,500**
- D. \$45,000

To arrive at a good estimate of take-home pay using Alex's rule of thumb, we typically consider that about 25% to 30% of a gross salary may be deducted for taxes and other withholdings. This means that approximately 70% to 75% of the gross salary will remain as take-home pay. In the case of a gross annual salary of \$50,000, applying a withholding percentage of around 25% leads us to calculate the take-home pay as follows: 1. Calculate the potential deductions: 25% of \$50,000 is \$12,500. 2. Subtract this amount from the gross salary to find the take-home pay: $\$50,000 - \$12,500 = \$37,500$. This calculation indicates that an estimated take-home pay of \$37,500 aligns with the commonly used rule of thumb, making it a reasonable expectation based on general financial principles. This value reflects the standard deductions that might be experienced by someone earning that gross income, making it the most appropriate choice among the provided options.

8. What is Rasheed's approximate borrowing capacity for a car with a monthly payment of \$600 for 4 years at 6% interest?

- A. \$15,000
- B. \$25,548**
- C. \$30,000
- D. \$35,000

To determine Rasheed's approximate borrowing capacity for a car based on a monthly payment of \$600 for 4 years at a 6% interest rate, we can use the formula for the present value of an annuity. The formula used to calculate the present value (PV) of an annuity is:
$$PV = P \times \frac{1 - (1 + r)^{-n}}{r}$$
 Where: - P is the monthly payment (\$600 in this case), - r is the monthly interest rate (annual rate divided by 12 months), - n is the total number of payments (number of years multiplied by 12). First, we need to convert the annual interest rate of 6% into a monthly rate. This is done by taking 6% and dividing it by 12, giving us a monthly interest rate of 0.5%, or 0.005 in decimal form. Next, we find the total number of payments. Since Rasheed intends to finance the car for 4 years, we calculate this as: $n = 4 \times 12 = 48$ payments

9. What financial behavior can result in a negative impact on your credit score?

- A. Paying all bills on time.**
- B. Maintaining a low credit utilization ratio.**
- C. Making late payments on loans.**
- D. Having a mix of credit accounts.**

Making late payments on loans can significantly adversely affect your credit score. Timely payment history is one of the most critical factors that credit scoring models consider, often accounting for about 35% of the score. When payments are late, it indicates to creditors that there may be issues with managing finances, which can lower the perceived creditworthiness of an individual. Late payments not only reduce the credit score immediately upon reporting but can also stay on the credit report for up to seven years, continually influencing future credit opportunities and interest rates. In contrast, paying all bills on time and maintaining a low credit utilization ratio contribute positively to a credit score. Similarly, having a mix of credit accounts can demonstrate responsible credit use, further enhancing the score. These behaviors all reinforce good financial management, whereas late payments clearly signal a risk to lenders.

10. What form of payment can you obtain from the US Post Office or convenience stores for a fee?

- A. Cashier's check**
- B. Bank transfer**
- C. Money order**
- D. Debit card**

The correct answer is money order. Money orders are prepaid financial instruments that can be purchased at various locations, including the US Post Office and many convenience stores. They serve as a secure method for sending money, especially for individuals who may not have a bank account or prefer not to use checks or electronic transfers. The ability to obtain money orders from these locations makes them accessible to a broad audience, often for a nominal fee. Money orders guarantee that the funds are available because the purchaser pays for them upfront, making them a preferred choice for transactions that require secure payments, such as paying bills or sending money to someone else. Other forms of payment, such as cashier's checks, are typically issued by banks and require a bank account, which limits their accessibility compared to money orders. Bank transfers usually necessitate both parties to have bank accounts and are conducted through electronic means. Debit cards, while also a common payment method, are linked to bank accounts and are not issued by the postal service or convenience stores like money orders are. This distinction highlights why money orders are the correct choice in this context.

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://personalfinplanning.examzify.com>

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

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