General Principles Quiz - Lesson 1 Exam Questions

Question 1
Which of the following is an example of quantitative data?

A. The client would like to retire by age 60.
B. The client would like to provide a fully paid education program for his/her child.
C. The client will gift $15,000 to a parent each year.
D. The client has a low risk tolerance.

Question 2
What types of specific information should be gathered in the planning process in regards to the client's life insurance contracts?

I. Retirement account values
II. Property insured
III. Premium and dividend options
IV. Policy loans
V. Ownership

A. All of the above
B. II, III, IV, V
C. III, IV, V
D. III, IV
E. I, II, III

Question 3
Which of the following is a client weakness?

A. Having no guardianship provisions for minor children
B. Having no debt
C. Having a standard of living within budget
D. Saving for retirement at age 55

Question 4
Dr. Walters, age 64, wants to retire next year. He has asked you do a retirement projection. He is asking for an impossible retirement income payout based on all his usable assets. In order to meet his projections, you will have to use very high return assumptions. What should you do?

A. Do nothing
B. Run the projections using only your normal return assumptions
C. Run the projections using both your normal return assumptions and necessary assumptions to meet his required retirement income payout
D. Refer him to your worst enemy in town
Question 5
Which of the following is not an example of qualitative data?

A. Client’s priorities
B. Client’s personal and financial goals
C. Client's desired retirement date
D. Fair market value (FMV) of the client's assets

Question 6
Completing the data survey on the client's family members (family tree) allows the financial planner to determine which of the following?

I. The potential life expectancy of the client
II. The insurability of the client
III. The special needs of the client's family members
IV. The net worth of the client

A. I, II, III
B. I, II
C. I, II, IV
D. II, III
E. III, IV

Question 7
Learning about a client's health should help the financial planner determine which of the following?

I. Retirement needs
II. Life insurance needs
III. Disability needs
IV. Estate tax consequence

A. All of the above
B. I, II
C. II, III
D. III, IV

Question 8
In the gathering-client-data step of financial planning process, there are two types of data. Which of the following is an example of qualitative data?

A. Client's date of birth
B. Amounts invested in stocks and bonds
C. Client would like to retire by age 65
D. Names of financial advisors
E. Copy of ILIT
General Principles Quiz - Lesson 1 Answer Key

Question 1:  C
The other answers are qualitative data.

Question 2:  C
"Retirement account value" and "property insured" don't apply to life insurance contracts. One might argue that the cash value of life insurance could be used as a retirement resource. If the client has inadequate retirement savings, the planner might consider the cash value as a source. However, I, III, IV, and V is not a choice. Therefore, Answer C is the best answer.

Question 3:  A
Lack of guardianship for minor children is always a major weakness.

Question 4:  C
Remember this is a financial planning test. Answer C is being a financial planner. NOTE: Decline him as a client could be an answer on the exam, but even then you should consider Answer C to be the best answer. Welcome to the test. Answer D is Zahn(delete) humor.

Question 5:  D
Since a client's desired retirement date is subjective, the selection of the appropriate time horizon is considered qualitative. Answer D is clearly quantitative.

Question 6:  A
The data survey (family tree) includes information such as date of birth and health. The net worth would be quantitative data obtained from the client's financial statement.

Question 7:  A
Health affects retirement, life insurance, and disability needs. The client's life expectancy would impact the estate tax consequences.

Question 8:  C
The ability of the financial advisor might be considered qualitative but when you can retire is a quality of life Issue.
General Principles Quiz - Lesson 2 Exam Questions

Question 1
During the first meeting with a client, the financial planner and client need to mutually define the scope of the engagement before any financial planning services are rendered. Which of the following should be defined?

I. The financial planner’s compensation arrangements
II. The responsibilities of the client
III. The duration of the engagement
IV. The services to be provided
V. Information which would limit the scope of the engagement

A. All of the above
B. I, III, IV, V
C. I, II, V
D. I, IV, V

Question 2
When can a CFP® certificant reveal confidential information?

I. To comply with legal process
II. In connection with a civil dispute between a CFP® designee and a client
III. To defend the CFP® designee against charges of wrongdoing
IV. Even if it causes irreparable harm to the client
V. With the client's consent

A. All of the above
B. I, II, V
C. I, III, V
D. I, V

Question 3
The Standards of Professional Conduct clarifies that the Code of Ethics and Professional Responsibility applies to which of the following?

A. All CFP® Board certificants
B. Financial Planners
C. Candidates who are registered with the CFP Board
D. Individuals who have been certified in the past and retain the right to reinstate their CFP certification without passing the current CFP Board Certification Examination
Question 4
Which of the following is a true statement?

A. The Principle of Objectivity states that the interests of the CFP® designee and the client are of equal importance.
B. A CFP® certificant may not provide references consisting of current or former clients since this would violate the rule of confidentiality.
C. There is no requirement to disclose conflicts of interest that develop after the professional relationship is under way.
D. Compensation disclosure to ongoing clients must be furnished biannually.

Question 5
Which of the following is/are true about CFP Board Code of Ethics, Part I?

I. It covers the seven principles.
II. It covers the rules.
III. It covers general statements and professional goals.
IV. It applies to specific activities performed by CFP Board designees.

A. I, II
B. I, III
C. I, IV
D. III
E. IV

Question 6
During the analyzing and evaluating step of financial planning, which of the following would likely occur?

I. Development of a statement of financial condition
II. Identification of strengths and weaknesses
III. Identification of goals and objectives
IV. Identification of recommendations on investments

A. I, II
B. I, II, IV
C. II, III
Question 7
Toby Adams CFP® is meeting with a new client. He wants to establish and define the relationship. What are his obligations to the client?

I. To disclose his exact commissions on the potential sale of life insurance
II. To define the time frame for the engagement
III. To give the client a brochure about the firm
IV. To explain the client’s responsibilities

A. All of the above
B. I, II, IV
C. II, III
D. II, IV
E. III, IV

Question 8
Conflicts of Interest are disclosed under which principle and rule?

I. Objectivity
II. Fairness
III. Professionalism
IV. 2.2
V. 6.1

A. I, IV
B. I, V
C. II, IV
D. II, V
E. III, V

Question 9
Under the CFP Board’s Financial Planning Practice Standards, which of the following actions must take place prior to providing any personal financial planning services?

I. The CFP® certificant shall obtain sufficient and relevant quantitative Information and documents applicable to the scope of the engagement and the services being provided.
II. A client's personal and financial goals, needs, and priorities relevant to the scope of the engagement and the services to be provided shall be mutually defined by the financial planning practitioner and the client.
III. An engagement letter covering the services to be provided must be signed by both the financial planning practitioner and the client.
IV. The scope of the engagement shall be mutually defined by the financial planning practitioner and the client.

A. I, II, III
B. II, IV
C. I, III, JV
D. I, II, IV
Question 10
Roughly a dozen times a year, Bruce Leonard, a CFP® certificant, encounters clients having serious cash flow and net worth deficits. He generally recommends they consider bankruptcy. Typically, the clients ask Bruce for a referral to a bankruptcy attorney. Bruce generally refers such clients to Mark Mason Esq. Bruce has no formal arrangement with Mr. Mason, but Mr. Mason pays Bruce $150 in cash for every referral who becomes a bankruptcy client. Which of the following statements best reflects the ethical aspect of this situation?

A. Acceptance of any referral fees clearly violates the Principle of Fairness found in the Code of Ethics and Professional Responsibility.
B. Acceptance of any referral fees does not violate the Principle of Fairness found in the Code of Ethics and Professional Responsibility if the nature and source of the referral fee is disclosed in writing to each client referred.
C. Referral fees to attorneys do not violate the Principle of Fairness found in the Code of Ethics and Professional Responsibility because they do not involve product commissions with potential to compromise the Principle of Objectivity.
D. Bruce has no obligation to research Mr. Mason's competence providing Mr. Mason holds a valid legal license.

Question 11
Practice standard 400-2 refers to which of the Following?

A. Objectivity
B. Competence
C. Analysis and evaluation of the client's financial status
D. Development of the recommendations
General Principles Quiz - Lesson 2 Answer Key

Question 1: A
The duration (or time) and the scope can be limited.

Question 2: A
Irreparable harm - your client is getting a divorce. You are asked in court about your knowledge of his or her assets. You have to answer.

Question 3: A
Compliance requires CFP Board certificants to comply with the code.

Question 4: B
As written, this is a true statement. If we added to the question that a client gives permission to use their name as a reference, then one may use them as a reference. Conflicts of interest always need to be disclosed.

Question 5: B
Part I covers the seven principles. Part II covers the rules. Answer IV applies to the rules, not the principles.

Question 6: A
Answer III is wrong. Identifying goals is part of the data gathering step. Answer IV is wrong. Making recommendations on investments is part of the developing and presenting planning recommendations step. It comes before implementation.

Question 7: D
Toby must discuss how he will be compensated, but he does not need to disclose the *exact* commissions he could receive from the sale of life insurance products. A brochure is not required.

Question 8: C
Conflicts of interest are spelled out in Fairness and Rule 2.2. Very Picky.

Question 9: D
An engagement letter, while advisable and recommended, is not required.

Question 10: B
The code does not prohibit a planner from accepting referral fees; however, the source and nature, but not the amount of such fees, must be disclosed. The code does not distinguish whether the planner's side compensation represents commissions or referral fees. The Principle of Diligence requires the planner to research the competence of other professionals to which the planner refers clients. Mr. Mason could be an estate planning attorney and know very little about bankruptcy law.

Question 11: D
Practice standards refer to steps in the personal financial planning process. Analysis and evaluation is Practice Standards 300. Practice Standard 400-2 is Development of Financial Planning Recommendations.
General Principles Quiz - Lesson 3 Exam Questions

Question 1
A prospective client calls and tells you a mutual fund that she is considering purchasing will pay a huge capital gain in a few weeks. What questions should you as a financial planner ask this client at this point?

I. What is the client's date of birth?
II. What are her investment objectives?
III. What other investments does she have?
IV. Will she take the capital gains in cash or reinvest?
V. What is the client's investment experience to date?

A. I and II
B. II and III
C. IV
D. All of the above

Question 2
Which of the following are inflows for the cash flow statement?

I. Savings
II. Insurance premiums
III. Inheritance received
IV. Trust income received
V. Alimony received

A. All of the above
B. I, II, IV
C. II, IV, V
D. III, IV, V
E. None of the above

Question 3
At what value are assets shown on the statement of financial position?

A. Market value
B. Replacement value
C. Current fair market value
D. Market value less any encumbrances
E. Appraised value
Question 4
Which of the following are **not** cash/cash equivalents?

I. Mutual Funds  
II. Money market accounts  
III. Cash under mattress  
IV. CDs with long maturity remaining  
V. Publicly traded stock  

A. I, II, IV  
B. I, IV, V  
C. II, III  
D. III, IV, V  
E. IV, V

Question 5
Tom is debt-free. He used $4,000 from his money market account to contribute to a Roth IRA. From his cash flow, he invested $25,000 in a new mutual fund during the year. In addition, due to good investment choices, his existing investments plus his home grew in value by $100,000. What was his change in net worth for the year?

A. $29,000  
B. $100,000  
C. $121,000  
D. $125,000  
E. $129,000

Question 6
Todd Jones asks for your help to prepare his cash flow statement. He tells you that his salary before taxes is $250,000 and that he has no mortgage on his home. Which of the following statements is true about Todd's cash flow statement?

A. The taxes on his salary are an expense.  
B. The value of the home is an income source since there is no mortgage.  
C. The value of the home is an asset.  
D. The taxes on his salary are a liability.

Question 7
Mr. and Mrs. Young want to set up a 3-month emergency fund ($15,000). Both of them work, but due to mortgage interest and property taxes, their marginal income tax bracket is only 15%. What kind of account should they set up for the emergency fund?

A. High-yield bond fund  
B. Aggressive growth fund  
C. Government money market fund  
D. Tax-free money market  
E. T-bills
Question 8
In designing a business budget for a couple that is self-employed, which of the following items would be included as inflows?

I. Self-employment taxes
II. Keogh contributions
III. Notes payable
IV. Fees for services rendered
V. Checking account interest

A. I, II, IV, V
B. II, III, IV
C. III, IV
D. IV, V
E. I, V

Question 9
A client provides a current personal balance sheet to the financial planner during the initial data-gathering meeting. This financial statement will enable the financial planner to gain an understanding of all except which of the following?

A. Diversification of the client's assets
B. Amount of the client's net cash flow
C. Client's liquidity position
D. Client's use of debt

Question 10
What is the independent rule of thumb for PITI?

A. 20% of net income
B. 28% of net income
C. 28% of gross income
D. 36% of gross income
General Principles Lesson 3 Answer Key

**Question 1:**  D
All the questions are important. However, the only possible answer is "all of the above." The age of the client could be important. The client could be a child. The account is an UTMA. The parent is the custodian.

**Question 2:**  D
Savings and insurance premiums are not inflows.

**Question 3:**  C
Fair market value

**Question 4:**  B
The mutual fund and the stock fluctuate in value. The long-term CDs entail a penalty if they are converted into cash.

**Question 5:**  D
The Roth investment ($4,000) was offset by a decrease in this money market, resulting in no change to net worth. If the Roth had been funded from cash flow, net worth would have increased. Mutual fund ($25,000) plus investment growth ($100,000) equals $125,000.

**Question 6:**  A
Answers B and C regarding his home have nothing to do with the cash flow statement.

**Question 7:**  C
Answers A and B are too risky to be used as an emergency fund. The government money market account provides a better equivalent yield than a tax-free because of their low marginal income tax bracket. Government market fund is significantly simpler than T-bills which are large denominations and can have maturities of up to 12 months.

**Question 8:**  D
Answers I, II, and III are outflows.

**Question 9:**  B
The question is asking about the balance sheet.

**Question 10:**  C
See details of PITI within Lesson 3 materials
General Principles Quiz - Lesson 4 Exam Questions

Question 1
Torn purchases a CD for $50,000. He expects it to increase in value at 7.5% compounded annually for the next five years. How much will the CD be worth at the end of the fifth year?

A. $34,827.93
B. $70,127.59
C. $71,781.47
D. $72,113.90

Question 2
Tim expects to receive $100,000 from a trust fund in 5 years. What is the current value of this fund if it is compounding at 7% annually?

A. $71,068.13
B. $71,298.62
C. $100,000.00
D. $140,255.17

Question 3
Mac expects to receive $100,000 in 10 years. What is the current value of this money if it compounds monthly at 12%?

A. $30,299.48
B. $31,863.08
C. $32,197.32
D. $310,584.82

Question 4
Jane purchased 1,000 shares of a mutual fund for $10 per share 5 years ago. Today, she sold the fund for $20 per share. What was her average annual compound rate of return?

A. Error 5
B. 2.97%
C. 13.89%
D. 14.87%
E. 15.26%

Question 5
Louise wants to purchase a home in 5 years. She anticipates making a 20% down payment on a $150,000 home. How much should Louise invest at the end of each year if she expects a return of 9% per year on the investment?

A. $2,720.70
B. $4,598.87
C. $5,012.77
D. $22,994.37
**Question 6**  
Billie receives an inheritance of $100,000. She wants to withdraw equal periodic payments at the beginning of each month for the next 5 years. Billie expects to earn 9% compounded monthly on the $100,000. What amount will Billie receive each month?  

A. $1,965.54  
B. $2,060.38  
C. $2,075.84  
D. $2,142.43

**Question 7**  
If John has already invested $100,000 and wants to accumulate $200,000 more in 10 years, what amount is the annual investment he must make by the end of each year to accomplish his goal? Assume both the initial investment and new investment will earn 8%.  

A. $5,375.83  
B. $5,805.90  
C. $12,077.08  
D. $13,805.90

**Question 8**  
Meg and John bought an older home ($40,000) that was in need of improvements. Immediately after moving in, they spent $5,000.  
- End of year one, spent $1,000 (lawn)  
- End of year three, spent $3,000 (gutters)  
- End of year five, spent $1,500 (windows)  
If they sold it at the end of year five for $100,000, what is the IRR?  

A. 9.56%  
B. 11.28%  
C. 15.55%  
D. 21.09%

**Question 9**  
Tony purchased a mountain cabin 5 years ago for $40,000. Subsequent transactions were the following.  
- End of year one, (new roof): $3,000  
- End of year two, (new well): $5,000  
- End of year three, (new fireplace): $10,000  
- End of year four, (new windows): $8,000  
- End of year five, (sold property): $85,000  
What is the IRR?  

A. 6.64%  
B. 9.19%  
C. 14.49%  
D. 16.2%
Question 10
Helen participates in a retirement plan with the following characteristics:
- Her current balance: $28,000
- Yearly contribution paid by her employer: $7,500
- Annual Return: 9%

How long will it take for her to accumulate $300,000 in the plan?

A. 14 years (12C) / 13.62 years (10B / 17BII+)
B. 15 years (12C) / 14.35 years (10B / 17BII+)
C. 17 years (12C) / 16.8 years (10B / 17BII+)
D. 18 years (12C) / 17.7 years (10B / 17BII+)

Question 11
What is the future value of $100,000 at 7% for 10 years?

A. $50,834
B. $100,000
C. $176,431
D. $196,715
General Principles Quiz - Lesson 4 Answer Key

Question 1: C

HP10BII / 17BII 12C
1 gold P/YR $50,000
$50,000 ± PV CHS PV
7.5 I/YR 7.5 i
5N 5 n
FV = $71,781.47 FV = $71,781.47

Question 2: B

10BII / 12C / 17BII+
(Enter 1 gold P/YR for 10BII / 17BII+)
$100,000 FV
7 i
5 n
PV = $71,298.62

The calculator will actually show a negative number; PV is negative.

Question 3: A

10BII / 17BII+ 12C
12 $100,000 FV
gold 1* i
P/YR 120* n
$100,000 FV
12 I/YR
10 gold xP/YR

PV = $30,299.48 PV = $30,299.48
*[12% ÷ 12 months = 1 i, 12 months x 10 years = 120n, or shortcut 10 blue n = 120n]

Question 4: D

10BII / 17BII 12C
1 gold P/YR $10,000 CHS PV
$10,000 ± PV $20,000 FV
$20,000 FV 5 n
5 N
I/YR = 14.87% I = 14.87
Question 5: C
End mode 10BII / 12C / 17BII+
$30,000 FV, 5 n, 9 I, PMT = $5,012.77

Question 6: B
Start in Begin mode
10BII / 17BII 12C
12 gold P/YR $100,000 CHS PY
$100,000 ± PV .75* i
9 I/YR 60* n
5
gold
x P/YR
PMT = $2,060.38 PMT = $2,060.38
* [9% ± 12 months = .75 i/12 months x 5 years = 60n, or 9 blue i = .75 i, 5 blue n = 60 n]
NOTE: Answer C is using end mode.

Question 7: B
End mode
10BII / 17BII+ 12C
1 gold P/YR $100,000 CHS PY
$100,000 ± PV $300,000 FY
$300,000 FY 10 n
10 N 8 I
8 I/YR
PMT = $5,805.90 PMT = $5,805.90

Question 8: C
10BII
$45,000 ± CFj $45,000 CHS g CFo
$1,000 ± CFj $1,000 CHS g CFj
$0 CFj $0 g CFj
$3,000 ± CFj $3,000 g CHS CFj
$0 CFj $0 g CFj
$98,500 CFj gold IRR/YR $98,500 g CFj
12C f IRR
17BII
CFLO clear data
#T? off
off Flow 0 = $45,000 ± Input
$1,000 ± Input
$0 Input
$3,000 ± Input
$0 Input
$98,500 Input
Exit
calculate
IRR
Question 9: A

10BII
$40,000 ± CFj
$3,000 ± CFj
$5,000 ± CFj
$10,000 ± CFj
$8,000 ± CFj
$85,000 ± CFj

12C
$40,000 CHS g CFo
$3,000 CHS g CFj
$5,000 CHS g CFj
$10,000 CHS g CFj
$8,000 CHS g CFj
$85,000 g CFj

17BII
CFLO
clear data
yes #T? off
#T? off Flow 0 = $40,000 ± Input

$3,000 ± Input
$5,000 ± Input
$10,000 ± Input
$8,000 ± Input
$85,000 Input
Exit, Calculate
IRR

gold IRR/YR

Question 10: B

Start in End mode

10B
$28,000 +/- PV
$7,500 +/- PMT
9l
300,000 FV = N
15 years (12C)

12C
$28,000 CHS PV
$7,500 CHS PMT
9i
$300,000 FV = n
14.35 (10BII/17BII)

Retirement plan contributions are made at year end. Please review page 4-4 for begin/end usage. She does not contribute. This is not a 401(k).

Question 11: D

10B
$100,000 +/- PV
7 i/Y
10 n

12C
$100,000 CHS PV
7 i
10 N

Solve for FV
Solve for FV
General Principles Quiz - Lesson 5 Exam Questions

Question 1
Which of the following investment products is federally insured?

A. Bonds  
B. Variable annuities  
C. Time deposits  
D. Treasury bills

Question 2
Which of the following investments is insured?

A. Securities held at a brokerage company  
B. Treasury bonds  
C. Mutual funds  
D. Annuities

Question 3
Which of the following statements concerning federal law is correct?

A. The Securities Act of 1933 provides for protections from misrepresentation, deceit, and other fraud in the sale of existing securities.  
B. The Securities Investor Protection Act of 1970 is designed to protect individual investors from losses as a result of poor investment choices.  
C. The Investment Company Act of 1940 authorized the SEC to regulate mutual funds.  
D. The Investment Company Act of 1940 requires that persons or firms advising others about securities investments must register with the Securities and Exchange Commission.

Question 4
What regulates brokerage companies?

A. SEC  
B. FINRA  
C. NYSE  
D. Securities Act of 1934
Question 5
Mrs. Smith has the following assets at one FDIC-insured bank.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Ownership</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various Certificates of Deposit</td>
<td>Mrs. Smith</td>
<td>$200,000</td>
</tr>
<tr>
<td>Money Market Deposit Account</td>
<td>Mrs. Smith</td>
<td>$150,000</td>
</tr>
<tr>
<td>IRA Rollover</td>
<td>Mrs. Smith</td>
<td>$200,000</td>
</tr>
<tr>
<td>Passbook Savings</td>
<td>Joint with son</td>
<td>$100,000</td>
</tr>
<tr>
<td>Checking Account</td>
<td>Joint with daughter</td>
<td>$100,000</td>
</tr>
<tr>
<td>Savings Account</td>
<td>Joint with husband</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

How much is currently insured by the FDIC?

A. $700,000  
B. $750,000  
C. $800,000  
D. $850,000  
E. $900,000
General Principles Quiz - Lesson 5 Answer Key

Question 1: C
A time deposit means a CD (federally insured) by FDIC. Bonds may be insured, but the question would have to say so. Variable annuities may provide some guaranteed rate of return and have some state guarantees. Treasury bills are guaranteed by the federal government.

Question 2: A
Picky. The SIPC insures investors against losses arising from the failure of the brokerage firm.

Question 3: C
Answer D is wrong. The Investment Advisors Act of 1940 covers registration of persons or firms advising others, not The Investment Company Act of 1940.

Question 4: B
The SEC regulates brokerage companies through the FINRA.

Question 5: C
She is insured for $250,000 for the CD and money market and $200,000 for the IRA. The joint accounts are handled as follows.

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Mrs. Smith</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint with son</td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Joint with daughter</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Joint with husband</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>$250,000 single + $200,000 IRA +</td>
<td>$175,000 JT + $175,000 JT</td>
<td></td>
</tr>
</tbody>
</table>

The JT account for Mrs. Smith is under the $250,000 maximum.
General Principles Quiz - Lesson 6 Exam Questions

Question 1
Jill wants to fund her daughter’s college needs. She needs $40,000 available ($10,000 per year) at age 18. Her daughter is age 2. She feels that she can make an 8% after-tax return and that inflation will be 3% over the pre-college years. How much does Jill need to deposit today to meet her goal?

A. $10,385 +/- $1
B. $11,675 +/- $1
C. $16,665 +/- $1
D. $18,735 +/- $1

Question 2
Tom and Jennifer are struggling but would like to make monthly deposits to fund their new baby's college education. They realize college costs will increase with inflation, but they want to start with a small amount of savings to fund $100,000 at age 18. They plan to invest $200 at the end of each month. What rate of annual return do they need to achieve?

A. 6.92%
B. 6.97%
C. 7.84%
D. 8.37%

Question 3
During the educational funding period (pre-college), which of the following techniques will work for a middle-class family ($60,000 MAGI) for their son?

A. An UTMA funded with EE education bonds
B. A parent loan to undergraduate student (PLUS)
C. Yearly gifts by a grandparent to a 529 plan and yearly contributions to a Coverdell ESA by the parents
D. A Pell Grant

Question 4
During the college years, which of the following techniques will work for families ($180,000 MAGI) to pay the tuition for the 1st year of college?

A. A 529 withdrawal to pay tuition and a Lifetime Learning credit using the tuition payment
B. Coverdell ESA withdrawal to pay tuition and an American Opportunity Credit using the tuition payment
C. A Pell Grant and a 529 withdrawal to pay tuition
D. A PLUS and a Coverdell ESA withdrawal to pay tuition
Question 5
QTPs differ from UTMA accounts in all ways except which of the following:

A. A gift to a QTP is considered a gift of a future interest; a gift to a UTMA is considered a gift of a present interest.
B. The owner of a QTP retains the right to determine how and when to use the money in the account; the custodian of a UTMA loses control when the student reaches the age of majority.
C. The owner of a QTP can change the beneficiary; the custodian of a UTMA cannot change the beneficiary.
D. QTPs grow tax‐deferred, and distributions are tax‐free if used for qualified educational expenses; UTMA growth and Income distributions can be subject to both regular tax and kiddie tax.

Question 6
Parents ($160,000 MAGI filing jointly) with one child in the first year of college should choose which of the following credits if he/she pays tuition of $10,000 in the current year?

A. A Coverdell ESA of $2,000
B. An American Opportunity Credit of $2,500
C. A Lifetime Learning Credit of $2,000
D. An UTMA gift of $10,000

Question 7
Which of the following is true about Coverdell ESAs?

A. Multiple $2,000 contributions can be made on behalf of one beneficiary per year by multiple individuals (not both parents).
B. Expenses such as tuition can qualify even when they are for graduate school (to age 30).
C. Contributions to the ESA are tax‐deductible.
D. All earnings must be paid out at age 18.
E. Contributions may only be made by a parent.

Question 8
Mr. and Mrs. Tice want to fund for their daughter’s education. Their daughter is in the 1st grade and will need a computer with software in 2 years. How should they fund the computer and other elementary education expenses if they are in a 24% marginal income tax bracket (under $180,000 MAGI)?

A. Save from cash flow
B. Set up a Coverdell ESA only
C. Set up a UTMA account
D. Invest in a 529 plan or Coverdell ESA
**Question 9**
Sally, age 8, has an UTMA account funded by her grandfather (12% tax bracket). Her account generated $2,600 of interest and dividends. Her father is the custodian. His income tax bracket is 24%. What is the amount of tax due on Sally's account?

A. $40  
B. $150  
C. $206  
D. $306  
E. $624

**Question 10**
John and Helen want to fund a college education for their son, William, age 2. William will attend 4 years of college starting at age 18. They feel that the cost of college will be $12,500/yr in today's dollars. They feel that they can achieve an 8% after-tax yield on their Investments and that inflation will be 5% over the next 20 years. Which of the following is true?

A. The lump sum needed to fund the education is $30,555 +/- 5.  
B. The lump sum needed to fund the education is $29,706 +/- 5.  
C. The lump sum needed to fund the education is $31,857 +/- 5.
General Principles Quiz – Lesson 6 Answer Key

**Question 1:** B

\[
\begin{align*}
\text{FV} & = 40,000 \\
\text{n} & = 16 \\
i & = 8 \\
\text{PV} & = \frac{40,000}{(1 + \frac{8}{12})^{16}} = 11,675.82
\end{align*}
\]

The question does not say $40,000 in today's dollars, just $40,000.

**Question 2:** D

End mode, Keystrokes below

\[
\begin{align*}
\text{Annual interest} & = \frac{0.6974}{12} \\
& = 8.37\% \\
& = 8.37\% \\
\text{10B} & = 12 \text{ P/YR} \\
\text{12C} & = 100,000 \text{ FV} \\
\text{200 CHS PMT} & = 216 \text{ n*} \\
\text{18, gold P/YR} \\
\text{I} & = 8.37\% \\
\text{18 years x 12} & = 18 \times 12
\end{align*}
\]
Question 3:  
Answer A is wrong because EE education bonds cannot be owned by a UTMA. It is tax-deferred but not qualified. The child owns the UTMA, not an adult over age 24. PLUS and Pell Grants are available during the college years. The question is asking about the pre-college years.

Question 4:  
A 529 or a Coverdell ESA withdrawal cannot be used to pay the tuition and then to take a credit for the tuition paid (Answers A and B). A Pell Grant is needs-based. This is a wealthy family. In answer B, the American Opportunity Credit is phased out.

Question 5:  
Answers B, C, and D are correct; they spell out the differences. A QTP is a gift of a present interest even though the owner retains control. This is the same as a gift to a UTMA (present interest).

Question 6:  
Both answers B and C are correct, but Answer B is greater and so would be the parent's choice. In this case, the Lifetime Learning credit completely phased out (MAGI above $134,000). The question is asking about credits.

Question 7:  
Earnings must be distributed when the beneficiary reaches age 30. The aggregate contribution on behalf of a beneficiary cannot exceed $2,000.

Question 8:  
UTMAs are subject to the kiddie tax. (at trust rates) Answer A is not a bad choice. Answer D is a better answer than B due to 529 being allowed to pay for qualified education up to $10,000/yr. for K-12.

Question 9:  
Income $2,600  
Standard deduction - 1,100  
Taxable at 10% - 1,100 @ 10% = $110  
Remainder at 10% (trust rate) $400 @ 10% = + 40  
$150  
If the parents are alive always use their tax rate.

Question 10:  
Cost $12,500 ———— 16 @ 5% ——> $27,285.93 1st year  
2.8571  
4 n  
During College  
Deposit now $30,555 ———- 16 @ 8% ——> $104,679.76 total  

If you calculated $101,728 then you used end mode. Frankly, you either understand this calculation or you don't. If you do not, you must make up your mind you do not and move on. You cannot waste time on one potential question. 2.8571 is 1.08 ÷ 1.05, -1, x 100. Please go back to page 6-1 and substitute these numbers.
General Principles Quiz Lesson 7 Exam Questions

Question 1
Which of the following qualifies for compensatory damages?

A. Auto accident
B. Headaches
C. Age discrimination
D. Stomach disorders

Question 2
Sue was awarded a lump sum settlement of $1,000,000 in punitive damages as a survivor benefit due to the wrongful death of her husband in a job-related accident. How is the lump sum taxed?

A. 100% taxable
B. 100% excludable
C. Punitive damages are always taxable.

Question 3
Barry suffers from a work-related injury (lung disease caused by asbestos). He is awarded $1,000,000 as compensatory damages. The settlement is awarded in the form of a single premium immediate annuity. How is the payout taxed?

A. 100% taxable
B. 100% excludable
C. The $1,000,000 is excludable. Any income earned is includable.
D. The $1,000,000 is includable. Any income earned is excludable.

Question 4
Harry and Sally won $200,000,000 in the Big Kahuna lottery. Within 60 days of winning, they decided to split the winnings and take payouts over 20 years rather than the lump sum. How much must be included in income this year?

A. The payment each received this year.
B. $200,000,000 because they split the winnings.
C. $200,000,000 because they had the option to choose cash.
D. The Income tax is based on the annuity Inclusion ratio.
Question 5
Which of the following is/are among the normal economic indicators?

I. Standard & Poor's 500 Index
II. Supplier delivery delays
III. The Yield Curve
IV. Initial unemployment claims

A. I
B. II, III
C. I, II, IV
D. II, III, IV

Question 6
What is a 6-month (2 quarters) decline (negative GDP) in economic activity?

A. Recession
B. Depression
C. Correction
D. Expansion

Question 7
Which of the following industries operate independently of the business cycle?

I. Cigarette industry
II. Auto industry
III. Food Industry
IV. Home appliance industry
V. Pharmaceutical Industry

A. I, II, III, V
B. I, III, V
C. II, IV
D. III

Question 8
The economy is going through 12 months of economic decline (negative GDP). The business cycle is in what phase?

A. Depression
B. Trough
C. Recession
D. Recovery
Question 9
Which of the following is true about the gross domestic product?

A. GDP includes some income generated abroad.
B. GDP is measured in constant dollars.
C. GDP measures the dollar value of all final goods and services newly produced within the country's boundaries.
D. Cars manufactured in Germany but sold in the U.S. are counted as a 1/2 fraction.

Question 10
Which of the following indicate a "tight money policy" by the Federal Reserve?

I. Fed raises the discount rate.
II. Fed lowers the reserve requirements.
III. Fed sells securities.
IV. Fed lowers the discount rate.
V. Fed buys securities.

A. I, II, III
B. I, III
C. II, III, IV
D. II, III
E. IV, V

Question 11
When does the business cycle peak?

A. When activity is expanding and real GDP output Increases
B. When business activity ages
C. When business declines bottom out
D. When inflation is significant
E. When consumer confidence is increasing

Question 12
What is the major function of the Federal Reserve System?

A. To maintain the soundness of banks and other savings institution
B. To carry out monetary policy
C. To serve as the country's lender of last resort
D. To Implement fiscal policy
Question 13
Monetary policy is conducted through which of the following methods?

I. Open market operations  
II. Setting reserve requirements  
III. Setting margin requirements  
IV. Setting tax rates  

A. I, II, III, IV  
B. I, II, III  
C. II, III  
D. I

Question 14
Which of the following qualify as an alimony payment to a spouse if made pursuant to a divorce instrument?

A. Paying of the payor-spouse's mortgage  
B. Paying of $5,500 into the payee spouse's IRA  
C. Paying of child support by the payor spouse  
D. Paying of the premium on a life insurance policy on the life of payor (paid by the payee spouse)

Question 15
Tess and Richard Carpenter bought Microsoft shares many years ago for $5,000 as JTWROS. The stock has split many times and is now worth $100,000. Tess and Richard are now divorcing. She wants the Microsoft stock. What is her basis?

A. $5,000  
B. $52,500 (her basis plus a $50,000 half step-up in basis)  
C. $50,000 (split ownership)  
D. $100,000

Question 16
In pursuing an easy money policy, the Fed would do which of the following?

A. Lower the prime rate  
B. Lower the fed funds rate  
C. Sell securities  
D. Buy securities
Question 17
Can a client who makes $100,000 but has a low net worth invest in a limited partnership that requires $250,000 of net worth through a registered representative?

A. Yes, the representative makes an arrangement to "sell away".
B. Yes, the representative sells it anyway.
C. Yes, the representative does some creative financial conniving.
D. No, the representative does not sell it to the client.

Question 18
If unemployment rises for 18 months and interest rates fall for 6 months, the economy is in which of the following (Subjective)?

A. Recession
B. Depression
C. Trough
D. Peak
E. Expansion

Question 19
In a period of declining interest rates (the inverted curve to moving downward and changing to a normal curve) what should you advise a client to do?

A. Buy short-term, high-grade bonds
B. Buy long-term, high-grade bonds
General Principles Quiz - Lesson 7 Answer Key

Question 1: C
Vague physical symptoms such as insomnia, headaches, or stomach disorders are not considered physical injury or Sickness. There is not enough information about the auto accident to know whether it qualifies for compensatory damages.

Question 2: B
The exception to the punitive damages tax inclusion rule is wrongful death.

Question 3: B
When a single premium immediate annuity is purchased by the party obligated to make the damage payments, the entire amount of each periodic payment is excludable by the taxpayer receiving the payments.

Question 4: A
A choice of either cash or an annuity made not later than 60 days after entitlement to the prize is disregarded in determining the tax year for which any portion of a "qualified prize" is included in income.

Question 5: C
The yield curve is not an economic Indicator unless it is moving. The others are normal economic Indicators that we hear about every day.

Question 6: A

Question 7: B
Answer C is cyclical industries which are highly sensitive to business cycle changes. Defensive industries (Answer B) have little sensitivity.

Question 8: C
Two consecutive quarters is a recession. A severe or long recession is a depression. Technically, it is 6 quarters of negative GDP.

Question 9: C

Question 10: B

Question 11: B
Answers A and E reflect expansion. Inflation is always prevalent. Business activity ages simply means that the public stops buying because they have enough of everything they need. Please refer to page 7-12.

Question 12: B
Its function is to carry out monetary policy. Its objective is to maintain soundness. This is picky.

Question 13: B
Setting tax rates is fiscal policy.

Question 14: B
Answer A is wrong. If it said the payee's mortgage, then it would be correct. Child support is never deductible alimony. Answer D would be correct if it were paid by the payor spouse and owned by the payee spouse.
**Question 15:**  
A  
Answer B is correct if Tess killed Richard prior to the divorce (but that would create other non-tax problems). Her basis will be the same as their original basis.

**Question 16:**  
D  
Banks, not the Fed, change the prime rate. The Fed affects the prime rate, but does not set it. The Fed funds rate is determined in an auction by member banks. Fed funds are bank-to-bank overnight borrowing by banks needing additional reserves. If the Fed sells securities through the Federal Open Market Committee, it reflects a tight monetary policy.

**Question 17:**  
D  
B/Ds typically require the investor to have a certain level of net worth and liquid assets. A brokerage firm may be sued if it allows an unsuitable investor to buy an investment that goes sour.

**Question 18:**  
C  
Absent any information about the number of months of negative GDP, "trough" is the best answer. Months by themselves do not create a recession or depression. Picky

**Question 19:**  
B  
The yield curve will shift downward, causing capital gains in bond portfolios. An investor should move from short-term bonds to long-term bonds to lock in higher coupons and generate capital gains in the bond portfolio.
General Principles Quiz - Lesson 8 Exam Questions

Question 1
Mr. and Mrs. Pond took out a 30-year 6% mortgage on December 1st of this year. The payments will start January 1st next year. The home was purchased for $250,000. They put $150,000 down and financed the remainder. If they have to escrow taxes ($400/mo) and insurance ($200/mo), what is the amount of their monthly payment?

A. $971.14  
B. $1,171.14  
C. $799.55  
D. $1,199.55  
E. $1,205.40

Question 2
Home equity is a potential source of financing retirement and other financial goals. Which of the following may be used to access home equity for those purposes?

I. A reverse mortgage  
II. A home equity loan  
III. Sale of the home  
IV. Refinance of the home

A. All of the above  
B. I, II  
C. III, IV  
D. III

Question 3
Mr. and Mrs. X provide you with the following data: Their net worth increased by $60,000 during the year. From cash flow they purchased a new boat ($25,000) and added $5,000 to savings. Their mutual funds grew by $10,000, and his 401(k) increased by $15,000 due to contributions and earnings. From cash flow, they paid $24,000 on their home mortgage and credit card balances. What was the principal reduction on their loans?

A. $5,000  
B. $10,000  
C. $15,000  
D. $20,000  
E. $25,000
Question 4
Bob and Allee are recent college graduates and are newly married. They both have accepted positions with firms where relocation is highly likely. Their combined income puts them in a 28% marginal tax bracket. Should they continue to rent an apartment or purchase the home of their dreams?

A. They should purchase a home to take advantage of tax deductions for interest and property taxes.
B. They should purchase a home to take advantage of a highly volatile real estate market and potential tax-free money should they have to sell it.
C. They should continue to rent because of the likelihood of upcoming job-related moves.
D. They should continue to rent to take advantage of the lower rental costs.

Question 5
Mr. and Mrs. Bailey have been advised by their financial planner that they can afford to make $650-a-month payments on a mortgage loan for a home. The current rate on a new 30-year mortgage is 6.75%. How much can they afford to borrow?

A. $95,279
B. $98,213
C. $100,216
D. $100,924
E. $102,100

Question 6
Which of the following is not considered unsecured debt?

A. Personal lines of credit
B. Personal loans
C. Home mortgage
D. Signature-only loans

Question 7
Which of the following is not true about a reverse mortgage?

A. The home does have to be owned free and clear to qualify for a reverse mortgage.
B. There are no monthly mortgage payments during the life of the loan.
C. There are no income qualifications.
D. A reverse mortgage is only available to homeowners 62 years and older living in condominiums and single family homes.

Question 8
Which of the following is true concerning a pro forma statement?

A. It illustrates the sources and amounts of gross income received by the client.
B. It illustrates the solvency ratio of the client.
C. It illustrates what future financial statements are expected to show.
D. It illustrates what has occurred in the past.
General Principles Quiz - Lesson 8 Answer Key

Question 1: D
$599.55 PMT plus taxes and insurance $600.00 = $1,199.55

10B / 17BII 12C
12 PMT / YR $100,000 PV
$100,000 PV 6 ÷ 12 i
6i 30 x 12 n
30 gold x P/PR = 599.55

This is an end answer. The mortgage was taken out 12/1. The first payment is 1/1, a month later. The end of 12/31 is the beginning on 1/1. Mortgages are always end.

Question 2: A
All the techniques can be a potential source of financing either retirement or financial goals. For example, getting the equity out of your home could finance a college education. The home equity loan is still allowed. However, the home equity interest deduction is no longer allowed if used for “non-home” purposes.

Question 3: A
From cash flow

<table>
<thead>
<tr>
<th>Assets</th>
<th>To Statement of Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boat 25,000</td>
<td>$60,000 (total increase in Net Worth)</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>10,000</td>
</tr>
<tr>
<td>401(k)*</td>
<td>15,000</td>
</tr>
<tr>
<td>Savings</td>
<td>5,000</td>
</tr>
</tbody>
</table>

*From cash flow and growth

$25,000 $10,000 $15,000
\$5,000* \$-55,000 (known source of asset increases)
\$55,000* \$5,000 principle reduction (liability)

*The new boat, mortgage, credit card payments, and savings came out of their cash flow.

Granted, the $24,000 was paid on home mortgages and credit card balances, but how much was principal and how much was interest? It is probably mostly interest. These are like questions in the lessons and are the only way to solve the question.

Question 4: C
The time factor (relocation) is probably more important than all other factors such as tax deductions or tax-free gains. There is not enough information to support Answer D.
Question 5: C

<table>
<thead>
<tr>
<th>10BII</th>
<th>12C</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 PMT/YR</td>
<td>$650 PMT</td>
</tr>
<tr>
<td>650 PMT</td>
<td>6.75 ÷ 12 i</td>
</tr>
<tr>
<td>6.75 I</td>
<td>30 x 12 n</td>
</tr>
<tr>
<td>30 gold xP/YR</td>
<td>= $100.216 PV</td>
</tr>
</tbody>
</table>

Question 6: C
The other answers are unsecured.

Question 7: A
The other answers are true. Answer A is missing the word "not".

Question 8: C
A pro forma statement projects the expected result of the next year. This comes from lesson 3.
General Principles Quiz - Lesson 9 Exam Questions

Question 1
If a CFP® certificant decides to become a RIA, which agency does he notify first?

A. FINRA  
B. SEC  
C. CFP Board  
D. Clients  
E. Broker-Dealer

Question 2
Randy Jenkins, a plumber, has been successful in the stock market since the beginning of the bull market in March 2003. Although he earns a comfortable living as a plumber, he realizes he can earn money more easily by advising his friends and relatives all over the country on buying and selling specific stocks and charging them a fee for such advice. Randy has advised over ninety (90) people this past year. Must Randy register as an investment adviser?

A. No, he is only advising friends and relatives.  
B. No, he is not in the business of giving advice.  
C. Yes, he is in the business of giving advice.  
D. Yes, he is issuing reports on specific stocks.

Question 3
Which one of the following events arises from being classified as an investment adviser by the SEC?

A. A client advisory contract can be transferred to another financial planner at any time.  
B. A written disclosure brochure must be delivered to the FINRA.  
C. The individual can use RIA after his or her name on business cards and stationery.  
D. The individual must file an update Form ADV Part 1 and Schedule 1 with the SEC each year.

Question 4
Which of the following describes the sequence of the initial registration process to sell certain equity-based products?

I. Registers with the FINRA through a B/D on Form U-4  
II. Central Registration Depository (CRD) System makes registration with the FINRA uniform among states.  
III. Associates with broker-dealer firm  
IV. Passes appropriate exam(s)

A. I, II, III, IV  
B. I, IV, II, III  
C. III, IV, I, II  
D. III, I, IV, II
Question 5
Jack Johnson advises clients about specific securities and provides written financial plans. He charges a fee for these services. Although he usually recommends that the client consider purchasing specific mutual funds and stocks, he does not sell any of these products to his clients. Does Jack have to register as an Investment Adviser and/or with FINRA?

A. Neither. He sells no products.
B. Must register as Investment Adviser only
C. Must register with FINRA
D. Must register as Investment Adviser and with FINRA

Question 6
Sandy has her Series 6 and all applicable state licenses. She may not sell which of the following investments?

A. Variable annuity
B. Variable life insurance
C. Mutual fund traded on a major exchange
D. UIT (initial offering)

Question 7
Jack Goodguy, CFP®, your lifelong friend, recently obtained his Series 6 license. He joined a securities firm, Penny Stocks Unlimited. He is selling portfolios of individual stocks like a mutual fund to Florida retirees. What should you do?

A. You should turn this bum in because he is cutting into your market.
B. You should let it go. The SEC will catch up with him someday.
C. You should join the firm. This sounds like a good idea.
D. You should send an anonymous envelope to the SEC describing the violation.
E. You should notify the Board, SEC, FINRA, Florida Securities Department, etc. promptly even if this guy once saved your life at the old swimming hole.

Question 8
Which of the following is correct?

A. Abbie Danko, RIA
B. Abbie Danko, C.F.P.®
C. Abbie Danko, RIA©
D. Abbie Danko, CFP®
Question 9
An ADV Part 1 includes which of the following?

I. Applicant's business address
II. Compensation
III. Background of the client
IV. Applicant's business background

A. All of the above
B. I, II, III
C. I, II, IV
D. I, IV
E. II, IV

Question 10
Which of the following statements concerning federal law is correct?

A. The Securities Act of 1933 provides for protection from misrepresentation, deceit, and other fraud in the sale of existing securities.
B. The Securities Investor Protection Act of 1970 is designed to protect individual investors from losses as a result of poor investment choices.
C. The Investment Advisers Act of 1940 requires that persons or firms advising others about securities investments must register with the Securities and Exchange Commission.
D. The Investment Advisers Act of 1940 assures the investor safety of investment in companies engaged primarily in investing, reinvesting and trading in securities.
General Principles Quiz - Lesson 9 Answer Key

Question 1: B
Advisers must first file with the SEC. Answer E is the practical answer but not necessarily the best answer. The CFP® certificant might not have a broker-dealer relationship.

Question 2: C
Randy provides advice on securities for compensation (fees) to clients in multiple states.

Question 3: D
The written disclosure must be delivered to SEC and FINRA. You cannot use RIA after your name.

Question 4: D

Question 5: B
Nothing in the question implies that Jack receives commissions. Thus, he need not register with the FINRA as a securities representative. Please go to www.ria-compliance-consultants.com. It says that some states security regulators also accept other professional designations as an alternative to the Series 65. This alternative has been since the 1970s and 1980s.

Question 6: C
The words "mutual fund" may have thrown you off. But, a mutual fund traded on a major exchange is a closed-end fund. To sell closed-end funds (NYSE, etc.), you need a Series 7 license. A Series 6 license allows a representative to sell an initial UIT offering.

Question 7: E
He only has a Series 6 license. He can't recommend or sell individual securities.

Question 8: D
C.F.P. is incorrect.

Question 9: D
The Part 1 includes the business address and background. The Part 2 spells out the compensation arrangements.

Question 10: C
Answer A is wrong because the 1933 Act has to do with new securities not existing securities. Answer D is wrong because the Investment Advisers Act does not assure the investor safety in investing.
General Principles Quiz - Lesson 10 Exam Questions

Question 1
Susan, a financial planner, entered into an agreement to provide a financial plan for Mr. and Mrs. Todd. The scope of the plan was agreed to by both parties, and 50% of the plan fee was paid delivered. Susan is exposed to what legal concept?

A. Absolute liability
B. Vicarious liability
C. Tort law
D. Contract law

Question 2
An enforceable insurance contract does not include which of the following legal requirements?

A. The contract can be for any purpose.
B. Consideration must be exchanged.
C. The applicant must have legal capacity.
D. There must be an offer and an acceptance.

Question 3
Arbitration (FINRA) typically arises as a result of which of the following?

I. A structured settlement dispute.
II. A broker's dispute with a customer (client signed an arbitration agreement as part of new account form).
III. A customer's dispute with a broker (client signed an arbitration agreement as part of new account form).
IV. A business person's dispute with a vendor.

A. I, II
B. I, IV
C. II, III
D. III, IV

Question 4
Bob has filed for protection under Chapter 7 bankruptcy. Which debts will not be cancelable by bankruptcy?

I. Credit card debt
II. Government loans
III. Child support
IV. Personal debt
V. Alimony payments

A. I, II, IV
B. I, IV
C. II, III, V
D. III, V
Question 5
Jeff had four credit cards in his wallet. The wallet was stolen and the cards used as follows before he could report the loss.

<table>
<thead>
<tr>
<th>Card</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Card 1</td>
<td>$500</td>
</tr>
<tr>
<td>Card 2</td>
<td>$ 50</td>
</tr>
<tr>
<td>Card 3</td>
<td>$400</td>
</tr>
<tr>
<td>Card 4</td>
<td>$ 25</td>
</tr>
</tbody>
</table>

How much is Jeff’s liability for these transactions?

A. $50
B. $175
C. $200
D. $775

Question 6
Express authority is which of the following?

A. written, explicit direction from the client to the agent
B. written, explicit direction from the agent to the client
C. written, explicit direction from the insurance company to the agent
D. written, explicit direction from the agent to the insurance company

Question 7
Shelley is an agent for an insurance company. She is told not to write policies for day care centers. One day she is approached to write insurance for her longtime friend, Maxine. Maxine just purchased a day care center and is desperate to open up, but cannot get insurance coverage. Maxine pleads for coverage, even if temporary. What are Shelley’s options?

A. Decline to write Maxine the coverage
B. Send a binder to Maxine giving her 30 days’ coverage
C. Write up an application but never send it to the company
D. Call the company to get special permission to write the coverage

Question 8
What is the obligation of the agent to the principal?

A. None
B. Loyalty
C. Implied
D. Apparent
**Question 9**
Ted has just been denied credit for a new auto. He is protected under which of the following?

A. Fair Credit Reporting Act  
B. Consumer Credit Protection Act  
C. APR  
D. Chapter 13

**Question 10**
Dale Jensen (divorced, one dependent child - age 13) closed his sole proprietorship in July. Although his income from the business dwindled to nearly nothing in the last 3 months, his average monthly net income for the last 5 years was about $5,000. He has lived in the same state for the past 15 years. He has a SEP with a balance of $120,000. He built his primary residence 4 years ago and took out a 15-year mortgage for $120,000. The current FMV of the home is $240,000, and the mortgage balance is $108,000. His state of residence has an unlimited homestead exemption for bankruptcy. Dale's attorney has suggested he file for bankruptcy January of the next year. Which of the following are correct?

I. His home is protected under his state's homestead exemption.  
II. Federal bankruptcy law will treat Dale's SEP as an exempt asset.  
III. Because Dale's average monthly income is below $6,000, he does not have to complete consumer credit counseling prior to filing for bankruptcy.  
IV. If Dale opened a 529 account for his daughter last year (prior to filing for bankruptcy), it will be a protected asset under Federal bankruptcy law.  
V. Because the FMV of Dale's home is over $125,000, it is an unprotected asset under the Federal bankruptcy law.

A. I, III  
B. II, IV, V  
C. I, III, IV  
D. I, II  
E. I, III, V
General Principles Quiz - Lesson 10 Answer Key

Question 1: D
This is a contract exposure.

Question 2: A

Question 3: C
Customers can force brokers to arbitrate. However, brokers may only take to arbitration a customer who signed an arbitration agreement prior to the dispute. Answers I and IV are wrong, so you are forced to choose Answer C.

Question 4: C

Question 5: B
Jeff's liability is limited to $50 per card, but one card had only $25 charged against it.

Question 6: C

Question 7: A
Among the legal duties an agent owes to her principals are the duty to be loyal, the duty not to be negligent, and the duty to obey instructions. Express authority overrides Answer D. She is told not to write policies for day care centers.

Question 8: B
Since the agent is a legal agent of the company, he/she must be loyal to company (express).

Question 9: A

Question 10: D
Federal law does not preempt state homestead law because Dale lived in the state for more than 730 days and built the home more than 40 months (1215 days) ago. Only traditional and Roth IRAs are protected up to $1,000,000. SEPs, SIMPLEs, ERISA plans, and deferred compensation plans are generally protected assets under the 2005 bankruptcy law. ESAs and 529s (for a child) must be opened more than 2 years before filing for bankruptcy to be exempt assets. Everyone must complete a consumer credit counseling program prior to filing Chapter 7.
General Principles Final Exam Questions

Question 1
A client buys a new car for $20,000. He writes a check for $5,000 and takes out a $15,000 automobile loan. What is the effect on the client's net worth?

A. No change
B. Increase of $5,000
C. Increase of $15,000
D. Increase of $20,000

Question 2
The Watkins obtain a mortgage on their new home for $100,000. The 30-year mortgage payment will be $700/month. How is this transaction reflected on the client's financial statement?

A. Assets will increase.
B. Liabilities will decrease.
C. Net worth will increase.
D. Cash outflows will decrease.

Question 3
Mr. and Mrs. Paul have joint income of $120,000. They own a $130,000 home with a $100,000 mortgage. Mortgage payments are $2,000 per month. Taxes are $3,600 per year, and insurance is $800 per year. What is their PITI as a percentage of income?

A. 20%
B. 21.9%
C. 23.7%
D. 28.4%

Question 4
Sally purchased a $60,000 promissory note 8 years ago. The note paid 7.5% compounded annually over the last 8 years. How much is the note worth today?

A. $33,642.13
B. $103,091.17
C. $106,942.63
D. $107,008.67
**Question 5**

If an investor can earn 7.2% nominal return on his investment and inflation is 3.1%, what is the investor's "real" rate of return?

A. 3.8923%
B. 3.9767%
C. 4.1259%
D. 4.2106%

**Question 6**

Burt just retired. He rolled 1,000,000 from his employer’s qualified retirement plan into an IRA. He asks what amount of distribution he can take at the beginning of the year for the next 25 years so the entire $1,000,000 will be utilized. He believes he can make 10% on the money in the IRA.

A. $100,152.79
B. $110,168.07
C. $10,168.07
D. $9,243.70

**Question 7**

Which of the following statements are true about Coverdell ESA accounts?

I. The beneficiary must be under 18 in years when contributions are added to the account.
II. Contributions are treated as a gift of a present interest from the contributor to the beneficiary.
III. Qualified expenses include religious elementary school expenses.
IV. Permissible investments include individual stocks and bonds.

A. All of the above
B. I, II
C. I, II, IV
D. II, III
E. III, IV

**Question 8**

Harvey, married, bought a home 5 years ago for $200,000 subject to a $150,000 mortgage. The current fair market value is $225,000 and the mortgage balance is $135,000. He needs to pay off credit card debt. How large of a home equity loan can Harvey take out and deduct the interest?

A. $0
B. $50,000
C. $90,000
D. $100,000
Question 9
Mr. and Mrs. T’s net worth increased from $180,000 to $200,000. During the year, they sold a collectible car for a $3,000 gain above FMV. They bought an oriental rug for $10,000 out of their money market. They had combined taxable income of $100,000 and expenses of $92,000. They invested the difference in new stocks. Income producing assets grew by $5,000. They paid $35,000 on their home mortgage and credit card loans. What was the principal reduction on their loans?

A. $4,000  
B. $7,000  
C. $13,000  
D. $16,000  
E. $35,000

Question 10
Filing under Chapter 7 bankruptcy permits the individual to do which of the following?

A. Keep charging on credit cards  
B. Be forgiven from paying alimony  
C. Keep homestead-type property  
D. Escape paying government/student loans

Question 11
Mrs. Chambers took out a reverse mortgage some years ago to supplement her retirement income. Over the years her health deteriorated, and she recently died. She is survived by three children. Are her children responsible for selling the house and paying off the balance?

A. No, the bank still owns the house.  
B. Yes, they could sell the house and use the sales proceeds to pay off the reverse mortgage balance.  
C. Yes, they can refinance the mortgage to pay off the reverse mortgage balance.  
D. Both answers B and C, but not A.

Question 12
Which of the following factors should be considered when deciding whether to lease or buy a home?

I. Price of the home  
II. Mortgage interest rate  
III. Income tax benefits of home ownership  
IV. The extent to which home prices have increased.  
V. The period of time a person expects to live in the home.

A. All of the above  
B. I, V  
C. II, III  
D. III, IV  
E. IV, V
**Question 13**
Bart, a private adviser, has only insurance companies as clients (30). Is he exempt from filing as a RIA?

A. Yes  
B. No  
C. Depends on assets of each company

**Question 14**
Saving methods or techniques for college include which of the following?

I. Coverdell ESA  
II. UGMA/UTMA account  
III. Tax-exempt municipal bonds  
IV. Saving bonds

A. I, II  
B. I, IV  
C. II, IV  
D. All of the above

**Question 15**
Are attorneys an exception to registering as investment advisers?

A. Yes, attorneys are an exception if the investment advice is solely incidental to their practice.  
B. No, if they meet the definition for determining who an investment adviser is (A, B, C tests); they are subject to the IAA.  
C. Both answers A and B

**Question 16**
Barry is a registered representative of a major securities firm. Throughout a typical business day, he advises customers as to which stock, bonds, and mutual funds to buy or sell. Barry receives handsome commissions for his customers' securities transactions. His brother, Larry, holds both the CPA and the CFP® designations. He performs comprehensive financial planning for several dozen clients although only 30% of the financial plans he prepares cover investments. Larry is paid on an hourly basis. Which of the following statements regarding Investment adviser registration requirements for these brothers is correct?

A. Neither Barry nor Larry is required to register because Investment advice is incidental to their main professions.  
B. Although Barry must register because he renders investment advice on a regular basis, his brother Larry is exempt from the adviser registration requirements because he is a CPA.  
C. Although Barry is excluded from the adviser registration requirements because he represents a broker-dealer and charges no special fees for advice, Larry must register because he holds himself out as financial planner and is paid for his work.  
D. Both Barry and Larry must register because they provide investment advice on a regular and professional (paid) basis.
Question 17
A local business person approaches a CFP® licensee for assistance with an investment-related tax problem. The client's previous tax preparer suggested the purchase of a variety of tax-advantaged investments to reduce the client's current and future tax burden. Time passed; the client's income dropped, and tax laws changed. The client does not believe the tax preparer misrepresented the situation on the initial sale but still wants to know what recourse is available with respect to the tax preparer. The CFP® certificant should do which of the following?

I. Explain to the client that this issue is beyond the scope of the CFP® certificant’s professional expertise.
II. Advise the client that no recourse is available
III. Advise the client to contact an attorney
IV. Contact the tax preparer

A. IV  
B. I, III
C. II, IV
D. I, II, III

Question 18
You, a CFP® certificant, are invited to a fully reimbursable due diligence meeting sponsored by XYZ mutual fund. Is it unethical to be reimbursed for the meeting?

A. There is a direct rule which prohibits such a reimbursement.
B. There is a rule which prohibits such a reimbursement.
C. As part of your disclosure to clients (source of compensation), you should disclose such reimbursement.
D. This happens all the time. I never paid any attention to the reimbursement.

Question 19
Larry Jones, CFP®, a Registered Investment Adviser and Registered Representative, receives funds from his client to purchase XYZ stock when the stock's price reaches a low of $13. In complying with the CFP® code of ethics, can Larry accept these funds?

A. Larry's B/D may accept the funds, but they cannot be commingled with the planning firm's general accounts.
B. Larry may not accept these funds and should instruct his client that the purchase must be made by the client's stockbroker.
C. Larry may not accept these funds but must make the purchase immediately.
D. Larry may accept these funds and can place them in his account at the local bank, giving a receipt to his client.

Question 20
Your para-planner sends out unauthorized information to your client. Your client acts on the information. Are you responsible?

A. You are not responsible for the para-planner's actions.
B. You are responsible only if the client acts on the information.
C. You are responsible.
D. You are not responsible because the client never consulted you.
Question 21
Which of the following is a true statement?

A. A CFP® certificant may use the initials RIA or R.I.A. following a CFP® certificant’s name in advertising if she is a registered investment adviser.
B. The Investment Advisers Act of 1940 requires registration of investment advisers with the U.S. Securities and Exchange Commission with more than $100 million of assets under management.
C. Investment advisers are not required to register in states since the advisers have registered with the U.S. Securities and Exchange Commission.
D. Original records supplied by the client become the property of the CFP® certificant and need not be returned.
E. A CFP® certificant cannot practice any other profession if working in the area of financial planning.

Question 22
The CFP Board has a guide to the use of the CFP Certification Marks. There are two certification marks that must be used. Which of the following is (are) used incorrectly?

I. CFP™
II. Certified Financial Planner®
III. Tom Able, CFP®
IV. C.F.P.®

A. I, II
B. I, III
C. I, II, IV
D. III

Question 23
Principle number 4 of the CFP Code of Ethics and Professional Responsibility embodies which of the following?

A. Competence
B. Confidentiality
C. Fairness
D. Objectivity

Question 24
Which of the following are covered under the rules of conduct?

I. Obtaining clients through false advertisements.
II. Obtaining a loan from a client.
III. Providing professional advice unless they are competent.
IV. Commingling client funds.

A. All of the above
B. I, II, III
C. II, IV
D. III, IV
Question 25
Which of the following is not a prescribed form of discipline for a CFP® certificant?

A. Private censure  
B. Public letter of admonition  
C. Permanent revocation of the rights to use the CFP® marks  
D. CFP® Certification Examination retake

Question 26
A client is shopping for a financial planner. The client has already provided his full financial information to another financial planner. During the initial interview, the client says he is too busy to review all the information again. What should you do first?

A. You should try to get all the information from the other financial planner.  
B. You should explain the services you provide, the process of planning, and the documents required to do a complete financial plan.  
C. You should decline the client.  
D. You should try to work with the other financial planner on a joint engagement with the client.

Question 27
Which of the following distributions is generally tax-free?

I. A lump-sum compensatory damage settlement on account of personal injury.  
II. An annuity payout of lottery winnings in installments over time.  
III. A lump-sum punitive damage settlement on account of wrongful death.  
IV. A fixed annuity payout of compensatory damages where the injured person had no right to the discounted present value of the payments or control over the investment of the present value.

A. All of the above  
B. I, III, IV  
C. I, IV  
D. II  
E. III

Question 28
Which of the following statements are true?

I. A CFP® certificant may not commingle client funds with the funds of the financial planning firm.  
II. Client funds can be commingled in a common client investment account.

A. I  
B. II  
C. I and II  
D. Neither I or II
Question 29
As the economy passes through trough into recovery, which industry tends to outperform other industries?

A. Pharmaceutical manufacturing  
B. Gold mining  
C. Public utilities  
D. Automobile manufacturing

Question 30
A financial planner makes a recommendation that a client buy a particular stock using his instinct but no research. The client invests in that security. The financial planner is guilty of which of the following?

I. Negligence  
II. A tort  
III. Violation of a fiduciary responsibility  
IV. A contract violation  
V. Subject to arbitration

A. All of the above  
B. I, III, IV, V  
C. III  
D. II, IV, V  
E. V

Question 31
Which of the following are considered assets of the student for financial aid calculations?

A. EE education bonds  
B. Coverdell ESAs accounts  
C. UTMA account  
D. 529 plan accounts

Question 32
If the U.S. is experiencing high unemployment, falling stock prices, and declining consumer spending, then what action(s) will Congress or the Fed take?

I. The Fed will lower the prime rate.  
II. The Fed will sell securities.  
III. The Congress will authorize spending programs.  
IV. The Fed will raise the discount rate.  
V. The Fed will take a tight money policy.

A. I, III, V  
B. II, III, V  
C. II, IV, V  
D. III, V  
E. III
Question 33
What is a responsibility of a CFP® certificant toward a client?

I. To take his or her obligations seriously
II. To demonstrate an appropriate level of knowledge
III. To have realistic goals
IV. To keep financial information confidential

A. I, II, III
B. I, II, IV
C. III, IV
D. III

Question 34
What investment would you recommend to a widow seeking conservative, steady income in light of a negatively sloped yield curve that is declining to the normal/positive curve (going from YC₁ to YC₂)?

A. T-bills
B. T-notes
C. 1year CD
D. Treasury bonds
Frank and Kathy Campbell Case (questions 35 - 41)

Frank
Frank, age 33, is an engineer. After graduating from college 5 years ago, he took a job at XLM, Inc. His current yearly salary is $51,000.

Kathy
Kathy, age 27, operates a mail-order business from their home. She runs the business as a sole proprietorship. The business has two full-time employees. It is profitable enough so that Kathy can take a monthly wage of $2,000. Kathy feels the business is worth $25,000. Kathy will be satisfied to make $24,000 a year and stay at home with her daughter.

Frank and Kathy
Frank and Kathy have been married for 5 years. They have one child, Sara, age 3. They plan to have a second child when Sara is 5 or 6. They haven't yet set aside money for Sara's college education. They feel they will need the equivalent of $20,000 in "today's dollars" for each of the 4 years of college for Sara at age 18. They would like to fund for college at the end of each month. They feel they can earn a 9% after-tax return with college costs increasing by 5% annually.

Retirement plans
Frank's employer maintains a profit sharing 401(k) plan. Frank contributes 6% of his monthly salary, and the company matches 50% (3% maximum). His plan assets are diversified. The plan has been achieving a 9% return, and Frank is satisfied with that over the long term.

Last year, Kathy adopted a SEP. Her two employees are new and are not yet participating in the plan. She realizes the SEP eligibility rules may require contributions for these employees in the future. Kathy is very conservative. The SEP is invested in a GNMA fund returning 6%. She is satisfied with that over the long term. Frank and Kathy expect to retire in 30 years. Frank and Kathy expect to live at least 30 years after retirement. They feel confident they can earn a 9% after-tax return on their overall investments and business interests. They have determined that their annual retirement income need is $70,000 in today's dollars.
<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
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<tbody>
<tr>
<td>Checking account (JT)</td>
<td>Credit Card</td>
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<tr>
<td>Money market account (JT)&lt;sup&gt;1&lt;/sup&gt;</td>
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</tr>
<tr>
<td></td>
<td>$10,000</td>
</tr>
<tr>
<td></td>
<td>Credit Card</td>
</tr>
<tr>
<td></td>
<td>$1,000</td>
</tr>
<tr>
<td></td>
<td>$14,000</td>
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<td></td>
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<td></td>
<td>$88,633</td>
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<tr>
<td>Invested assets</td>
<td>Net worth</td>
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<tr>
<td>Business interest (K)</td>
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<td>Profit sharing 401(k)&lt;sup&gt;2&lt;/sup&gt; (F)</td>
<td></td>
</tr>
<tr>
<td>SEP (K)</td>
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</tr>
<tr>
<td>Life insurance cash value</td>
<td></td>
</tr>
<tr>
<td>Mutual funds (JT)&lt;sup&gt;3&lt;/sup&gt;</td>
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<td></td>
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<td>Use assets</td>
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<td>Personal property (JT)</td>
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<td></td>
<td>$150,000</td>
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<td>TOTAL ASSETS</td>
<td>TOTAL LIABILITIES AND NET WORTH</td>
</tr>
<tr>
<td></td>
<td>$?</td>
</tr>
<tr>
<td></td>
<td>$?</td>
</tr>
</tbody>
</table>

<sup>1</sup>Pays yearly dividends of $500 in cash

<sup>2</sup>Use annual contributions at the end of the year for calculation purposes

<sup>3</sup>Frank and Kathy have been dollar-cost averaging ($200/mo.) into an S&P 500 Index fund at the end of each month. They expect a return of 9% over the long term. The fund provides no dividends or capital gains.

<sup>4</sup>Brand new car, original cost $20,000, trade-in $5,000, 3-year loan, 9% fixed interest paid monthly - They also have a 2nd car worth $5,000 with no loan against it.

<sup>5</sup>Original 30-year mortgage of $75,000 taken out 3 years ago, 7.2% fixed interest, paid monthly.
<table>
<thead>
<tr>
<th>Inflows</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank’s salary [net of 401(k) deferral]</td>
<td>$47,940</td>
</tr>
<tr>
<td>Draw from business</td>
<td>$24,000</td>
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<tr>
<td>Dividends</td>
<td>$500</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$72,440</strong></td>
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<table>
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<tr>
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<tbody>
<tr>
<td>Mortgage payments</td>
<td>$6,109</td>
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<td>Auto payments</td>
<td>$5,724</td>
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<td>Insurance</td>
<td>$6,200</td>
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<td>Property tax</td>
<td>$1,500</td>
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<td><strong>Subtotal</strong></td>
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<table>
<thead>
<tr>
<th>Variable outflows</th>
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<tbody>
<tr>
<td>Home maintenance</td>
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</tr>
<tr>
<td>Food</td>
<td>$6,000</td>
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<tr>
<td>Utilities</td>
<td>$2,500</td>
</tr>
<tr>
<td>Clothes</td>
<td>$3,000</td>
</tr>
<tr>
<td>Charitable gifts</td>
<td>$4,000</td>
</tr>
<tr>
<td>Vacation</td>
<td>$5,000</td>
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<tr>
<td>Entertainment</td>
<td>$2,500</td>
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<tr>
<td>Miscellaneous</td>
<td>$2,000</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>-28,000</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Income taxes</td>
<td>$9,500</td>
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<tr>
<td>FICA taxes</td>
<td>$3,900</td>
</tr>
<tr>
<td>Self-employment taxes</td>
<td>$3,100</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>-16,500</strong></td>
</tr>
</tbody>
</table>

| Savings                    | $?      |
**Insurance Information**

**Life Insurance (Individual)**
- **Person Insured**: Frank
- **Type of policy**: Variable universal life
- **Face amount**: $200,000
- **Beneficiary Arrangement**: Kathy, if living; if not, Sara
- **Current Cash Value**: $7,500
- **Premium**: $2,400

**Life Insurance (Group)**
- **Person Insured**: Frank
- **Face Amount**: 2x Salary, Maximum $100,000
- **Beneficiary Arrangement**: Kathy, if living; if not, Sara
- **Premiums**: Paid by XLM, Inc

**Health Insurance**
- **Person(s) Insured**: Frank, Kathy, and Sara
- **Type of plan**: PPO
- **Deductible**: $250
- **Premiums**: Frank’s premium is paid by XLM, Inc. The Premium on Kathy and Sara is $200/month (total)

**Home Owners Insurance**
- **Type**: HO-3
- **Coverage**: $80,000
- **Premium**: $400 per year

**Auto Insurance**
- **Type**: Personal Auto Policy
- **BI/PD**: $100,000/300,000/50,000
- **UM**: $100,000/300,000
- **Collision**: $250 Deductible
- **Other than Collision**: $250 Deductible
- **Premium**: $500 Semiannual+

**Economic environment**
The current economic environment indicates a stable long-term inflation rate of 3.5%, low unemployment, moderate profit growth, low short-term rates, and moderately high long-term rates.

**Client Objectives**
- Maintain their current lifestyle upon retirement (age 63)
- Ensure the surviving spouse can maintain his or her current lifestyle should the other spouse die prematurely (75% of current earned income)
Question 35
What is Frank and Kathy's net worth?

A. $128,367
B. $128,867
C. $136,367
D. $136,867

Question 36
What is Frank and Kathy's PITI percentage?

A. 8.09%
B. 8.62%
C. 10.08%
D. 10.61%
E. 11.06%

Question 37
What is Frank and Kathy's yearly savings net of the 401(k) deferral?

A. $7,907
B. $8,407
C. $10,807
D. $11,467
E. $17,667

Question 38
What amount should Frank and Kathy allocate to their emergency fund?

A. $11,883.25
B. $16,008.25
C. $22,566.50
D. $23,766.50
E. $32,016.50

Question 39
If Frank and Kathy's return assumptions are accurate, what amount will be in their S&P 500 Index fund at retirement?

A. $366,148.69
B. $368,894.81
C. $439,801.57
D. $442,547.69
Question 40
Presuming the anticipated return is achieved, what amount will be in Frank's profit sharing 401(k) at retirement based on current annual contributions (use annual - not monthly - employer and employee contributions) at the end of the year?

A. $625,952  
B. $681,960  
C. $891,005  
D. $947,314

Question 41
Which of the following is a strength of Frank and Kathy's financial position?

A. Frank has sufficient life insurance.  
B. They have established an educational program for Sara.  
C. Their emergency fund is more than sufficient.  
D. They live within their income.  
E. Kathy has sufficient life insurance.
John and Mary Walsh Case (questions 42 - 49)

John, age 40, and Mary, age 39, have furnished you with the following data. They have one son Tom who is age 10. They want to fund for Tom's education within their means. If John or Mary dies, the survivor would like life insurance to provide an income stream to supplement the surviving spouse's income. They feel they can make 10% on all current and future investable assets. Inflation will be 4% over the long run.

Statement of Financial Position
For the year ending
December 31, 20xx

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking</td>
<td>Credit cards (paid monthly)</td>
</tr>
<tr>
<td>Checking</td>
<td>$4,000</td>
</tr>
<tr>
<td>Savings</td>
<td>Mortgage</td>
</tr>
<tr>
<td>Savings</td>
<td>$8,000</td>
</tr>
<tr>
<td>CDs (maturing)</td>
<td>$136,150</td>
</tr>
<tr>
<td>CDs (maturing)</td>
<td>Mortgage</td>
</tr>
<tr>
<td>CDs (maturing)</td>
<td>$6,000</td>
</tr>
<tr>
<td>CDs (maturing)</td>
<td>$140,000</td>
</tr>
<tr>
<td>$18,000</td>
<td>Net worth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Invested assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA</td>
<td>$50,000</td>
</tr>
<tr>
<td>Growth &amp; Income MF</td>
<td>$22,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$12,000</td>
</tr>
<tr>
<td>Growth stock MF</td>
<td>$12,000</td>
</tr>
<tr>
<td>$96,000</td>
<td>Net worth</td>
</tr>
<tr>
<td>$96,000</td>
<td>Net worth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Use assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residence</td>
<td>$220,000</td>
</tr>
<tr>
<td>Automobiles</td>
<td>$30,000</td>
</tr>
<tr>
<td>Personal property</td>
<td>$32,000</td>
</tr>
<tr>
<td>$282,000</td>
<td>Net worth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL ASSETS</th>
<th>TOTAL LIABILITIES AND NET WORTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>$396,000</td>
<td>$396,000</td>
</tr>
</tbody>
</table>
### Cash Flow Statement
**For the year ending December 31, 20XX**

<table>
<thead>
<tr>
<th>Inflows</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$130,000</td>
</tr>
<tr>
<td>Dividends and interest</td>
<td>4,000</td>
</tr>
<tr>
<td><strong>Total Inflows</strong></td>
<td><strong>$134,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed outflows</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage note</td>
<td>$14,000</td>
</tr>
<tr>
<td>Insurance&lt;sup&gt;2&lt;/sup&gt;</td>
<td>1,500</td>
</tr>
<tr>
<td>Property taxes</td>
<td>3,500</td>
</tr>
<tr>
<td><strong>Total fixed</strong></td>
<td><strong>-19,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable outflows</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>$10,000</td>
</tr>
<tr>
<td>Transportation</td>
<td>2,000</td>
</tr>
<tr>
<td>Clothing/personal care</td>
<td>9,000</td>
</tr>
<tr>
<td>Entertainment/vacation</td>
<td>12,000</td>
</tr>
<tr>
<td>Medical/dental care</td>
<td>3,000</td>
</tr>
<tr>
<td>Utilities/household expenses/misc. expense</td>
<td>33,000</td>
</tr>
<tr>
<td><strong>Total variable</strong></td>
<td><strong>-69,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal, state, and local</td>
<td>$23,000</td>
</tr>
<tr>
<td>FICA</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total taxes</strong></td>
<td><strong>-33,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IRA contributions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings</strong></td>
<td><strong>$9,000</strong></td>
</tr>
</tbody>
</table>

<sup>1</sup> John's $65,000, Mary's $65,000

<sup>2</sup> Homeowner's insurance $500 and auto insurance $1,000

---

**Question 42**
Do John and Mary have an adequate emergency fund?

A. Yes, their cash/cash equivalents are sufficient.
B. No, their emergency fund is underfunded and is a weakness.
C. No, their emergency fund is insufficient for 6 months of fixed and variable expenses.
D. Yes, their cash/cash equivalents represent a strength.

**Question 43**
John and Mary feel they need $750,000 in investments. Ignoring their checking and savings accounts, CDs, and IRAs, how much do they need to save by the end of each of the next 25 years?

A. $2,558
B. $6,932
C. $7,626
D. $9,827
**Question 44**
What percent of their gross income is for housing (PITI)?

A. 13.43%
B. 14.18%
C. 14.62%
D. 15.16%

**Question 45**
What tax-favored funding methods are available and appropriate to John and Mary to fund their son’s college education?

I. 419 plan
II. UTMA account
III. Coverdell ESA
IV. Education EE bonds
V. Pell Grant

A. All of the above
B. II, III, IV, V
C. II, III
D. II, IV

**Question 46**
If John and Mary open an UTMA account, is this likely to cause a kiddie tax problem if they deposit $8,000/yr. into an account paying 6% per year?

A. Yes
B. No
C. Yes, in about 4 years
D. Never

**Question 47**
John and Mary took out a $142,000, 30-year mortgage 5 years ago. The interest rate at that same time was 9%. They are now considering refinancing the remaining note. They can obtain a 7.2% 15-year mortgage but must pay $2,000 in points (will come from their money market account). How much will their monthly payments on the new note be?

A. $1,231.63
B. $1,239.03
C. $1,257.23
D. $1,284.55
Question 48
If John and Mary take out a new mortgage loan (Question 47), how much would their net worth increase based on the following information?

- $2,000 in points paid to obtain the new mortgage.
- $6,000 of the mortgage payment is principal reduction.
- $4,000 is contributed to a UTMA for Tom (from their money market account).
- $10,000 from cash flow is saved and invested.
- $4,000 from cash flow is contributed to their IRAs.

A. $6,000  
B. $10,000  
C. $12,000  
D. $14,000  
E. $18,000

Question 49
In which order would you place their priorities?

I. UTMA account for Tom  
II. Emergency fund  
III. Mortgage refinancing  
IV. Investments for retirement  
V. Life insurance purchase

A. V, II, III, I, IV  
B. I, III, V, IV, II  
C. II, V, IV, I, III  
D. IV, I, V, II, III  
E. III, IV, I, II, V
General Principles Final Answer Key

Question 1: A
Use assets (car) increase by $20,000. Cash decreases by $5,000. Liabilities increase by $15,000. Net worth remains unchanged.

Question 2: A
Both assets and liabilities will increase ($100,000 each) while net worth remains unchanged. Cash outflow will probably increase due to mortgage payments.

Question 3: C
Mortgage $24,000
Taxes 3,600
Insurance 800
PITI $28,400 ÷ $120,000 = 23.7%

Question 4: D
$60,000 PV, 7.5 i, 8 n = $107,008.67 FV

Question 5: B
The answer must be something less than 4.1% (7.2% - 3.1%). [(1.072 ÷ 1.031) - 1] x 100 = 3.9767%

Question 6: A
Begin mode
$1,000,000 PV, 25 n, 10 i = $100,152.79 PMT

Question 7: A
Coverdell can cover various elementary school expenses.

Question 8: A
Home equity interest used for non-home improvements is no longer deductible.

Question 9: A
Gain in net worth $20,000
Less gain on car -3,000
Less savings -8,000
Less gain on assets -5,000 Why not the rug?*
Loan principal reduction $ 4,000
*The $10,000 payment is deducted from the money market and then added as an asset (a wash).

Question 10: C

Question 11: D
The heirs are responsible; otherwise, the bank will foreclose on the house.

Question 12: A
Considerations shown should be explored.
Question 13: A
Registration is not required for a private adviser who only advises insurance companies. The number of companies is not a factor; it can be hundreds.

Question 14: D
Even Coverdell is an answer for college.

Question 15: C
Both answers A and B are correct.

Question 16: C
Broker-dealers and their representatives are exempt from adviser registration requirements unless they charge special fees for investment advice/management. Barry receives only commissions. Regarding Larry, planning for dozens of clients is not incidental.

Question 17: B
Statement I applies because there is no indication that the CFP® certificant has tax expertise.

Question 18: C
Rule 2.2 requires you to disclose to clients sources of compensation. Such a reimbursement may be considered compensation. However, there is no direct rule which prohibits such a reimbursement.

Question 19: A
Answer A is probably the best answer. Technically, he can't receive the funds. His B/D can. The issue with the question is the commingling of client funds in Larry's account.

Question 20: C
The principal is responsible for the negligent acts of his/her agents.

Question 21: B
Even if you register with the SEC, you may have to register with your state. The dollar amount is now $100 million.

Question 22: C
CFP™ is not acceptable. In addition, the initials should always be used with one of the CFP Board's approved nouns (such as certificant). CFP® should never use periods. CERTIFIED FINANCIAL PLANNER™, when spelled out, must be all capital letters.

Question 23: C
Remember IOC/FCPD. Covered in Lesson 2

Question 24: A
Loans from a client are covered by Rule 3.6. Competence is covered under Rule 4.2. Commingling funds with the funds of the CFP® certificant is covered under Rule 3.8. False advertisements are covered under 2.1. The exam will not ask for the actual rule number.

Question 25: D
Question 26: B
Answer B is the first step in the financial planning process. If the client will not complete the first step (answer B), then decline the client (answer C) but go through the first step before you decline the potential client.

Question 27: B
The lottery winning will always be taxable.

Question 28: C
Answer I is correct. Brett Danko cannot have a check made to Brett Danko, Inc. for a client investment since that is the planning firm. The check can be made out to the investment firm.

Question 29: D
Auto sales historically lead the cycle into both expansion and contraction (cyclical industry). Answers A and C are defensive industries and will have little sensitivity to the business cycle. The price of gold tends to mirror the fear of inflation. Inflation normally appears closer to the peak in a business cycle.

Question 30: C
The planner could be negligent which is an unintentional tort. She failed to live up to his fiduciary responsibility. He may be subject to arbitration, but that is not what the question asks ("guilty of").

Question 31: C
EE education bonds must be owned by a parent or someone age 24 or older.

Question 32: E
The Fed does not set the prime rate. If the Fed sells securities or it raises the discount rate, it tightens credit.

Question 33: B
Clients should have realistic goals. It is asking about which party should have the goals.

Question 34: D
A negatively sloped yield curve (YC₁) argues for investing in short-term bonds in order to earn the highest rates. The client may want to execute this strategy only if he or she expects rates to remain unchanged or to increase. The shift from investing in long-term to short term, however, will not benefit from a decline in interest rates.

If the yield curve, in fact returns to its normal positively slope (YC₂), then acquiring short-term securities precludes the opportunity to lock in currently high long-term rates. With these thoughts, the best selected answer is Treasury bonds. For example, in 1981, T-bills were paying 18% and 30-year T-bonds were paying 15% when we had a negatively sloped curve. The curve returned to a positively sloped curve and the T-Bonds are still paying 15%.
Question 35: C

Frank and Kathy Campbell
Statement of Financial Position

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking account (JT)</td>
<td>Credit card</td>
</tr>
<tr>
<td>Money market account (JT)</td>
<td>Automobile loan</td>
</tr>
<tr>
<td></td>
<td>Mortgage</td>
</tr>
<tr>
<td>Checking account (JT) $  4,000</td>
<td>Credit card $ 1,000</td>
</tr>
<tr>
<td>Money market account (JT) 10,000</td>
<td>Automobile loan 15,000</td>
</tr>
<tr>
<td>Marijuana loan</td>
<td>Mortgage 72,633</td>
</tr>
<tr>
<td>Net worth $136,367</td>
<td>Total liabilities and net worth $225,000</td>
</tr>
</tbody>
</table>

Invested assets

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business interest (K)</td>
</tr>
<tr>
<td>Profit sharing 401(K) (F)</td>
</tr>
<tr>
<td>SEP (K)</td>
</tr>
<tr>
<td>Life insurance (F)</td>
</tr>
<tr>
<td>Mutual Funds (JT)</td>
</tr>
<tr>
<td>$25,000</td>
</tr>
<tr>
<td>$20,000</td>
</tr>
<tr>
<td>$3,500</td>
</tr>
<tr>
<td>$7,500</td>
</tr>
<tr>
<td>$5,000</td>
</tr>
<tr>
<td>$61,000</td>
</tr>
</tbody>
</table>

Use assets

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home (JT)</td>
</tr>
<tr>
<td>Personal property (JT)</td>
</tr>
<tr>
<td>Automobiles (JT)</td>
</tr>
<tr>
<td>$100,000</td>
</tr>
<tr>
<td>$25,000</td>
</tr>
<tr>
<td>$25,000</td>
</tr>
<tr>
<td>$150,000</td>
</tr>
</tbody>
</table>

Total assets $225,000

Question 36: D

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage payments $6,109 (509.09 x 12)</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Property tax</td>
</tr>
<tr>
<td>$8,009</td>
</tr>
</tbody>
</table>

PITI Gross ÷ Income = $8,009 ÷ $75,500 = 10.61%

Remember, PITI % is based on gross income. Frank’s salary is shown as a net figure on the cash flow statement. His gross salary ($51,000) appears in the first case paragraph. His $51,000, her $2,000 per month plus dividends of $500 in cash total $75,500. This is also shown on cash flow statement.
Question 37: B
Frank and Kathy’s yearly savings is $8,407. See the cash flow statement below.
$72,440 - ($19,533 + 28,000 + 16,500) = $8,407

Frank & Kathy Campbell Yearly Cash Flow Statement

<table>
<thead>
<tr>
<th>Inflows</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank’s salary</td>
<td>$47,940</td>
</tr>
<tr>
<td>Draw from business</td>
<td>24,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>500</td>
</tr>
<tr>
<td>Gross Income</td>
<td>$72,440</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed Outflows</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Payments</td>
<td>$6,109</td>
</tr>
<tr>
<td>Auto Payments</td>
<td>5,724</td>
</tr>
<tr>
<td>Auto insurance</td>
<td>6,200</td>
</tr>
<tr>
<td>Property Tax</td>
<td>1,500</td>
</tr>
<tr>
<td></td>
<td>$19,533</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable Outflows</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Maintenance</td>
<td>3,000</td>
</tr>
<tr>
<td>Food</td>
<td>6,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,500</td>
</tr>
<tr>
<td>Clothes</td>
<td>3,000</td>
</tr>
<tr>
<td>Charity</td>
<td>4,000</td>
</tr>
<tr>
<td>Vacation</td>
<td>5,000</td>
</tr>
<tr>
<td>Entertainment</td>
<td>2,500</td>
</tr>
<tr>
<td>Misc.</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>28,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxes</td>
<td>9,500</td>
</tr>
<tr>
<td>FICA</td>
<td>3,900</td>
</tr>
<tr>
<td>Self-employment taxes</td>
<td>3,100</td>
</tr>
<tr>
<td></td>
<td>16,500</td>
</tr>
</tbody>
</table>

Savings $8,407
Life Insurance $2,400, Homeowners Insurance $400, and auto insurance $1,000

Question 38: D

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed expenses</td>
<td>$19,533</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>28,000</td>
</tr>
<tr>
<td></td>
<td>47,533</td>
</tr>
</tbody>
</table>

They need 6 months’ expenses 1/2 (6 months) = $23,766.50. Currently, Kathy has only a limited income, but she plans to have a second child. The emergency fund only uses fixed and variable expenses, not taxes. Be prudent for the exam as we realize this is a subjective question/answer.
Question 39: C – There is no indication of inflation in the question. The question just uses the word “return.”

10B/17BII
(12 P/YR) End mode
$5,000 ± PV
$200 ± PMT
9i
30 gold x P/Yr
$439,801.57 FV

12C
End mode
$5,000 CHS PV
$200 CHS PMT
.75i (.75 is 9 ÷ 12)
360n (30 x 12)
$439,801.57 FV

Question 40: C

10B
End $20,000 +/- PV
$4,590 +/- PMT
9i
30N
FV
$891,005

12C
(End) $20,000 CHS PV
$4,590* CHS PMT
9i
30n
FV
$891,005

*51,000 x (.06 + .03) = $4,590
The 6% is the deferral and the 3% the match.

Question 41: D
Strengths and weaknesses are aligned with Answer D.

Strengths
• Debt management (housing and total) is excellent. The checking account amount is less than one month of fixed and variable expenses.
• Savings and investing [including 401(k) and SEP] are excellent.
• Lifestyle is within their income.
• Amount of net worth is sufficient for their age.

Weaknesses
• Emergency fund is below the 6-month requirement. They only have $10,000 available the checking account
• Is not usable because it is below the fixed and variable monthly cost. Please revisit Lesson 3.
• Frank does not have enough life insurance, and Kathy has no life insurance.
• No education program is set up for Sara.
• They will need substantial saving to meet their retirement goal.

NOTE: This is somewhat opinionated, but it does not affect this answer. I do not believe this has ever been tested. It is here for your benefit.

Question 42: B
They need 3 months of fixed and variable (1/4 of $88,000 = $22,000). They have $14,000. Only the savings and CD are available.
**Question 43:** A
Remember, they already have $46,000 in investments. It says 10% in case data.

$750,000 FV
$46,000 PV +/- for 10B, CHS for 12C*
10 i,
25 n
= $2,558 PMT
*It must go in as a negative
Question 44: A
Mortgage note $14,000
Insurance/property $4,000 ($500 + $3,500)
$18,000 ÷ $134,000 = 13.43%

Question 45: C
419 plans are retirement plans. John and Mary's income is above the phaseout level for education EE bonds ($117,000+). Their income is too large to qualify for a Pell grant. Therefore, these are not methods available to them.

Question 46: C
$8,000 PMT, 6 i, 3 n = $26,997 at the beginning of 3 years (age 13)
$26,997 x 6% = $1,619 (age 13)
In 4 years, $37,096 x 6% = $2,226 causes a kiddie tax problem. All I am trying to show is that in 4 years an $8,000 deposit causes a kiddie tax problem which continues from year to year.

Question 47: B
You did not need to calculate the remaining mortgage principal; it appeared in the financial statement. The points are paid. They are not refinanced.

\[
\begin{align*}
10^B & \quad 12^C \\
12 \text{ P/YR} & \quad 136,150 \text{ CHS PV} \\
136,150 \pm \text{PV} & \quad .6i (7.2 \div 12) \\
7.2i & \quad 180n (15 \times 12) \\
15 \text{ Gold } x \text{ P/YR} & \quad $1,239.03
\end{align*}
\]

Question 48: D
Trickier than you thought

Change in assets
- Points $2,000 (from money market)
- UTMA $4,000 (from money market, gifted to son, now son's asset)
+ Savings $10,000 (from cash flow)
+ IRA $4,000 (from cash flow)
Net Change $8,000 in assets

Assets - liabilities = net worth
$8,000 - (- $6,000) = $14,000

The $6,000 of the mortgage payment is principle reduction.

Question 49: A
There is no mention of any existing life insurance in the case material. Therefore, I would list it first, followed by the emergency fund. This is subjective but important in light of family needs and goals.