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Question: 1

What is the consequence of a fully-insured worker electing to receive Social Security benefits early?

- A. They will receive a reduced monthly benefit
- B. Their dependents will not receive any benefits
- C. They will not be able to work full time again
- D. They will receive benefits only for a few years

Answer: A

Explanation:

Correct answer: They will receive a reduced monthly benefit

Social Security is a universal program meant to provide retirees with benefits after ending their employment at a certain age. For those born in 1960 or later, the retirement age is 67. If a fully-insured worker elects to receive Social Security benefits early, he or she will receive a reduced monthly benefit.

A significant portion of Americans elects to take early retirement and, therefore, reduced benefits.

By taking Social Security benefits early, recipients will receive this reduced monthly benefit for the rest of their lifetimes. Dependents under the age of 18 can get their parents' Social Security benefits if the parents die. Retirees are permitted to work full time again even if they elect to take Social Security benefits early.

Question: 2

Which of the following terms refers to a method of tracking the performance of company stock?

- A. Projected stock
- B. Imagined stock
- C. Real stock
- D. Phantom stock

Answer: D

Explanation:

Correct answer: Phantom stock

Phantom stock is an additional benefit offered to a company's employees and pays a cash award to employees based on the price of the company's stock. On the date phantom stock is awarded, no income is recognized; income is recognized only when the benefit is actually paid to the employee and not before. Phantom stock is sometimes used as a method of tracking the performance of company stock.

The remaining answers are incorrect. Imagined stock, projected stock, and real stock are not terms used in the stock market industry.

Question: 3

Which of the following passes by contract at a decedent's death?

- A. Life insurance
- B. A sole proprietorship
- C. Personal property
- D. Life only annuity payments

Answer: A

Explanation:

Correct answer: Life insurance

Life insurance typically passes by contract at a decedent's death and avoids probate. This means that as long as there was a beneficiary named on the life insurance contract, the benefits will pass to that person upon the policyholder's death without having to go through probate.

Personal property and a sole proprietorship are part of probate and are subject to court decisions regarding who is entitled to have ownership once a decedent dies. Life only annuity payments typically stop when an individual dies.

Question: 4

When one spouse dies during the tax year, what is the surviving spouse's tax filing status for the year?

- A. Married filing separately
- B. Single
- C. Head of household
- D. Married filing jointly

Answer: D

Explanation:

Correct answer: Married filing jointly

If a taxpayer's spouse dies during a tax year, the IRS considers the couple married for the entire year. The surviving spouse can choose to file as married filing jointly. If the couple had children, the surviving spouse could file as a qualifying widow(er) with dependent(s) for two years after the spouse dies.

Question: 5

Regarding the financial planner-client relationship, which of the following is true about goals?

- A. They are developed at the end of the financial planning process
- B. They should be developed by the financial planner
- C. They should be general ideas for where the client wants to be financially in several years
- D. They should be clear and achievable

Answer: D

Explanation:

Correct answer: They should be clear and achievable

Financial goals should be clear to both the client and the financial planner and should be achievable. Goals also should be prioritized in order of their importance. This is one of the most important first steps in the financial planning process. Goals are developed by the client with the guidance of the financial planner.

Question: 6

Kimberly wants to set money aside for her son's college in 15 years. She plans to donate to a 529 Plan, opening it with \$5,000 and adding \$100 a month. Assuming she can earn 8% annually on the investments, how much will she have available?

- A. \$48,314.11
- B. \$72,314.11
- C. \$51,369.12
- D. \$51,000.01

Answer: C

Explanation:

Correct answer: \$51,369.12

To find out how much Kimberly will have for her son's college education, perform the following calculation:

Present value (PV) = \$5,000

Number of compounding periods (n) = 15 x 12 = 180

Interest rate (i) = 8%

Periodic payment amount (PMT) = \$100

$FV = (PMT \times 1 / i) - (1 + i)^n \times (PV + PMT \times 1 / i)$

Therefore, the future value (FV) = \$51,369.12

Question: 7

Which of the following is not a step included in the budgetary process?

- A. Gathering information from the client's family and friends
- B. Listing all categories and amounts of fixed expenses
- C. Estimating all income and sources of income
- D. Determining how much needs to be saved

Answer: A

Explanation:

Correct answer: Gathering information from the client's family and friends

In the budgetary process, the primary source of information is the client. There is no need to gather information from the client's family or friends, as the financial relationship is based on trust between the client and the CFP.

Determining how much needs to be saved, estimating all income and sources of income, and listing all categories and amounts of fixed expenses are steps included in the budgetary process.

Question: 8

What is the internal rate of return of a zero-coupon bond with a \$5,000 face value, a current market price of \$3,700, and six years until maturity?

- A. 4.25%
- B. 2.45%
- C. 5.15%
- D. 7.24%

Answer: C

Explanation:

Correct answer: 5.15%

To find the internal rate of return (IRR) on this bond, perform the following calculation:

Present Value (PV) = \$3,700

Number of compounding periods (n) = 6

Future value (FV) = \$5,000

Periodic payment amount (PMT) = 0

$i = ((FV/PV)(1/n)) - 1$

Therefore, the interest rate (i) = 5.15%.

Question: 9

If a tax return has been filed, but taxes have not been paid, what is the penalty?

- A. \$1,000 penalty
- B. 5% of the tax due for each month the tax is unpaid, up to a maximum of 25%
- C. 20% of the total tax due

D. 0.5% of the tax due for each month the tax is unpaid, up to a maximum of 25%

Answer: D

Explanation:

Correct answer: 0.5% of the tax due for each month the tax is unpaid, up to a maximum of 25%

There are several penalties of which CFPs must be aware as they prepare individuals' income tax returns. If a tax return has been filed, but taxes have not been paid, the penalty is 0.5% of the tax due for each month the tax is unpaid, up to a maximum of 25%.

The remaining answers are incorrect. The penalty for failure to file a tax return is 5% of the tax due per month, up to a maximum of 25%. There is a penalty of \$1,000 when a tax return preparer understates the amount of tax owed. There is no penalty of 20% of the total tax due.

Question: 10

Which of the following is not part of the personal auto policy?

- A. Uninsured motorist coverage
- B. General provisions
- C. Liability coverage
- D. Coverage of trailers

Answer: D

Explanation:

Correct answer: Coverage of trailers

Coverage of trailers is not a part of the personal auto policy (PAP). To have full coverage for a trailer, it is necessary to buy trailer insurance. This includes boat trailers, car trailers, camping trailers, and horse trailers.

Liability coverage, general provisions, and uninsured motorist coverage are all parts of the PAP.

Question: 11

Which of the following is one of the main objectives of underwriting?

- A. To generate revenue
- B. To maximize an insurance company's assumed risk
- C. To provide efficient services to consumers
- D. To reject as many applications as possible

Answer: A

Explanation:

Correct answer: To generate revenue

One objective of underwriting is to generate revenue. Underwriters are responsible for making sound decisions that are in the best interest of the organization while also providing quality insurance services to policyholders.

One of the objectives of underwriters is to minimize, not maximize, the company's assumed risk. Underwriters may reject applications at times, but the goal is to accept applications while keeping the company's risk at a minimum.

Underwriters may also strive to provide efficient services to consumers, but this is not one of their main objectives.

Question: 12

In a business cycle, the period from a peak to a trough is known as:

- A. Fluctuation
- B. Recession
- C. Recovery
- D. Expansion

Answer: B

Explanation:

Correct answer: Recession

The business cycle is the upward and downward flow of the gross domestic product (GDP). The period from the peak of a business cycle to a trough is a recession, indicating a decline in economic activity.

Recovery is the general state of the economy returning to previous levels after a recession. Expansion is the period between a trough and a peak in the business cycle and indicates economic growth. Fluctuation refers to any change within the business cycle.

Question: 13

Joe is a 55-year-old factory worker. He decides to purchase an individual disability policy to cover his income in case he gets injured on the job. Which of the following is true regarding Joe's premiums for this policy?

- A. The premiums are unaffordable
- B. The premiums are non-deductible
- C. The premiums are non-taxable
- D. The premiums are refundable

Answer: B

Explanation:

Correct answer: The premiums are non-deductible

Individual disability insurance is purchased to cover the loss of income due to injury or disability. In an individual disability policy, premiums are non-deductible expenses. This means that Joe cannot deduct the premiums he pays each month; however, any income he receives from disability benefits is not subject to the federal income tax.

Premiums paid toward an individual disability policy are not refundable and are taxable in most cases. They can be affordable or expensive, depending on the coverage and elimination periods.

Question: 14

Lower coupon bonds are more affected by which of the following than higher coupon bonds?

- A. Interest rate changes
- B. Maturity dates
- C. Put options
- D. Systematic risk

Answer: A

Explanation:

Correct answer: Interest rate changes

The coupon rate is calculated by adding the total amount of coupons paid per year and dividing by the bond's face value. Therefore, bonds with a lower coupon rate are more affected by interest rate changes.

Lower coupon rates are not necessarily affected more than higher coupon rates by maturity dates or put options. Systematic risk applies to the entire market or market segment. This type of risk is unpredictable and impossible to avoid completely and affects bonds with all levels of coupon rates.

Question: 15

Which of the following describes a situation in which fractional ownership of property is included in the decedent's gross estate?

- A. Tenancy by entirety
- B. Tenancy in common
- C. Community property
- D. Joint tenants with rights of survivorship

Answer: B

Explanation:

Correct answer: Tenancy in common

Tenancy in common is a form of ownership in which more than one person owns the property, but is different than tenancy by entirety because an owner can choose to name a beneficiary other than the

co-owner. Tenancy in common is a situation in which fractional ownership of property is included in the decedent's gross estate.

Joint Tenants with Rights of Survivorship (JTWROS) is a type of brokerage account owned by two people; when one person dies, the surviving owner is given full rights to the account.

Tenancy by entirety is a shared ownership of property recognized by most states available to married couples. Each spouse has full rights to occupy the property and has rights to survivorship regardless of monetary contribution.

Community property is honored in a handful of states and refers to the fact that any property acquired in marriage belongs to both parties. If one spouse dies, the surviving spouse gains ownership of the entire property.

Question: 16

Why would an ordinary human subject to bounded rationality choose a Target Retirement Date fund for their 401k?

- A. It is a convenient way to get a good but not perfect solution after an hour of research.
- B. They don't know what they are doing and randomly selected it.
- C. They invested 20 hours in an attempt to rationally maximize returns.
- D. They invested 20 hours in an attempt to rationally minimize risks.

Answer: A

Explanation:

Correct answer: It is a convenient way to get a good but not perfect solution after an hour of research.

This is correct because bounded rationality is based upon making a good but not perfect decision based upon imperfect information, often with a tradeoff between convenience and excellence.

"They invested 20 hours in an attempt to rationally maximize returns" is incorrect because this is an example of Homo Economicus, a theoretical human that rationally and coldly calculates based upon perfect information to make optimal decisions.

"They invested 20 hours in an attempt to rationally minimize risks" is incorrect because this is an example of Homo Economicus in action with the goal of risk minimization instead of return maximization.

"They don't know what they are doing and randomly selected it" is incorrect because bounded rationality requires a decision to be made between options, even if it is imperfect. Random selection does not weigh the necessary factors at all.

Question: 17

Rick wants to give his grandson \$10,000 at his college graduation seven years from now. How much should he invest today at an annual rate of 8% compounded annually to have \$10,000 in seven years?

- A. \$5,834.91
- B. \$4,835.19

- C. \$6,438.91
- D. \$3,845.19

Answer: A

Explanation:

Correct answer: \$5,834.91

To find out how much Rick should invest today to have \$10,000 in seven years, perform the following calculation:

Future value (FV) = \$10,000

Number of compounding periods (n) = 7

Interest rate (i) = 8

Periodic payment amount (PMT) = 0

$PV = FV / (1+i)^n$

Therefore, present value (PV) = \$5,834.91.

Question: 18

In what maximum amount of time does the U.S. Treasury guarantee that an EE bond's value will double?

- A. 30 years
- B. 50 years
- C. 10 years
- D. 20 years

Answer: D

Explanation:

Correct answer: 20 years

A Series EE savings bond is a low-risk bond issued by the U.S. government. Its value is guaranteed to double within 20 years.

Question: 19

The death proceeds of a life insurance policy are included in the decedent's gross estate if what rule is triggered?

- A. The five-year rule
- B. The two-year rule
- C. The three-year rule
- D. The four-year rule

Answer: C

Explanation:

Correct answer: The three-year rule

The death proceeds of a life insurance policy are included in the decedent's gross estate if the "three-year rule" is triggered. The three-year rule states that any assets that are gifted within three years of a decedent's death are included in the gross value of that individual's estate. This is to prevent decedents from gifting assets when death is imminent as an attempt to avoid estate taxes.

Question: 20

An individual provides advice or analyses to clients concerning securities. What is this individual required to do?

- A. Register as an investment advisor
- B. Have the client sign a policy giving the individual permission to invest the client's money
- C. Report all the client's income to the IRS
- D. Contact the client's family to inform them of financial proceedings

Answer: A

Explanation:

Correct answer: Register as an investment advisor

An RIA (registered investment advisor) is an individual who provides advice or analyses to clients concerning securities and is required to register with the federal government or a state's securities agency. If a CFP practitioner is only registered as an investment advisor through the financial planning firm, then that individual must disclose his or her firm's status.

Individuals who provide advice or analyses to clients concerning securities are not required to contact the client's family, as this may be a confidentiality violation. They are also not required to report the client's income to the IRS or have the client sign a waiver for them to invest the client's money.



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