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PRACTICE QUESTIONS

Certified Financial Planner Exam (CFP®)

CFP

Certified Financial Planner

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Certified Financial Planner Exam (CFP®) `CFP`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `CFP`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 MULTIPLE CHOICE

Under the CFP Board's Standards of Conduct, which of the following actions are required of a CFP® professional when providing Financial Advice? (Choose two.)

- A **Act in the client's best interests**
- B Provide advice only on products sold by the firm
- C **Disclose all conflicts of interest**
- D Avoid documenting the client engagement
- E Recommend the highest-commission product

ANSWER **A · C**

WHY The Standards of Conduct require a CFP® professional to act in the client's best interests (the Fiduciary Duty) and to disclose all material conflicts of interest. Options B, D, and E describe practices that violate the Standards.

QUESTION 2 MULTIPLE CHOICE

A client is constructing an investment portfolio using Modern Portfolio Theory. Which of the following statements correctly describe characteristics of an efficient portfolio? (Choose two.)

- A **It offers the highest expected return for a given level of risk**
- B It is always composed exclusively of growth stocks
- C **It offers the lowest risk for a given level of expected return**
- D It must include international equities
- E It is guaranteed to outperform the market

ANSWER **A · C**

WHY An efficient portfolio is one that maximizes expected return for a given level of risk, or equivalently minimizes risk for a given level of expected return. The other options are not requirements of an efficient portfolio and represent common misconceptions.

QUESTION 3 SINGLE CHOICE

A single taxpayer has $5,000 of short-term capital losses and $7,000 of long-term capital gains for the current year. What is the taxable result?

- A $7,000 taxed at long-term capital gains rates
- **B $2,000 of net long-term capital gain taxed at long-term capital gains rates**
- C $2,000 of net short-term capital gain taxed at ordinary rates
- D $7,000 taxed at ordinary rates

ANSWER **B**

WHY Short-term losses first offset long-term gains. After the $5,000 short-term loss offsets $5,000 of the long-term gain, $2,000 of net long-term gain remains, taxed at long-term capital gains rates.

QUESTION 4 SINGLE CHOICE

For the 2024 tax year, what is the maximum elective deferral contribution an employee under age 50 may make to a 401(k) plan?

- A $6,500
- B $7,000
- C $19,500
- **D $23,000**

ANSWER **D**

WHY The elective deferral limit for a 401(k) in 2024 is $23,000 for participants under age 50. The $6,500 figure is the IRA limit, and $7,000 was an earlier figure. The $19,500 limit applied in 2021 and was not the current figure.

QUESTION 5 SINGLE CHOICE

Which of the following is the best description of probate?

A A legal document that distributes property at death

B The court-supervised process of proving a will and administering an estate

C A trust established to avoid taxes

D A document granting durable power of attorney

ANSWER **B**

WHY Probate is the court-supervised process of validating a will (if one exists), paying debts, and distributing assets to heirs or beneficiaries. The will itself is the document; probate is the process.

QUESTION 6 SINGLE CHOICE

The needs approach to determining life insurance coverage calculates the amount of insurance needed based on which of the following?

A The insured's current income only

B The present value of the family's economic loss upon the insured's death

C The replacement value of the insured's home

D The amount the insured wishes to leave as an inheritance

ANSWER **B**

WHY The needs approach (or capital needs analysis) estimates the present value of the financial needs the survivors will have if the insured dies prematurely. Options A, C, and D describe incomplete or unrelated measures.

QUESTION 7 SINGLE CHOICE

Which of the following statements about a Section 529 qualified tuition program is correct?

A Contributions are deductible for federal income tax purposes

B Earnings grow tax-deferred and are tax-free if used for qualified education expenses

C There is a federal gift tax exclusion limit of $1,000,000 per beneficiary

D The account owner retains unlimited control over the beneficiary's higher education choices

ANSWER **B**

WHY Section 529 earnings grow tax-deferred and distributions are federally tax-free when used for qualified education expenses. Contributions are not federally deductible (some states allow a deduction). The federal gift tax exclusion limit follows the annual exclusion ($18,000 in 2024) with a special 5-year election allowing up to 5x that amount, not $1,000,000. The beneficiary generally has full control once funds are used for higher education.

QUESTION 8 SINGLE CHOICE

A client wants to have $100,000 in 10 years. Assuming an interest rate of 6% compounded annually, approximately how much must be invested today?

A $55,839

B $60,000

C $74,400

D $100,000

ANSWER **A**

WHY Using the present value formula PV = FV / (1 + r)^n: PV = 100,000 / (1.06)^10 = 100,000 / 1.7908 ≈ $55,839. This reflects the time value of money concept that a dollar today is worth more than a dollar in the future.

QUESTION 9 SINGLE CHOICE

An estate or trust generally reaches its lowest marginal income tax bracket at which of the following taxable income levels?

- A $0
- **B $3,100**
- C $11,650
- D $44,725

ANSWER **B**

WHY Estates and trusts use a compressed tax bracket structure. For recent tax years, the lowest bracket ($0 to $3,100) is taxed at 10% — this is the level at which trusts and estates reach their next marginal bracket. Individuals have a much wider 10% bracket (up to $11,650 single for 2024).