Sample Examination Questions: CFP® Certification

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About this Sample Questions Booklet

This sample question booklet consists of 47 standalone sample questions and 24 case-based sample questions.

The sample questions are provided to help examinees familiarise themselves with the form and style of questions which they may see in the CFP® Certification Examination (Foundation Level, Level 1 and Level 2). They may NOT fully reflect the cognitive level of questions of the CFP Certification Examinations. The sample questions have been drafted to reflect current law and practice as of September 2013.

This Sample Question Booklet does NOT constitute past examination papers, NOR does it represent the number of questions or topic coverage in actual examinations. It should also be noted that this Sample Question Booklet is by no means intended to be a practice examination paper for readers. Readers should not equate success in answering the sample questions to success in the CFP Certification Examination (Foundation Level, Level 1 and Level 2), and the Cross Border CFP Certification Examination.

Disclaimer

This Sample Question Booklet is published solely to help candidates of the CFP Certification Examination familiarize themselves with the form and style of questions which they may see in the examination and does not provide academic, legal or expert advice. Every effort has been made to ensure the accuracy of the information contained in this booklet; however, no responsibility for loss occasioned to any person acting or refraining from action as a result of any materials in this publication will be accepted by the publisher and/or individual contributors. If professional advice or other expert assistance on any of the issues raised is required, the services of a competent professional person should be sought.

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CFP CERTIFICATION EXAMINATION (FOUNDATION LEVEL)

Question 1 (Subject Area: Financial Management)

Jonathan is applying for a personal loan from a local bank. As part of its standard procedure for loan assessment, the bank has asked him to provide his financial information. Jonathan provides the requested information as follows:

Bank Deposits	$50,000
Treasury Bills	$55,000
3-month Certificate of Deposit	$50,000
Credit Card Balance	$10,000
Listed Stocks	$120,000
Life Insurance Cash Value	$125,000
MPF Account Balance	$350,000
Mortgage Loan	$1,500,000
Residential Flat	$3,000,000

What is Jonathan's net worth?

A. $1,880,000
B. $2,115,000
C. $2,240,000
D. $3,750,000

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Answer: C

Explanation:
Net Worth = Total Assets – Total Liabilities

Total Assets= Bank Deposits + Treasury Bills + Certificate of Deposit + Listed Stocks + Life Insurance Cash Value + MPF Account Balance + Residential Flat = $3,750,000

Total Liabilities=Credit Card Balance + Mortgage Loan= $1,510,000
Net worth →$3,750,000 – $1,510,000 = $2,240,000

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 115.

Question 2 (Subject Area: Financial Management)

Mr. and Mrs. Yung, both aged 48 and each with a life expectancy of 90, have a current annual household income of $600,000. They would like to retire in 12 years' time on 70% of their current income adjusted for inflation. They also wish to leave an estate of $3 million to their only daughter, Tina, upon their deaths. The inflation rate is expected to be 3% p.a. In order to achieve the Yungs' objectives, how much capital should they accumulate at age 60 if the expected rate of return is 8% p.a.?

A. $7.04 million
B. $7.29 million
C. $9.36 million
D. $10.08 million

****

Answer: D

Explanation:
Calculation of PV of a future stream of income:
N=30, I={(1.08/1.03)-1}=4.854369%
PMT=(-600,000 x 70%)*1.03^12 =-598,819.57,
FV=-3m
PV=10.08m

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 59-62.

Question 3 (Subject Area: Financial Management)

Ronald has taken out a car loan of $280,000 to be repaid over 3 years. Interest rate is at 3.5% for the first year, 4.5% for the second year, and 5.5% for the third year. Calculate Ronald's monthly payment in the first, second and third year respectively.

A. $8,205; $7,924; $7,421
B. $8,205; $8,289; $8,334
C. $8,205; $12,221; $24,034
D. $8,329; $8,329; $8,329

****

Answer: B

Explanation:
N=36, I=3.5%/12=0.291667%, FV=0, PV=280,000
1st year PMT=-8,205
Balance of the loan = -8,205*PVIFA(I=3.5%/12,N=24)=189,909

N=24, I=4.5%/12=0.375%, FV=0, PV=189,909
2nd year PMT=-8,289
Balance of the loan = -8,289*PVIFA(I=4.5%/12,N=12)=97,087

N=12, I=5.5%/12=0.458333%, FV=0, PV=97,087
3rd year PMT=-8,334

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 44-48.

Question 4 (Subject Area: Financial Management)

Which of the following types of business ownership imply that the nature of the liability of the owner(s) with respect to the business is a personal one?

I. Limited liability company.
II. Partnership.
III. Sole proprietorship.

A. III only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: C

Explanation:
II & III are correct. The liability of the owners or shareholders of a limited liability company is limited to the amount of their shareholding in the company. The partners of a partnership and sole proprietors are personally liable for all claims and liabilities with respect to their business. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 299 and AFP Supplementary Notes (2011 edition) #004, 005 and 006.

Question 5 (Subject Area: Financial Management)

Ruby is 60 years old and expects to live until at least age 80. She is considering a proposal of an annuity from an insurance company. For a premium of $250,000, the annuity will pay her $2,500 per month for the rest of her life until she passes away. Assume Ruby invests her savings in US Treasury Bills (US T-Bills) earning a rate of return of 3% p.a. Which of the following statements about the proposed annuity and the US T-Bills are CORRECT?

I. The rate of return on the annuity is higher than the rate of return on US T-Bills.
II. The rate of return on the annuity is the same as the rate of return on US T-Bills.
III. The rate of return on the annuity is lower than the rate of return on US T-Bills.
IV. The present value of benefit payments to be made from the annuity are worth more than its premium.
V. The present value of benefit payments to be made from the annuity are worth less than its premium.

A. I & IV only
B. II & IV only
C. II & V only
D. III & V only

****

Answer: A

Explanation:

I & IV are correct.
PV=250,000; PMT=2,500; N=12*20
Compute I=0.877009% → annual rate = 10.524%
Also NPV=200,777.29 >0 using 3% discount rate (monthly rate: 0.25%)

Please also refer to IFPHK's Fundamentals of Financial Planning Textbook (1st edition), page 53-54.

Question 6 (Subject Area: Financial Management)

Mr. and Mrs. Chan are a young married couple. The following shows some of their financial figures:

	Mr. Chan	Mrs. Chan
Annual income:	$336,000	$264,000
Annual bonus:	$28,000	N/A
Annual household and personal expenses:	$270,000	$180,000
Personal possession:	$80,000	$19,000
Annual interest and dividend income:	$15,000	$9,000
Stockholding:	$100,000	N/A
Savings:	$220,000	$300,000
Credit card and/or personal loan:	$80,000	$11,000

Based on the figures provided, calculate the debt ratio of the Chan couple.

A. 0.12
B. 0.14
C. 0.18
D. 0.21

****

Answer: B

Explanation:

Net worth=Total assets-total liabilities
→ $719,000-$91,000=$628,000
Debt ratio = liabilities/net worth → $91,000/$628,000=0.1449

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 103.

Question 7 (Subject Area: Financial Planning Principles)

A financial planner has extracted the following information about a client from his file:

“Existing investment portfolio: aggressive
Findings of risk-profiling questionnaire: conservative”

In light of the above, what is the BEST approach that the client’s financial planner should take?

A. Adopt the client’s existing investment portfolio.
B. Ask the client to do the risk-profiling questionnaire again.
C. Discuss with the client the possible need for adjusting his asset allocation.
D. Follow the findings of the risk-profiling questionnaire.

****

Answer: C

Explanation:
The best approach is to take into account the mismatch between the client’s investment portfolio and the findings of risk-profiling. Please also refer to IFPHK’s Fundamentals of Financial Planning textbook (1st edition), page 325.

Question 8 (Subject Area: Financial Planning Principles)

Robert is a 35-year old single male who has just lost his job as a salesperson due to the recent economic downturn. Which of the following are appropriate actions that Robert's financial planner should recommend him to take in the event of a prolonged period of reduced income?

I. Keep up his monthly savings plans.
II. Reduce his discretionary spending.
III. Reduce his financial responsibilities.

A. I & II only
B. I & III only
C. II & III only
D. I, II & III

****

Answer: C

Explanation:
II & III are correct. Due to Robert's job nature and the economic situation, it is likely that Robert will suffer a period of reduced income which will last for a while. As such, he should reduce discretionary spending and financial responsibilities. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), chapter 4.

Question 9 (Subject Area: Financial Planning Principles)

Generally speaking, a financial planner is expected to ensure that the client's

I. goals are prioritized in the order of importance.
II. investment goals are clearly stated.
III. risk tolerance level is maintained.

A. I only
B. I & II only
C. I & III only
D. II & III only

****

Answer: B

Explanation:
I & II are correct. Goals should be concrete and achievable and should be prioritized in the order of importance. Client's risk tolerance may change due to changes to his/her circumstances. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 368-371.

Question 10 (Subject Area: Financial Planning Principles)

Amy and Ben are a married couple aged 30 and 32 respectively, they are concerned about their heavy debt load as below:

I.	Mortgage (interest at 4.5% p.a.):	$2,000,000
II.	Unsecured credit line (interest at 6.5% p.a.):	$15,000
III.	Amy's student loan (interest at 10% p.a.):	$40,000
IV.	Amy's credit card balance (interest at 18% p.a.):	$10,000

Their goal is to pay off their mortgage loan as quickly as possible. List, from the FIRST to the LAST, the order in which their debt should be paid off that will be the MOST cost-effective for them.

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

****

Answer: D

Explanation:
Although their goal is to pay off their mortgage, they need to pay down the debt with the highest cost of borrowing. The cost of borrowing from descending order would be: credit card (18%); student loan (10%), credit line (6.5%) and mortgage (4.5%). Please also refer to IFPHK's Fundamentals of Financial Planning Textbook (1st edition), page 95.

Question 11 (Subject Area: Retirement Planning)

A financial planner is writing an article on financial activities for readers over 60 years of age who have a personal profile typical for that age group. To cater for the common needs of this age group, the planner should emphasize which of the following topics in the article?

I. Estate planning.
II. Long-term healthcare coverage.
III. Real estate investments.
IV. Retirement planning.

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

****

Answer: C

Explanation:
I, II & IV are correct. Estate planning, long-term healthcare coverage and retirement planning are topics relevant to this age group. Real estate investments will involve liquidity issues and high costs, and may not necessarily be suitable, therefore it should not be emphasized. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 328.

Question 12 (Subject Area: Retirement Planning)

Freshly Restaurant (Freshly) has employed Rose as a full-time waitress for 6 months. Rose receives a fixed monthly salary, and at the end of each month, she also receives her share of tips collected by Freshly. She also collects tips directly from customers. When computing contributions to the Mandatory Provident Fund Scheme, which of the following items should be included in Rose's "relevant income"?

I. Monthly salary paid by Freshly.
II. Rose's share of tips collected by Freshly.
III. Tips that Rose collected directly from customers.

A. I only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: B

Explanation:
I & II are correct. Tips retained by employees themselves are not regarded as "relevant income" for the purpose of computing contributions to the Mandatory Provident Fund Scheme. Please also refer to Insurance Intermediaries Quality Assurance Examination Scheme: MPF Schemes Examination Study Notes (8th edition), Appendix IV.

Question 13 (Subject Area: Retirement Planning)

Richard is an Australian citizen who came to Hong Kong under an employment visa in June 2010. He was contracted to work in the Hong Kong subsidiary of an Australian-based company for a period of 12 months. Which ONE of the following statements regarding Richard's obligation to enroll in the Mandatory Provident Fund (MPF) Scheme is CORRECT?

A. Richard is automatically exempted from joining the MPF Scheme on the basis that he is an expatriate with an employment visa.
B. Richard is required to enroll in an MPF Scheme after he has remained in Hong Kong for 60 days.
C. Richard is not required to enroll in any MPF Scheme during the 12 months he was in Hong Kong.
D. Richard is not required to enroll in any MPF Scheme until he has obtained a valid Hong Kong Identity Card.

****

Answer: C

Explanation:
Foreign employees entering Hong Kong with an employment visa for a period not exceeding 13 months are exempted persons under the MPF Scheme. Please also refer to Insurance Intermediaries Quality Assurance Examination Scheme: MPF Schemes Examination Study Notes (8th edition), Section 3.5 & Appendix III.

Question 14 (Subject Area: Introduction to Investments)

Which of the following statements CORRECTLY describe “H-shares”?

I. They are traded either in Hong Kong dollars or in Renminbi.
II. They are issued by Mainland Chinese entities.
III. They are listed on the Stock Exchange of Hong Kong.
IV. They are referred to as “red chips”.

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

****

Answer: B

Explanation:
II & III are correct. H-shares are issued by Mainland Chinese companies and listed on the Stock Exchange of Hong Kong, and are traded in Hong Kong dollars. Please also refer to IFPHK’s Essentials of Investments textbook (1st edition), page 804.

Question 15 (Subject Area: Introduction to Investments)

A monetary policy involves the control of:

I. interest rates.
II. government spending.
III. the supply of money.
IV. tax rates.

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

****

Answer: A

Explanation:
I & III are correct. A monetary policy relates to money supply and interest rates. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 5.

Question 16 (Subject Area: Introduction to Investments)

Economic indicators suggest that there will be a rise in interest rates in the coming six months. Which ONE of the following investment portfolios would be LEAST exposed to such a rise in interest rates?

A. One-third in cash, one-third in short-term bonds and one-third in shares.
B. One-third in long-term bonds, one-third in property and one-third in shares.
C. One-third in cash, one-third in long-term bonds and one-third in shares.
D. One-third in short-term bonds, one-third in property and one-third in shares.

****

Answer: A

Explanation:
Property and long-term bonds are expected to be adversely affected when there is a rise in interest rate(s). Please also refer to IFPHK's Essentials of Investments textbook (1st edition), pages 340-342.

Question 17 (Subject Area: Introduction to Investments)

Which of the following are typical features of a forward contract?

I. The price of the goods is determined at the time of making the contract.
II. The payment for the goods is made at the time of making the contract.
III. The goods will be delivered upon maturity of the contract.

A. I & II only
B. I & III only
C. II & III only
D. I, II & III

****

Answer: B

Explanation:
I & III are correct. The price of the goods is determined when the forward contract is made, the goods will be delivered and cash settlement is made upon maturity of the underlying contract. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), pages 534-535.

Question 18 (Subject Area: Introduction to Investments)

Which of the following statements CORRECTLY describe(s) a bearer bond?

I It usually does not have a maturity date.
II. It is considered to be owned by the holder of the bond.
III. It has no coupon payment.

A. II only
B. I & II only
C. I & III only
D. I, II & III

****

Answer: A

Explanation:
Only II is correct. The holder of a bearer bond is considered to be the owner. A bearer bond has a maturity date and it can have coupon that is numbered and dated. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 299.

Question 19 (Subject Area: Introduction to Investments)

The following table lists out the transactions in an investor's securities account. What is the dollar-weighted average return of this account?

Year	Transactions
0	Bought 2 shares of $60 each
1	Received a dividend of $4 per share Sold 1 share at $66 each
2	Received a dividend of $4 per share Sold the remaining 1 share at $63 each

A. 9.38%
B. 11.67%
C. 15.53%
D. 17.58%

****

Answer: B

Explanation:
120 = (66+8)/(1+r) + (63+4)/(1+r)^2
Return (r) = 11.67%

Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 134.

Question 20 (Subject Area: Fundamentals of Insurance)

Janis is the Human Resources Manager of Company X and she is looking for a group life insurance policy. The insurance agent informs her that Company X must ensure that a minimum number of employees will be covered under the group policy. The main purpose of this requirement is to:

A. avoid adverse selection.
B. ensure insurability.
C. increase agency commission.
D. reduce premium.

****

Answer: A

Explanation:
Adverse selection refers to the tendency of persons whose exposure to loss is higher than average to purchase insurance to a greater extent than those whose exposure is less than average. Adverse selection works in the direction of accumulating bad risk and causes the insurance plan to be unviable. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 48.

Question 21 (Subject Area: Fundamentals of Insurance)

Bill submitted his proposal for a whole life insurance policy with a sum insured of $1,000,000 and paid the first premium of $2,000. He has passed the medical check-up, and the underwriting process was duly completed. If Bill dies before the policy was issued, how much will his beneficiary recover under the policy?

A. $0
B. $2,000
C. $998,000
D. $1,000,000

****

Answer: D

Explanation:
The beneficiary could get the sum insured as the life insurance contract is a valid contract, although the actual policy document has not yet been issued. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 150-152.

Question 22 (Subject Area: Fundamentals of Insurance)

Which of the following is/are the effects of the principle of indemnity in insurance?

I. It prevents the insured from profiting from insurance.
II. It reduces physical hazard.
III. It reduces moral hazard.

A. I only
B. III only
C. I & III only
D. I, II & III

****

Answer: C

Explanation:
I & III are correct. The principle of indemnity maintains that the insured should not profit from insurance. The principle of indemnity cannot reduce physical hazard. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 5 and page 153.

Question 23 (Subject Area: Fundamentals of Insurance)

Ronald purchased his life insurance policy 5 years ago and committed suicide last month. When the insurance company processed the claim, it was found that Ronald had not fully disclosed information about his health condition in the life insurance proposal form. In the circumstances, the insurance company _______________ payment under the policy by reason of the _________________ clause.

A. can reject; entire contract
B. can reject; suicide
C. cannot reject; incontestable
D. cannot reject; ownership

****

Answer: C

Explanation:
In accordance with the incontestable clause, the validity of the insurance contract cannot be questioned for any reason whatsoever after it has, during the lifetime of the insured, been in force for some time, typically 2 years. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 226 -231.

Question 24 (Subject Area: Fundamentals of Insurance)

Which of the following statements with respect to a disability income benefit rider in a life insurance policy are CORRECT?

I. Income benefits will be provided during the insured's disability.
II. Death benefits will be reduced if income benefits are provided to the insured.
III. A waiting period normally applies before income benefits are provided to the insured.

A. I & II only
B. I & III only
C. II & III only
D. I, II & III

****

Answer: B

Explanation:
Only I & III are correct. There will be no deduction of the death benefits if the insured receives income benefits during the period of disability. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 247-248.

Question 25 (Subject Area: Fundamentals of Insurance)

Which of the following statements regarding a convertible term life insurance policy are CORRECT?

I. The insured has the option of converting the policy subject to the provision of satisfactory evidence of insurability.
II. The insured has the option of converting the policy without having to provide evidence of insurability.
III. The insured has the option of exchanging the term life insurance policy for a permanent health insurance policy.
IV. The insured has the option of exchanging the term life insurance policy for some other type of permanent life insurance policy.

A. I & III only
B. I & IV only
C. II & III only
D. II & IV only

****

Answer: D

Explanation:
II & IV are correct. A conversion provision gives the insured the option to exchange the term insurance policy for some category of permanent life insurance policy without having to prove insurability. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 199.

- End of Sample CFP Certification Examination Questions (Foundation Level) -

CFP CERTIFICATION EXAMINATION (LEVEL 1)

Question 26 (Subject Area: Investment Planning/Asset Management)

Using the capital market line (CML) in analyzing a risky portfolio, _______ performance is indicated by a position below the CML, _______ performance is indicated by a position above the CML and _______ performance is indicated by a position on the CML.

A. inferior ; optimal ; superior
B. inferior ; superior ; optimal
C. optimal ; superior ; inferior
D. superior ; inferior ; optimal

****

Answer: B

Explanation: B is correct. The capital market line (CML) is a line used in the capital asset pricing model to illustrate the rates of return for efficient portfolios depending on the risk-free rate of return and the level of risk (standard deviation) for a particular portfolio. Inferior performance is indicated by a position below the CML, superior performance is indicated by a position above the CML and optimal performance is indicated by a position on the CML. Please also refer to IFPHK's Essential of Investments textbook (1st edition), pages 221-222.

Question 27 (Subject Area: Investment Planning/Asset Management)

Mr. A, a risk-averse investor, is considering to invest in either an US Treasury bill which currently pays a 4.5% rate of return, or a risky portfolio which pays a 8% return with a probability of 40%, and a 3% return with a probability of 60%. Mr. A asks his financial planner to help him calculate the risk premium of investing in the risky portfolio, and to give him some investment advice. Which ONE of the following statements is the MOST appropriate for Mr. A's financial planner to make?

A. The risk premium is 0 and Mr. A should invest in the risky portfolio.
B. The risk premium is 0 and Mr. A should invest in the US Treasury bill.
C. The risk premium is 0.5% and Mr. A should invest in the risky portfolio.
D. The risk premium is 0.5% and Mr. A should invest in the US Treasury bill.

****

Answer: C

Explanation: C is correct. Risk premium = [(8%*40%)+(3%*60%)]-4.5% = 0.5%. Mr. A should invest in the risky portfolio because he is rewarded with a risk premium. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), pages 137-139.

Question 28 (Subject Area: Investment Planning/Asset Management)

Please refer to the following information to answer Question 28 and Question 29:

Portfolio XYZ is well diversified. It has a return of 10.5%, a portfolio beta of 1.2 and a standard deviation of 5%. Assume the risk free rate is 3% and the interest rate on long-term government bonds is 6%.

What is the Sharpe measure of the portfolio?

A. 0.9
B. 1.2
C. 1.5
D. 6.25

****

Answer: C

Explanation: C is correct. Sharpe measure is calculated by dividing the portfolio excess return (i.e. portfolio return minus risk free rate) by the standard deviation of the portfolio. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 628.

Question 29 (Subject Area: Investment Planning/Asset Management)

What is the Treynor measure of the portfolio?

A. 0.9
B. 1.2
C. 1.5
D. 6.25

****

Answer: D

Explanation: D is correct. Treynor measure is calculated by dividing the portfolio excess return (ie. portfolio return minus risk free rate) by the portfolio beta. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 628.

Question 30 (Subject Area: Investment Planning/Asset Management)

If other factors remain constant, for an investment grade corporate bond, the higher its liquidity, the:

A. higher its coupon rate.
B. longer its duration.
C. lower its default risk.
D. lower its yield to maturity.

****

Answer: D

Explanation: D is correct. Higher liquidity leads to lower liquidity premium, hence lower required rate of return, which in turn causes higher price. Therefore, the bond yield will be lower. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 306.

Question 31 (Subject Area: Insurance Planning/Risk Management)

Jane is 30 years old now and is considering taking out a life insurance policy. The quotations for four different policies have been obtained, all based on level premium payable by yearly installments. Which ONE of the following policies is MOST LIKLEY to charge the HIGHEST annual premium?

A. 35-year endowment life insurance policy.
B. 35-year term life insurance policy.
C. 65-year paid-up non-participating whole life insurance policy.
D. Non-participating whole life insurance policy.

****

Answer: A

Explanation: A is correct. It is an endowment life insurance policy that normally requires a high premium, and compared with the other options, is most likely to charge the highest annual premium. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), chapter 11.

Question 32 (Subject Area: Insurance Planning/Risk Management)

Ricky and Susan are a married couple and each of them has taken out a whole life insurance policy with beneficiary details as below:

Insured	Primary Beneficiary	Contingent Beneficiary
Ricky	Susan	Ricky's brother, Tommy
Susan	Susan's sister, Janet	Ricky

Ricky and Susan were involved in a traffic accident. Susan passed away at the scene and Ricky passed away one month later. Which ONE of the following statements about entitlement to the life insurance benefits in this case is CORRECT?

A. Tommy is entitled to the benefits under both Ricky's and Susan's policies.
B. Tommy is entitled to the benefits under Susan's policy and Janet is entitled to the benefits under Ricky's policy.
C. Janet is entitled to the benefits under both Ricky's and Susan's policies.
D. Janet is entitled to the benefits under Susan's policy and Tommy is entitled to the benefits under Ricky's policy.

****

Answer: D

Explanation: D correct in this case. The contingent beneficiary will be entitled to the death benefits upon the death of the primary beneficiary. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 227-228.

Question 33 (Subject Area: Insurance Planning/Risk Management)

Please refer to the following information to answer Question 33, Question 34 and Question 35:

Derek is the owner of a factory in Hong Kong. A German buyer recently placed an order with Derek, included in the contract is a provision that Derek should hold the buyer harmless of any liability incurred due to his products. Derek was required to take out product liability insurance for the exporting products and set up new testing equipment in his factory in order to meet the safety standards in Germany. Derek then approached a few insurance companies for product liability insurance on the exporting products, however the insurance companies refused to insure only the exporting products, but offered to insure all his factory's products instead. Derek expected that it would take 10 years for him to cover the set up cost of the testing equipment. He ultimately decided to give up the contract with the German buyer.

What type of risk management approach has been adopted by the German buyer for applying the hold-harmless provision in the contract with Derek?

A. Avoidance.
B. Prevention.
C. Retention.
D. Transfer.

****

Answer: D

Explanation: A hold-harmless provision is the same as an indemnity. By including the provision in the contract with Derek, the German buyer is getting an indemnity from Derek for any losses that it may suffer. The nature of an indemnity is to transfer risk. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 17-19.

Question 34 (Subject Area: Insurance Planning/Risk Management)

In requiring Derek to insure all his products, the insurance companies are MOST LIKELY protecting themselves against which ONE of the following issues?

A. Adverse Selection.
B. Moral Hazard.
C. Morale Hazard.
D. Physical Hazard.

****

Answer: A

Explanation: Adverse selection is the tendency of the persons whose exposure to loss is higher than average to take out insurance. By requiring Derek to insure all his products, the insurance companies are protecting themselves against higher exposure to product liability claims in Germany. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 48.

Question 35 (Subject Area: Insurance Planning/Risk Management)

In giving up the contract with the German buyer, Derek is MOST LIKELY to have taken which ONE of the 6 steps in the risk management process?

A. Consideration of alternatives and selection of risk treatment device.
B. Evaluation and review.
C. Evaluation of risks.
D. Implementation of the decision.

****

Answer: D

Explanation: Derek has already decided on which risk management approach to adopt. His action of giving up the contract with the German buyer is an implementation of his decision. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 25-33.

Question 36 (Subject Area: Tax Planning)

Identify from the following cases where married person's allowance will be granted to the taxpayer who files the tax return for the year of assessment 2010/11:

I. Mr. P has been married to his wife for 10 years. His wife has no assessable income for the year of assessment 2010/11.
II. Mr. Q has been separated from his wife since the year of assessment 2009/10, but he is maintaining his wife by paying a monthly alimony of $10,000.
III. Mr. R was divorced from his wife in the year of assessment 2009/10, but he is still maintaining his ex-wife by paying a monthly alimony of $12,000.

A. I only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: B

Explanation: I & II are correct. To qualify for married person's allowance, the taxpayer must be married for all or part of the year of assessment, and the spouse did not have any income chargeable to Salaries Tax during the year. Please also refer to Section 29 of the Inland Revenue Ordinance.

Question 37 (Subject Area: Tax Planning)

Under the Inland Revenue Ordinance, which of the following is/are grounds for a taxpayer to apply to an assessor for correction of errors in a tax return or the assessment?

I. There was an arithmetical error in the calculation of the amount of the tax charged.
II. There was an omission in any tax return submitted.
III. There was an error in the statement submitted with respect to the tax charged.

A. III only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: D

Explanation: I, II & III are correct. A tax assessor appointed under the Inland Revenue Ordinance has the power to correct an assessment. Please also refer to Section 70A of the Inland Revenue Ordinance.

Question 38 (Subject Area: Tax Planning)

XYZ Limited is considering providing medical benefits to its employees. Which of the following ways of providing such benefits will be efficient to the employees in the context of Salaries Tax?

I. Arranging group medical insurance cover for the employees and paying the insurance premium for all employees.
II. Contracting with a few designated doctors to provide medical consultation to employees free-of-charge.
III. Reimbursing employees' medical expenses for different doctors of their own choice upon presentation of the medical bills.

A. I only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: B

Explanation: I & II are correct. Employee benefits that represent a discharge of an employee's own personal liability by the employer will be taxable. Therefore III is taxable and not efficient to employees under Salaries Tax. Please also refer to Section 9 of the Inland Revenue Ordinance.

Question 39 (Subject Area: Estate Planning)

Which of the following is/are reasons for an individual to set up a trust for estate planning purposes?

I. To avoid probate.
II. To reduce estate planning costs.
III. To protect vulnerable beneficiaries.

A. I only
B. I & II only
C. I & III only
D. I, II, & III

****

Answer: C

Explanation: I & III are correct. A trust is not part of a deceased person's probate estate. It can be used to provide for vulnerable beneficiaries. The cost for setting up a trust is usually high. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), Chapter 8.

Question 40 (Subject Area: Estate Planning)

Generally speaking, a financial planner is expected to carry out which of the following activities in his client's will-making process?

I. To co-ordinate with other members of the estate planning team.
II. To review the will to ensure the contents fulfill the client's objectives.
III. To recommend the client appointing him as the executor of the will.

A. I only
B. I & II only
C. I & III only
D. II & III only

****

Answer: B

Explanation: I & II are correct. A financial planner is not expected to recommend himself as the executor of his client's will. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), pages 117-118.

- End of Sample CFP Certification Examination Questions (Level 1) -

Please refer to the following information to answer Question 41, Question 42, Question 43 and Question 44:

Mathew is 50 years old and single. He was employed for over 14 years as a full-time chef of a restaurant. However, Mathew had a car accident 3 months ago and his right shoulder was badly injured as a result. Mathew spent a month in hospital, and his doctor told him that he is now severely disabled because he will not be able to use his right shoulder for the rest of his life. The accident occurred when Mathew was going to work in a bus operated by his employer, and the driver of the bus was successfully prosecuted by the police for his careless driving that caused the accident. Mathew's claim under the Employees' Compensation Ordinance was successful. Mathew recently checked with an insurance agent of Great Insurance Company as to his needs for whole life insurance. He learnt that, due to his disability, the cover will require a longer waiting period and a higher-than-standard premium level. He did not take out the cover.

Mathew and his father jointly own a flat in Tuen Mun as tenants-in-common where they live together with Mathew's 52-year-old elder brother, Mark. The flat is fully paid up and has a current market value of around $2,800,000. Mathew's father intends for Mathew to take up his share in the flat on his death. Neither Mathew nor his father has made wills, and apart from Mark they do not have other living relatives.

Question 41 (Subject: Insurance Planning/Risk Management)

Mathew is currently eligible for assistance under which TWO of the following government social welfare schemes in Hong Kong?

I. Comprehensive Social Security Assistance Scheme.
II. Emergency Relief.
III. Social Security Allowance Scheme.
IV. Traffic Accident Victims Assistance Scheme.

A. I & II only
B. I & III only
C. II & IV only
D. III & IV only

****

Answer: D

Explanation: III and IV are correct. Mathew satisfies the current eligibility criteria for the Social Security Allowance Scheme and the Traffic Accident Victims Assistance Scheme. For details, please refer to the website of the Social Welfare Department.

Question 42 (Subject: Insurance Planning/Risk Management)

Which of the following factors are relevant to Mathew's success in his claim under the Employees' Compensation Ordinance for the traffic accident?

I. The operator of the bus in which Mathew traveled.
II. The party liable for Mathew's accident.
III. The period of time that Mathew had been employed by his employer.
IV. The purpose of Mathew's travel in the bus.

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

****

Answer: B

Explanation: I and IV are correct. The identity of the operator of the transport in which an employee traveled and the purpose of the travel are relevant factors for a claim to succeed under the Employees' Compensation Ordinance. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), page 16-17.

Question 43 (Subject: Insurance Planning/Risk Management)

Which of the following statements in relation to Great Insurance Company's requirements for Mathew's life insurance cover are CORRECT?

I. A longer waiting period is required to enforce the principle of indemnity.
II. The level of premium quoted is a result of the use of a different mortality table.
III. The level of premium quoted violates the Disability Discrimination Ordinance.
IV. The purpose for the level of premium quoted is to avoid adverse selection.

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

****

Answer: A

Explanation: II and IV are correct. People whose exposure to loss is higher than average have a tendency to require greater protection cover than others. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 48 and 324.

Question 44 (Subject: Estate Planning)

Assume that other factors remain constant. Which of the following statement(s) about the succession of the Tuen Mun flat is/are CORRECT?

I. If Mathew and his father pass away at the same time, ownership in the flat will be distributed according to the Intestates' Estates Ordinance.
II. If Mathew predeceases his father, his share in the flat will automatically pass to his father without having to go through the probate process.
III. If Mathew's father predeceases Mathew, his share in the flat will be distributed between Mark and Mathew.

A. I only
B. I & II only
C. I & III only
D. II & III only

****

Answer: C

Explanation: I and III are correct. Tenants-in-common do not have the right of survivorship. Therefore the distribution of the flat will be governed by the Intestates' Estates Ordinance. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), page 185, and section 4 of the Intestates' Estate Ordinance.

- End of Sample CFP Certification Examination Questions (Level 1) -

CFP CERTIFICATION EXAMINATION (LEVEL 2)

Question 45 (Subject Area: Financial Management)

When investing in real assets such as properties or land at times of inflation, the future cash-flows from the investments are likely to rise in:

I. intrinsic value.
II. nominal value.
III. real value.

A. II only
B. III only
C. I & II only
D. I & III only

****

Answer: A

Explanation: II is correct. Nominal value refers to a value expressed in money terms in a given year or series of years; it is likely to rise at times of inflation. Real value adjusts nominal value to remove effects of price changes over time. Intrinsic value refers to the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 63-70.

Question 46 (Subject Area: Financial Management)

Which of the following abilities of a financial planning strategy can be evaluated with reference to information provided by a financial budget?

I. Its ability to maintain a certain level of living standard.
II. Its ability to maintain a sufficient amount of emergency cash.
III. Its ability to maintain investment risk at an acceptable level.
IV. Its ability to maintain wealth accumulation at a reasonable pace.

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

****

Answer: C

Explanation: I, II & IV are correct. Living standard can be measured by the amount of consumption. The sufficiency of emergency cash is usually measured by the amount of expenses in a number of months. Wealth is usually accumulated through regular savings. These are components in a budget. Investment risk is reflected in the balance sheet. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 105-112.

Question 47 (Subject Area: Financial Planning Principles)

In the early stage of establishing a relationship with a client, a financial planner should:

I. discuss the process and concepts of financial planning with the client.
II. inform the client about the limitation and scope of the services that the planner can provide legally.
III. clarify the respective responsibilities of the planner and the client.
IV. explore the risk attitude of the client.

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

****

Answer: C

Explanation: I, II & III are correct as they are all actions that should be taken by a financial planner in Step 1 of the financial planning process. Exploring the risk attitude of the client should be done in Step 2 of the financial planning process. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 342-348.

Question 48 (Subject Area: Financial Planning Principles)

Which of the following statements about determining the client's personal and financial goals, needs and priorities are CORRECT?

I. They must be determined mutually by the planner and the client.
II. They must be determined with sole reference to the client's financial strengths and weaknesses.
III. Those relevant to the scope of engagement need to be determined in clear and measurable objectives.

A. I & II only
B. I & III only
C. II & III only
D. I, II & III

****

Answer: B

Explanation: I & III are correct. A client's personal and financial goals, needs and priorities must not be limited only to the client's financial strengths and weaknesses. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 366-371.

Question 49 (Subject Area: Financial Planning Principles)

Evaluating the client's financial position is an important step in the financial planning process. Which of the following tasks should be completed in this step?

I. Assessing the liabilities of the client.
II. Identifying the client's financial strengths and weaknesses.
III. Preparing cashflow statements of the client.
IV. Recommending appropriate insurance policies to the client.

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

****

Answer: B

Explanation: I, II & III are correct. They are all tasks that should be completed in Step 3 of the financial planning process. Recommending appropriate insurance policies to the client should be done in Step 4 of the financial planning process. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), chapter 13.

Question 50 (Subject Area: Retirement Planning)

Which of the following is/are disadvantages of defined-contribution plans from the employee's perspective?

I. Amount of actual retirement benefit is not known.
II. Individual members solely account for contributions.
III. Investment losses must be borne by the employee.

A. I only
B. I & III only
C. II & III only
D. I, II & III

****

Answer: B

Explanation: I & III are correct. Apart from employees, employers usually also contribute to defined-contribution plans. The Hong Kong Mandatory Provident Fund Scheme is an example of a defined-contribution plan. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), page 53.

Question 51 (Subject Area: Retirement Planning)

Tim plans to set up a retirement fund to provide an amount of $50,000 per year over 20 years starting next year. Assume that the expected rate of return to the fund is 10% per year, how much money would he have invested today if the expected inflation rate is 6%?

A. $296,442
B. $425,678
C. $573,496
D. $693,346

****

Answer: D

Explanation: D is correct. It is calculated as follows:

Present value of the retirement fund after one year =
PV(bgn) I={(1.10/1.06)-1}, n=20, PMT=-$50,000,
PV =$719,510

Amount of investment today = $719,510/(1.1/1.06)=$693,346

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 53-62.

Case Study - Case Facts

David Jones

1. Today is 1 June 2010. Lily Fong, a financial planner of Happy Insurance Company, received a call from her current client, David Jones, to review his financial plan.

2. Below is some information about David that Lily has gathered so far:

3. Client information:

	Client	Client's Spouse
Name	David Jones	Nancy Jones
Date of birth	1 June 1958	2 March 1962
Nationality	Canadian	Canadian
Marital status	Married	Married
Occupation	Chief Financial Officer	Housewife
Employer	Tasty Foods Limited*	N/A
Work status	Full-Time	N/A
Time with present employer	Since 1 April 1999	N/A
Regular medical check-up?	Yes	Yes
Any long-term disability or health problems?	High blood pressure	No

* Company listed on the Toronto Stock Exchange

4. Dependant information:

	Dependant 1	Dependant 2
Name	Sunny Jones	Sandy Jones
Relationship with client	Son	Daughter
Date of birth	15 May 2000	5 April 2002
Health	Good	Good

5. Annual income of the Jones family for the period from 1 April 2009 to 31 March 2010:

	Amount (in HKD unless otherwise specified)
Salary income received*	1,680,000
Bonus income received	280,000
Reimbursement received from employer	
Rent payment (Sai Kung flat)€	480,000
Annual airfare to Canada	50,000
Other benefits received from employer	
Scholarships for David's children	10,000
Tuition fees for David's children paid by employer directly to the school	216,000
Income received from other sources	
Interest and dividends	60,000
Rental income from Ma Wan flat#	Unknown

* before deducting the premium for the group medical insurance policy for Nancy & David's children and the MPF contributions

€ rateable value of the property: HKD450,000

rateable value of the property: HKD250,000

6. Annual expenses of the Jones family for the period from 1 April 2009 to 31 March 2010:

	Amount (in HKD unless otherwise specified)
Expenditure on food	240,000
Housing expenses (for Sai Kung flat)	
Rent	480,000
Utilities and others	80,000
Management fees	48,000
Household expenses	
Filipino domestic helper	54,000
Others (e.g. clothing, personal grooming, toiletries)	700,000
Transportation expenses	
Fuel, maintenance & repairs, parking, vehicle licence	80,000
Others (including taxis & public transport)	50,000
Education and recreation expenses	
Other school expenses	50,000
Vacation	100,000
Other recreation	100,000
Medical expenses	
Pharmacy/drugs	10,000
Insurance	
Life insurance premium for David	18,000
Life insurance premium for Nancy	15,000
Group medical insurance premium for Nancy, Sunny and Sandy	5,000
Building insurance premium (Ma Wan flat)	4,000
Household contents insurance premium (Sai Kung flat)	6,000
Others	
Contributions to Mandatory Provident Fund Scheme	12,000
Mortgage payment for Ma Wan flat	Unknown
Management fee for Ma Wan flat	12,000
Government rent for Ma Wan flat	4,800
Rates for Ma Wan flat	8,000
Support to George (David's nephew)	60,000
Donations to the Community Chest of Hong Kong	20,000

7. Assets and liabilities of the Jones family (as at 31 March 2010):

	Amount (in HKD unless otherwise specified)
Property in Ma Wan	3,200,000
Mortgage loan	Unknown
Motor car	400,000
Stocks	500,000
Unit trusts and bonds	300,000
Savings in HKD	500,000
Savings in CAD	CAD50,000
Mandatory Provident Fund Scheme account balance	180,000
Canadian superannuation account	CAD300,000
Cash value of life insurance policies	800,000
Hi-Fi system	200,000
Credit card balance	20,000

8. Both David Jones and his wife Nancy are great fans of Chinese culture. They considered Hong Kong the perfect place for them to stay. To this end, David applied to his employer to be relocated to the Hong Kong office of Tasty Foods Limited (Tasty) from the Toronto headquarters several years ago. Although he is employed on contract basis, David managed to negotiate a very generous expatriate package. As time goes by, the Jones will soon obtain the right of abode in Hong Kong.

9. The Jones live in a house in Sai Kung arranged by Tasty. Under the arrangement, David pays rent every month in advance and receives reimbursement from Tasty the month after. Sunny and Sandy attend an international school in Clearwater Bay. The annual tuition fee is HKD108,000 for each of them which are directly paid for by Tasty to their school as part of David's expatriate package. Tasty also pays a scholarship of HKD5,000 each per annum in respect of Sunny and Sandy under the company's standing policy for senior staff. Recently, the school they are attending announced that a debenture of HKD150,000 should be purchased for every student starting from the academic year 2010/11. The debenture is redeemable when a student leaves the school. Tasty agreed to buy and hold the debentures on David's behalf.

10. David is very fond of his 20-year-old nephew, George, and has been supporting him financially since he was born. David knows that George is grateful for his money because he has just entered university and needs the money to support his living and pay his tuition fees.

11. David is covered by a group medical policy and a group term life insurance policy offered by Tasty. The medical policy has an in-patient policy with hospital cash of a maximum coverage of HKD300,000 per annum, together with dental insurance. Tasty allows David to enroll his direct relatives for the same medical policy at cost, and David has exercised his right and enrolled Nancy and their children to the policy at an annual premium of HKD5,000 which is deducted from his salary income. The life policy covers 2 years of David's salary with a permanent total disablement rider.

12. On top of David's group term life policy, both David and Nancy have taken out other life insurance policies. The table below summarizes details of the life insurance policies of David and Nancy:

Insured	David	David	Nancy
Policy type	Whole life	Group term life	Term life
Sum insured	HKD3,000,000	2 x annual salary	HKD2,000,000
Year of Purchase	1990	- -	1993
Policy provider	Happy Ins. Co.	ABC Ins. Co.	Happy Ins. Co.
Riders	• Personal Accident • Double Indemnity	• Permanent total disablement	• Personal Accident • Double Indemnity
Primary beneficiary	Nancy	Nancy	David
Contingent beneficiary	George	Sunny	Sunny
Cash values	HKD800,000	- -	---

As a reward to loyal customers, Happy Insurance Company has recently offered two extra riders free-of-charge to David, who aims to maximize the long-term benefits he can get from them.

13. David is still uncomfortable with his current insurance coverage, and would like to make sure that Nancy and their children will be provided with the largest amount of income as soon as possible if he predeceases them, or if his children are suddenly orphaned. Because one of his friends has bought an annuity for this purpose and recommends it to him, David asks Lily for a proposal for a pure life annuity.

14. Other employee benefits provided by Tasty include annual return airfare to Canada, and a Canadian superannuation account into which Tasty contributes 9% of David's salary every month. The account balance can be withdrawn upon David's retirement. Though not required by law, both Tasty and David also contribute to the Mandatory Provident Fund Scheme in Hong Kong.

15. On 1 June 2004, Nancy bought a small residential flat in Ma Wan at HKD2,500,000 as part of her investment. The purchase of the flat was fully financed by a mortgage with Coco Bank for a term of 15 years at a fixed rate of 6% p.a. The first mortgage payment was made on 30 June 2004. The current market value of the flat is HKD3,200,000 and it is expected to grow at an annual rate of 4% in the future. The flat has been let out for rental income since it was bought. Nancy is responsible for the management fee, government rent and rates. After deducting these expenses, the remaining rental income is exactly enough to pay for the monthly mortgage. Nancy expects that the rental income will remain stable for the duration of the mortgage term. Nancy has taken out a building insurance policy on the flat since purchasing it. She is not sure if she should adjust the sum insured since it has been over 5 years when she bought the flat.

16. David would like to restructure his investment portfolio by including one of the following funds into it:

	Fund			
	SUN	MOON	STAR	EARTH
Average annual return during the last five years	9.5%	12%	13%	13.5%
Standard deviations of return during the last five years	6%	8%	8.5%	9.5%

- Fund SUN: An equity income mutual fund investing in Hong Kong stocks.
- Fund MOON: A growth-oriented mutual fund investing in Hong Kong stocks.
- Fund STAR: An international equity mutual fund.
- Fund EARTH: Taiwan equity index exchange-traded fund.

- The short-term certificate of deposit rate in Hong Kong is 4%. The correlation coefficients of the above four funds during the last five years are:

	SUN	MOON	STAR	EARTH
SUN	1.0			
MOON	0.7	1.0		
STAR	0.5	0.4	1.0	
EARTH	0.7	0.7	0.2	1.0

17. As David is approaching his intended retirement date, which falls on his 60th birthday, the family has been thinking about returning to Canada. Sunny and Sandy will definitely go back to Canada for their university education, where they will work part-time and pay for their own tuition fees like their father did. The family has therefore made up its mind to return to Canada after David retires, by which time they will sell the flat in Ma Wan and use the proceeds to buy a house in Canada. David has been researching the prices of property in Canada, and found that a property that fits the needs of the family is selling at a price equivalent to HKD3,000,000 Hong Kong dollars today, and is expected to grow at an annual rate of 6%.

18. David and Nancy have both made wills two years ago while they were on their annual trip to Canada. Nancy has kept the only copy of her will with a relative in Toronto while David has kept his with a friend who Nancy does not know. In David's will, he has made bequests in favour of Nancy and his children only.

19. Other information:

    Exchange rate: CAD1.00 = HKD7.80
    CAD stands for Canadian dollars.

- End of Case Facts -

Question 52

Which of the following are David's personal and financial goals?

I. Ensure a stable stream of income for his family after his retirement and after his death.
II. Arrange for long-term health care protection for both himself and Nancy.
III. Provide for housing arrangements in retirement.
IV. Set up a fund for the university education of Sunny and Sandy.

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

****

Answer: C

Question 53

What is the amount of rental income from the Ma Wan flat for the year ended 31 March 2010?

A. HKD253,152
B. HKD257,460
C. HKD277,952
D. HKD325,460

****

Answer: C

Question 54

Which of the following statement(s) about the Jones couple's current financial status and investment position is/are CORRECT?

I. Based on the information provided, their solvency ratio is greater than 0.6.
II. The length of their pre-retirement investment horizon is of an intermediate term.
III. They have a high net worth hence they have a high risk tolerance level.
IV. They should allocate part of their savings to high leverage investments.

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

****

Answer: B

Question 55

What is the appropriate advice for Nancy regarding the insurance policy she took out on her flat in Ma Wan?

A. Nancy should adjust the sum insured with reference to the change in repair/rebuilding cost of the flat, if any.
B. Nancy should adjust the sum insured with reference to the value of the household contents in the flat.
C. Nancy should increase the sum insured to reflect the increase in the property price.
D. There is no need for Nancy to review the sum insured since the premium is calculated with reference to the gross floor area of the flat.

****

Answer: A

Question 56

Assume that relevant factors remain constant. Which of the following items should Lily Fong include in a Needs Approach analysis in order to ascertain whether David currently has adequate life insurance cover?

I. Education fees for Sunny and Sandy.
II. Financial support to Nancy.
III. Mortgage repayments for the Ma Wan flat.
IV. Support to George.
V. Term life insurance cover of Nancy.

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

****

Answer: B

Question 57

To address David's aim, which TWO of the following riders offered free-of-charge by Happy Insurance Company should Lily advise him to choose?

I. Critical/terminal illness benefit rider.
II. Disability income benefit rider.
III. Medical benefits rider.
IV. Waiver of premium rider.

A. I & III only
B. I & IV only
C. II & IV only
D. III & IV only

****

Answer: A

Question 58

With respect to David's request for a proposal for an annuity, which of the following is/are APPROPRIATE piece(s) of advice that Lily should give him (see paragraph 13 of this case)?

I. For the purposes of attaining David's goal, a Joint-and-Last Survivor Annuity is more suitable than his original choice.
II. David can achieve his aim to a certain extent by utilizing a suitable settlement method for his whole life policy.
III. David's original choice of an annuity will help him cope with the impact of inflation.

A. I only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: B

Question 59

What is/are the advantage(s) of choosing Fund EARTH compared with the other three potential funds that David is considering?

III. Easier to trade.
IV. International diversification.
V. Lower bid-ask spread.

A. I only
B. I & II only
C. II & III only
D. I, II & III

****

Answer: A

Question 60

David would like to know the performance of the four funds according to the Sharpe's performance index. Which ONE has the WORST performance?

A. Fund SUN.
B. Fund MOON.
C. Fund STAR.
D. Fund EARTH.

****

Answer: A

Question 61

Assume that David would like to restructure his portfolio so that half of his portfolio's value will be invested in Fund MOON, and the other half in Fund STAR. What would be the expected standard deviation for his portfolio after the proposed change?

A. 0.5%
B. 5.8%
C. 6.5%
D. 6.9%

****

Answer: D

Question 62

Assume that David begins to withdraw from his superannuation account when he retires, and transfers the money to one of his following existing investments. Ignoring tax issues, which ONE of them is the MOST SUITABLE choice for him?

A. Canadian dollar time deposit account which generates an annual return of 5%.
B. Canadian stock market portfolio which generates an average annual return of 12%.
C. Emerging markets long-term bond fund which generates an average annual return of 8%.
D. Money market mutual fund which invests in Euro money market securities and generates an average annual return of 6%.

****

Answer: A

Question 63

Which ONE of the following statements about David's tax position as a Canadian expatriate is CORRECT?

A. David is liable to pay Salaries Tax in Hong Kong because he has made Hong Kong his home and ordinarily resides in Hong Kong.
B. David is liable to pay Salaries Tax in Hong Kong because under the double tax treaty signed between China and Canada, anyone who spends more than 180 days in Hong Kong in a year is liable.
C. David is liable to pay Salaries Tax in Hong Kong but income generated from any services rendered outside Hong Kong can be excluded.
D. David is liable to pay Salaries Tax in Hong Kong but is entitled to claim exemption from Salaries Tax on the ground that all his salary income has been taxed in Canada.

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Answer: C

Question 64

In relation to the education benefits from Tasty to David as regards Sunny and Sandy, which ONE of the following is a CORRECT Hong Kong tax implication with respect to David?

A. Debentures to be provided by Tasty will be taxable because they are deemed to be income from employment.
B. Scholarships for Sunny and Sandy are not taxable because they are not income received by David.
C. Tuition fees paid by Tasty are not taxable if Tasty enters into contract with the school and pays directly.
D. Tuition fees paid by Tasty are taxable because this is a fringe benefit provided by the employer.

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Answer: D

Question 65

Which of the following ways can help the Jones to minimize their Property Tax payable in Hong Kong?

I. Ask the tenant to pay the management fees directly to the property management company and reduce the monthly rent by the corresponding amount.
II. Ask the tenant to shoulder the rates and reduce the monthly rent by the corresponding amount.
III. End the existing tenancy agreement and enter into a new contract with rent payable annually in advance in lump sum.
IV. Have Nancy elect to be assessed under Personal Assessment.

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

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Answer: A

Question 66

What is the net assessable value of the Ma Wan flat under the Hong Kong Property Tax for the year of assessment 2009/10?

A. HKD169,952
B. HKD215,962
C. HKD253,152
D. HKD269,952

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Answer: B

Question 67

For the purpose of calculating David’s Salaries Tax for the year of assessment 2009/10, what is the amount of rental value to be considered as part of his assessable income?

A. HKD201,000
B. HKD223,600
C. HKD240,000
D. HKD480,000

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Answer: B

Question 68

Why is Tasty NOT obliged to enroll David to the Mandatory Provident Fund (MPF) Scheme in Hong Kong?

A. David's employment is on contract basis, therefore he is not considered a permanent employee and is exempted.
B. David has no right of abode in Hong Kong and is exempted as an expatriate.
C. Tasty has enrolled David in a Canadian superannuation scheme and is exempted.
D. Tasty is a Canadian company and is exempted as an overseas company.

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Answer: C

Question 69

What piece(s) of advice should Lily give David with respect to estate planning for himself and his wife?

I. To arrange for ancillary probate of the Ma Wan flat with the probate court in Canada.
II. To ensure that their respective wills comply with the Wills Ordinance in order for them to be enforceable in Hong Kong.
III. To make copies of their respective wills so that they have copies in Hong Kong and Canada.

A. II only
B. I & III only
C. II & III only
D. I, II & III

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Answer: C

Question 70

Assume that relevant factors remain constant. Which of the following actions should David take to help fulfill his wish in paragraph 13 of this case?

I. Appointing more than one executor for his will.
II. Changing the contingent beneficiary in his whole life policy.
III. Having joint bank and investment accounts with Nancy.
IV. Setting up an enduring power of attorney for himself.

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

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Answer: A

Question 71

If David passes away in Hong Kong tomorrow and because no one can find his will, he is deemed to be intestate, which of the following statements about the succession of his estate are CORRECT?

I. George is entitled to apply to the court for reasonable financial provisions from David's estate.
II. Nancy, Sunny and Sandy will be entitled to share David's personal chattels.
III. Nancy will first be entitled to a net sum of HKD500,000 from David's residuary estate with interest, as well as a half of the remainder of his residuary estate.
IV. Sunny and Sandy will be entitled to share the remainder of David's residuary estate, but their share will be held on statutory trusts.

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

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Answer: C

- End of Sample CFP Certification Examination Questions (Level 2) -

- End of Sample CFP Certification Examination Questions -