

Boost up Your Certification Score

CSI

AFP-Exam-1

Applied Financial Planning Certification Exam 1 (AFP)



For More Information – Visit link below:

<https://www.examsboost.com/>

Product Version

- ✓ Up to Date products, reliable and verified.
- ✓ Questions and Answers in PDF Format.

Latest Version: 6.0

Question: 1

Edward is risk averse and has limited investment knowledge. He will only purchase 100% guaranteed products insured by the CDIC. Edward is meeting with his financial planner, Marissa, for the third time this year about rates, and starts the meeting by criticizing her employer for paying such low returns on GICs. Edward says he is considering taking his business elsewhere. How should Marissa respond to Edward's comments?

- A. Show understanding of his frustration, assure him that these are the best rates she can offer and suggest a follow up meeting once Edward has had a chance to shop around.
- B. Offer to match any competitor rate Edward can provide in writing.
- C. Explain that if he can increase his risk tolerance, she can get a better rate of return for him.
- D. Let him know that her GIC rate is the highest in the market.

Answer: A

Explanation:

Marissa should respond with empathy and accuracy. Edward is risk averse, has limited investment knowledge, and will only purchase CDIC-insured guaranteed products. The correct response is to acknowledge his frustration, explain that the displayed rates are the best she can offer, and allow him to compare alternatives without pressure. Matching competitor rates may be outside her authority and could misrepresent the firm's pricing. Telling him to increase risk tolerance to obtain a better return ignores his stated constraints and may lead to unsuitable advice. Claiming her rate is the highest in the market would be inappropriate unless she can substantiate it, and even then the statement may become stale quickly. In AFP client management, the planner preserves trust by respecting the client's risk profile, communicating honestly, and avoiding product pressure. Study Guide focus: client communication, risk tolerance, guaranteed products, suitability, and relationship management. This response protects suitability because Edward's product universe is defined by capital guarantee and deposit insurance.

Question: 2

A planner establishes a long-term target portfolio of 65% equities and 35% fixed income based on the client's objectives and constraints, with periodic rebalancing. Which allocation approach is being used?

- A. Market timing.
- B. Tactical asset allocation.
- C. Speculative allocation.
- D. Strategic asset allocation.

Answer: D

Explanation:

Strategic asset allocation begins with the client's planning profile and sets a long-term benchmark mix intended to meet return objectives within acceptable risk. The mix is periodically reviewed and rebalanced when market movements or client circumstances cause drift. Option A is incorrect because market timing attempts to shift exposure based on predictions about near-term market direction. Option B involves deliberate short-term departures from the strategic benchmark to exploit perceived opportunities. Option C is not a disciplined planning method; speculation emphasizes high-risk bets rather than objectives-based portfolio construction. A course-style explanation should connect the allocation to the client's time horizon, risk tolerance, risk capacity, liquidity requirements, tax position, and investment constraints. Rebalancing is part of governance: it prevents a successful asset class from quietly increasing portfolio risk beyond the client's mandate. Strategic allocation is therefore both an investment decision and a suitability control. References/topics: strategic asset allocation, portfolio policy, rebalancing, risk control.

Question: 3

Edward's client is updating his will and is concerned what will happen to his and his wife's estates should they die within a short time of each other. Which clause in the will should Edward recommend the couple discuss with their lawyer?

- A. Survivorship.
- B. Conversion.
- C. Life interest.
- D. Successor.

Answer: A

Explanation:

A survivorship clause addresses the risk that spouses or beneficiaries die within a short period of each other. The clause normally requires a beneficiary to survive the testator by a specified number of days before inheriting. Without such a clause, assets may pass through one estate and then almost immediately through another, increasing administration complexity, probate exposure, and possible distribution results that do not match the couple's intentions. A conversion clause is not the standard will clause for this issue. A life interest gives someone use or income from property for life, which is a different estate-planning tool. A successor designation may apply to certain registered or TFSA arrangements, but the will provision for near-simultaneous deaths is survivorship. Edward should advise the client to discuss survivorship wording with a lawyer because provincial legislation and drafting precision matter. Study Guide focus: wills, survivorship clauses, estate administration, simultaneous death planning, and beneficiary succession.

Question: 4

During the discovery process, Greyson and Jacob's financial planner identifies that the couple wants to protect their family from unexpected health events and premature death. Their financial planner coordinates a meeting with an insurance agent for the next steps. What should the insurance agent recommend?

- A. Purchase a life policy with accidental insurance coverage.
- B. Complete a capital needs analysis.
- C. Purchase a permanent life insurance policy.
- D. Apply for critical illness insurance.

Answer: B

Explanation:

The insurance agent should first complete a capital needs analysis. Greyson and Jacob have broad protection objectives: premature death and unexpected health events. Product selection should follow quantification of the need, not precede it. A capital needs analysis estimates the amount of insurance required by considering debts, final expenses, survivor income, education funding, emergency reserves, existing assets, existing insurance, and the duration of dependency. Accidental insurance is too narrow because most premature deaths are not necessarily accidental. Permanent life insurance may or may not be appropriate depending on whether the need is temporary or permanent. Critical illness insurance may address part of the health-event risk, but it does not replace the need to quantify death and disability-related capital requirements. AFP risk management begins with need identification and measurement before product recommendation. Study Guide focus: capital needs analysis, life insurance planning, health-event risk, family protection, and product suitability. The analysis should normally be completed before deciding between term life, disability, critical illness, or permanent coverage.

Question: 5

Francois and Brigitte are meeting with their financial planner, Robin. They would like to ensure that if one of them were to die suddenly that their mortgage would be paid in full. Their current mortgage has an outstanding balance of \$400,000 with 10 years remaining. The couple are in good health and have a well-balanced financial plan that focuses on debt reduction and savings. Which type of insurance policy should Robin recommend to assist the couple in meeting their objective?

- A. Joint 10-year term first-to-die policy.
- B. Joint whole life last-to-die policy.
- C. Joint 10-year term last-to-die policy.
- D. Joint whole life first-to-die policy.

Answer: A

Explanation:

A joint 10-year term first-to-die policy matches the couple's exact risk. Francois and Brigitte want the mortgage paid if one spouse dies suddenly, and the mortgage has 10 years remaining. First-to-die coverage pays on the first death, which is when the survivor would need funds to discharge the mortgage. A 10-year term aligns the coverage period with the debt. Last-to-die coverage is inappropriate because it pays only after both insured persons have died, too late to protect the survivor's mortgage obligation. Whole life coverage is permanent and more expensive than necessary for a temporary mortgage balance. Since the couple is healthy and already has a balanced plan, the planner should recommend efficient, purpose-built term insurance rather than over-insuring with a

permanent policy. Study Guide focus: mortgage insurance needs, first-to-die coverage, term insurance, debt protection, and risk matching. The death benefit should be sized to the outstanding debt and reviewed as the mortgage is repaid.

Question: 6

Lex's client, Phillip, has signed an agreement to purchase his uncle's business when his uncle retires in five years for \$210,000. Phillip has \$175,000 today, how should Lex recommend Philip invest his money?

- A. Phillip should purchase a 5-year bond with a rate of 3.75%.
- B. Phillip should deposit the funds into a savings account which is currently paying 3.00% per year.
- C. Phillip should purchase an equity mutual fund which has had an average return of 6.00% a year for the past five years.
- D. Phillip should purchase a 5-year 3.50% annual GIC.

Answer: A

Explanation:

Phillip has a defined liability: \$210,000 due in five years. His current capital of \$175,000 must compound to the purchase price with minimal uncertainty. A five-year bond yielding 3.75% produces approximately \$210,400 at maturity if held as planned, which aligns the investment term with the obligation and slightly exceeds the required amount. A 3.00% savings account and a 3.50% GIC fall short of the target. An equity mutual fund may have averaged 6.00% historically, but historical average return is not a guarantee and is inappropriate for a fixed five-year contractual obligation where the required amount is known. The AFP rule is that known future liabilities should be matched with suitable maturity, capital certainty, and sufficient expected accumulation. Lex should avoid unnecessary market risk when a fixed-income option already satisfies the goal. Study Guide focus: goal-based investing, time horizon, fixed-income matching, future value, and suitability. The planner should document the maturity date and reinvestment risk because the purchase obligation is contractual, not discretionary.

Question: 7

Dianna has just taken a 20-year mortgage and wants insurance only to ensure the mortgage can be repaid if she dies during that period. She is considering whole life insurance. What should her planner most likely explain?

- A. Whole life is always cheaper for temporary mortgage needs.
- B. Term insurance is generally better aligned with a temporary liability.
- C. No insurance is needed if the mortgage is insured by the lender.
- D. Critical illness insurance replaces life insurance for mortgage protection.

Answer: B

Explanation:

The need described is temporary: repay a mortgage if death occurs during the 20-year amortization or term horizon. Term life insurance is usually designed for exactly this type of time-limited risk. It provides

a death benefit for a selected period and is typically less expensive than permanent insurance for the same initial coverage amount. Option A is inaccurate because whole life includes lifetime coverage and cash-value features, which increase cost and may be unnecessary for a temporary debt. Option C confuses mortgage default insurance, which protects the lender against borrower default, with life insurance that protects the family's cash flow. Option D is wrong because critical illness insurance pays on survival after a covered illness; it does not pay a death benefit. The planner should compare personally owned term insurance with creditor insurance, considering underwriting, beneficiary control, portability, and conversion privileges. The recommendation should match the liability duration and the client's broader survivor-income needs. References/topics: term life insurance, mortgage protection, temporary insurance needs, risk management.

=====

Question: 8

Wendy, age 60, has a holding company whose sole asset is a commercial property. The property appreciated considerably in value over the last 10 years, and she expects the property value will continue to grow. Wendy is concerned about the tax implications this may have when she dies and leaves the property to her children. What strategy should Wendy's financial planner recommend to her?

- A. Sell the property to her children below market value.
- B. Gift common shares to her children and retain majority ownership.
- C. Transfer the common shares of the company into joint name with her children.
- D. Conduct an estate freeze.

Answer: D

Explanation:

Wendy should conduct an estate freeze. Her holding company owns an appreciating commercial property, and she expects future growth to continue. A freeze can cap the value of Wendy's current interest for tax purposes and shift future appreciation to her children, usually through new common shares or a family trust. Selling below market value would not avoid tax and can trigger adverse related-party consequences. Gifting common shares while retaining majority ownership may not properly cap her accrued value and can create control and tax issues. Adding children as joint owners of corporate shares is not a clean estate-planning solution and may expose the shares to creditors, family law claims, and disputes. The freeze must be designed with a lawyer and accountant to address valuation, control, income, and succession. Study Guide focus: estate freezes, holding companies, appreciating assets, deemed disposition at death, and intergenerational transfer planning. The strategy also allows Wendy to retain structured control while passing only future growth to the next generation.

Question: 9

A high-income parent gives \$80,000 to a 12-year-old child to invest in a non-registered bond fund. The parent expects the child to report the annual interest income. What rule should the planner identify?

- A. The income is always taxed to the child because the account is in the child's name.
- B. Attribution rules may tax the interest income back to the parent.

- C. The child must contribute the amount to an RRSP.
- D. Attribution rules apply only when property is transferred to a spouse.

Answer: B

Explanation:

Canadian attribution rules are designed to prevent simple income splitting through transfers to related persons, including minor children. When a parent gifts property to a minor child, income such as interest and dividends from the transferred property may attribute back to the parent. The account name alone does not determine the tax result. Option A therefore misses the anti-avoidance rule. Option C is not practical unless the child has earned income and RRSP room, and it does not address attribution. Option D is too narrow; attribution can apply in several family-transfer situations. A planner should consider alternatives such as RESPs, Canada Child Benefit amounts actually belonging to the child, prescribed-rate loan structures with proper interest payment, or investing for capital gains where appropriate and legally supported. The advice must separate legal ownership, tax reporting, and beneficial source of funds. References/topics: income attribution, minor children, family tax planning, non-registered investments.

Question: 10

Two shareholders sign a buy-sell agreement requiring the surviving shareholder to purchase the deceased shareholder's shares at fair market value. What planning tool most directly funds the death-triggered purchase obligation?

- A. A shareholder RRSP.
- B. Corporate-owned or cross-owned life insurance.
- C. A personal line of credit in the surviving shareholder's name only.
- D. Travel accident insurance.

Answer: B

Explanation:

A death-funded buy-sell arrangement requires cash at the precise time a shareholder dies. Life insurance on the shareholders is commonly used because the death benefit provides liquidity when the obligation is triggered. Ownership may be corporate-owned or cross-owned, depending on tax, control, creditor, and agreement design. Option A is irrelevant because an RRSP is a personal retirement account and does not fund a contractual share purchase. Option C is weak because credit may be unavailable or expensive after a shareholder's death, and it shifts the funding risk to the survivor. Option D is too narrow because it pays only for accidental death, not death generally. A properly designed buy-sell plan coordinates the insurance amount, valuation formula, beneficiary or owner structure, agreement wording, tax treatment, and corporate cash flow. The planner should involve legal and tax advisers because insurance funding must match the binding shareholder agreement. References/topics: buy-sell agreements, business insurance, shareholder planning, liquidity at death.

Thank You for Trying Our Product

For More Information – **Visit link below:**

<https://www.examsboost.com/>

15 USD Discount Coupon Code:

G74JA8UF

FEATURES

- ✓ **90 Days Free Updates**
- ✓ **Money Back Pass Guarantee**
- ✓ **Instant Download or Email Attachment**
- ✓ **24/7 Live Chat Support**
- ✓ **PDF file could be used at any Platform**
- ✓ **50,000 Happy Customer**



Visit us at: <https://www.examsboost.com/test/afp-exam-1>