

**MODULE 1**  
**FOUNDATIONS IN FINANCIAL PLANNING**

**SAMPLE QUESTIONS**

1. If a client needs to accumulate wealth but is risk-averse, which of the following is the most crucial action the planner needs to take to have the client achieve the goal of wealth accumulation? Advise investing the client's assets:
  - a) In the products which will bring the highest return to the client regardless of risk
  - b) In products which produce high income for the client because fixed income products are generally safe
  - c) In diversified mutual funds because of the protection which diversity provides
  - d) After determining the client's risk tolerance
  
2. John estimates his opportunity cost on investment at 10.5% compounded annually. Which one of the following is the best investment opportunity for John?
  - a) To receive \$45,000 today
  - b) To receive \$120,000 at the end of 10 years
  - c) To receive \$5,500 at the beginning of each year for 15 years.
  - d) To receive \$5,500 at the end of each year for 19 years
  
3. A client provides a current personal balance sheet to the financial planner during the initial data gathering phase of the financial planning process. This financial statement will enable the financial planner to gain an understanding of all of the following ***except*** the:
  - a) Diversification of the client's assets
  - b) Size of the client's net cash flow
  - c) Client's liquidity position
  - d) Client's use of debt
  
4. Which best describes high unemployment, with low interest rates?
  - a) Peak
  - b) Recession
  - c) Trough
  - d) Expansion

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5. Your client has some ABC shares. He asked you to calculate the dividend yield for an ABC share. ABC Company distributed \$500,000 of profits last year. Earnings were \$800,000. The market price of a share is currently \$5.00, and there are 1 million shares issued. What is ABC's dividend yield?
- a) 6.25 percent
  - b) 10.0 percent
  - c) 16.7 percent
  - d) None of the above
6. Which of the following are non-diversifiable risks?
- (1) Business risk
  - (2) Management risk
  - (3) Company or industry risk
  - (4) Market risk
  - (5) Interest rate risk
  - (6) Purchasing power risk
- a) (4), (5) and (6) only
  - b) (1), (2) and (3) only
  - c) (5), (6) and (2) only
  - d) (1), (3) and (4) only
7. A client purchased a zero coupon bond 6.5 years ago for \$525. If the bond matures today and the face value is \$1,000, what is the average annual compound rate of return (calculated semi-annually) that the client realised on her investment?
- a) 11.3372%
  - b) 10.5713%
  - c) 10.4000%
  - d) 10.1630%
8. Which of the following statement is correct?
- a) Insurance is a dispersion of actual from expected results
  - b) A hazard is the cause of financial loss
  - c) Speculative risk involves the chance of loss or no loss
  - d) Insurance is a device for reducing risk by having a large pool of people share in the financial loss suffered by members of the pool

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9. In advising a client on his retirement needs, which of the following statements best describes the 'replacement ratio method':
- a) It is a longer-term projection
  - b) Takes into account likely changes in income and expenses, and tries to determine the required savings to meet his or her retirement goals
  - c) Focuses on projected expenses in retirement
  - d) Assumes the standard of living just prior to retirement will determine the standard of living during retirement
10. Your client is unsure of the meaning of the term 'codicil'. A codicil is:
- a) A document used to make an alteration to a will
  - b) The statement made at the end of a will that it has been duly attested
  - c) A term used to cover grants of probate to the legal personal representative
  - d) A gift of land or real estate in a will

Answers:

1(d) 2(a) 3(b) 4(b) 5(b) 6(a) 7(d) 8(d) 9(d) 10(a)

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